H.R. 4243, GOVERNMENT WASTE, FRAUD, AND ERROR REDUCTION ACT OF 1998; H.R. 2347, THE FEDERAL BENEFIT VERIFICATION AND INTEGRITY ACT; AND H.R. 2063, THE DEBT COLLECTION WAGE INFORMATION ACT OF 1997

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

SECOND SESSION

ON

H.R. 4243

TO REDUCE WASTE, FRAUD, AND ERROR IN GOVERNMENT PROGRAMS BY MAKING IMPROVEMENTS WITH RESPECT TO FEDERAL MANAGEMENT AND DEBT COLLECTION PRACTICES, FEDERAL PAYMENT SYSTEMS, FEDERAL BENEFIT PROGRAMS, AND FOR OTHER PURPOSES

AND ON

H.R. 2347

TO ENSURE THE ACCURACY OF INFORMATION REGARDING THE ELIGIBILITY OF APPLICANTS FOR BENEFITS UNDER FEDERAL BENEFIT PROGRAMS

AND ON

H.R. 2063

TO DIRECT THE SECRETARY OF HEALTH AND HUMAN SERVICES TO MAKE AVAILABLE TO THE SECRETARY OF THE TREASURE INFORMATION FROM THE NATIONAL DIRECTORY OF NEW HIRES FOR USE IN COLLECTING DELINQUENT DEBT OWED TO THE FEDERAL GOVERNMENT, AND FOR OTHER PURPOSES

MARCH 2, 1998

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H.R. 4243, GOVERNMENT WASTE, FRAUD, AND ERROR REDUCTION ACT OF 1998; H.R. 2347, THE FEDERAL BENEFIT VERIFICATION AND INTEGRITY ACT; AND H.R. 2063, THE DEBT COLLECTION WAGE INFORMATION ACT OF 1997

MONDAY, MARCH 2, 1998

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 1 p.m., in room 2247, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Kucinich, and Maloney.

Staff present: J. Russell George, staff director and chief counsel; Mark Brasher, senior policy director; John Hynes, professional staff member; Matthew Ebert, clerk; and Mark Stephenson, minority professional staff member.

Mr. HORN. The subcommittee will come to order. A quorum is present. The witnesses have arrived. You know the routine here. If you gentlemen will all stand, we will take the oath—and ladies.

[Witnesses sworn.]

Mr. HORN. All right. All six, the clerk will note, have affirmed.

Today, we are going to examine proposals to improve Federal management practices in the areas of credit management, debt collection, and benefit fraud.

As the Government approaches a balanced budget, we must collect delinquent debts owed the United States and ensure that benefits do not go to those who are ineligible. The executive branch of the Federal Government has about $50 billion in delinquent nontax debts.

Now, what got us started on this a couple of years ago and to develop, with the great help from the chief financial officers, the appropriate legislation was the tax debt delinquency. Now, that one is not under the jurisdiction of our committee; it might well be one of these days—but that is even more scandalous than the $50 billion in the delinquent nontax debts. They started with a $100 billion write-off from 1991 to 1997, and then they had $64 billion they thought they could collect and they weren't even organized to collect it.

So, in addition to these write-offs, that means giving up collecting on the $50 billion in delinquent nontax debts, it is about $10 billion a year being written off. So if you sit around long enough, the Federal Government will say, hey, you millionaires out there or whoever, you can just sit there and we will eventually write it off and we really don't care if you ever pay it back.

And I must say, I am not too pleased with the OMB statement that got up here, what, an hour ago. That is just disgraceful as far as I am concerned, in courtesy to a congressional committee, unless you want to play hit and run with us.

These figures are large, but they do not tell the whole scandalous story. According to the General Accounting Office, one deadbeat convinced an agency to forgive a Federal loan of $428,000. Two months later, he received a new loan of $132,000. Within 2 years, he stopped payment on the second loan. This occurs all too frequently and it is sheer abuse and waste.

Todays hearing is the fifth held by this subcommittee, since I assumed the Chair. I can assure you there are going to be a lot more, agency by agency. From our earlier hearings, we have also heard dramatic evidence of systematic fraud in certain benefit programs. In the subcommittee's hearing in April 1997, we heard that over $100 million in Pell Grants went to ineligible applicants, including one enterprising individual with an income exceeding $1 million, who claimed no income in his Pell Grant application.

Now, I don't know what you do about that, but maybe you ought to visit with the U.S. attorney. And if you don't have the authority, maybe you should ask for it, and I think we would willingly would give it to you.

Having been a university president for 18 years where I had 5,000 students, and there was not enough money to give out in Pell Grants and yet they were eligible, to see this kind of abuse, without remedial actions being recommended by the administration, bothers all of us who care about equal educational opportunity. It bothers all of us substantially.

Who foots the bill for these deadbeats? Honest taxpayers and citizens foot the bill; and they are the people that repay their debts, and they are the ones who pay the cost in higher taxes, higher program costs. Each dollar of delinquent debt we collect is a dollar saved.

The legislation we are considering today, among others, would: Improve wage garnishment and require debtors who are capable of repaying their loans to do so; would promote the sale of debts owed to the Federal Government; require the use of private collection contractors prior to the Federal Government giving up collecting debts; authorize child support debts to be referred to Federal debt collection contractors and not just sit there and wonder why we have trouble; establish special sunshine rules for deadbeats who owe large amounts to the taxpayers; we want to ensure that the benefit applicants are eligible to receive the applied-for benefits; and, finally, to promote electronic commerce and good, simple financial management.

[The texts of H.R. 4243, H.R. 2347, and H.R. 2063 follow:]

105TH CONGRESS
2D SESSION

H.R. 4243

To reduce waste, fraud, and error in Government programs by making improvements with respect to Federal management and debt collection practices, Federal payment systems, Federal benefit programs, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JULY 16, 1998

Mr. HORN (for himself, Mrs. MALONEY of New York, Mr. SESSIONS, Mr. SUNUNU, and Mr. KANJORSKI) introduced the following bill; which was referred to the Committee on Government Reform and Oversight, and in addition to the Committees on the Judiciary, and Ways and Means, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

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A BILL

To reduce waste, fraud, and error in Government programs by making improvements with respect to Federal management and debt collection practices, Federal payment systems, Federal benefit programs, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the "Government Waste, Fraud, and Error Reduction Act of 1998".

(b) TABLE OF CONTENTS.—The table of contents for this Act is as follows:

Sec. 1. Short title; table of contents.
Sec. 2. Purposes.

TITLE I—GENERAL MANAGEMENT IMPROVEMENTS

Sec. 101. Improving financial management.
Sec. 102. Improving travel management.

TITLE II—IMPROVING FEDERAL DEBT COLLECTION PRACTICES

Sec. 201. Miscellaneous technical corrections to subchapter II of chapter 37 of title 31, United States Code.
Sec. 202. Barring delinquent Federal debtors from obtaining Federal loans or loan insurance guarantees.
Sec. 203. Collection and compromise and nontax debts and claims.

TITLE III—SALE OF DEBTS OWED TO UNITED STATES

Sec. 301. Authority to sell debts.
Sec. 302. Requirement to sell certain debts.

TITLE IV—TREATMENT OF HIGH VALUE DEBTS

Sec. 401. Annual report on high value debts.
Sec. 402. Debarment from obtaining Federal loans or loan guarantees.
Sec. 403. Inspector General review.
Sec. 404. Requirement to seek seizure and forfeiture of assets securing high value debt.

TITLE V—FEDERAL PAYMENTS

Sec. 501. Transfer of responsibility to Secretary of the Treasury with respect to prompt payment.
Sec. 502. Promoting electronic payments.

TITLE VI—FEDERAL BENEFIT VERIFICATION AND INTEGRITY TESTS

Sec. 601. Short title.
Sec. 602. Purposes.
Sec. 603. Definitions.

Subtitle A—Notification of Federal Benefit Recipients Regarding Data Verification

Sec. 612. Program agency responsibility to provide correct information.

Subtitle B—Federal Benefit Program Management Improvement Tests

Sec. 621. Tests of practices and techniques for improving Federal benefit program management.
Sec. 622. Sharing of information in national directory of new hires.
Sec. 623. Increased penalties and punitive damages under privacy act.
Sec. 624. Establishment of the Federal benefit verification and payment integrity board.
Sec. 625. Implementation of tested information technology practices or techniques.

SEC. 2. PURPOSES.

The purposes of this Act are the following:

(1) Reduce waste, fraud, and error in Federal benefit programs.
(2) Focus Federal agency management attention on high-risk programs.
(3) Better collect debts owed to the United States.
(4) Improve Federal payment systems.
(5) Improve reporting on Government operations.

TITLE I—GENERAL MANAGEMENT IMPROVEMENTS

SEC. 101. IMPROVING FINANCIAL MANAGEMENT.

(a) REPEAL.—Section 3515 of title 31, United States Code, is amended—

(1) in subsection (A)—
(A) by striking "1997" and inserting "1999"; and
(B) by inserting "Congress and" after "submit to";
(2) by striking subsection (e); and
(3) by striking subsections (f), (g), and (h).

(b) AUTHORITY TO ACCEPT ELECTRONIC PAYMENT.—

(1) IN GENERAL.—Subject to an agreement between the head of an executive agency and the applicable financial institution or institutions, the head of such agency may accept an electronic payment to satisfy a debt owed to the agency.

(2) GUIDELINES FOR AGREEMENTS REGARDING PAYMENT.—The Director of the Office of Management and Budget shall develop guidelines regarding agreements between agencies and financial institutions under paragraph (1).

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), this section shall take effect on the date of the enactment of this Act.

(2) SECRETARY'S WAIVER AUTHORITY.—Subsection (a)(1) of this section shall take effect March 1, 1998.

SEC. 102. IMPROVING TRAVEL MANAGEMENT.

(a) PAYMENT OF STATE AND LOCAL TAXES ON TRAVEL EXPENSES.—

(1) IN GENERAL.—The Administrator of General Services shall ensure that employees of executive agencies are not inappropriately charged State and local taxes on travel expenses, including transportation, lodging, automobile rental, and other miscellaneous travel expenses.

(2) REPORT.—Not later than March 31, 1999, the Administrator shall, after consultation with the heads of executive agencies, submit to Congress a report describing the steps taken, and proposed to be taken, to carry out this subsection.

(b) LIMITED EXCLUSION FROM REQUIREMENT REGARDING OCCUPATION OF QUARTERS.—Section 5911(e) of title 5, United States Code, is amended by adding at the end the following new sentence: "The preceding sentence shall not apply with respect to lodging provided under chapter 57 of this title.".

(c) USE OF TRAVEL MANAGEMENT CENTERS, AGENTS, AND ELECTRONIC PAYMENT SYSTEMS.—

(1) REQUIREMENT TO ENCOURAGE USE.—The head of each executive agency shall, with respect to travel by employees of the agency in the performance of the employment duties by the employee, require, to the maximum extent possible, the use by such employees of travel management centers, travel agents authorized for use by such employees, and electronic reservation and payment systems for the purpose of improving efficiency and economy regarding travel by employees of the agency.

(2) PLAN FOR IMPLEMENTATION.—(A) The Administrator of General Services shall develop a plan regarding the implementation of this subsection and shall, after consultation with the heads of executive agencies, submit to Congress a report describing such plan and the means by which such agency heads plan to ensure that employees use travel management centers, travel agents, and electronic reservation and payment systems as required by this subsection.

(B) The Administrator shall submit the plan required under subparagraph (A) not later than March 31, 1999.

TITLE II—IMPROVING FEDERAL DEBT COLLECTION PRACTICES

SEC. 201. MISCELLANEOUS TECHNICAL CORRECTIONS TO SUBCHAPTER II OF CHAPTER 37 OF TITLE 31, UNITED STATES CODE.

(a) CHILD SUPPORT ENFORCEMENT.—Section 3716(h)(3) of title 31, United States Code, is amended to read as follows:

"(3) In applying this subsection with respect to any debt owed to a State, other than past due support being enforced by the State, subsection (c)(3)(A) shall not apply.".

(b) CHARGES BY DEBT COLLECTION CONTRACTORS.—

(1) COLLECTION BY SECRETARY OF THE TREASURY.—Section 3711(g) of title 31, United States Code, is amended by adding at the end the following:

"(11) The amount received by a person for performance of collection services under this section shall not be limited by State law.".

(2) COLLECTION BY PROGRAM AGENCY.—Section 3718 of title 31, United States Code, is amended by adding at the end the following:

"(h) The amount received by a person for performance of collection services under this section or section 3711(g) of this title shall not be limited by State law.".

(c) DEBT SALES. –Section 3711 of title 31, United States Code, is amended by striking subsection (i).

(d) GAINSHARING.—Section 3720C(b)(2)(D) of title 31, United States Code, is amended by striking "delinquent loans" and inserting "debts".

(e) PROVISIONS RELATING TO PRIVATE COLLECTION CONTRACTORS.—

(1) COLLECTION BY SECRETARY OF THE TREASURY.—Section 3711(g) of title 31, United States Code, is further amended by adding at the end the following:

"(12) In attempting to collect under this subsection any debt owed to the United States, a private collection contractor shall not be precluded from verifying the debtor's current employer, the location of the payroll office of the debtor's current employer, the period the debtor has been employed by their current employer, and the compensation received by the debtor from their current employer.

"(13)(A) The Secretary of the Treasury shall provide that any contract with a private collection contractor under this subsection shall include a provision that the contractor shall be subject to penalties under the contract—

"(i) if the contractor fails to comply with any restrictions under applicable law regarding the collection activities of debt collectors; or

"(ii) if the contractor engages in unreasonable or abusive debt collection practices in connection with the collection of debt under the contract.

"(B) Notwithstanding any other provision of law, a private collection contractor under this subsection—

"(i) shall not be subject to any liability or contract penalties in connection with efforts to collect a debt pursuant to a contract under this subsection by reason of actions that are required by the contract or by applicable law or regulations; and

"(ii) shall not be subject to payment of damages or attorney's fees by reason of any action in connection with efforts to collect such debt, except in a case of bad faith, intentional misconduct, or unreasonable or abusive debt collection practices by the contractor.

"(14)(A) The Secretary of the Treasury shall provide that any contract with a private collection contractor under this subsection shall include a provision—

"(i) that the contractor shall be measured on performance in collecting delinquent debt under the contract and compensated based on success in collecting such debt; and

"(ii) that employees of the contractor involved in the collection of debt under the contract receive a minimum level of compensation, to be determined by the Secretary, based on the wage and performance compensation structure prevalent in the industry in the region in which the contractor is located.

"(B) The Secretary shall have sole responsibility and authority for enforcing minimum compensation requirements included in contracts pursuant to this section.".

(2) COLLECTION BY PROGRAM AGENCY.—Section 3718 of title 31, United States Code, is further amended by adding at the end the following:

"(j) In attempting to collect under this subsection any debt owed to the United States, a private collection contractor shall not be precluded from verifying the current place of employment of the debtor, the location of the payroll office of the debtor's current employer, the period the debtor has been employed by their current employer, and the compensation received by the debtor from their current employer.

"(k)(1) The head of an executive, judicial, or legislative agency that contracts with a private collection contractor to collect a debt owed to the agency, or a guaranty agency or institution of higher education that contracts with a private collection contractor to collect a debt owed under any loan program authorized under title IV of the Higher Education Act of 1965, shall include a provision in the contract that the contractor—

"(A) shall be subject to penalties under the contract if the contractor fails to comply with any restrictions imposed under applicable law on the collection activities of debt collectors; and

"(B) shall be subject to penalties under the contract if the contractor engages in unreasonable or abusive debt collection practices in connection with the collection of debt under the contract.

"(2) Notwithstanding any other provision of law—

"(A) a private collection contractor under this section shall not be subject to any liability or contract penalties in connection with efforts to collect a debt owed to an executive, judicial, or legislative agency, or owed under any loan program authorized under title IV of the Higher Education Act of 1965, by reason of actions required by the contract, or by applicable law or regulations; and

"(B) such a contractor shall not be subject to payment of damages or attorney's fees by reason of any action in connection with efforts to collect such a debt, except in a case of bad faith, intentional misconduct, or unreasonable or abusive debt collection practices by the contractor.

"(l)(1) The head of each executive, judicial, or legislative agency administering a contract with a private collection contractor under this section shall include in the contract a provision—

"(A) that the contractor is measured based on performance in collecting delinquent debt owed to the agency and compensated based on success in collecting such debt; and

"(B) that employees of the contractor involved in collection of such debt receive a minimum level of compensation, to be determined by the agency head, based on the wage and performance compensation structure prevalent in the industry in the region in which the contractor is located.

"(2) The head of the agency shall have sole responsibility and authority for enforcing minimum compensation requirements included in contracts pursuant to this section.".

(f) CLERICAL AMENDMENT.—Section 3720A(h) of title 31, United States Code, is amended—

(1) beginning in paragraph (3), by striking the close quotation marks and all that follows through the matter preceding subsection (i); and

(2) by adding at the end the following:

"For purposes of this subsection, the disbursing official for the Department of the Treasury is the Secretary of the Treasury or his or her designee.".

(g) CORRECTION OF REFERENCES TO FEDERAL AGENCY.—(1) Sections 3716(c)(6) and 3720A (a), (b), (c), and (e) of title 31, United States Code, are each amended by striking "Federal agency" each place it appears and inserting "executive, judicial, or legislative agency".

(2) Section 3716(h)(2)(C), of title 31, United States Code, are each amended by striking "a Federal agency" and inserting "an executive, judicial, or legislative agency".

(3) Section 3720B of title 31, United States Code, is amended—

(A) by striking "a Federal agency" each place it appears and inserting "an executive, judicial, or legislative agency"; and

(B) by striking "any Federal agency" and inserting "any executive, judicial, or legislative agency".

SEC. 202. BARRING DELINQUENT FEDERAL DEBTORS FROM OBTAINING FEDERAL LOANS OR LOAN INSURANCE GUARANTEES.

(a) IN GENERAL.—Section 3720B of title 31, United States Code, is amended to read as follows:

"§ 3720B. Barring delinquent Federal debtors from obtaining Federal benefits

"(a)(1) A person shall not be eligible for the award or renewal of any Federal benefit described in paragraph (2) if the person has an outstanding debt (other than a debt under the Internal Revenue Code of 1986) with any executive, judicial, or legislative agency that is in a delinquent status, as determined under standards prescribed by the Secretary of the Treasury. Such a person may obtain additional Federal benefits described in paragraph (2) only after such delinquency is resolved in accordance with those standards.

"(2) The Federal benefits referred to in paragraph (1) are the following:

"(A) Financial assistance in the form of a loan (other than a disaster loan) or loan insurance or guarantee.

"(B) Any Federal permit or license otherwise required by law.

"(b)(1) The Secretary of the Treasury may exempt any class of claims from the application of subsection (a), at the request of an executive, judicial, or legislative agency.

"(2) The Secretary of the Treasury may waive the application of subsection (a) with respect to any Federal permit or license otherwise required by law.

"(c)(1) The head of any executive, judicial, or legislative agency may waive the application of subsection (a) to any Federal benefit that is administered by the agency.

"(2) The head of an executive, judicial, or legislative agency may delegate the waiver authority under paragraph (1) to the Chief Financial Officer of the agency.

"(3) The Chief Financial Officer of an agency to whom waiver authority is delegated under paragraph (2) may redelegate that authority only to the Deputy Chief Financial Officer of the agency. The Deputy Chief Financial Officer may not redelegate that authority.".

(b) CLERICAL AMENDMENT.—The table of sections at the beginning of chapter 37 of title 31, United States Code, is amended by striking the item relating to section 3720B and inserting the following:

"3720B. Barring delinquent Federal debtors from obtaining Federal benefits.".

SEC. 203. COLLECTION AND COMPROMISE OF NONTAX DEBTS AND CLAIMS.

(a) USE OF PRIVATE COLLECTION CONTRACTORS AND FEDERAL DEBT COLLECTION CENTERS.—Paragraph (5) of section 3711(g) of title 31, United States Code, is amended to read as follows:

"(5)(A) Nontax debts referred or transferred under this subsection shall be serviced, collected, or compromised, or collection action thereon suspended or terminated, in accordance with otherwise applicable statutory requirements and authorities.

"(B) The head of each executive agency that operates a debt collection center may enter into an agreement with the Secretary of the Treasury to carry out the purposes of this subsection.

"(C) The Secretary of the Treasury shall—

"(i) maintain a schedule of private collection contractors and debt collection centers operated by agencies, that are eligible for referral of claims under this subsection;

"(ii) maximize collections of delinquent debts by referring delinquent debts promptly;

"(iii) maintain competition between private collection contractors and debt collection centers operated by agencies;

"(iv) ensure, to the maximum extent practicable, that a private collection contractor to which a debt is referred is responsible, to the greatest extent practicable, for any administrative costs associated with the contract under which the referral is made.

"(D) The Secretary may, at the request of a State, refer to a private collection contractor a child support debt or claim administered by the State.".

(b) LIMITATION ON DISCHARGE BEFORE USE OF PRIVATE COLLECTION CONTRACTOR OR DEBT COLLECTION CENTER.—Paragraph (9) of section 3711(g) of title 31, United States Code, is amended—

(1) by redesignating subparagraphs (A) through (H) in order as clauses (i) through (viii);

(2) by inserting "(A)" after "(9)";

(3) in subparagraph (A) (as designated by paragraph (2) of this subsection) in the matter preceding clause (i) (as designated by paragraph (1) of this subsection), by inserting "and subject to subparagraph (B)" after "as applicable"; and

(4) by adding at the end the following:

"(B)(i) The head of an executive, judicial, or legislative agency may not terminate collection action on a debt unless the debt has been referred to a private collection contractor or a debt collection center for a period to be determined by the Secretary of the Treasury.

"(ii) The Secretary of the Treasury may, at the request of an agency, waive the application of clause (i) to any debt, or class of debts, if the Secretary of the Treasury determines that the waiver is in the best interest of the United States.".

TITLE III—SALE OF DEBTS OWED TO UNITED STATES

SEC. 301. AUTHORITY TO SELL DEBTS.

(a) PURPOSE.—The purpose of this section is to provide that the head of each executive, judicial, or legislative agency shall establish a program of debt sales in order to—

(1) minimize the loan and debt portfolios of the agency;

(2) improve credit management while serving public needs;

(3) reduce delinquent debts held by the agency; and

(4) obtain the maximum value for loan and debt assets.

(b) SALES AUTHORIZED.—(1) The head of an executive, judicial, or legislative agency may sell, subject to section 504(b) of the Federal Credit Reform Act of 1990 (2 U.S.C. 661c(b)) and using competitive procedures, any nontax debt owed to the United States that is administered by the agency.

(2) Costs the agency incurs in selling debt pursuant to this section may be deducted from the proceeds received from the sale. Such costs may include, but are not limited to—

(A) the costs of computer hardware and software, processing and telecommunications equipment, other equipment, supplies, and furniture;

(B) personnel training and travel costs;

(C) other personnel and administrative costs;

(D) the costs of any contract for identification, billing, or collection services;

(E) the costs of contractors assisting in the sale of debt;

(F) the fees of appraisers, auctioneers, and realty brokers;

(G) the costs of advertising and surveying; and

(H) other reasonable costs incurred by the agency.

(3) Sales of debt under this section—

(A) shall be for—

(i) cash; or

(ii) cash and a residuary equity, joint venture, or profit participation, if the head of the agency determines that the proceeds will be greater than the proceeds from a sale solely for cash;

(B) shall be without recourse against the United States, but may include the use of guarantees if otherwise authorized by law; and

(C) shall transfer to the purchaser all rights of the United States to demand payment of the debt, other than with respect to a residuary equity, joint venture, or profit participation under subparagraph (A)(ii).

(c) EXISTING AUTHORITY NOT AFFECTED.—This section is not intended to limit existing statutory authority of the head of an executive, judicial, or legislative agency to sell loans, debts, or other assets.

SEC. 302. REQUIREMENT TO SELL CERTAIN DEBTS.

(a) SALE OF DELINQUENT DEBTS.—The head of each executive, judicial, or legislative agency shall sell any nontax debt owed to the United States that is delinquent for more than one year, pursuant to a schedule determined by the Secretary of the Treasury to maximize the proceeds from such sale. Sales under this subsection shall be conducted under the authority in section 301.

(b) SALE OF LOANS.—The head of each executive, judicial, or legislative agency shall sell each loan obligation arising from a program administered by the agency,

not later than 6 months after the loan is disbursed, unless the Secretary of the Treasury determines that a longer period is necessary to protect the financial interests of the United States. Sales under this subsection shall be conducted under the authority in section 301.

(c) SALE OF DEBTS AFTER TERMINATION OF COLLECTION ACTION.—After terminating collection action, the head of an executive, judicial, or legislative agency shall sell, using competitive procedures, any nontax debt or class of debts owed to the United States, unless the Secretary of the Treasury determines that the sale is not in the best interests of the United States.

(d) LIMITATIONS.—(1) The head of an executive, judicial, or legislative agency shall not, without the approval of the Attorney General, sell any debt that is the subject of an allegation of or investigation for fraud, or that has been referred to the Department of Justice for litigation.

(2) The head of an executive, judicial, or legislative agency shall not sell debts for less than the net present value of such debts, as determined pursuant to the Federal Credit Reform Act of 1990, adjusted by the net present value of the estimated administrative costs associated with administering the loan.

(3) The Secretary of the Treasury may, after a study and review, exempt a class of debts from the requirement in paragraph (2) if the Secretary determines that the sale of such debts is not in the best financial interests of the United States.

(4) The head of an executive, judicial, or legislative agency may exempt from sale any class of debts if—

(A) the head of the agency determines that the sale would interfere with the mission of the agency administering the program under which the indebtedness was incurred;

(B) the head of the agency provides to the Secretary of the Treasury a certification that such sale would interfere with the mission of the agency; and

(C) the Secretary of the Treasury concurs with the head of the agency that such sale would interfere with the mission of the agency.

TITLE IV—TREATMENT OF HIGH VALUE NONTAX DEBTS

SEC. 401. ANNUAL REPORT ON HIGH VALUE NONTAX DEBTS.

(a) IN GENERAL.—Not later than 90 days after the end of each fiscal year, the head of each agency that administers a program that gives rise to a delinquent high value nontax debt shall submit a report to Congress that lists each such debt.

(b) CONTENT.—A report under this section shall, for each debt listed in the report, include the following:

(1) The name of each person liable for the debt.

(2) The amounts of principal, interest, and penalty comprising the debt.

(3) The actions the agency has taken to collect the debt.

(4) Specification of any portion of the debt that has been written-down administratively or due to a bankruptcy proceeding.

(c) DEFINITIONS.—In this subsection:

(1) AGENCY; DEBT.—Each of the terms "agency" and "debt" has the meaning that term has in chapter 37 of title 31, United States Code, as amended by this Act.

(2) HIGH VALUE NONTAX DEBT.—The term "high value nontax debt" means a nontax debt having an outstanding value (including principal, interest, and penalties) that exceeds $1,000,000.

SEC. 402. DEBARMENT FROM OBTAINING FEDERAL LOANS OR LOAN GUARANTEES.

Section 3720B of title 31, United States Code, is amended—

(1) in subsection (a) by inserting "(1)" after "(a)";

(2) by redesignating subsection (b) as paragraph (2) of subsection (a);

(3) in subsection (a)(2) (as so redesignated) by striking "under subsection (a)" and inserting "under paragraph (1)"; and

(4) by adding at the end the following:

"(b)(1) A person may not obtain any Federal financial assistance in the form of a loan (other than a disaster loan) or loan insurance or guarantee if the person has an outstanding high value nontax debt with any Federal agency which is in a delinquent status, as determined under standards prescribed by the Secretary of the Treasury. Such a person may obtain additional loans or loan guarantees only after such delinquency is resolved in accordance with those standards.

"(2) In this subsection, the term 'high value nontax debt' means a debt having an outstanding value (including principal, interest, and penalties) that exceeds $1,000,000.".

SEC. 403. INSPECTOR GENERAL REVIEW.

Section 3718 of title 31, United States Code, is amended by adding at the end the following:

"(j)(1) The Inspector General of each agency shall review and report to the Congress and the head of an agency on each compromise, default, or final resolution in bankruptcy of a high value nontax debt arising out of the activities of, or referred to, the agency.

"(2) In each review and report to an agency under this subsection, the Inspector General shall rate the performance of the head of the agency in seeking to collect the debt, and recommend any changes in the debt collection practices of the agency that are appropriate to reduce the aggregate amount of high value nontax debts that are resolved finally in whole or in part by compromise, default, or bankruptcy to less than 1 percent of the aggregate amount of all high value nontax debts.

"(3) In this subsection, the term 'high value nontax debt' means a debt—

"(A) having an outstanding value (including principal, interest, and penalties) that exceeds $1,000,000; and

"(B) that has not been referred to the Department of Justice for litigation or to the Department of the Treasury for collection action.".

SEC. 404. REQUIREMENT TO SEEK SEIZURE AND FORFEITURE OF ASSETS SECURING HIGH VALUE NONTAX DEBT.

The head of an agency authorized to collect a high value nontax debt that is delinquent shall promptly seek seizure and forfeiture of assets pledged to the United States in any transaction giving rise to the nontax debt.

TITLE V—FEDERAL PAYMENTS

SEC. 501. TRANSFER OF RESPONSIBILITY TO SECRETARY OF THE TREASURY WITH RESPECT TO PROMPT PAYMENT.

(a) DEFINITION.—Section 3901(a)(3) of title 31, United States Code, is amended by striking "Director of the Office of Management and Budget" and inserting "Secretary of the Treasury".

(b) INTEREST.—Section 3902(c)(3) of title 31, United States Code, is amended by striking "Director of the Office of Management and Budget" and inserting "Secretary of the Treasury".

(c) REGULATIONS.—Section 3903(a)(1) of title 31, United States Code, is amended by striking "Director of the Office of Management and Budget" and inserting "Secretary of the Treasury".

(d) REPORTS.—Section 3906(a) of title 31, United States Code, is amended by striking "Director of the Office of Management and Budget" each place it appears and inserting "Secretary of the Treasury".

SEC. 502. PROMOTING ELECTRONIC PAYMENTS.

Section 3903(a) of title 31, United States Code, is amended—

(1) by amending paragraph (1) to read as follows:

"(1) provide that the required payment date is—

"(A) the date payment is due under the contract for the item of property or service provided; or

"(B) no later than 30 days after a proper invoice for the amount due is received if a specific payment date is not established by contract;"; and

(2) by striking "and" after the semicolon at the end of paragraph (8), by striking the period at the end of paragraph (9) and inserting a semicolon, and by adding at the end the following:

"(10) provide that the Secretary of the Treasury may waive the application of requirements under paragraph (1) to provide for early payment of vendors in cases where an agency will implement an electronic payment technology which improves agency cash management and business practice; and

"(11) provide that a vendor is required to pay interest to the United States on unearned amounts in its possession.".

TITLE VI—FEDERAL BENEFIT VERIFICATION AND INTEGRITY TESTS

SEC. 601. SHORT TITLE.

This title may be cited as the "Federal Benefit Verification and Integrity Act".

SEC. 602. PURPOSES.

The purposes of this title are the following:

(1) To reduce errors in Federal benefit programs that lead to waste, fraud, or abuse and encourage agencies to work together to identify common sources of errors.

(2) To identify solutions to common problems that will save money for the taxpayer and demonstrate the Government's ability to deliver Federal benefits to the right person, at the right time, for the right amount.

(3) To focus on increasing accuracy and efficiency for Federal benefit program eligibility, financial and program management, and debt collection.

(4) To improve the coordination of Government information resources across Government agencies to strengthen the delivery of Federal benefits.

(5) To balance the need for data in verifying eligibility with the paperwork burden and privacy intrusion that data sharing imposes.

(6) To emphasize deterring and preventing fraud in the provision of Federal benefits, rather than seeking to detect fraud after Federal benefits have been provided.

(7) To ensure that agencies administering federally funded benefit programs inform applicants applying for benefits under those programs that their data can be shared to verify their eligibility for those benefits.

(8) To encourage individuals to provide accurate information when applying for benefits under federally funded benefit programs.

SEC. 603. DEFINITIONS.

In this title:

(1) BOARD.—The term "Board" means the Federal Benefit Verification and Payment Integrity Board established under this title.

(2) FEDERAL BENEFIT PROGRAM.—The term "Federal benefit program" means any program administered or funded by the Federal Government, or by any agent or State on behalf of the Federal Government, providing cash assistance or in-kind assistance in the form of payments, grants, loans, or loan guarantees to or for the benefit of any person.

Subtitle A—Notification of Federal Benefit Recipients Regarding Data Verification

SEC. 612. PROGRAM AGENCY RESPONSIBILITY TO PROVIDE CORRECT INFORMATION.

(a) IN GENERAL.—An agency that administers a Federal benefit payment program shall provide notice informing applicants under the program, in information material and instructions accompanying program application forms, that applicants' data may be verified to the extent permitted by law.

(b) AGENCY COMPLIANCE.—An agency may comply with subsection (a) by modifying program materials and applications to include such notice as part of their normal reissuance cycle for reprinting forms, but in no case later than December 31, 2000.

(c) RECORD OF ACKNOWLEDGMENTS.—The head of each agency that administers a Federal benefit program shall maintain a record of each applicant's acknowledgment that the applicant has received notice of the uses and disclosures to be made of the applicant's information, for as long as the applicant receives benefits from or owes a debt to the Government under the program.

Subtitle B—Federal Benefit Program Management Improvement Tests

SEC. 621. TESTS OF PRACTICES AND TECHNIQUES FOR IMPROVING FEDERAL BENEFIT PROGRAM MANAGEMENT.

(a) AUTHORITY TO CONDUCT TESTS.—

(1) IN GENERAL.—A Federal agency that administers a Federal benefit program may conduct a test of information technology practices or techniques to improve income verification, debt collection, data privacy and integrity protection, and identification authentication in the administration of the program, in accordance with a proposal approved by the Federal Benefit Verification and Payment Integrity Board established by this subtitle.

(2) WAIVER OF REGULATIONS.—Upon the request of the Board, the head of an agency may waive the enforcement of any regulation of the agency for the purposes of carrying out a test under this section.

(3) IDENTIFICATION OF TEST AREAS.—The Director of the Office of Management and Budget and the Chief Information Officers' Council shall each recommend to the Board, within 120 days after the date of enactment of this Act, various information technology practices and techniques that should be tested under this subtitle.

(b) APPROVAL OF AGENCY PROPOSALS.—

(1) IN GENERAL.—The head of a Federal agency may develop and submit to the Board a proposal for carrying out a test under this section for a specific Federal benefit program administered by the agency. The proposal shall contain specific goals, including a schedule, for improving customer service and error reduction in the program and other information requested by the Board.

(2) CONTENTS.—The proposal shall provide for the testing of information sharing in an integrated manner where feasible of electronic practices and techniques for improving Federal benefit program management, including the following:

(A) Use of encryption and electronic signature technology consistent with techniques acceptable to the National Institute of Standards and Technology, to protect the confidentiality and integrity of information.

(B) Use of other security controls and monitoring tools.

(C) Use of risk profiles and risk alert technologies, including use of Federal, State, and private databases such as the National Directory of New Hires, Federal and State tax data, and credit bureau data.

(D) Establishment of a management framework for exploring and reducing the information security risks associated with Federal agency operations and technologies, including risk assessments and disaster recovery planning.

(3) CONSULTATION.—Any agency whose proposals would require access to another agency's database shall consult with that agency prior to submission of the proposal to the Board.

(4) PRIVACY SAFEGUARDS.—A proposal submitted to the Board must contain a description of appropriate administrative, technical, and physical safeguards to ensure the security and confidentiality of records and to protect against any anticipated threats or hazards to their security or integrity which could result in substantial harm, embarrassment, inconvenience, or unfairness to any individual on whom information is maintained. The proposal shall include, in particular, prohibitions on duplication and redisclosure of records provided by the source agency within or outside the recipient entity, except where required by law or essential to the conduct of the test.

(5) AGENCY REIMBURSEMENT.—The proposal shall include an estimate for reimbursement that may be charged by a Federal agency to another agency in conducting tests under the proposal.

(6) REVIEW OF PROPOSALS.—Not later than 60 days after the date of receipt of a proposal under this subsection, the Board shall review and recommend disposition of the proposal to the heads of the data sharing agencies under the proposal.

(c) COOPERATIVE AGREEMENTS AND CONTRACTS.—The head of an agency participating in a test under this section, in consultation with the Board, may enter into a cooperative agreement with a State or contract with a private entity under which the State or private entity, respectively, may provide services on behalf of the Federal agency in carrying out the test.

(d) GENERAL IMPLEMENTATION PLAN.—The Board shall prepare a plan for the implementation of this section, including for the coordination of the conduct of tests under this subtitle and the procedures for submission of proposals for those tests.

(e) REPORTS ON RESULTS OF TESTS.—

(1) ANNUAL REPORT.—Beginning not later than 1 year after the date of enactment of this Act, the Board shall submit annually to the Congress a report on the tests conducted under this section.

(2) CONTENT.—The report shall include—

(A) an estimate of potential cost savings and other impacts demonstrated by the tests;

(B) an analysis of the feasibility of applying the practices and techniques demonstrated in each test within the Federal Government, including analysis of what was the least amount of information that was necessary to verify eligibility of applicants under each Federal benefit program that participated in the tests;

(C) an assessment of the value of State data in those tests; and

(D) such recommendations as the Board considers appropriate.

(f) AUTHORITY TO REQUEST TEST.—The Board may request the head of a Federal agency that administers a Federal benefit program to conduct a test under this section, including the preparation and submission of a proposal for such a test in accordance with this section. The head of an agency shall respond within 30 days by approving or disapproving such a request of the Board.

(g) USE OF TEST INFORMATION.—Information on any individual obtained in the course of a test under this section shall not be used as the exclusive basis of a decision concerning the rights, benefits, or privileges of any individual.

SEC. 622. SHARING OF INFORMATION IN NATIONAL DIRECTORY OF NEW HIRES.

(a) AVAILABILITY OF INFORMATION.—Notwithstanding section 453(l) of the Social Security Act (42 U.S.C. 653(l)), the Secretary of Health and Human Services may disclose information to another Federal agency from the National Directory of New Hires established pursuant to section 453(i) of that Act (42 U.S.C. 653(i)) based on matches conducted by the Department of Health and Human Services for purposes of conducting a test under this subtitle.

(b) AUTHORITY TO DISCLOSE INFORMATION.—The head of an agency to whom information is disclosed under this section may disclose the information to another Federal agency for use by the agency only as specified under a test proposal under this subtitle. The head of a Federal agency to whom information is disclosed under this subsection may disclose such information to a State agency administering a federally funded benefit program, a public housing authority, or a guaranty agency (as that term is defined in section 435(j) of the Higher Education Act of 1965) only for the purpose of conducting the test.

(c) REDISCLOSURE LIMITATION.—An entity that receives information for use in a test under this title that it was not otherwise authorized by law to obtain may not redisclose the information or use it for any other purpose.

(d) SHARING OF STATE INFORMATION.—The provision of information pursuant to subsection (a) shall not affect any determination of whether a State meets the requirements of section 303(h)(1)(C) of the Social Security Act.

SEC. 623. INCREASED PENALTIES AND PUNITIVE DAMAGES UNDER PRIVACY ACT.

(a) INCREASED PENALTIES.—Section 552a(i) of title 5, United States Code, is amended in each of paragraphs (1) and (3) by striking "shall be guilty" and all that follows through the period and inserting "shall be fined not more than $10,000, imprisoned for not more than one year, or both.".

(b) PUNITIVE DAMAGES.—Section 552a(g)(4) of title 5, United States Code, is amended—

(1) by redesignating subparagraphs (A) and (B) as clauses (i) and (ii), respectively;

(2) by inserting "(A)" after "(4)"; and

(3) by adding at the end the following:

"(2) In any such suit in which the court determines that the agency acted in a manner that was willful and intentional, the court may award punitive damages in addition to damages and costs referred to in subparagraph (A).".

SEC. 624. ESTABLISHMENT OF THE FEDERAL BENEFIT VERIFICATION AND PAYMENT INTEGRITY BOARD.

(a) ESTABLISHMENT.—There is hereby established the Federal Benefit Verification and Payment Integrity Board.

(b) MEMBERSHIP.—The Board shall be composed of 10 members appointed from among Federal or State employees, as follows:

(1) 3 members, of whom one shall be appointed by the head of each of 3 Federal agencies designated by the Director of the Office of Management and Budget. The Director shall designate agencies under this paragraph from among the Federal agencies responsible for administering Federal benefit programs.

(2) 2 members appointed by the Director of the Office of Management and Budget, of whom at least one shall be a State employee appointed to represent federally funded State administered benefits programs.

(3) 1 member appointed by the Secretary of Health and Human Services.

(4) 1 member appointed by the Secretary of the Treasury.

(5) 1 member appointed by the Commissioner of Social Security.

(6) 1 member appointed by the Secretary of Labor.

(7) 1 member appointed by the Director of the Office of Management and Budget to address privacy concerns.

(c) CHAIRPERSON.—The Director of the Office of Management and Budget shall designate one of the members of the Board as the chairperson of the Board.

(d) ADMINISTRATIVE SUPPORT.—The heads of Federal agencies having a member on the Board may provide to the Board such administrative and other support services and facilities as the Board may require to perform its functions under this subtitle.

(e) TRAVEL EXPENSES.—Members of the Board shall receive travel expenses, including per diem, in lieu of subsistence, in accordance with sections 5702 and 5703 of title 5, United States Code.

(f) REPORTS.—The Board shall periodically report to the Director of the Office of Management and Budget regarding its activities.

SEC. 625. IMPLEMENTATION OF TESTED INFORMATION TECHNOLOGY PRACTICES OR TECHNIQUES.

(a) RECOMMENDATIONS.—If the Board determines that any information technology practice, technique, or information sharing initiative tested under this subtitle was successfully demonstrated in the test and should be implemented in the administration of a Federal benefit program, the Board—

(1) shall recommend regulations or legislation to implement that practice, technique, or initiative, if the Board determines that implementation is not otherwise prohibited under another law; or

(2) include in its annual report to the Congress under section 621 recommendations for such legislation as may be necessary to authorize that implementation.

(b) REQUIREMENTS REGARDING DATA PROCESSING SYSTEMS.—The Board shall include in any recommendation of regulations under subsection (a)—

(1) provisions that ensure use of generally accepted data processing system development methodology; and

(2) provisions that will result in system architecture that will facilitate information exchange, increase data sharing, and reduce costs, by elimination of redundancy in development and acquisition of data processing systems.

105TH CONGRESS
1ST SESSION

H.R. 2347

To ensure the accuracy of information regarding the eligibility of applicants for benefits under Federal benefit programs.

IN THE HOUSE OF REPRESENTATIVES

JULY 31, 1997

MRS. MALONEY of New York (for herself and Mr. HORN) introduced the following bill; which was referred to the Committee on Government Reform and Oversight

---

A BILL

To ensure the accuracy of information regarding the eligibility of applicants for benefits under Federal benefit programs.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Federal Benefit Verification and Integrity Act".

SEC. 2. AUTHORIZATION OF ACCESS TO INFORMATION TO VERIFY LOAN APPLICATION DATA.

(a) IN GENERAL.—The head of any agency that is responsible for approving the provision of benefits under a Federal benefit program may not approve provision of any benefit under the program to an applicant, unless the applicant includes in the application for the benefit written authorization and consent for the agency head to obtain from any other State or Federal agency any information or data, or a copy of any record, in the possession of such other agency as is necessary to verify, validate, or otherwise confirm the accuracy of information submitted by the applicant to obtain the benefit.

(b) SCOPE OF AUTHORIZATION AND CONSENT.—Authorization and consent required under subsection (a)—

(1) shall include, but not be limited to, authorization and consent to obtain information, data, and copies of records to validate, verify, or otherwise confirm the applicant's name, address, taxpayer identifying number, income (including wages), and assets; and

(2) shall apply to information, data, and records maintained by any State or Federal agency that the applicant is entitled or authorized to review or obtain.

(c) FEE.—The head of any State or Federal agency from whom information or records are sought under this section may charge a fee to cover the cost of providing the information or copies of records. The amount of any fee under this subsection shall not exceed an amount directly related to the cost of providing the information or copies of records requested.

(d) RELATIONSHIP TO PRIVACY ACT.—This section shall not be considered to supersede or otherwise affect any requirement or restriction of section 552a of title 5, United States Code.

(e) DEFINITIONS.—In this section:

(1) APPLICANT.—The term "applicant" means—

(A) any person that applies for a benefit under a Federal benefit program; and

(B) any other person about whom information is requested by an agency responsible for approving the provision of benefits under a Federal benefit program as part of the review of an application for benefits under the program, such as a potential guarantor of a federally guaranteed loan.

(2) FEDERAL BENEFIT PROGRAM.—The term "Federal benefit program" has the meaning given that term in section 552a of title 5, United States Code.

105TH CONGRESS
1ST SESSION

H.R. 2063

To direct the Secretary of Health and Human Services to make available to the Secretary of the Treasury information from the National Directory of New Hires for use in collecting delinquent debt owed to the Federal Government, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JUNE 25, 1997

MRS. MALONEY of New York (for herself, Mr. HORN, Mr. SABO, Mr. SENSENBRENNER, Mr. FROST, Mr. ANDREWS, Mr. CLEMENT, Mr. ENGEL, Mr. EVANS, Mr. LEWIS of Georgia, Mr. LIPINSKI, Mr. OWENS, Mr. MANTON, Ms. RIVERS, and Mr. WYNN) introduced the following bill; which was referred to the Committee on Government Reform and Oversight

---

A BILL

To direct the Secretary of Health and Human Services to make available to the Secretary of the Treasury information from the National Directory of New Hires for use in collecting delinquent debt owed to the Federal Government, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Debt Collection Wage Information Act of 1997".

SEC. 2. SHARING OF INFORMATION IN NATIONAL DIRECTORY OF NEW HIRES.

(a) IN GENERAL.—The Secretary of Health and Human Services shall make the information in the National Directory of New Hires established pursuant to section 453(i) of the Social Security Act (42 U.S.C. 653(i)) available to the Secretary of the

Treasury for use in collecting delinquent indebtedness owed to the Federal Government.

(b) FEE.—The Secretary of Health and Human Services may charge a fee to the Secretary of the Treasury in connection with providing information to the Secretary of the Treasury pursuant to subsection (a). Any such fee shall not exceed an amount directly related to the costs of providing such information to the Secretary.

(c) AUTHORITY TO DISCLOSE INFORMATION.—The Secretary of the Treasury may disclose to a Federal agency for use by the agency in collecting delinquent debt owed to the agency the information provided by the Secretary of Health and Human Services pursuant to subsection (a).

(d) INAPPLICABILITY OF CERTAIN COMPUTER MATCHING REQUIREMENTS.—Subsections (o), (p), (q), and (u) of section 552a of title 5, United States Code, shall not apply with respect to the provision or disclosure of information pursuant to subsection (a) or (c).

(e) SHARING OF STATE INFORMATION.—The provision of information to the Secretary of the Treasury pursuant to subsection (a) shall not effect any determination of whether a State meets the requirements of section 303(h)(1)(C) of the Social Security Act.

(f) EFFECTIVE DATE.—This Act shall take effect on January 1, 1999.

Mr. HORN. Now, it is a great pleasure to introduce our new ranking member and to still have the sort of co-former ranking member here. Mr. Dennis Kucinich is at his first subcommittee hearing on Government Management, Information, and Technology. The gentleman from Ohio is a very hard-working Member of the House and he takes over from an equally hard-working Member of the House, Carolyn Maloney, the gentlewoman from New York, who has been a very strong supporter of every idea that we have issued in this subcommittee and particularly on the ideas of collecting debt. She had a major role in that. She was a member of the New York City Council, and we are delighted to have her here as a member. She, unfortunately, has gone to another subcommittee as ranking member and we are going to miss her, but in Dennis we have got a good replacement. We plan on keeping him busy for the rest of the year collecting debts and doing the people's work.

Does the ranking member have a statement he would like to make? Welcome.

[The prepared statement of Hon. Stephen Horn follows:]

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ONE HUNDRED FIFTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

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INDEPENDENT

"Legislative Hearing on H.R. ____, the "Government Waste, Fraud, and Error Reduction Act of 1998," H.R. 2347, the "Federal Benefit Verification and Integrity Act," and H.R. 2063, the "Debt Collection Wage Information Act of 1997."

March 2, 1998

OPENING STATEMENT
REPRESENTATIVE STEPHEN HORN (R-CA)

Chairman, Subcommittee on Government Management, Information, and Technology

A quorum being present, this hearing of the Subcommittee on Government Management, Information and Technology will come to order. Today we will examine proposals to improve Federal management practices in the areas of credit management, debt collection and benefit fraud.

As the Government approaches a balanced budget, we must collect delinquent debts owed to the United States and ensure that benefits do not go to those who are ineligible. The executive branch of the Federal Government has about $50 billion in delinquent non-tax debts. In addition, it writes off -- that is -- gives up collecting, on about $10 billion per year.

These figures are large, but they do not tell the whole scandalous story. According to the General Accounting Office, one deadbeat convinced an agency to forgive a Federal loan of $428,000. Two months later, he received a new loan of $132,000. Within two years, he stopped payment on the second loan. This occurs frequently, and it is sheer abuse and waste.

Today's is the fifth hearing held by this subcommittee examining these issues since I assumed the chair. From our earlier hearings, we also have heard dramatic evidence of systematic fraud in certain benefit programs. In the subcommittee's hearing in April of 1997, we heard that over $100 million in Pell Grants went to ineligible applicants, including one enterprising individual with income exceeding $1 million who claimed no income in his Pell Grant application.

Who foots the bill for the deadbeats? Honest taxpayers and citizens who repay their debts are the ones who pay the cost -- in higher taxes and higher program costs. Each dollar of delinquent debt we collect is a dollar saved.

The legislation we are considering today would:

- Improve wage garnishment and require debtors who are capable of repaying their loans to do so;
- Promote the sale of debts owed to the Federal Government;
- Require the use of private collection contractors prior to the Federal Government giving up collecting debts;
- Authorize child support debts to be referred to Federal debt collection contractors;
- Establish special sunshine rules for deadbeats who owe large amounts to the taxpayers;
- Ensure that benefit applicants are eligible to receive the applied-for benefits; and
- Promote electronic commerce and good financial management.

I would like to welcome our ranking member -- Mr. Dennis J. Kucinich -- to his first hearing of the Subcommittee on Government Management, Information and Technology. He takes over from Mrs. Maloney, who has been a strong supporter on the issue of collecting debts and improving agency management. We plan on keeping him busy for the rest of the year collecting debts and doing the people's work. Does the Ranking Member have a statement?

Mr. KUCINICH. Forgive us our debts as we forgive our debtors?

I want to thank you, Mr. Chairman, for having a chance to be on this subcommittee. I am grateful to my Democratic colleagues for voting for me to be at this position. As the new ranking member of the Government Management, Information, and Technology Subcommittee, I look forward to working with you, Mr. Chairman——

Mr. HORN. Well, we look forward to working with you.

Mr. KUCINICH [continuing]. And other members of the subcommittee in what I hope will be a very productive year.

There are many important issues which will come before us in the coming months, and I trust the bipartisan spirit with which the subcommittee has approached most matters will continue.

I also want to commend Representative Carolyn Maloney for her work as the ranking member of this subcommittee during the last session. She is now going to be the ranking member of a new Subcommittee on the Census. The subcommittee is going to be very fortunate to have her expertise, and I am very glad that she is still going to be on as a member of this subcommittee, because I will look forward to getting her insight into some of the issues which she has worked on over the last year and more.

I have always believed that Government can do a lot for the people of this country by protecting their freedoms, protecting the environment, looking out for everybody and planning for the future of this great Nation. While issues like the management of the Federal bureaucracy and sound procurement policy do not often grab headlines, in the long run they are of tremendous importance to all Americans.

To put it simply, this subcommittee's work is to make sure that all Americans get the most for their money. Reinventing government is a great idea, and here in this subcommittee, we have the opportunity to ensure that we are serving the ultimate customer: the American people and the American taxpayers.

Today, we will consider three bills dealing with the nontax debt collection activities of the U.S. Government: H.R. 2063, the Debt Collection Wage Information Act of 1997; H.R. 2347, the Federal Benefit Verification and Integrity Act; and the Government Waste, Fraud, and Error Reduction Act of 1998. H.R. 2063 and H.R. 2347 were introduced by Representative Maloney, whereas the Government Waste, Fraud, and Error Reduction Act of 1998 has been introduced by Chairman Horn.

H.R. 2063 directs the Secretary of HHS to make information in the National Directory of New Hires available to the Secretary of the Treasury for use in collecting delinquent debt. This directory contains important wage and employment information collected from the States, and passage of this legislation would help Federal and State governments track delinquent debtors across State lines.

H.R. 2347 would allow Federal agencies to verify information supplied by applicants for Federal benefit programs, while keeping in place the protections afforded by the Privacy Act. And I want to state that I intend to be very active on making sure that while we proceed in some of these areas, privacy is protected. Given that applicant fraud in the food stamp and Medicaid programs alone is estimated to be $1 billion a year, this seems a common-sense approach in helping to solve this problem with respect to H.R. 2347.

The bill referred to as the Government Waste, Fraud, and Error Reduction Act of 1998 makes numerous changes to existing law. Most of these are to the Debt Collection Improvement Act which became law as part of the Omnibus Appropriations Act of 1996. Many of these changes are clerical or clarifying in nature. However, some of the provisions, I have to say, do concern me.

Granting Federal agencies the authority to garnish an individual's private pension payments to repay debts owed to the Federal Government raises troubling questions. We need to ensure that elderly individuals who may be living on fixed incomes at or near the poverty line do not face undue hardship.

Another concern is the establishment of lien authority granted by the bill. It is my understanding that the Justice Department opposes this grant of authority to agency heads. It is important that we ensure that due process is followed when placing a lien against real property interests of individuals.

Finally, this legislation requires agency heads to sell nontax delinquent debt which is delinquent for more than a year and to sell any loan application administered by the agency within 6 months. I understand that the administration supports the concept of selling nontax delinquent debt over 1 year old, but I have some questions about this approach.

For instance, what would happen to all existing debt older than 1 year? Would the agencies have to sell it all off in some sort of fire sale? Do agencies have the authority to sell debt below face value, and should this include debts that are delinquent but which may actually be performing?

On the sale of loan obligations, I have some concern about this provision—about the provision's impact on the direct student loan program and other loan programs being administered by the Department of Education.

I look forward to exploring some of these issues at today's hearing and working with the majority, Mr. Chairman, as these bills move forward in the legislative process. I welcome our witnesses.

And, Mr. Chairman, thank you very much.

[The prepared statement of Hon. Dennis J. Kucinich follows:]

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Opening Statement -- Rep. Dennis Kucinich
Hearing on Pending Debt Collection Legislation

March 2, 1998

Thank you, Mr. Chairman. As the new Ranking Member of the Government Management, Information and Technology Subcommittee, I look forward to working with Chairman Horn and the other members of the Subcommittee in what will hopefully be a very productive year. There are many important issues which will come before us in the coming months, and I trust that the bipartisan spirit with which the subcommittee has approached most matters will continue. I would also like to commend Rep. Carolyn Maloney for her work as the Ranking Member of this Subcommittee during the last session. She has chosen to become the Ranking Member of the new Subcommittee on the Census, but will fortunately be remaining as a member of this Subcommittee.

You know, I've always believed the government can do a lot for the people of this country by protecting their freedoms, protecting the environment, looking out for everybody and planning for the future of this great nation. While issues like the management of the federal bureaucracy and sound procurement policy do not often grab headlines, in the long run they are of tremendous importance to all Americans. To put it simply, this Committee's job is to make sure that all Americans get the best bang for their buck. Reinventing the government is a great idea. Here, in this committee, we have the opportunity to ensure that we are serving the ultimate customer, the American people.

Today we will consider three bills dealing with the nontax debt collection activities of the United States Government -- H.R. 2063, the "Debt Collection Wage Information Act of 1997," H.R. 2347, the "Federal Benefit Verification and Integrity Act." and H.R. ___, the "Government Waste, Fraud, and Error Reduction Act of 1998." H.R. 2063 and H.R. 2347 were introduced by Rep. Maloney, while the "Government Waste, Fraud, and Error Reduction Act of 1998" *has been* introduced by Chairman Horn.

H.R 2063 directs the Secretary of HHS to make information in the National Directory of New Hires available to the Secretary of the Treasury for use in collecting delinquent debt. This directory contains important wage and employment information collected from the states and passage of this legislation would help federal and state governments track delinquent debtors across state lines.

H.R. 2347 would allow federal agencies to verify information supplied by applicants for federal benefit programs, while keeping in place the protections afforded by the Privacy Act. Given that applicant fraud in the Food Stamp and Medicaid programs alone is estimated to cost $1 billion a year, this seems a common sense approach to helping solve this problem.

H.R. ___, "Government Waste, Fraud, and Error Reduction Act of 1998," makes numerous changes to existing law. Most of these are to the Debt Collection Improvement Act, which became law as part of the *Omnibus Appropriations Act of 1996*. Many of these changes are clerical or clarifying in nature. However, some of the provisions concern me. Granting federal agencies the authority to garnish individuals private pension payments to repay debts owed to the federal government raises troubling questions. We need to insure that elderly individuals, who may be living on fixed incomes at or near the poverty line, do not face undue hardship. Another concern is the establishment of lien authority granted by the bill. It is my understanding that the Justice Department opposes this grant of authority to agency heads. It is important that we ensure that due process is followed when placing a lien against the real property interests of individuals. Finally, this legislation requires agency heads to sell nontax delinquent debt which is delinquent for more than one year and to sell any loan obligation administered by the agency within six months. I understand that administration supports the concept of selling nontax delinquent debt over one year old, but I have some questions about this approach. For instance, what would happen to all existing debt older than one year, would the agencies have to sell it all off in some sort of fire sale? Do agencies have the authority to sell debt below face value? And should this include debts that are delinquent, but which may actually be performing? On the sale of loan obligations, I have some concern about this provisions impact on the Direct Student Loan Program, and other loan programs, being administered by the Department of Education.

I look forward to exploring some of these issues at today's hearing, and to working with the Majority as these bills move forward in the legislative process. Welcome to our witnesses and thank you, Mr. Chairman.

Mr. HORN. Thank you.

Would the gentlewoman from New York wish to make a statement?

Mrs. MALONEY. Yes. I certainly welcome my colleague, Dennis Kucinich, and congratulate him on assuming the ranking member's position. It is a tremendously important subcommittee. I have enjoyed serving on it.

Dennis brings a vast experience in city government and will be a strong voice for the Democratic side on this committee. I would like to be associated with his comments in his opening statement and would like to take this opportunity truly to thank Chairman Horn for being such a fair and—we haven't always agreed, but we have done a lot of good work together.

It has been a great pleasure to work with you, and I intend to continue working with you.

I would like to ask that you put my opening remarks in the record as read. They are quite lengthy.

Mr. HORN. Without objection.

Mrs. MALONEY. I just would like to point out that two of the bills in discussion today are bills that I authored and are in response to the President's recommendations in the 1999 budget, calling for an effort to reduce errors and increase accuracy and efficiency throughout the Federal Government.

The Debt Collection Wage Information Act and the Federal Benefits Verification and Integrity Act, two bills that I introduced last year, that the chairman cosponsored, are under consideration today; and according to prior hearings, would bring in a tremendous amount of money that is owed to the taxpayers.

The verification—Benefits Verification and Integrity Act which help agencies verify the information on applications for Federal benefits and loans—and specifically, there have been reports that—one in the Wall Street Journal recently that two Detroit area student aid consultants charged hundreds of clients $350 each for phony tax returns. And then recently in the Washington Post an owner of a California trade school was indicted on allegations that he stole $1 million in Federal Pell Grants by creating imaginary students.

It seems that we spend so much time with our IGs and our Federal money, tracking down what went wrong. By just verifying and checking in the beginning, we can stop error; we can save taxpayers' dollars; we can run Government more efficiently, and, more importantly, have more dollars out there for the students who honestly deserve and need Pell Grants and for, really, the programs that help people.

As you know, we have safeguards to help students if students cannot afford to pay back their loans but certainly one who lies, one who abuses the system, certainly makes it more difficult for us to help others in the future.

I have quite a lengthy—it is about 10 pages long, describing these two bills, which I do support and which I have worked very hard on.

I do want to thank the chairman for our work together on the Debt Collection Improvement Act, and our studies that verified that $50 billion was owed the Federal Government, and 1 year

later only $23 million had been collected. We hope to improve on that record. We certainly need to, but also in a fair way.

So I would just like to hear from our distinguished panel and ask, again, that my remarks be just put in the record so we can hear from our witnesses. Thank you.

[The prepared statement of Hon. Carolyn B. Maloney follows:]

March 2, 1998

REP. CAROLYN B. MALONEY --
OPENING STATEMENT

DEBT COLLECTION HEARING ON
H.R. the "Government Waste, Fraud, and Error Reduction Act of 1998,"
H.R. 2347, the "Federal Benefit Verification and Integrity Act,"
H.R. 2063, the "Debt Collection Wage Information Act of 1997,"

Thank you Mr. Chairman.

I am very pleased you are holding this hearing today to discuss legislation that will not only improve federal debt collection efforts but also decrease government waste, fraud and abuse. I am also pleased that the President has expressed interests in this subject as well. As noted in his 1999 budget, the President has launched an effort to reduce errors and increase accuracy and efficiency throughout the Federal government. Under the section on error reduction, the President's budget explains that agencies could collect debt more effectively by better using government databases such as the National Directory for New Hires. The budget also recommends improving eligibility verification in credit and benefit programs to reduce false or erroneous application information.

Two of the bills in discussion today respond directly to the President's recommendations: H.R. 2063, the Debt Collection Wage Information Act, and H.R. 2347, the Federal Benefit Verification and Integrity Act. Last year, I introduced and the Chairman cosponsored both bills. The first bill, the Debt Collection Wage Information Act, will make the National Directory of New Hires available to the Treasury Department to help collect delinquent non-tax debt.

This bill is modeled after a pioneering system to collect child support debts developed by the Massachusetts Department of Revenue. Under their system, computers matched dead beat dads with records showing where they work and how much money they make. The State would then warn debtors that their payments would be deducted from their wages, while promising full due process rights. The State's system worked wonderfully. So good, in fact, Congress built this system into the Federal Welfare Reform law enacted in August 1996.

The State of Massachusetts tried to use this same system to collect defaulted student loans. During the first computer match, the State found that more than half of the former students had jobs in the state and were earning enough money to pay their defaulted loans. However, when Massachusetts tried to collect on these individuals, it found that a peculiar Federal law prevented them. Short of changing the Federal law, the only way to fix this problem is for the State to follow the cumbersome process of passing a specific state law granting them this ability. To date, only three states have passed such laws.

Unfortunately, passing state laws will fix only half the problem. Many states have found that students who have defaulted loans often move out of state, some for the explicit purpose of avoiding paying their student debt. Even if all 50 states passed laws, nearly 40 % of these students could avoid paying their defaulted loans because those states would not be able to find the student. The Education Department considers this problem to be one of the biggest obstacles to collecting defaulted student debt. In fact, 70% of the Department's debt collection efforts go toward locating student debtors in default.

My bill, the Debt Collection Wage Information Act, would offer an innovative approach to locating student debtors. This legislation would allow the Federal government to use the National Directory of New Hires to help the Department of Education locate where student debtors work. Once students are found, the Department could then use its existing authority to notify the student, then as a last resort garnish the student's wages while meeting all due process requirements.

According to the Massachusetts Department of Revenue, the Debt Collection Wage Information Act would bring in up to $1 billion annually in additional collections from student defaulters who have the means to pay. At the same time, it continues to give the debtors the same due process and hardship protections that exist under current law.

My second bill, H.R. 2347, the Federal Benefits Verification and Integrity Act, will help federal agencies verify the information on applications for federal benefits and loans.

The federal government spends significant resources and manpower investigating and prosecuting fraud after it occurs. It seems that every day, some newspaper or TV channel reports another incident of an individual or business defrauding the government. In fact, last year, the Education Department Inspector General testified in front of this Subcommittee that he had conducted a match of income data reported on student loan applications with the student's IRS data. The IG found that 102,000 students under-reported their income. 300 of these recipients understated their family income by more than $100,000. The IG auditors estimated that, as a result, $176 million in undeserved Federal Pell grants were awarded last year.

Altogether, the Education Department has $23 billion dollars in defaulted student loans.

News reports corroborated this report. In a March 11, 1997, Wall Street Journal article, two Detroit-area student-aid consultants, charged hundreds of clients $350 each for phony tax returns. In an October 29, 1997, Washington Post story. An owner of a California trade school was indicted on allegations that he stole $1 million in federal pell grants by creating imaginary students.

This problem is not isolated at the Department of Education.

1) The Department of Housing and Urban Development (HUD) did a similar match with Federal tax data to determine underreported tenant income. The HUD study found more than $400 million was given out in excess rental subsidies during the calendar year 1995.

2) The Small Business Administration implemented a policy to match Federal income tax information with business loan application information. So far, the tax verification policy has resulted in the disapproval and withholding of $34 million in loans from ineligible applicants.

H.R. 2347, the Federal Benefit Verification and Integrity Act, could help solve these problems. The bill authorizes agencies to better verify the information on Federal benefit and loan applications. Most recipients of federal aid, both individuals and businesses, already assume that the Federal government verifies the information submitted on aid application.

The legislation improves application verification by allowing agencies, upon an applicant's consent, to access those federal and state government databases which could help agencies verify the accuracy of application information. For example, use of the Social Security database can help verify an applicant's name. The Nation Directory of New Hires and the IRS databases can help verify the applicant's family or business income. The Veteran's database can verify whether an individual is a veteran, and the FBI database can determine whether an individual is a criminal. At the same time, all computer matching and privacy protection restrictions stay in place. This bill does not supersede or otherwise affect the privacy act.

My bill would simply help catch up to those individual and businesses who have caught on that the government doesn't always check the information on the application. It also offers dual savings:

1) avoidance of an overpayment including interest costs, and
2) elimination of the administrative costs associated with locating and collecting from the debtor once an overpayment has been made.

Thank you.

Mr. HORN. Thank you very much for those remarks. They are immensely helpful, as usual.

I will now call on Mr. DeSeve, who is the Acting Deputy Director for management for the Office of Management and Budget.

Mr. DeSeve.

STATEMENT OF G. EDWARD DeSEVE, ACTING DEPUTY DIRECTOR FOR MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

Mr. DESEVE. Thank you, Mr. Chairman. I am appearing before you today to testify on various proposals to improve program and management integrity in the delivery of Federal credit and benefit programs. Specifically, my testimony today will discuss the proposed Federal Benefit Verification and Integrity Act, the Debt Collection Wage Information Act and the proposed bill entitled, the Government Waste, Fraud, and Error Reduction Act.

The President's budget for fiscal year 1999 contains the Nation's first comprehensive governmentwide performance plan. The management performance section of the plan presents a new effort to reduce errors in Federal programs.

This initiative is designed to encourage agencies to work together to identify common sources of errors. Integrated solutions to common problems will save money for the taxpayer and demonstrate our ability to deliver program benefits to the right person, at the right time, in the correct amount.

We welcome your continuing assistance in conceiving and implementing initiatives such as this. A government that administers its benefit programs more efficiently and effectively serves the public better, both as customers and taxpayers. The initiative will focus on increasing accuracy and efficiency in three areas: program eligibility, financial and program management, and debt collection.

As a working principle, we agree that there are significant opportunities to improve the coordination of government information resources across Government agencies to strengthen the delivery of benefits. Such opportunities should be carefully weighed to balance the need for data in verifying eligibility with the paperwork burden and privacy intrusion that data-sharing imposes.

As proposed, the Federal Benefit Verification and Integrity Act is a coordinated verification process for credit and benefit programs designed to significantly reduce errors. We agree that agencies should inform applicants applying for a grant or a loan that their data may be shared appropriately in order to verify eligibility; in other words, verify that the applicant is who they say they are and that their income is what they say it is. If the applicant knows that the Federal Government has the authority and the ability to check, the applicant will be more likely to provide correct information. There is simply no substitute for getting the information right from the start.

For means-tested grant programs, income verification is essential to be certain that we are serving only those who are legally eligible before we make a payment. Eligibility verification after a loan is disbursed or after a payment is made is very costly in terms of post-audit resources and collection resources. Prevention through prescreening should reduce the frequency of errors and the subse-

quent costs of collection and losses. There is no question that the biggest payoff comes when agencies have the information to prevent errors up front.

We support the goal of H.R. 2347. However, any bill which authorizes data-sharing for eligibility should meet three criteria. First, privacy must be protected; therefore, access to data should be limited to appropriate purposes, sources, methods, and only by appropriately authorized persons—persons who are appropriate to receive it. Second, administrative procedures should be simple to administer. Third, the original program purpose of the data source must not be threatened. This is particularly important in regard to the National Directory of New Hires, which is in a developmental stage.

Child support enforcement is too important to be thrown off track by new requirements. A phased-in approach that is dependent upon a determination of readiness by the Secretary of Health and Human Services is essential.

Considering the complexity of these issues, we suggest a two-part strategy for discussion. Part one would be to legislatively define standards, data sources and types of programs that would benefit from improved data coordination. Such an effort would be directed to develop a comprehensive plan, including a technical infrastructure.

The second part of this strategy would be to legislatively, or administratively where appropriate, authorize specific programs and data sources to share information. The advantage of this approach would be to establish a coherent policy, management, and systems framework while providing for particular legal, regulatory, and administrative differences among programs.

Some problems of payment integrity can be addressed by adopting secure, modern, electronic commerce practices that are commercially available. For example, during the last 2 years, we have developed an initiative to make available to agency program and financial managers the benefits of sophisticated risk alert systems associated with payment cards.

A central feature of modern payment card technology is reliance on front end controls to reduce errors, rather than postaudits to determine the amount of loss. In the award of six contracts under the GSA Smart Pay program, agencies will have the ability to streamline administrative and financial processes, save the taxpayers money and improve accountability.

The successful passage of the Debt Collection Improvement Act of 1996 was due in part to the considerable efforts of Treasury, the Federal Credit Policy Working Group, the President's Council on Integrity and Efficiency, and the Chief Financial Officers Council. Each of these groups must have sufficient time to review the provisions of the Government Waste, Fraud, and Error Reduction Act in order to allow them to comment.

The Federal Credit Policy Working Group and the CFO Council are willing to jointly review each proposal for merits and potential benefits. This is similar to the process that was used to review the Debt Collection Wage Information Act. The PCIE and the Federal Credit Policy Working Group have discussed H.R. 2063. Based on

these discussions, the administration can support H.R. 2063 with some technical and timely modifications.

Several of the debt collection programs in the draft Government Waste, Fraud, and Error Reduction Act require further discussion and analysis by the administration. These include the sales of delinquent debt after 1 year. Agencies should be encouraged to consider the advantages of loan sales and Treasury should provide consultative assistance for nonrecourse sales. However, the head of the agency must have sufficient discretion to determine when a sale is not in the best financial interest of the Government or when a sale would interfere with the legislative mission of the program.

Two examples highlight the problem. Example one, the sale of delinquent student loans should not preclude the income contingent repayment and loan consolidation options that are authorized by Congress and are an administration priority. Example two, the application of mandatory debt sale requirements to international credit programs would be difficult to implement effectively, given the undeveloped market for such credits. Such sales would interfere with multilateral efforts to maximize repayment through the Paris Club agreement and could raise national security concerns with regard to military sales and other international credit programs.

Many of the new debt collection programs raise more questions than we can resolve quickly. We are particularly concerned with a number of provisions which we would oppose in concept. Attached is a list of these unsupportable proposals and the basis for our concerns. Considering the importance of a focused approach to implementing the debt collection tools provided in 1996, I hope that you will share our concern that too many new proposals may detract from higher debt collection priorities.

I would also like to add that I know there are some other technical amendments the subcommittee is considering in regard to the timing of agencies supplying financial statements to the Congress that would indicate that the administration would support an effort to have agency financial statements supplied to the Congress at the same time they were supplied to the administration.

Thank you, Mr. Chairman.

Mr. HORN. By the way, keep reading, if you don't mind. Since the statement didn't get here until an hour ago, you might as well use your vocal cords rather than our eyes. So start reading, "Unsupportable Proposals." Let's just go down the list.

Mr. DESEVE. I will be happy to, Mr. Chairman. And may I indicate that we were delighted to receive this bill last week, last Monday. And as you know, we were in an interagency A–19 clearance process. Particularly the international aspects of the bill, not to mention those affecting the new hires data base were very controversial within OMB and within the agencies. I actually have some amendments to my testimony that people asked me as late as 11 this morning to include. So we were in an active interagency coordination process. We apologize for the timing.

As you know, Mrs. Maloney's bills have been available for some time and have been coordinated actively. I will be happy to continue to read the Unsupportable Proposals.

Mr. HORN. Thank you.

Mr. DESEVE. Section 202—Barring delinquent Federal debtors from obtaining Federal loans or loan insurance guarantees would require that agencies bar delinquent debtors from Federal permits, contracts, or licenses. This is extremely punitive and may interfere with the debtor's ability to repay by interfering with employment opportunities. Barring a debtor from obtaining loans—excuse me, a debtor with over $1 million in delinquent debt could have serious international implications in the area of foreign loans.

In addition, this section is not consistent with existing legal provisions—excuse me. I read from the wrong copy of my testimony. Excuse me.

Barring debtors with debts over $1 million from obtaining Federal delinquent loans could have serious international implications in the area of foreign loans. In addition, this section is not consistent with existing legal provisions barring delinquent sovereign debtors from obtaining certain U.S. credits or grant assistance, such as the Brooke Amendment. The international application of the provision is also unclear. For example, does the term "person" include sovereign governments?

Section 203—Collection and compromise of nontax debts and claims. Subsection (b)(4), which would prohibit agencies from terminating collection action until a debt is referred to a private collection contractor or a debt collection center, would be difficult or impossible to apply to international sovereign debt, which is unlikely to be collectable through private contractors or debt collection centers—again, the theme here of the concerns that agencies expressed during the 3 days they had for clearance.

Section 205—Establishment of liens creates an administrative lien for debts owed the United States. We would oppose this on the basis that the creation of a lien has significant legal implication and the Federal Government should be held to the same legal standard as private lenders from obtaining liens, that is, usually obtaining a judgment. It is also not clear whether and how such an administrative lien provision could be enforced on foreign sovereign or nonsovereign debtors.

Section 302—Requirements to sell certain debts 6 months after disbursement would be counter to many loan program objectives. The program effects of such a requirement have not been adequately considered, especially for loans to sovereign nations, USDA direct loans, and loans to students. For instance, the majority of the direct loans in USDA, both in the Farm Service Agency and the Rural Development Mission Area, are meant for borrowers who are unable to get credit elsewhere.

For example, USDA's single family housing direct loan program is offered to very-low- and low-income borrowers and meant to be a stepping stone for those fringe borrowers so they can graduate to private credit. The program is designed to require that the borrower graduate if they qualify.

In the meantime, USDA subsidizes the borrower's interest based on the borrower's income and has the ability to offer moratoriums and other workout agreements that the private sector could not do. Further, to sell loans without regard to what is in the government's best financial interest does a disservice to the taxpayers.

It is not clear that imposing such sales requirements across the board on international debtors is either feasible or desirable. For example, it is very unlikely that a private buyer could be found for section Public Law 480 subsidized food aid loans. In addition, efforts to sell credits to sovereign foreign debtors might interfere with multilateral efforts to maximize repayment through the Paris club of sovereign creditor nations.

Finally, there may be national security considerations that argue against the sale of certain categories of international credits such as foreign military financing credits.

Section 402—Debarment from obtaining Federal loans or loan guarantees would, like section 202, be inconsistent with existing legal principles barring delinquent sovereign debtors from obtaining certain U.S. Government credits or grant assistance, such as the Brooke Amendment. Unlike section 202 or existing provisions, however, section 402 does not provide any waiver authority and could therefore be, in the case of international credits, a significant restraint on the President's ability to conduct foreign policy.

Section 403—Inspector General review would require that an IG report on resolution of debts over $1 million and rate agency due diligence performance on high-value debts. Requirements for such routine reviews have historically been of marginal value.

Section 404—Requirement to seek seizure and forfeiture of assets securing high-value debts require Federal agencies to seize and forfeit assets pledged to the United States. The Federal Debt Collection Procedures Act authorizes Justice and its private counsel to file liens and seize property.

The current authority worked well in 1997, as Justice collected over $2 billion through its litigation efforts.

[The prepared statement of Mr. DeSeve follows:]

STATEMENT OF G. EDWARD DESEVE
ACTING DEPUTY DIRECTOR FOR MANAGEMENT
OFFICE OF MANAGEMENT AND BUDGET
HOUSE SUBCOMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION AND TECHNOLOGY

MARCH 2, 1998

Mr. Chairman, I am appearing before you today to testify on various proposals to improve program and management integrity in the delivery of Federal credit and benefit programs. Specifically my testimony today will discuss the proposed Federal Benefit Verification and Integrity Act (H.R. 2347), the Debt Collection Wage Information Act (H.R. 2063), and the proposed bill entitled, the Government Waste, Fraud and Error Reduction Act of 1998.

Error Reduction Initiative

The President's Budget for 1999 contains the Nation's first comprehensive Government-wide Performance Plan. The Management Performance section of the plan presents a new effort to reduce errors in Federal programs.

This initiative is designed to encourage agencies to work together to identify common sources of errors. Integrated solutions to common problems will save money for the taxpayer and demonstrate our ability to deliver program benefits to the right person, at the right time, in the correct amount. We welcome your continuing assistance in conceiving and implementing initiatives such as this. A government that administers its benefit programs more efficiently and effectively serves the public better both as customers and taxpayers.

The initiative will focus on increasing accuracy and efficiency in three areas: program eligibility, financial and program management, and debt collection.

Program Eligibility

As a working principle, we agree that there are significant opportunities to improve the coordination of government information resources across government agencies to strengthen the delivery of benefits. Such opportunities should be carefully weighed to balance the need for data in verifying eligibility with the paperwork burden and privacy intrusion that data sharing imposes.

As proposed, the Federal Benefit Verification and Integrity Act (H.R. 2347), is a coordinated verification process for credit and benefit programs designed to significantly reduce errors. We agree that agencies should inform applicants applying for a grant or a loan, that their data may be shared appropriately in order to verify eligibility. In other words, verify that the applicant is who they say they are and that their income is what they say it is. If the applicant knows that the Federal government has the authority and the ability to check, the applicant will be more likely to provide correct information. There is simply no substitute for getting the information right from the start.

For means-tested grant programs, income verification is essential to be certain that we are serving only those who are legally eligible before we make a payment.

Eligibility verification after a loan is disbursed or after a payment is made is very costly in terms of post audit resources and collection resources. Prevention through pre-screening should reduce the frequency of errors and the subsequent costs of collection and losses. There is no question that the biggest payoff comes when agencies have the information to prevent errors up front.

We support the goal of H.R. 2347. However, any bill which authorizes data sharing for eligibility should meet three criteria. First, privacy must be protected. Therefore, access to data should be limited to appropriate purposes, sources, methods, and only by authorized persons. Second, administrative procedures should be simple to administer. Third, the original program purpose of the data source must not be threatened. This is particularly important in regard to the National Directory of New Hires which is in a developmental stage. Child Support Enforcement is too important to be thrown off track by new requirements. A phased-in approach that is dependent upon a determination of readiness by the Secretary of Health and Human Services is essential.

Considering the complexity of these issues, we suggest a two-part strategy for discussion. Part one would be to legislatively define standards, data sources, and types of programs that would benefit from improved data coordination. Such an effort would be directed to developing a comprehensive plan including the technical infrastructure. The second part of the strategy would be to legislatively or administratively, when appropriate, authorize specific programs and data sources to share information. The advantage of this approach would be to establish a coherent policy, management and systems framework while providing for particular legal, regulatory, and administrative differences among programs.

Financial and Program Management

Some problems of payment integrity can be addressed by adopting secure, modern electronic commerce practices that are commercially available. For example, during the last two years we have developed an initiative to make available to agency program and financial managers the benefits of sophisticated risk alert systems associated with payment cards such as VISA, MasterCard, and American Express.

A central feature of modern payment card technology is reliance on front end controls to reduce errors, rather than post-audits to determine the amount of the losses due to errors. In the award of six contracts under the GSA Smart Pay program, agencies will have the ability to streamline administrative and financial processes, save taxpayers' money, and improve accountability.

The Prompt Pay Act amendments contained in the draft Government Waste, Fraud, and, Error Reduction bill are important to the success of our work in electronic commerce. By giving the Secretary of Treasury the authority to eliminate the statutory payment warehousing requirements, our vendors and agencies will migrate more quickly to integrated electronic commerce solutions for all buying and paying.

Our vision is that by the year 2001, all Federal agencies will support their programs by making available electronic commerce for payment, accounting and performance reporting. We look forward to briefing you on our comprehensive strategic plan for electronic commerce.

Debt Collection

The successful passage of the Debt Collection Improvement Act of 1996 was due in part to the considerable efforts of Treasury and the Federal Credit Policy Working Group, the President's Council on Integrity and Efficiency (PCIE) and the Chief Financial Officers (CFO)Council. Each of these groups must have sufficient time to review the provisions of the Government Waste, Fraud, and Error Reduction Act in order to allow them to provide comments.

The Federal Credit Policy Working Group and the CFO Council are willing to jointly review each proposal for merits and potential benefits. This is similar to the process that was used to review the Debt Collection and Wage Information Act (H.R. 2063). The PCIE and the Federal Credit Policy Working Group have discussed H.R. 2063. Based on these discussions, the Administration can support H.R. 2063 with some technical and timing modifications.

Several of the debt collection proposals in the draft Government Fraud, Waste, and Error Reduction Act require further discussion and analysis by the Administration. These include the sale of delinquent debt after one year. Agencies should be encouraged to consider the advantages of loan sales and Treasury should provide consultative assistance for non-recourse sales. However, the head of the agency must have sufficient discretion to determine when a sale is not in the best financial interest of the government or when a sale would interfere with the legislated mission of the program.

Two examples highlight the problem. Example one, the sale of delinquent student loans should not preclude the income contingent repayment and loan consolidation options that are authorized by Congress and are an Administration priority. Example two, the application of mandatory debt sale requirements to international credit programs could be difficult to implement effectively given the undeveloped market for such credits. Such sales would interfere with multilateral efforts to maximize repayment through the Paris Club agreement ,and could raise national security concerns with regard to military sales and other international credit programs.

Many of the new debt collection proposals raise more questions than we can resolve quickly. We are particularly concerned with a number of provisions which we would oppose in concept. Attached is a list of these unsupportable proposals and the basis for our concerns. Considering the importance of a focused approach to implementing the debt collection tools provided in the 1996 Act, I hope that you will share our concern that too many new proposals may detract from higher debt collection priorities.

Thank you and I would be happy to answer any questions.

Attachment

Unsupportable Proposals

Section 202 -- Barring delinquent Federal debtors from obtaining Federal Loans or Loan Insurance Guarantees would require that agencies bar delinquent debtors from Federal permits, contracts, or licenses. This is extremely punitive and may interfere with the debtor's ability to repay by interfering with employment opportunities. Barring debtors with debts over $1 million from obtaining Federal loans delinquent could have serious international implications in the area of foreign loans. In addition, this section is not consistent with existing legal provisions barring delinquent sovereign debtors from obtaining certain U.S. Government credits or grant assistance, such as the Brooke Amendment. The international application of the provision is also unclear (for example, does the term "person" include sovereign governments?).

Section 203 -- Collection and Compromise of Non-tax Debts and Claims - subsection (b)(4), which would prohibit agencies from terminating collection action until a debt is referred to a private collection contractor or a debt collection center, would be difficult or impossible to apply to international sovereign debt, which is unlikely to be collectable through private contractors or debt collection centers.

Section 205-- Establishment of Liens creates an administrative lien for debts owed the United States. We would oppose this on the basis that the creation of a lien has significant legal implication and the Federal government should be held to the same legal standard as private lenders for obtaining liens, that is, usually obtaining a judgment. It is also not clear whether and how such an administrative lien provision could be enforced on foreign sovereign or non-sovereign debtors.

Section 302 -- Requirement to sell certain debts debt six months after disbursement would be counter to many loan program objectives. The program effects of such a requirement have not been adequately considered, especially for loans to sovereign nations, USDA direct loans, and loans to students. For instance, the majority of the direct loan programs in USDA, both in the Farm Service Agency and the Rural Development Mission Area, are meant for borrowers who are unable to get credit elsewhere. For example, USDA's single family housing direct loan program is offered to very-low and low income borrowers and is meant to be a "stepping stone" for these "fringe" borrowers so that they can graduate to private credit. The program is designed to require that the borrower graduate if they qualify. In the meantime, USDA subsidizes the borrower's interest (based on the borrower's income) and has the ability to offer moratoriums and other workout agreements that the private sector could not do. Further, to sell loans without regard to what is in the government's best financial interest does a disservice to the taxpayers.

It is not clear that imposing such sales requirements across the board on international debtors is either feasible or desirable. For example, it is very unlikely that a private buyer could be found for P.L. 480 subsidized food aid loans. In addition, efforts to sell credits to sovereign foreign debtors might interfere with multilateral efforts to maximize repayment through the Paris Club of sovereign creditor nations. Finally, there may be national security considerations that argue

against the sale of certain categories of international credits, such as Foreign Military Financing credits.

Section 402 – Debarment from Obtaining Federal Loans or Loan Guarantees would, like section 202, be inconsistent with existing legal provisions barring delinquent sovereign debtors from obtaining certain U.S. Government credits or grant assistance, such as the Brooke Amendment. Unlike section 202 or existing provisions, however, section 402 does not provide any waiver authority and could therefore be, in the case of international credits, a significant restraint on the President's ability to conduct foreign policy.

Section 403 – Inspector General Review would require that IG report on resolution of debts over $1 million and rate agency due diligence performance on high value debts. Requirements for routine reviews have historically been of marginal value.

Section 404– Requirement to seek seizure and forfeiture of assets securing high value debts require Federal agencies to seize and forfeit assets pledged to the United States. The Federal Debt Collection Procedures Act authorizes Justice and its private counsel to file liens and seize property. The current authority worked well in 1997 as Justice collected over $2 billion through its litigation efforts.

Mr. HORN. I thank you for that. That's helpful.

Now, in terms of how much time you need to coordinate this thoroughly, what are you suggesting?

Mr. DESEVE. Typically, our work with committees takes approximately 2 weeks of notification before a hearing, especially if we have not seen the bill previously; that is usually enough for us to look at the bill, talk to staff, run a 1-week coordination process through A–11 and prepare testimony. Anything less than that——

Mr. HORN. Well, can you be done in 2 weeks if we give you 2 weeks from now? Can you be done coordinating?

Mr. DESEVE. We are done now. We are now done. We accelerated the process. We have received all the agency comments.

Mr. HORN. I thought you still had some problems in putting them all together.

Mr. DESEVE. I think in the testimony, in the final elements of testimony, the only additional comment I have—and I can read that here, because I think it will clarify for you international credit programs. For those reasons, the ones that I just indicated in the addendum to my testimony, the Debt Collection Improvement Act and predecessor laws have been interpreted not to apply to foreign debt or debt authorized by the Foreign Assistance Act and other international debt collection activities. Since a number of provisions contained in the subject legislation, if applied to foreign debt, would not only be difficult or impossible to apply, but could interfere with the U.S. Government international debt policy, we suggest that the legislation—I am sorry, that the legislation state that foreign debt is exempt from these domestic debt collection statutes.

That's the additional item which I received at about 11 and was not able to reflect—11:44, excuse me—and was not able to reflect in my testimony.

Mr. HORN. OK. You are saying that if you are dealing with a foreign international entity, that's one thing, as opposed to someone that is abroad and a foreigner. Is there any situation under which an individual would ever be eligible for a Federal loan?

Mr. DESEVE. A foreign individual?

Mr. HORN. A foreign individual, yes, as opposed to a government.

Mr. DESEVE. We can provide credit to overseas corporations if they are implementing trade on behalf of the United States. We can extend Eximbank credits and we can extend OPIC credit to foreign corporations. I don't know that the order applies to foreign nationals or not. This is what snarled my testimony, was the State Department and several of the foreign affairs operations trying to figure out if we could find a way to appropriately recognize that where a U.S. national is engaged in trade, for example, and if there is a default on a loan, we would certainly want to go ahead and collect that default.

On the other hand, if there are foreign corporations or foreign governments, we have another set of provisos, outside the scope of what we have here, that are applicable. I was trying to find a way to walk the line between foreign policy and debt collection policy in my testimony.

Mr. HORN. Yes. When I read the section 202 comment, especially the barring delinquent debtors with debts over $1 million from obtaining Federal loans could have serious international implications

in the area. It seems to me that's why we just have to openly admit we are not talking about loans in reality. We are talking about bribes, to be blunt, in international relations, and we don't expect them to pay it back.

Maybe we just ought to get those categories out of—make exceptions to the bill.

Mr. DESEVE. Your candor is always refreshing to me.

Mr. HORN. I know.

Mr. DESEVE. They don't let me do foreign policy at the White House. There are too many others, Mr. Chairman, who are in the foreign policy business.

Mr. HORN. But that's what I think it boils down to. You have fellows—it is like the 1940 destroyer exchange. We never thought we would get it back and we haven't.

Let me ask you: You suggest that it is unsupportable to sell loans after they are disbursed since it would not allow borrowers to get Federal credit, which is a stepping stone to private credit. How would loan servicing by the Federal Government or a private purchaser of a federally originated loan affect this stepping-stone status?

Mr. DESEVE. This is one very small program within the U.S. Department of Agriculture. I wasn't speaking broadly. I think my testimony characterizes that. And what you will find in that program is a very, very high subsidy rate. These are for marginal loans to farmers and people in rural areas who are not able to get credit elsewhere, and what we try to do is bring them into a credit program and help them manage their finances and manage the nature of their farm in such a way that once they have gotten to a point where they can move into a regularized credit market, even another program of the Department of Agriculture, they would be allowed to do so.

To, in the meantime, sell their loan in the private market to a third party, for example, would be to deny that sense of progression that we are trying to put together. So our point is only that for some narrow programs, we may need to exempt some of those programs for programmatic reasons.

We agree that loan sales is a very good idea. We encourage all of the departments to do it, whether it is HUD, SBA, or others. We just want to be careful that we are not violating certain programmatic requirements by doing it.

Mr. HORN. You note that such sales are unsupportable because agencies have, "the ability to offer moratoriums and other workout agreements that the private sector could not do."

I was not aware that the private sector cannot structure loans with debtors unable to repay its loans. Maybe they don't do it often enough. In recent letters to the committee, agencies have described how private lenders have worked with borrowers to restructure their debts. Doesn't that really happen in the private sector?

Mr. DESEVE. I think it does, and if I used an absolute, I probably should have used a relative. It is more normal in programmatic areas for public borrowers, within a legislative purpose which may be different than maximizing return on the loan—legislative purpose may itself be different; it is more normal for private sector—

for public sector entities to provide that kind of programmatic assistance than it is for a private sector lender.

Mr. HORN. Thank you. I now yield 5 minutes to the gentleman from Ohio.

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

You know since I am new to this, I may be asking some questions that you have answered on previous occasions, but I am going to ask you. I notice in your testimony you talk about debts that have been over $1 million. Do you have those listed in terms of who the debtors are and the amounts of money that are owed?

Mr. DESEVE. We will be happy to try to get you the best breakdown we can. I would have to defer to my colleagues in the agencies. We don't keep those centrally at OMB. They are kept in the various agencies. HUD would have them, for example, for multifamily lenders, and SBA would have them for those borrowers. I would be happy to try and put that together for you.

Mr. KUCINICH. I think it would be useful to have a listing of this debt.

How much debt are we talking about, all told, that the Government is owed?

Mr. DESEVE. Right now, the gross amount—and I am going to again defer to my colleague from Treasury—the gross amount of nontax debt is significantly in excess of $50 billion. Within that—I am sorry. Delinquent debt, delinquent debt. Within that, I think that Mrs. Maloney and others have characterized the uncollectable nature of some of it; it is in bankruptcy or other places. So the net debt is significantly lower than that.

Mr. KUCINICH. How much of that is debt relating to military sales, products that were delivered and we didn't get payment for?

Mr. DESEVE. Unfortunately, I didn't bring that information with me. I will be happy to get it for you again in that same listing. I just don't have it with me.

Mr. KUCINICH. Right. I can appreciate the difficulty in trying to prepare for a meeting of this scope. But I would like to have that information.

Mr. DESEVE. I would be happy to supply that for the record.

Mr. KUCINICH. I would like to know who owes it, how much they owe. I am particularly interested in how much military debt is out there. Also a list of the debt by nations, how much is owed by nations, if you have a study in that; how much is owed by nations, and if we have had subsequent appropriations to those nations. That might be interesting, too.

Mr. DESEVE. OK.

Mr. KUCINICH. And do you have a list of your protocols for debt collection?

Mr. DESEVE. I can supply that, yes. It will vary agency by agency. Each of the agencies has a set of procedures. Student loan folks will testify a little later about how they don't write debt off as a routine matter because they believe there is always a chance to collect it. Others have a write-off policy or a sale policy. So each of the agencies has its own set of protocols.

Mr. KUCINICH. And what about—is there a protocol for U.S. Government foreign debt policy? Or is that—do we kind of play it by ear?

Mr. DESEVE. I am not a specialist in that area, but I will be happy to find out for you. I believe that we have a set of international agreements that bind us in the area of foreign debt policy, but I will be happy to get that answer for you, too.

[The information referred to follows:]

EXPORT-IMPORT BANK OF THE UNITED STATES

COUNTRY	EXPOSURE 9/30/97
AFRICA MULTINATIONAL	6,622,279
ALGERIA	1,438,847,821
AMERICAS MULTINATIONAL FINANCIAL INST	60,689,758
ANGOLA	94,915,655
ANTIGUA	385,862
ARGENTINA	1,973,920,419
ARUBA	8,178,092
AUSTRALIA	565,172,799
AUSTRIA	57,512,713
BAHAMAS	13,408,582
BAHRAIN	182,565,976
BANGLADESH	14,647,812
BARBADOS	1,105,349
BELGIUM	1,952,292
BELIZE	17,103,027
BERMUDA	589,342
BOLIVIA	40,955,828
BOSNIA & HERCEGOVINA	36,766,120
BRAZIL	3,861,983,251
BRUNEI	4,244
CAMEROON	50,423,511
CANADA	65,697,720
CANARY ISLANDS	38,562
CAYMAN ISLANDS	942,086
CENTRAL AFRICAN REPUBLIC	7,805,095
CHILE	106,626,131
CHINA	26,386,019
CHINA (MAINLAND)	4,632,972,722
CHINA (TAIWAN)	6,115,569
COLOMBIA	568,870,597
CONGO	22,864,759
COSTA RICA	36,407,139
COTE D'IVOIRE	179,017,359
CROATIA	92,923,272
CUBA	36,266,581
CYPRUS	1,385,431
CZECH REPUBLIC	473,472,237
DENMARK	2,213,723
DOMINICA	13,735
DOMINICAN REPUBLIC	191,159,963
ECUADOR	174,025,939
EGYPT	38,770,793
EL SALVADOR	123,525,392
ESTONIA	13,468
FIJI ISLANDS	3,450
FINLAND	1,200,351

EXPORT-IMPORT BANK OF THE UNITED STATES

COUNTRY	EXPOSURE 9/30/97
FRANCE	13,471,312
FRENCH POLYNESIAN	7,211
GABON	74,555,227
GEORGIA	14,369,862
GERMANY, FEDERAL REPUBLIC OF	15,914,940
GHANA	417,192,722
GREECE	105,964,721
GREENLAND	999
GRENADA	3,746,506
GUATEMALA	124,651,751
GUIANA-FRENCH	104,939
GUINEA	7,593,494
GUYANA	4,226,160
HAITI	9,746,651
HONDURAS	21,349,259
HONG KONG	492,846,243
HUNGARY	86,270,457
ICELAND	106,374
INDIA	1,402,492,655
INDONESIA	3,774,108,496
IRELAND	2,186,584
ISRAEL	693,917,066
ITALY	384,329,375
JAMAICA	99,653,544
JAPAN	17,882,375
JORDAN	1,941,655
KAZAKSTAN	138,358,070
KENYA	104,286,393
KOREA, REPUBLIC OF	1,535,314,203
KUWAIT	82,762,726
LATVIA (U.S.S.R.)	6,671,301
LEBANON	1,469,985
LIBERIA	5,980,110
LIECHTENSTEIN	2,123
LITHUANIA	38,584,765
LUXEMBOURG	184,860,732
MACAO	3,344,521
MACEDONIA	54,317,584
MADAGASCAR	24,366,996
MALAYSIA, FEDERATION OF	304,152,901
MALTA	20,127,506
MAURITANIA	6,596,857
MAURITIUS	2,120,585
MEXICO	4,638,958,632
MICRONESIA, FEDERATED STATES OF	725,273
MONACO	79,031

EXPORT-IMPORT BANK OF THE UNITED STATES

COUNTRY	EXPOSURE 9/30/97
MOROCCO	561,517,554
MOZAMBIQUE	48,589,817
NAURU	51,158,267
NEPAL	16,186,831
NETHERLANDS	6,585,436
NETHERLANDS ANTILLES	566,559
NEW CALEDONIA	837
NEW ZEALAND	3,564,295
NICARAGUA	53,177,764
NIGER	6,821,520
NIGERIA	713,510,400
NORWAY	58,937,505
OMAN	272,790,853
PAKISTAN	438,046,938
PANAMA	85,043,194
PAPUA NEW GUINEA	35,408,954
PARAGUAY	2,529,724
PERU	254,284,732
PHILIPPINES	2,551,024,333
POLAND	699,323,467
PORTUGAL	462,601
QATAR	523,244,754
ROMANIA	239,286,687
RUSSIA	1,672,496,663
SAUDI ARABIA	8,517,357
SENEGAL	1,813,245
SEYCHELLES	3,315,454
SIERRA LEONE	12,529,960
SINGAPORE	25,044,940
SLOVAK REPUBLIC	7,840,352
SLOVENIA	27,238,435
SOUTH AFRICA	145,602,745
SPAIN	7,468,176
SRI LANKA	23,869,840
ST KITTS-NEVIS	1,884,440
ST LUCIA	264,934
ST VINCENT	47,680
SUDAN	28,246,331
SWEDEN	3,911,299
SWITZERLAND	3,718,929
TANZANIA	26,343,136
THAILAND	856,604,154
TOGO	2,820
TRINIDAD AND TOBAGO	652,874,970
TUNISIA	169,712,042
TURKEY	2,185,360,101

EXPORT-IMPORT BANK OF THE UNITED STATES

COUNTRY	EXPOSURE 9/30/97
TURKMENISTAN	304,791,695
UGANDA	3,464,839
UKRAINE	249,341,277
UNITED ARAB EMIRATES	2,303,807
UNITED KINGDOM	35,416,413
UNITED STATES OF AMERICA	1,295,062,358
URUGUAY	23,229,187
UZBEKISTAN	448,360,382
VENEZUELA	1,980,834,101
VIRGIN ISLANDS - BRITISH	50,380
WEST INDIES - FRENCH	211,890
YUGOSLAVIA	118,122,170
ZAIRE	921,830,192
ZAMBIA	146,971,849
ZIMBABWE	107,798,747
	48,262,739,968

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EXPORT IMPORT BANK OF THE UNITED STATES
PORTFOLIO MANAGEMENT AND REVIEW DIVISION

REPORT OF LOAN ARREARS OF 45 DAYS OR MORE AND $50,000 OR MORE

AS OF September 30,1997

	COUNTRY		AMOUNT
I	SOVEREIGN OBLIGORS		
	ALGERIA		$308,003.98
	ANGOLA		$1,185,471.73
	ANTIGUA		$5,860,318.01
	BOSNIA		$39,958,925.62
	BRAZIL		$901,560.31
	CAMEROON		$4,458,726.00
	CENT AFR REP		$1,652,981.75
	CONGO		$8,037,570.41
	GABON		$2,456,162.61
	LIBERIA		$6,995,119.57
	MACEDONIA		$56,837,630.32
	MADAGASCAR		$25,689,921.64
	NIGER		$1,901,208.75
	NIGERIA		$616,203,671.98
	SUDAN		$42,919,394.87
	TANZANIA		$11,767,992.02
	YUGOSLAVIA		$128,195,671.83
	ZAIRE		$624,677,859.09
	ZAMBIA		$29,862,398.30
		TOTAL SOVEREIGN	$1,808,050,384.69
II	PUBLIC NON-SOVEREIGN OBLIGORS		
	RUSSIA (4 OGFA CASES)	TOTAL PUBLIC NON-SOVEREIGN	$983,453.12
		GRAND TOTAL	$1,809,033,837.81

Collection of Debt in Arrears

The Bank has several options in pursuing collection of debt that is in arrears. There is a default policy presided over by the Default Committee, which reviews transactions that go into default and decides whether the action dictated by the default policy is relevant or another action should be taken. Actions range from sending a letter to the borrower and/or guarantor requesting payment to suspension of actions to cancellations. If a loan or guarantee falls into a claim situation, it is overseen by the Asset Management Division(AMD) for processing the payment to the claimant and then collection of the payment from the borrower and/or guarantor. In addition, if a loan or guarantee defaults, collection of the loan, guarantee and any claims can be pursued through the Paris Club mechanism if the transaction is eligible.

When reviewing a claim filing request, AMD's Claims Processing staff reviews the documentation to ensure compliance with the underlying insurance policy or guarantee documentation. If the claim is denied, a letter is written citing specific reasons. If the claim is approved, a letter is sent to the claimant stating the claim has been approved and requesting a certification that the claimant has received no monies since the claim filing. Once the certification is received, the claim is processed and payment is authorized. A final step in the claim paying process is the writing of a demand letter to the buyer requesting payment.

At this point, the defaulted asset is acquired and the Bank continues to pursue collection. It is routine for staff to request a Dun and Bradstreet report on the buyer to get a picture of the buyer's finances to determine the best courses of action for recovery. Sometimes it is as simple as a letter or telephone call to the buyer to get a payment or to work out a payment schedule. In other instances, the services of an attorney in the buyer's country are needed to work out a settlement arrangement; to litigate against the buyer in country; and, in cases of the bankruptcy of the buyer, to file a claim on our behalf in court. There are also cases where Ex-Im Bank repossesses assets and sells them to recover costs. When claims are deemed to be uncollectible, they are written off.

Agency for International Development
Direct Loan Program
Outstanding Balance and Arrears
As of September 30, 1997

OMB DATA CALL

COUNTRY	COUNTRY TOTAL	ARREARS
Afghanistan	$58,117,150.18	$67,555,214.00
Argentina	$26,910,749.00	$0.00
Austria	$953,572.21	$0.00
Antiqua	$150,000.00	$300,919.00
Bangaldesh	$0.00	$0.00
Belize	$22,465,894.49	$0.00
Benin	$0.00	$0.00
Boliva	$0.00	$0.00
Botswana	$14,837,212.44	$0.00
Brazil	$1,055,574,176.32	$446,000,000.00
Burma	$2,466,963.38	$0.00
Cameroon	$0.00	$0.00
Cape Verde	$0.00	$0.00
Chile	$119,477,868.19	$0.00
Colombia	$230,301,063.23	$0.00
Costa Rica	$234,903,729.32	$0.00
Dominican Republic	$258,380,153.32	$0.00
East Carb.	$111,000,321.63	$0.00
Ecuador	$99,795,630.73	$16,092,764.00
Egypt	$2,524,020,600.40	$0.00
El Salvador	$50,138,427.00	$0.00
Entente States	$0.00	$0.00
Ethiopia	$82,936,261.31	$9,472,336.00
Finland	$907,468.58	$0.00
Ghana	$0.00	$0.00
Guyana	$0.00	$0.00
Govt of Haiti	$14,932,143.52	$0.00
Greece	$23,677,156.93	$0.00
Guatemala	$158,956,282.76	$0.00
Guinea	$13,459,030.69	$0.00
Honduras	$0.00	$0.00
India	$1,449,563,044.05	$0.00
Indonesia	$684,902,853.29	$0.00
Israel	$981,771,515.79	$0.00
Ivory Coast	$1,264,122.00	$0.00
Jamaica	$281,933,084.61	$0.00
Jordan	$323,980.00	$0.00
Kenya	35,342,678.74	$0.00
Korea	$206,452,491.66	$0.00
Laos	$0.00	$0.00
Latin America Regional	$8,957,428.95	$0.00
Liberia	$86,038,413.44	$56,450,303.00

Agency for International Development
Direct Loan Program
Outstanding Balance and Arrears
As of September 30, 1997

OMB DATA CALL

COUNTRY	COUNTRY TOTAL	ARREARS
Madagascar	$0.00	$0.00
Mail	$23,346.99	$0.00
Malawi	$0.00	$0.00
Malaysia	$0.00	$0.00
Malta	$3,543,988.64	$0.00
Mexico	$10,088,362.08	$0.00
Morocco	$155,502,060.08	$0.00
Nepal	$172,592.01	$0.00
Nicaragua	$0.00	$0.00
Niger	$0.00	$0.00
Nigeria	$0.00	$0.00
Oman	$58,292,172.45	$0.00
Pakistan	$1,216,281,189.00	$0.00
Panama	$139,828,111.73	$0.00
Paraguay	$18,447,984.22	$0.00
Peru	$282,476,045.11	$0.00
Philippines	$256,222,706.47	$0.00
Portugal	$33,439,056.01	$0.00
Poland	$2,704,869.36	$0.00
ROCAP	$130,498,096.90	$0.00
Senegal	$723,680.58	$0.00
Somalia	$12,055,665.87	$7,774,920.00
Spain	$9,422,788.00	$0.00
Sri Lanka	$254,950,402.25	$0.00
Sudan	$10,511,043.67	$6,806,067.00
Swaziland	$8,589,474.89	$0.00
Syria	$190,693,816.92	$175,300,767.00
Taiwan	$7,484,063.24	$0.00
Tanzania	$0.00	$0.00
Thailand	$77,939,408.64	$0.00
Tunisia	$94,786,610.58	$0.00
Turkey	$520,828,742.61	$0.00
Uganda	$0.00	$0.00
Uruguay	$18,367,776.00	$0.00
Vietnam	$96,826,930.60	$0.00
Yemen	$5,519,396.18	$0.00
Yugoslavia	$12,361,089.55	$6,799,619.00
Zaire	$103,824,851.80	$84,667,580.00
Zambia	$0.00	$0.00
Zimbabwe	$3,794,335.44	
Total	**$12,577,112,126.03**	**$877,220,489.00**

HG = Housing Guarantee

	USAID Total HG & HR Principal Outstanding Balance	HG & HR Arrearages Total
Argentina	32,101,535.78	
Barbados	6,400,000.00	
Belize	1,650,000.00	
Biape	4,810,542.14	
Bolivia	37,507,553.30	3,245,637.87
Botswana	9,717,899.92	408,813.11
Cabei	99,839,134.11	
Chile	81,586,410.10	8,071.94
Columbia	10,914.02	17,270.38
Costa Rica	29,717,981.31	
Czech Republic	34,000,000.00	
Dominican Republic	6,045,335.15	
Ecuador	57,236,608.83	713,370.30
El Salvador	16,141,905.80	
Ethiopia	1,878,009.93	69,908.92
Guatemala	10,000,000.00	
Guyana	1,387,108.83	126,050.17
Honduras	91,331,614.35	4,034,295.36
India	148,666,666.14	532.20
Indonesia	195,000,000.00	3,161.90
Israeli	8,300,115,879.10 (1)	
Ivory Coast	101,192,354.07	6,856,125.11
Jamaica	121,518,047.81	639,625.94

Jordan	60,640,339.47	343.55
Kenya	41,502,397.70	1,095,068.12
Korea	2,320,241.34	115.95
Lebanon	27,048,016.66	880.00
Mauritius	3,609,756.08	
Morocco	92,714,723.64	
Nicaragua	24,931,473.95	2,981,418.73
Pakistan	40,000,000.00	1,500.00
Panama	93,196,685.37	7,627.53
Paraguay	2,603,554.27	
Peru	250,784,044.04	789,938.44
Philippines	35,000,000.00	22,185.60
Poland	10,000,000.00	
Portugal	99,687,540.00	474.00
Republic S. Africa	45,000,000.00	
Senegal	5,266,286.44	
Sri Lanka	77,109,146.35	
Thailand	8,250,000.00	
Tunisia	125,290,276.66	1,731.02
Ukraine	141,236,000.00 (1)	
Venezuela	972,651.40	18,836.37
Zaire	21,050,172.99	29,604,125.18
Zimbabwe	76,041,667.00	
Total 09-30-97	10,672,110,474.05	50,647,107.69

(1) Includes loan guarantees provided under special non-Urban and Environmental Credit authorities

DELINQUENT LOANS
USAID COLLECTION PROCEDURES

STEP 1
If a payment is not received within 30 days, a cable requesting the payment is sent to either the USAID Mission or the Embassy.

STEP 2
Subsequent cable follow-up are sent to the USAID Mission or the Embassy every three (3) weeks.

STEP 3
If the payment has not been received after 90 days, Loan Management Division (LMD) shows the delinquent country in potential violation on the monthly 620Q/Brooke report and a cable is sent to the USAID Mission or Embassy notifying the country of such. The cable distribution includes the Department of State.

STEP 4
If the payment is received within 6 months, the country is removed from the 620Q/Brooke Report and a cable is sent to the USAID Mission or Embassy notifying the country of such. The cable distribution includes the Department of State.

STEP 5
If the delinquent payment is not received within 6 months, the country is placed in Brooke Violation .

NOTE: Violations preclude the country from obtaining new assistance under the FAA or Foreign Military Sales contracts.

DEFENSE SECURITY ASSISTANCE AGENCY

WASHINGTON, DC 20301-2800

28 JAN 1998

In reply refer to:
I-59972/98

Honorable Albert Gore, Jr.
President of the Senate
Washington, DC 20510

Dear Mr. President:

In accordance with Section 25(a)(11) of the Arms Export Control Act, forwarded herewith are reports containing the status of loans and guarantees issued under the Arms Export Control Act. The reports portray the status of each loan and each contract of guaranty for which there remains any outstanding unpaid obligation or potential liability.

Undisbursed funds do not represent uncommitted lines of credit currently available for use. These undisbursed funds are generally fully committed for specific purchases and the funds will be disbursed as required to meet the payment terms of the contracts being financed under the Arms Export Control Act.

Sincerely,

H. Diehl McKalip
Acting Director

Attachments
As stated

Status of DoD Guaranteed Loans
As of September 30, 1997
(In Whole Dollars)

(a)	(b)	(c)	(d)	(e)	(f)	(g)
Country	Loan No. / Type 1/2/	DSAA Loan No.	Undisbursed Amount Remaining	Principal 3/ Amount Disbursed & Outstanding (Unpaid)	Principal 3/ Arrearage Amount Outstanding (Unpaid & Due)	Interest Arrearage Amount Outstanding (Unpaid & Due)
Ecuador	07	831G	0	0	0	157
	08	841G	0	0	0	51,455
Ecuador	Country Totals:		0	0	0	51,612
Greece	14	811G	0	20,497,202	0	0
	15	821G	0	153,894,657	0	0
	16	831G	0	169,245,111	0	0
	17	841G	0	414,535,000	0	0
	Refinanced	917G	0	34,348,000	0	0
	Refinanced	918G	0	216,687,077	0	0
Greece	Country Totals:		0	1,009,307,047	0	0
Honduras	Refinanced	907G	0	1,495,162	448,548	64,847
	Refinanced	908G	0	1,495,162	0	102,359
Honduras	Country Totals:		0	2,990,324	448,548	167,206
Indonesia	10	84[illegible]G	0	1	0	0
Indonesia	Country Totals:		0	1	0	0
Israel	02	751G	0	87,806,000	0	0
	03	752G	0	241,478,000	0	0
	04	756G	0	46,342,000	0	0
	05	771G	0	243,905,000	0	0
	06	781G	0	256,100,000	0	0
	07	791G	0	280,490,000	0	0
	12	813G	0	136,584,000	0	0
	16	841G	0	30,691,726	0	0
	17	842G	0	497,662,000	0	0
	Refinanced	888G	0	842,020,000	0	0
	Refinanced	889G	0	1,300,000,000	0	0
	Refinanced	895G	0	365,659,000	0	0
	Refinanced	896G	0	978,626,000	0	0
	Refinanced	898G	0	3,685,000	0	0
	Refinanced	899G	0	304,460,946	0	0
Israel	Country Totals:		0	5,615,409,672	0	0
Jordan						
	Refinanced	896G	0	983,508	0	0
	Refinanced	897G	0	100,012,711	0	0
Jordan	Country Totals:		0	100,996,219	0	0

Status of DoD Guaranteed Loans
As of September 30, 1997
(In Whole Dollars)

(a) Country	(b) Loan No. / Type 1/2/	(c) DSAA Loan No.	(d) Undisbursed Amount Remaining	(e) Principal 3/ Amount Disbursed & Outstanding (Unpaid)	(f) Principal 3/ Arrearage Amount Outstanding (Unpaid & Due)	(g) Interest Arrearage Amount Outstanding (Unpaid & Due)
Liberia						
	07	811G	0	0	0	65,716
	08	812G	0	0	215,141	515,215
	09	821G	0	0	6,070,170	11,487,813
	10	831G	0	0	5,600,000	9,795,378
Liberia	Country Totals:		0	0	11,885,311	21,864,122
Morocco						
	Refinanced	902G	0	10,585,546	0	0
Morocco	Country Totals:		0	10,585,546	0	0
Pakistan						
	Refinanced	853G	0	542	0	0
Pakistan	Country Totals:		0	542	0	0
Philippines						
	Refinanced	917G	0	22,652,440	0	0
Philippines	Country Totals:		0	22,652,440	0	0
Somalia						
	01	801G	0	0	10,672,000	19,848,838
	02	811G	0	13,658,600	6,341,400	31,120,032
	03	821G	0	7,317,000	2,683,000	17,843,362
	04	831G	0	7,521,408	2,439,100	17,691,677
	05	867G	0	0	0	1,786
Somalia	Country Totals:		0	28,497,008	22,135,500	86,505,695
Sri Lanka						
	01	821G	0	0	50	1
Sri Lanka	Country Totals		0	0	50	1
Sudan						
	01	791G	0	0	884,000	1,311,878
	02	801G	0	15,853,000	9,147,000	57,890,785
	03	811G	0	19,764,000	10,236,000	74,669,814
	04	821G	0	35,366,000	14,634,000	114,628,859
Sudan	Country Totals:		0	70,983,000	34,901,000	248,501,336
Tunisia						
	Refinanced	899G	0	21,341,464	0	0
Tunisia	Country Totals:		0	21,341,464	0	0

Status of DoD Guaranteed Loans
As of September 30, 1997
(In Whole Dollars)

(a) Country	(b) Loan No. / Type 1/2/	(c) DSAA Loan No.	(d) Undisbursed Amount Remaining	(e) Principal 3/ Amount Disbursed & Outstanding (Unpaid)	(f) Principal 3/ Arrearage Amount Outstanding (Unpaid & Due)	(g) Interest Arrearage Amount Outstanding (Unpaid & Due)
Turkey						
	13	821G	0	2,269	0	0
	17	841G	0	11,400,370	0	0
	18	842G	0	358,179,264	0	0
	Refinanced	866G	0	941,012,452	0	0
	Refinanced	898G	0	220,705,000	0	0
	Refinanced	899G	0	325,585,297	0	0
Turkey	Country Totals:		0	1,856,884,672	0	0
Zaire						
	01	801G	0	0	1,805,000	2,383,327
	02	811G	0	0	2,212,000	2,486,233
	03	821G	0	0	4,500,000	5,166,858
	04	831G	0	0	1,468,000	1,303,170
Zaire	Country Totals:		0	0	9,785,000	11,339,588
Total Federal Financing Bank (FFB) Non-Refinanced Loans:			$0	$3,048,292,628	$78,708,861	$368,292,354
Total Commercial Banks (CBs) Refinanced Loans:			$0	$5,691,355,307	$446,646	$167,206
TOTAL GUARANTEED LOANS: 3/4/			$0	$8,739,647,935	$79,155,409	$368,426,560

Footnotes:

1/ Column (b): Loan No./Types with numeric designators are Federal Financing Bank (FFB) loans.

2/ Column (b): Loan No./Types labled "Refinanced" loans are Commercial Banks (CBs) loans.

3/ Column (e): Arrearage amounts are not included in the "Principal Amount Disbursed and Still Outstanding (Unpaid)" Column.

4/ Total Guaranteed Loans include those guaranteed to the FFB and CBs.

Status of DoD Direct Loans
As of September 30, 1997
(In Whole Dollars)

(a) Country	(b) Loan/ Type 3/	(c) DSAA Loan No.	(d) Indisbursed Amount Remaining	(e) Principal 1/ Amount Disbursed & Outstanding (Unpaid)	(f) Principal 1/ Arrearage Amount Outstanding (Unpaid & Due)	(g) Interest Arrearage Amount Outstanding (Unpaid & Due)
Bolivia						
	Rescheduled	877D	0	61,726	0	0
	Rescheduled	897D	0	1,870,288	0	0
	Rescheduled	887E	0	637,000	0	0
	Rescheduled	917D	0	2,905,186	0	0
	Rescheduled	927D	0	2,071,269	0	0
	Rescheduled	927E	0	63,866	0	0
	Rescheduled	948D	0	644,731	0	0
	Rescheduled	958D	0	619,538	0	0
	Rescheduled	967D	0	2,099,498	0	0
	Rescheduled	967E	0	259,811	0	0
Bolivia	**Country Totals:**		0	11,222,913	0	0
Botswana						
		851D	0	0	0	1,070
Botswana	**Country Totals:**		0	0	0	1,070
Cameroon						
		851D	0	333,300	333,300	10,123
	Rescheduled	907D	0	824,850	164,930	38,544
	Rescheduled	927D	0	1,066,848	0	0
	Rescheduled	928D	0	197,280	0	0
	Rescheduled	947D	0	705,952	0	0
	Rescheduled	947E	0	1,832,720	0	0
	Rescheduled	967D	0	1,366,517	0	45,808
	Rescheduled	967E	0	1,388,786	0	46,654
Cameroon	**Country Totals:**		0	7,719,034	498,230	139,129
Chile						
		911L	0	2,400,000	0	0
Chile	**Country Totals:**		0	2,400,000	0	0
Colombia						
		912D	0	15,955,900	0	0
Colombia	**Country Totals:**		0	15,955,900	0	0
Dominican Republic		851D	0	0	0	260
	Rescheduled	947D	0	6,592,357	0	0
Dominican Republic	Rescheduled	947E	0	209,244	0	182
Country Totals:			0	6,801,601	0	442

Status of DoD Direct Loans
As of September 30, 1997
(In Whole Dollars)

(a) Country	(b) Loan/ Type 3/	(c) DSAA Loan No.	(d) Undisbursed Amount Remaining	(e) Principal 1/ Amount Disbursed & Outstanding (Unpaid)	(f) Principal 1/ Arrearage Amount Outstanding (Unpaid & Due)	(g) Interest Arrearage Amount Outstanding (Unpaid & Due)
Ecuador						
		851D	0	266,600	266,600	63,558
		852D	0	266,600	266,600	33,395
		861D	0	436,777	255,200	57,477
		862D	0	219,672	219,672	28,675
	Rescheduled	887D	0	886,800	443,400	132,212
	Rescheduled	887E	0	0	0	154,893
	Rescheduled	907D	0	3,608,335	612,535	214,116
	Rescheduled	907E	0	1,235,794	247,200	98,793
	Rescheduled	927D	0	2,993,604	0	242,666
	Rescheduled	957D	0	3,548,224	0	272,841
	Rescheduled	957E	0	0	0	6,836
Ecuador	Country Totals:		0	13,464,406	2,311,207	1,305,564
El Salvador						
	Rescheduled	917D	0	41,821,390	0	0
El Salvador	Country Totals:		0	41,821,390	0	0
Gabon						
	Rescheduled	897D	0	866,882	0	0
	Rescheduled	907D	0	166,641	0	0
	Rescheduled	908D	0	406,305	0	0
	Rescheduled	947D	0	2,769,284	57,029	92,026
	Rescheduled	967D	0	833,571	0	57,807
	Rescheduled	967E	0	2,131,861	0	131,388
		968D	0	693,730	0	0
Gabon	Country Totals:		0	7,847,274	57,029	281,221

Status of DoD Direct Loans
As of September 30, 1997
(In Whole Dollars)

(a) Country	(b) Loan/ Type 3/	(c) DSAA Loan No.	(d) Undisbursed Amount Remaining	(e) Principal 1/ Amount Disbursed & Outstanding (Unpaid)	(f) Principal 1/ Arrearage Amount Outstanding (Unpaid & Due)	(g) Interest Arrearage Amount Outstanding (Unpaid & Due)
Greece						
		851D	0	212,480,746	0	0
		861D	0	77,432,600	0	0
		862D	0	46,280,100	0	0
		871D	0	91,466,300	0	0
		881D	0	125,198,700	0	0
		891D	0	85,333,100	0	0
		892D	0	85,333,100	0	0
		902D	0	145,333,000	0	0
		904D	0	57,082,500	0	0
		912D	0	255,999,600	0	0
	2/	921D	0	298,666,620	0	0
	2/	931D	144,386,883	170,613,117	0	0
	2/	941D	283,500,000	0	0	0
	2/	951D	229,635,000	0	0	0
	2/	961D	224,000,000	0	0	0
	2/	971D	122,500,000	0	0	0
Greece	**Country Totals:**		1,004,021,883	1,661,220,483	0	0
Haiti						
	MDRP	957R	0	189,129	0	0
Haiti	**Country Totals:**		0	189,129	0	0
Honduras						
	Rescheduled	917D	0	11,876,461	0	0
	Rescheduled	937D	0	6,477,479	0	0
	Rescheduled	957D	0	9,512,622	0	115
Honduras	**Country Totals:**		0	27,866,562	0	115
Indonesia						
		861D	0	2,552,000	0	0
		881D	0	1,599,700	0	0
		911L	0	19,999,900	0	0
Indonesia	**Country Totals:**		0	24,151,600	0	0
Jamaica						
	Rescheduled	897D	0	273,529	0	160
	Rescheduled	917D	0	576,141	0	0
	Rescheduled	928D	0	794,400	0	0
	Rescheduled	929D	0	200,228	0	0
	Rescheduled	947D	0	588,638	0	19,183
	Rescheduled	948D	0	284,240	0	8,935
	Rescheduled	949D	0	358,973	0	13,851
Jamaica	**Country Totals:**		0	3,074,149	0	42,129

Status of DoD Direct Loans
As of September 30, 1997
(In Whole Dollars)

(a) Country	(b) Loan/ Type 3/	(c) DSAA Loan No.	(d) Undisbursed Amount Remaining	(e) Principal 1/ Amount Disbursed & Outstanding (Unpaid)	(f) Principal 1/ Arrearage Amount Outstanding (Unpaid & Due)	(g) Interest Arrearage Amount Outstanding (Unpaid & Due)
Jordan						
	Rescheduled	948D	0	21,681,325	0	163
	Rescheduled	949D	0	9,606,441	0	73
	Rescheduled	968D	0	25,547,625	0	128
	Rescheduled	978D	0	26,300,925	0	664
Jordan	Country Totals:		0	83,036,316	0	1,028
Kenya						
	Rescheduled	947D	0	1,220,118	86,689	31,278
Kenya	Country Totals:		0	1,220,118	86,689	31,278
Korea						
		861D	0	142,800,819	0	0
Korea	Country Totals:		0	142,800,819	0	0
Liberia						
	Rescheduled	818D	0	519,000	519,000	441,639
	Rescheduled	837D	0	487,200	487,200	418,350
	Rescheduled	838D	0	467,199	467,199	512,539
	Rescheduled	847D	0	3,234,661	3,234,661	5,524,117
	Rescheduled	857D	0	2,641,839	2,641,839	5,099,071
	Rescheduled	857E	0	73,338	73,338	103,738
Liberia	Country Totals:		0	7,423,237	7,423,237	12,099,454
Morocco						
		861D	0	127,600	0	0
		871D	0	3,200,000	0	0
		881D	0	4,800,000	0	0
	Rescheduled	897D	0	6,667,510	0	0
	Rescheduled	896D	0	4,189,950	0	0
	Rescheduled	917D	0	16,903,506	0	0
	Rescheduled	918D	0	3,595,737	0	0
	Rescheduled	927D	0	10,862,993	0	0
Morocco	Country Totals:		0	50,537,296	0	0
Nicaragua						
	Rescheduled	928D	0	775,293	0	0
Nicaragua	Country Totals:		0	775,293	0	0

Status of DoD Direct Loans
As of September 30, 1997
(In Whole Dollars)

(a) Country	(b) Loan/ Type 3/	(c) DSAA Loan No.	(d) Undisbursed Amount Remaining	(e) Principal 1/ Amount Disbursed & Outstanding (Unpaid)	(f) Principal 1/ Arrearage Amount Outstanding (Unpaid & Due)	(g) Interest Arrearage Amount Outstanding (Unpaid & Due)
Niger						
	MDRP	831R	0	68,748	68,748	13,726
	MDRP	857R	0	38,328	38,328	11,418
	MDRP	867R	0	277,836	277,836	98,766
	MDRP	887R	0	192,000	192,000	41,608
	MDRP	889R	0	129,092	129,092	28,317
	MDRP	897R	0	352,121		84,186
	MDRP	907R	0	755,786	0	192,057
	MDRP	917R	0	758,760	0	184,612
	MDRP	918R	0	437,755	0	106,509
	MDRP	947D	0	782,168	0	92,442
	MDRP	947E	0	397,117	0	84,361
Niger	Country Totals:		0	4,185,712	706,004	938,002
Pakistan						
		862D	0	11,686,800	0	0
		871D	0	49,999,600	0	0
		872D	0	16,666,300	0	0
		881D	0	42,662,500	0	0
		882D	0	40,800,000	0	0
Pakistan	Country Totals.		0	161,815,200	0	0
Panama						
		861D	0	1,426,697	479,500	88,162
	Rescheduled	917D	0	2,321,924	0	1,131
	Rescheduled	917E	0	9,761,634	114,642	29,769
Panama	Country Totals.		0	13,510,245	593,142	119,062
Peru						
	Rescheduled	927D	0	10,591,549	0	0
	Rescheduled	927F	0	111,611	0	0
	Rescheduled	927H	0	3,775,558	0	0
	Rescheduled	937D	0	672,072	0	0
	Rescheduled	937E	0	8,167	0	0
	Rescheduled	937H	0	226,918	22,692	6,733
	Rescheduled	958D	0	788,985	0	0
	Rescheduled	958E	0	7,468	0	0
	Rescheduled	958H	0	103,640	10,354	3,807
	Rescheduled	967D	0	865,878	0	0
	Rescheduled	967E	0	224,160	22,416	7,559
		977D	0	858,823	0	0
		978D	0	453,628	0	0
Peru	Country Totals:		0	18,678,555	55,479	18,099

Status of DoD Direct Loans
As of September 30, 1997
(In Whole Dollars)

(a) Country	(b) Loan/ Type 3/	(c) DSAA Loan No.	(d) Undisbursed Amount Remaining	(e) Principal 1/ Amount Disbursed & Outstanding (Unpaid)	(f) Principal 1/ Arrearage Amount Outstanding (Unpaid & Due)	(g) Interest Arrearage Amount Outstanding (Unpaid & Due)
Philippines						
	Rescheduled	887D	0	2,188,221	0	0
	Rescheduled	889D	0	2,851,511	0	0
	Rescheduled	909D	0	1,571,460	0	0
	Rescheduled	927D	0	32,081,721	0	0
	Rescheduled	928D	0	2,636,539	0	0
Philippines	Country Totals:		0	41,329,472	0	0
Portugal						
		851D	0	48,223,056	0	0
		861D	0	8,866,939	0	0
		862D	0	4,466,000	0	0
		881D	0	999,700	0	0
	2/	931D	11,829,931	78,170,069	0	0
	2/	941D	33,305,759	47,694,241	0	0
Portugal	Country Totals:		45,135,690	188,420,005	0	0
Senegal						
	MDRP	877R	0	631,200	0	0
	MDRP	887R	0	916,888	0	0
	MDRP	897R	0	1,951,946	0	0
	MDRP	907R	0	1,790,385	0	0
	MDRP	927R	0	1,369,075	0	0
	MDRP	928R	0	42,836	0	0
	MDRP	947D	0	1,207,409	0	0
	MDRP	947E	0	1,144,320	0	0
Senegal	Country Totals		0	8,053,059	0	0
Somalia						
	Rescheduled	857D	0	13,617,552	13,617,552	20,325,062
	Rescheduled	857E	0	180,828	180,828	210,387
	Rescheduled	887D	0	4,090,269	0	3,689,148
	Rescheduled	887E	0	4,816,119	4,816,119	4,250,943
	Rescheduled	888D	0	3,805,312	3,424,812	3,499,425
	Rescheduled	889D	0	13,621,171	0	14,411,917
Somalia	Country Totals:		0	40,131,251	22,039,311	46,326,880
Spain						
		861D	0	354,790,200	0	0
Spain		871D	0	21,000,000	0	0
	Country Totals:		0	375,790,200	0	0

Status of DoD Direct Loans
As of September 30, 1997
(In Whole Dollars)

(a) Country	(b) Loan/ Type 3/	(c) DSAA Loan No.	(d) Undisbursed Amount Remaining	(e) Principal 1/ Amount Disbursed & Outstanding (Unpaid)	(f) Principal 1/ Arrearage Amount Outstanding (Unpaid & Due)	(g) Interest Arrearage Amount Outstanding (Unpaid & Due)
Sudan						
	Rescheduled	828D	0	7,487,610	7,487,610	12,919,438
	Rescheduled	847D	0	18,320,235	15,572,200	35,723,689
	Rescheduled	857D	0	17,788,581	12,452,020	35,745,917
Sudan	Country Totals:		0	43,596,426	35,511,830	84,390,044
Thailand						
		861D	0	39,248,300	0	0
		862D	0	5,091,200	0	0
		881D	0	9,399,700	0	0
Thailand	Country Totals:		0	53,739,200	0	0
Tunisia						
		911D	0	7,999,900	0	0
Tunisia	Country Totals:		0	7,999,900	0	0
Turkey						
		852D	0	17,576,035	0	0
		861D	0	44,022,000	0	0
		862D	0	73,486,300	0	0
		871D	0	47,450,800	0	0
		881D	0	71,199,700	0	0
		892D	0	48,000,000	0	0
		904D	0	35,666,500	0	0
		906D	0	20,420,000	0	0
		911D	0	35,666,300	0	0
	2/	922D	0	23,333,330	0	0
	2/	931D	14,197	449,985,802	0	0
	2/	941D	22,058,163	382,941,837	0	0
	2/	951D	328,050,000	0	0	0
	2/	961D	320,000,000	0	0	0
	2/	971D	175,000,000	0	0	0
Turkey	Country Totals:		845,122,360	1,251,748,604	0	0

Status of DoD Direct Loans
As of September 30, 1997
(In Whole Dollars)

(a) Country	(b) Loan/ Type 3/	(c) DSAA Loan No.	(d) Undisbursed Amount Remaining	(e) Principal 1/ Amount Disbursed & Outstanding (Unpaid)	(f) Principal 1/ Arrearage Amount Outstanding (Unpaid & Due)	(g) Interest Arrearage Amount Outstanding (Unpaid & Due)
Zaire						
		791D	0	842,105	842,105	590,219
	Rescheduled	826D	0	2,836,894	2,836,894	1,945,433
	Rescheduled	847D	0	43,118,074	43,118,074	33,571,822
	Rescheduled	848D	0	31,506	31,506	24,524
	Rescheduled	867D	0	22,331,415	22,331,415	17,904,015
	Rescheduled	877D	0	20,047,319	20,047,319	15,904,792
	Rescheduled	887D	0	20,021,480	7,786,180	16,657,387
	Rescheduled	887E	0	1,822,033	630,933	1,350,299
	Rescheduled	889D	0	3,699,168	1,438,565	3,109,057
	Rescheduled	907D	0	25,066,748	0	20,595,292
	Rescheduled	908D	0	22,966,399	0	22,118,725
	Rescheduled	908E	0	2,570,614	2,570,614	1,767,950
Zaire	Country Totals:		0	165,153,755	101,633,605	135,549,515
Non-Rescheduled Loans:			$1,894,279,933	$3,899,989,483	$2,661,977	$872,959
Rescheduled Loans:			$0	$571,263,791	$167,547,775	$279,431,091
Debt Reduction Loans:			$0	$13,455,880	$706,004	$938,002
TOTAL DIRECT LOANS: /1/2/			$1,894,279,933	$4,484,712,104	$170,915,756	$281,242,052

Footnotes:

1/ Columns (e) and (f): Arrearages to Direct Loans are included in the "Principal Amount Disbursed and Outstanding (Unpaid)" and the Principal Arrearage Amount Outstanding (Unpaid and Due)" Columns.

2/ Column (b): These are loans issued under Credit Reform (Undisbursed amounts equal undisbursed subsidy from the Program Account (11*1085) and borrowing authority from the Financing Account (11X4122).

3/ Column (b): Abbreviation MDRP is for loans under the "Military Debt Reduction Program" (11X4174)

Summary Page to Accompany Consolidated Reports of Status of DoD Guaranteed Loans and Status of DoD Direct Loans, as of September 30, 1997

Loan Type	Undisbursed Amount Remaining	Principal Amount Disbursed & Outstanding (Unpaid)	Principal Arrearage Amount Outstanding (Unpaid & Due)	Interest Arrearage Amount Outstanding (Unpaid & Due)
TOTAL GUARANTEED LOANS:	$0	$8,739,647,935	$79,155,409	$368,429,580
TOTAL DIRECT LOANS:	$1,894,279,933	$4,484,712,104	$170,915,756	$281,542,032
GRAND SUMMARY:	$1,894,279,933	$13,224,360,039	$250,071,165	$649,971,612

How does DSAA handle delinquencies?

1. DFAS-DE, Denver bills the country twice yearly according to the payment schedule in the loan agreement.

2. The bills are sent through the mail attached to a cover letter to the Washington Embassy with a copy to the American Embassy in country. The foreign government may also direct DFAS-DE to sent courtesy copies to other offices.

3. If the amount due is not paid, the bill for the next billing cycle will include the overdue amount and late charges.

4. A follow-up fax is sent to the country alerting them of the past due amount.

5. Another fax is sent to the country when the Brooke Sanctions due date is approaching.

6. DFAS-DE advised they have responsive POCs at the Washington Embassy and in-country, when these follow-up faxes are sent.

7. Brooke Sanctions message is sent by DSAA.

A. **Payment Due Dates**. Repayments on FMS loans are due on or before the dates specified in the promissory notes and are repeated in both the FFB and the DSAA billing statements.

B. **Extensions**. Repayments falling due on a Saturday, Sunday, holiday, or other day on which the FRB of New York is not open for business, shall be made on the first business day thereafter. Such extension of time is included in computing interest in connection with such payment, but excluded from the next interest period.

C. **Late Repayments**. If the borrower fails to make a repayment when due, the amount payable is the overdue installment of principal or interest, plus interest thereon at the rate specified in the promissory note from the due date to the date of actual payment.

D. **Repayments Overdue One Year or More**. Overdue repayments which continue in arrears for more than one year are subject to the sanctions of the "Brooke Amendment" which is an integral part of each recent foreign assistance and related programs appropriations act and continuing resolution. The Amendment states:

> No part of any appropriation contained in this Act shall be used to furnish assistance to any country which is in default during a period in excess of one calendar year in payment to the United States of principal or interest on any loan made to such country by the United States pursuant to a program for which funds are appropriated under this Act.

Although the provision specifically states only USG foreign aid funds which are appropriated, are affected, Section 24(c) AECA has the practical effect of making the Brooke Amendment applicable to FMS guaranteed loans as well. Consequently, Brooke Amendment sanctions are activated by arrearages of more than a year on either aid-financed or FMS-financed loans (direct and guaranteed). Once invoked, the restrictions apply to most U.S.-funded foreign aid programs (economic and military).

1. Specific sanctions under the Brooke Amendment are as follows:

a. New loan agreements or guaranties cannot be offered or issued.

b. FMS LOAs financed with FMS Credit (FMSCR) or MAP funds that were or may be accepted by a country on or after the effective date of the sanction will not be implemented.

c. New or pending FMSCR or MAP financed LOAs will not be countersigned or issued to the country for acceptance.

d. Direct commercial contracts which require new FMSCR financing will not be approved.

e. FMSCR or MAP financed cases accepted prior to effective date of sanctions remain in force and will be executed. Modifications or amendments to existing implemented FMS cases are allowed, when approved by DSAA on a case-by-case basis, as long as program scope is not increased.

f. New IMET students may not travel to the U.S. or other locations for initiation of training. IMET students outside their countries of origin whose course of study or training program began before the effective date of the sanctions may complete such courses, *including already funded sequential courses.* However, no additional sequential courses may be added on or after the effective date of the sanctions. IMET students outside their countries of origin whose course of study or training program did not begin before the effective date of the sanctions should normally be returned to their home country as soon as possible. For the purposes of the Brooke Amendment, an IMET-funded course is deemed to begin on the report date specified in the Standardized Training Listing (STL). (If sanctions are lifted, these students will be considered for late admittance or admittance to the next available course of study or training program.)

g. IMET funded MTTs and LTDs may not be dispatched or extended beyond their scheduled termination date.

h. IMET funded training aids may not be issued from supply nor placed on contract by the supplying agency.

i. The foregoing sanctions remain in effect until payment is received or a bilateral debt rescheduling agreement is signed by both the country and the USG. All concerned will be advised by DSAA of a change in status of sanctions.

2. Cash FMS purchases are not subject to these restrictions. Cash payments from national funds may be used to sustain existing FMS cases or fund new cases when available credit or MAP funds cannot be committed. However, in most instances it is preferred that a country under the Brooke Amendment use its available national funds to eliminate the arrearage rather than undertake new programs. (NOTE: If cash or FMSCR financing is used to finance, in whole or part, any existing MAP financed case, any preferential pricing attributable to 100 percent MAP financing under section 503(a)(3) of the FAA of 1961, as amended, is void and FMS pricing guidelines must be applied to the entire case in accordance with paragraph 71010 of DoD 7290.3-M. This action could increase the value of the case significantly and may not be in the best interest of the Purchaser or the USG.)

3. Pipeline deliveries on materiel blanket open-ended cases implemented prior to the effective date of sanctions are allowed to continue regardless of term.

4. Requisitions on materiel blanket open-ended cases may be processed.

Mr. KUCINICH. You know, one of the things that occurs to me, and then I will yield to Mrs. Maloney, is that the proposals on the table here to garnish people's wages for not paying debts, it seems there is a real eagerness to hammer the smaller debtors, and I want to make sure that there is an evenhanded approach. Because if we are going after people who owe—and I am not saying we shouldn't, by the way, that we shouldn't aggressively pursue those who owe the Government money—but if we want to be very bold about going after people who owe maybe $10,000, $20,000, I would like to see the same type of——

Mr. HORN. Vigor.

Mr. KUCINICH [continuing]. Vigor, that's a good word, Mr. Chairman, for those who owe millions, perhaps tens of millions of dollars.

Mr. HORN. Right.

Mr. KUCINICH. It seems that there has to be some fairness. Of course, I am, with all due respect to the Chair, going to certainly not favor any attempt to garnish pensions. But I do believe that these hearings are extremely important because if there is a total of $50 billion out there, people want to make sure that we care about protecting the taxpayers' money and—you know, at one end or the other.

I yield to my colleague.

Mrs. MALONEY. Thank you very much. I really join my chairman here on the ranking side with his statement on not supporting the garnishment of pensions. This was something that was in a provision that was in the original debt collection bill, and we removed it because of the problem that many of us had with it.

I want to thank Mr. DeSeve for pointing out that many of our government programs have a program policy goal, that of giving marginal loans for agricultural development, or marginal loans for inner city business development. So we have a social policy effort. But we need to balance it also with responsibility, and certainly if one cannot afford to pay.

We have also had wonderful testimony from the Board of Education where they have built in all types of due process for young people to really defer payment sometimes for 10 or 15 years, until they can literally afford to pay it, given their life situation. So there are items built in that are sensitive to human problems, but also sensitive to the government role of being responsible.

We certainly want student loans out there. To the extent that we can collect them, then we have more money for more students to go out and get an education, who deserve it.

I just want to compliment Treasury, really, for working so hard and OMB on the original Debt Collection Improvement Act and for supporting it and really helping us pass it.

As you know, we have been working for 2 years now on H.R. 2063, the Debt Collection Wage Information Act. It has been vented through many levels. I thank you for your support of this. As we all know, this was modeled after the pioneering effort in child support debts that were developed by the Massachusetts Department of Revenue. Their system was so successful, not only in warning debtors that their payments would be deducted from their wages, while promising full due process and privacy—it was so effective

that, in fact, Congress built the system into the Federal welfare reform law enacted in August 1996.

We now want to take the second half of the loaf. The State of Massachusetts believes that this measure would result in more than $1 billion annually in additional collections to the Federal Government. In their own studies they found, you know, just horrifying things when they did match-up and saw who was abusing the system and who well had the ability to pay for it.

At this point, I would really like to ask the chairman for consideration here. I would like to separate this bill out and let it move from the other bills, because they are very different. And quite frankly, as he said, a lot of others need a lot more work in them. And quite frankly, if it is put into a bill that has the problems that he pointed out, I don't think that I would be supporting it.

So I would just want to ask that we separate this one out and let it move independently so that you can move it fast and not tie it to other items. I just would like to put that in as a request, since it does have the support of OMB and, I believe, Treasury. But that's my statement, and I think it is something we should do.

Mr. DESEVE. We effectively cleared it throughout the administration. It has the administration support with very small modifications.

Mrs. MALONEY. But if you remember, we had problems on garnishment of pensions in the original bill. OMB did not support it.

Mr. DESEVE. Correct.

Mrs. MALONEY. Treasury did not support it. The President did not support it. So then we are back in another problem area. It seems to me if we can find areas that we agree upon, let's take them and let's move them and then let's take the others and see if we can work them out through a vetting of more hearings.

I just know that on H.R. 2063, we have had maybe two or three hearings on that bill alone since I have been here in Congress.

Anyway, I yield back the balance of my time.

Mr. HORN. Thank you very much.

Since the question came up on pensions, let me just open this up to everybody here, but we are going down the line. I am curious why, we garnish Social Security, we garnish Federal pensions, you are saying we shouldn't garnish private pensions? Is that the administration's position?

Mr. DESEVE. No, sir, it is not. We did not take a position on the pension garnishment issue. We have indicated we would like further time to further analyze and discuss parts of the bill, but we did not take a position. The things we oppose were in the addendum to the testimony that I read last.

Mr. HORN. Because I would be rather shocked, I must say. It seems to me if we have got deadbeats running around, why are we only hitting Government servants or people that live on Social Security if they owe money, and it is—we find that they are fraudulent in some way in terms of what their claims are. It just boggles the mind to say, we let the people with private pensions off the hook.

Mrs. MALONEY. Well, back to my colleague's statement of not going after the little guy, I think maybe a way of looking at a person's situation, say, if it is an executive of a major company that

has an income and doesn't need the pension, that is one thing; but if it is someone who is truly trying to live on a pension, and if they are not on a pension is going to be on the streets homeless, I think to look at the individual situation is—I know I have many constituents who live on their pensions and that's it. That is their sole income, and if you took away their pension, you would literally have a homeless person out on the street.

So I think you have to look at the individual situation possibly.

Mr. HORN. Well, I agree with you on looking at the individual situation; and I know hundreds, indeed thousands, of people in my constituency—I am sure in all of your constituencies—where their pension is the $500, $600 a month Social Security pension, and yet here we are, it seems the government had no problem in doing in the Social Security recipient, but now we are balking at equality if it is a private pension.

I am just curious philosophically where we are all coming from on this.

So that is a markup battle, I think, more than a hearing battle. But if you had some reasons why——

Mrs. MALONEY. Possibly a needs threshold?

Mr. HORN. Yes, I think that is the proper way to do it, but at least it includes everybody in the ball game that is eligible.

Mr. DESEVE. We would certainly be happy to talk about a needs threshold. That is the kind of thing we would like to be able to work with the committee on.

Mr. HORN. OK. We will now proceed with Mr. Hammond—we thank you very much for coming, Mr. Hammond—Assistant Secretary for Fiscal Affairs in the Treasury.

STATEMENT OF DON HAMMOND, ACTING FISCAL ASSISTANT SECRETARY, DEPARTMENT OF THE TREASURY

Mr. HAMMOND. Thank you, Mr. Chairman, Mr. Kucinich, and Mrs. Maloney. Thank you for the opportunity to appear today to discuss the Government Waste, Fraud, and Error Reduction Act of 1998. I ask that the subcommittee include the submitted text of my written statement in the record.

Treasury is committed to improving debt management for the government and welcomes this opportunity to provide our views. I also would like to thank the subcommittee for its continued interest and commitment toward improving Federal debt collection practices.

I should note that the process of implementing debt collection is a challenging one. Debt collection is a Presidential management initiative, and the Department is committed to its success. The Department is working diligently to collect what is due, but we must realize the complexities involved and that we can only act to maximize the amount that we collect.

My written statement includes a section-by-section commentary on the February 17, 1998, discussion draft of this legislation. At this time, I will limit Treasury's comments to portions of this legislation that substantially impact Treasury's missions and operations. This hearing provides an excellent opportunity to explore those areas where legislative initiatives could help in meeting the

goal of improving the collection of delinquent, nontax debt owed to the Federal Government.

Treasury believes that certain provisions of this proposed legislation will assist the Government in complying with existing statutes to recover nontax delinquent debt. However, there are also provisions that may prove controversial, have perverse effects or be operationally difficult for the Government to administer. I am pleased to share with you highlights of our analysis of the proposed Government Waste, Fraud, and Error Reduction Act.

This legislation proposes to amend the Prompt Payment Act. The proposed legislation would transfer the responsibility of reporting and administering the act from the Office of Management and Budget to the Department of the Treasury. Additionally, the amendment is designed to reflect current and future payment environments in which most payments and invoices will be transmitted electronically. Because of the close relationship between the provisions in the Debt Collection Improvement Act, which Treasury is already responsible for implementing, and the Prompt Payment Act, administrative efficiencies will be achieved if this legislative proposal is enacted.

Next, in the area of improving Federal debt collection practices, we support the provisions of the draft proposal that would expand the types of Federal payments available to collect past-due child support through Treasury's administrative offset program. The addition of certain Federal benefit payments to those Federal payments already available for offset is consistent with the administration's priority of promoting the health, education, and well-being of children.

In general, we support provisions of the draft proposal that further our goal of relying on the experience and expertise of private sector professionals to provide debt collection services to Federal agencies. However, we are concerned about provisions that would preempt State law in this area, and we believe that such preemption should not be enacted before fully evaluating the impact on State law and other commercial practices.

Having discussed several highlights in the draft legislation which we believe assist our efforts to recover delinquent debts and improve Federal payments systems, there are several components which Treasury would find problematic if enacted. For instance, the proposed legislation rewrites the existing DCIA provision on barring delinquent debtors from obtaining loans to also bar delinquent debtors from obtaining Federal permits or licenses, Federal contracts, and Federal employment. The DCIA already empowers the Government with tools to collect the delinquent debts of Federal employees.

In addition, the absolute prohibition against awarding any Federal permit or license to a delinquent debtor is overly broad and may create serious enforcement burdens. There are many instances where the administration of such a blanket prohibition would not be in the best interest of the government, though in specific targeted circumstances could be an useful tool for some agencies. Similarly, the subcommittee proposes to eliminate the DCIA provision requiring the Department of the Treasury to issue regulations

implementing the administrative wage garnishment provisions of the law.

Enactment of this provision, I believe, would delay implementation of the existing administrative wage garnishment authority. Wage garnishment is an action of enormous impact on delinquent debtors. The Department of the Treasury issued a notice of proposed rulemaking on this subject on November 21st, and plans to issue a final rule in April. Thus, we believe that this provision is not necessary.

We are also concerned with expanding Federal authorities which impact existing commercial practices. For example, the provision of this legislation that would create a lien on any real property owned by a debtor and, thus, create clouds on titles throughout the country could significantly and adversely affect the transfer of all real property.

Finally, with regard to debt and loan sales, Treasury believes that a properly administered program of nontax debt sales can be a very effective debt management tool. However, the provisions of the legislation that would alter the Secretary's existing authority to review the terms of all debt sales and that would require sale of new loans and delinquent nontax debt at certain set time intervals could impede the effective implementation of sound policy.

We also note that a mandatory requirement that loans be sold after the lapse of a statutorily prescribed period may serve to encourage delinquencies as debtors may believe that their opportunity to compromise a debt through negotiations with a note purchaser may actually increase.

This concludes my remarks and we look forward to working with your staffs on this bill and other proposals intended to improve the collection of Federal debts. I would be pleased to answer any questions you have regarding Treasury's position on the draft legislation.

[The prepared statement of Mr. Hammond follows:]

EMBARGOED UNTIL 1 P.M. EST
Text as Prepared for Delivery
March 2, 1998

TREASURY ACTING FISCAL ASSISTANT SECRETARY DONALD V. HAMMOND
HOUSE GOVERNMENT REFORM AND OVERSIGHT SUBCOMMITTEE ON
GOVERNMENT MANAGEMENT, INFORMATION AND TECHNOLOGY

Mr. Chairman, Mr. Kucinich, and members of the subcommittee, thank you for the opportunity to appear today to discuss the Government Waste, Fraud, and Error Reduction Act of 1998. Treasury is committed to improving debt management for the government and welcomes this opportunity to provide our views. I also would like to thank the subcommittee for its continued interest and commitment toward improving Federal debt collection practices. I should note that the process of implementing debt collection is a challenging one. The Department is working diligently to collect what is due, but we must realize the complexities involved and that we can only act to maximize what we collect.

Attached to this statement, is a section by section commentary on the February 17, 1998 discussion draft of this legislation. At this hearing, the Department of the Treasury intends to limit its comments to portions of this legislation that substantially impact Treasury missions and operations. This hearing provides an excellent opportunity to explore those areas where legislative initiatives could help in meeting the goal of improving the collection of delinquent nontax debt owed to the Federal government.

Treasury believes that certain provisions of this proposed legislation will assist the government in complying with existing statutes to recover non-tax delinquent debt. However, there are also provisions that may prove controversial, have perverse effects or be operationally difficult for the government to administer. The implementation of the Debt Collection Improvement Act is designated as a Presidential Management Priority as part of the President's FY 1999 budget submission to Congress. This designation strengthens the implementation of the Debt Collection Improvement Act by coordinating governmentwide compliance, and reporting of that compliance with the Office of Management and Budget. Accordingly, the Treasury

Department views implementation of the DCIA as a top priority and is working with OMB and the other Federal agencies to ensure successful implementation.

I am pleased to share with you highlights of our analysis of the proposed Government Waste, Fraud, and Error Reduction Act of 1998. This legislation proposes to amend the Prompt Payment Act. The Prompt Payment Act requires executive departments and agencies to pay commercial obligations within specified discrete time periods and to pay penalties when those time constraints are not met. The proposed legislation would transfer the responsibility of reporting and administering the Act from the Office of Management and Budget to the Department of the Treasury. Additionally, the amendment is designed to reflect current and future payment environments in which most payments and invoices will be transmitted electronically. This change is designed to encourage agencies to implement innovative payment technology that promotes electronic payments, required under the Debt Collection Improvement Act, and to combine sound business practices with good cash management. Because of the close relationship between the provisions in the Debt Collection Improvement Act, which Treasury is already responsible for implementing, and the Prompt Payment Act, administrative efficiencies will be achieved if this legislative proposal is enacted.

Next, in the area of improving Federal Debt Collection Practices, we support the provisions of the draft proposal that would expand the types of Federal payments available to collect past due child support through Treasury's administrative offset program. Executive Order 13019 provides for the collection of delinquent child support obligations from persons who may be entitled or eligible to receive certain Federal payments by offsetting those payments through Treasury's administrative offset program. The addition of certain Federal benefit payments to those Federal payments already available for offset is consistent with the goal of promoting the health, education, and well being of children.

In general, we support provisions of the draft proposal that further our goal of relying on the experience and expertise of private sector professionals to provide debt collection services to Federal agencies. However, we are concerned about provisions that would preempt state law in this area, and we believe that such preemption should not be enacted before fully evaluating the impact on state law and commercial practices. I refer the committee to our specific comments on these provisions in the attached addendum.

Having discussed several highlights in the draft legislation which we believe assist our efforts to recover delinquent debts and improve Federal payment systems, there are several components which Treasury would find problematic if enacted. For instance, the proposed legislation rewrites the existing DCIA provision on barring delinquent debtors from obtaining loans to also bar delinquent debtors from obtaining Federal permits or licenses, Federal contracts, and Federal employment. The DCIA already empowers the government with tools to collect the delinquent debts of Federal employees. Continued Federal employment would enable the government to continue recovering delinquent debts from Federal employees. Enactment of this section would ultimately weaken the government's ability to collect these funds and would be

difficult to administer. In addition, the absolute prohibition against awarding any Federal permit or license to a delinquent debtor is overly broad and may create serious enforcement burdens. There are many instances where the administration of such a blanket prohibition would not be in the best interest of the government though in specific, targeted circumstances could be a useful tool for some agencies.

Similarly, the subcommittee proposes to eliminate the DCIA provision requiring the Department of the Treasury to issue regulations implementing the administrative wage garnishment provisions of the law. Enactment of this provision, I believe, would delay implementation of the administrative wage garnishment provision of the Debt Collection Improvement Act. Wage garnishment is an action of enormous impact on delinquent debtors. I believe that if Treasury is absolved from constructing governmentwide regulations for administrative wage garnishment, respective Federal agencies will likely see a need to develop their own regulations in order effectively to protect the government's liability. With the resultant proliferation of separate regulations, the result could be a prolonged period of time before wage garnishment can be applied effectively across the government and may not result in uniform application. Further, the Department of the Treasury issued a Notice of Proposed Rule Making on this subject on November 21, 1997 and plans to issue a final rule in April. Thus, we believe this provision is not necessary.

We are also concerned with expanding Federal authorities which impact existing commercial practices. For example, the provision of this legislation that would create a lien on any real property owned by a debtor and thus create clouds on titles throughout the country could significantly and adversely affect the transfer of all real property. This provision may have far reaching implications for the lending community, title companies, and other sectors involved in real estate transactions and we recommend consultation with these affected groups. The creation of a seven year lien may interfere with an agency's ability to write-off debt and report such debts to the IRS as discharged.

Finally, with regard to debt and loan sales, Treasury is in the process of establishing an Office of Privatization to provide guidance to Federal agencies on the appropriate manner to conduct asset dispositions. Treasury believes that a properly administered program of nontax debt sales can be a very effective debt management tool. The provisions of the legislation that would alter the Secretary's existing authority to review the terms of all debt sales and that would require sale of new loans and delinquent nontax debt at certain set time intervals could impede the effective implementation of Treasury's privatization policy. We also note that a mandatory requirement that loans be sold after the lapse of a statutorily prescribed period may serve to encourage delinquencies, as debtors may believe that their opportunity to compromise a debt through negotiations with a note purchaser may increase.

This concludes my remarks. We appreciate the subcommittees' continued interest in the success of Treasury's debt collection efforts and look forward to working together to continuously improve Federal debt collection and payment practices. We also look forward to

working with your staffs on this bill, and other draft proposals intended to improve the collection of Federal debts in an environment of public support and improve Federal payment systems. I would be pleased to address any questions you have regarding Treasury's position on the draft legislation.

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ADDENDUM To TREASURY TESTIMONY OF MARCH 2,1998

H.R. __ - Government Waste, Fraud, and Error Reduction Act of 1998

[Discussion draft of February 17, 1998]

Title I - General Management Improvements

Sec. 101 - Repeal of Obsolete Provisions Relating to Financial Statements of Agencies

Comments: We support this technical change and suggest that the proposed bill also strike subsection (h) of 31 U.S.C. 3515 as obsolete.

Title II - Improving Federal Debt Collection Practices

Sec. 201 - Miscellaneous technical corrections

- **(a) Child Support Enforcement**

  Comments: We support the expansion of the Federal payments available to collect past-due child support through Treasury's administrative offset program.

- **(b) Charges by Debt Collection Contractors**

  Comments: This provision would provide clarity and consistency in the fees that may be charged for the collection of debt owed to the Federal government. It would also preempt State laws that might limit the amounts that can be received by federal debt collection contractors. We believe that before any such preemption is enacted there should be consultation with States to assess fully the impact of this provision on State laws and commercial practices. Consistent with Executive Order 12612 issued by President Reagan on October 26, 1987, appropriate officials and organizations representing the States should be consulted in developing national standards that potentially limit the policy making discretion of the States.

- **(c) Background Checks of Contractor Employees**

Comments: This provision would shift the costs associated with the performance of background checks from agencies currently paying for them to the private collection contractor, and in turn, to the debtor as the costs associated with the collection of a debt may, in most circumstances, be passed on to the debtor. We therefore support this provision. This section should be modified, however, to ensure that the background check performed by the contractor meets Treasury or other contracting agency standards and that any background checks performed are made available, on request, to Treasury or the contracting agency.

- **(d) Debt Sales**

  Comments: We are concerned with the readiness of Federal agencies to comply with a requirement to sell debt and about the role of Treasury in government-wide debt sales in light of initiatives underway by interagency groups such as the Federal Credit Policy Working Group. We are also concerned about the relationship the DCIA provisions on debt sales may have to administration privatization initiatives. We suggest deferral of enactment of this position pending further internal administration coordination on this issue and discussions with interested parties in the legislative branch.

- **(e) Repeal of Requirement to Issue Wage Garnishment Regulations**

  Comments: We believe this provision is not necessary and could result in a lack of consistent standards and procedures. Treasury issued a Notice of Proposed Rulemaking on wage garnishment on November 21, 1997 and expects to issue a final rule in April, 1998.

- **(f) Verification of Debtor Employment Information by Private Collection Contractors**

  Comments: We believe additional background is needed regarding the impact of this provision on State laws and State commercial practices. As noted in our comments to subsection (b) of this section, consistent with Executive Order 12612 issued by President Reagan on October 26, 1987, appropriate officials and organizations representing the States should be consulted in developing national standards that potentially limit the policy making discretion of the States.

- **(g) Clerical Amendment (Tax Refund Offset)**

  Comments: We support this clerical amendment and suggest an additional clerical amendment re-numbering this section which currently has two paragraphs (h)(1).

- **(h) Correction of References to Executive or Legislative Agency**

  Comments: We support a correction that would strike "executive or legislative" agency each place it appears and substitute "executive, judicial, or legislative agency." This change has already been accomplished, however, in the specific sections listed in the draft proposal.

- **(i) Correction of References to Federal Agency**

  Comments: Changing the term "Federal agency" to "agency" does not provide needed clarification on what is meant by the term "Federal agency." For purposes of consistency and clarity, we suggest changing the term "Federal agency" to "executive, judicial or legislative" agency where appropriate.

Sec 202 - Barring Delinquent Debtors from Obtaining Federal Loans

Comments: We suggest that input be obtained from the Department of Justice (DOJ) regarding the impact this provision would have on other laws that govern Federal contracts and Federal employment. Denial of Federal employment to a delinquent debtor may, on the one hand, motivate the debtor to pay and is consistent with a desire not to reward those who owe delinquent debt with Federal employment. On the other hand, Federal employment of an otherwise qualified individual who owes a debt would provide a readily available source of repayment. In the area of denial of licenses and permits, we are concerned that the language may be too broad and thus difficult to administer. For example, it may not be beneficial to enforce this provision against an individual seeking a permit to enter a national park. We suggest a requirement that standards be issued by Treasury under which agencies could determine whether imposition of such a bar would be in the best interest of the government.

Sec. 203 - Collection and compromise of nontax debts

- **(a) Use of Private Collection Contractors and Federal Debt Collection Centers.**

  Comments: The requirement for Treasury to refer debt to the person(s) most successful in collecting the type of debt may impose unreasonable burdens because of the difficulty of making such a determination in particular cases. It would also conflict with the requirement to maintain competition. We suggest that such success be a factor to be taken into account in determining the person most appropriate to collect the debt.

  Administrative costs are generally borne by the contractor and built in to the contract price.

  We support giving States the option of requesting that Treasury refer child support debts to private collection contractors.

- **(b) Limitation on Discharge Before Use of Private Collection Contractor or Debt Collection Center**

  Comments: If this section is directed at the actions the Financial Management Service or other government debt collection centers must take before terminating collection action on a debt, we suggest adding referral to the Department of Justice as an alternative prior to terminating collection action. If this section is directed at creditor agencies, it may be too broad in that it does not exclude debts that are exempt from cross-servicing, for example, debts in litigation or foreclosure. One way to narrow the scope would be to exempt debts that are exempt from cross-servicing. We also suggest clarification of what is meant by "termination."

Sec. 204 - Wage Garnishment

Comments: We suggest that input be obtained from the Department of Labor regarding the impact of this proposal on the anti-alienation provisions of the Employee Retirement Income Security Act (ERISA) (29 U.S.C. 1056(d)) and other laws and policies relating to pension plans. It may be prudent to gain some experience administratively garnishing wages before this authority is expanded.

Sec. 205 - Establishment of Liens

Comments: We believe this provision should be given further study because it could have extraordinarily far reaching and disruptive consequences for the lending community, for title companies, for property owners and for others involved in real estate transactions. Such a provision could potentially create clouds on title to real property throughout the country and create significant burdens for affected parties. Additionally, the creation of a seven year lien may interfere with an agency's ability to write-off debt and report such debts to the IRS as discharged.

Title III - Sale of Debts Owed to United States

Sec. 301 - Authority to Sell Debts

- **(a) Sales Authorized**

Comments: We believe that the provision requiring agencies to "maximize the proceeds" from sales is unnecessary, may create a basis for unsuccessful bidders to raise protests to sales, and may place unintended limits on creative sales vehicles. We suggest that the language give agencies discretion to conduct sales in the manner the agency determines to be most appropriate, and shall give consideration to whether the manner chosen will maximize proceeds.

Sec. 302 - Requirement to Sell Certain Debts

Comments: We believe that a mandatory requirement to sell debt at a statutorily specified time after a loan is disbursed, whether or not the loan is delinquent, would not be in the best interest of the United States and may in fact encourage delinquencies. For example, purchasers may bid less for debts that they know the government is under a mandate to sell. Some debts, such as Department of Education student loans, may increase in value over time and thus an early sale may not result in the greatest return. We are also concerned that mandated sales would not allow sufficient time for Federal agencies to fully pursue the collection tools available to them. Aggressive implementation of the collection tools available to Federal agencies, such as wage garnishment and administrative offset, may result in greater receipts than sale. Additionally, a requirement for mandatory sale could create

a perverse incentive for debtors to allow their debts to become delinquent in the hope that the obligation may be sold at a discount to a purchaser who would have an incentive to compromise. Furthermore, if these provisions are applied to debt under the U.S. government's foreign assistance programs, they could hamper recognition of the U.S. foreign policy concerns, as well as efforts to maximize debt collections in the long run.

Finally, it is premature to mandate such provisions, especially pertaining to the sale of performing loans, until the administration has more time to determine how these requirements would be part of the broader privatization strategy.

Title IV - Treatment of High Value Debts

Sec. 401 - Annual Report on High Value Debts

Comments: Clarification is needed regarding whether or not this requirement is limited to high value debts in a delinquent status and this provision should exclude tax debt.

Sec. 402 - Debarment from Obtaining Federal Loans

Comments: We believe this provision is unnecessary as Section 3720B already bars delinquent debtors from loan eligibility regardless of the amount of the debt.

Sec. 403 - Inspector General Review

Comments: Clarification is needed regarding whether this is limited to delinquent high value debt, and as to the relationship between this provision and the requirement that agencies seek approval from DOJ on all compromises of debt in excess of $100,000. Additionally, this provision should exclude tax debt.

Sec. 404 - Requirement to seek seizure and forfeiture of assets securing high value debts

Comments: We are concerned that there may be circumstances in which prompt seizure and forfeiture of collateral would not be desirable (e.g., environmentally damaged property). Additionally, we have concern about how this provision would tie in, if at all, with sec. 206, which provides that a

delinquent debt establishes a lien on the debtor's real property. In addition, the use of the term "forfeiture" raises serious questions about its relationship to the asset forfeiture laws employed in connection with drug and money laundering enforcement. We therefore would strongly suggest consultation with the Department of Justice.

Title V - Federal Payments

Sec. 501 - Transfer of Responsibility to Secretary of the Treasury with Respect to Prompt Payment

Comments: We support this transfer of responsibility. Treasury already has a significant role in implementing the Prompt Payment Act. This would provide Treasury with the flexibility to conform prompt pay requirements to new payment technologies.

Sec. 502 - Promoting electronic payments

Comments: These amendments would provide needed flexibility to promote innovative payment technologies. However, a provision requiring vendors to pay interest is not necessary and could create an administrative burden on agencies.

Mr. HORN. That is very helpful. Staff has told me how cooperative the Treasury is in many of these things, and we appreciate that.

I yield 5 minutes to my colleague from Ohio.

Mr. KUCINICH. Do you have a copy of the Treasury Department's policy with respect to privatization of debt collection?

Mr. HAMMOND. No, I don't. The policy—the privatization policy is a policy that is in flux at this time and is being refined within the Department. There were appropriated funds for the Department to establish an office of privatization, and it certainly is our intention to go forward with that.

I could certainly provide for the record a status of where we are on developing privatization policy.

Mr. KUCINICH. Are you familiar with the—part of your testimony talks about expanding the types of Federal payments available to collect past-due child support through Treasury's administrative offset program. Is the Lockheed Martin Corp. working with you on some of those programs?

Mr. HAMMOND. No, they are not. What we are doing with child support is—the administrative offset program allows us to offset certain Federal payments for the collection of delinquent debts. In the case of child support, there are certain payment streams which are eligible for the collection of Federal debts which are not eligible for the collection of delinquent child support debts.

Mr. KUCINICH. Can you give me an example?

Mr. HAMMOND. Social Security payments.

Mr. KUCINICH. How would that mechanism work?

Mr. HAMMOND. What it is is as the payment comes through the Treasury for payment to the ultimate beneficiary, there is a match conducted against a data base of delinquent debtors. If a delinquent debtor is found, then an offset of the payment takes place in order to collect a portion of the delinquent debt.

Mr. KUCINICH. Treasury is handling this coordination now?

Mr. HAMMOND. Right. Treasury's Bureau, the Financial Management Service is responsible for implementing the operational aspect of the Debt Collection Improvement Act.

Mr. KUCINICH. Mr. Chairman, we had a meeting in the same room with Chris Shays' subcommittee and went into some of the details of debt collection with respect to past-due child support, and we found that privatization of debt collection has much to be desired, to put it mildly, and that, in fact, some agencies which—some companies which had taken over the responsibility of collecting past-due child support have failed miserably.

So are you aware of the report that deals, for example, with Lockheed Martin in the State of California?

Mr. HAMMOND. I am not familiar with that specific report. I would tell you that specifically with regard to child support, Treasury is simply one tool through the administrative offset program for the collection of child support. The administration of child support obligations is actually housed within Health and Human Services.

Mr. KUCINICH. Right, and thanks for clarifying that. But while Treasury is working on implementing the charge of the Office of Privatization, it may serve you well to consult with your confreres

in HHS to avail yourself of the voluminous material with respect to the actual track record of those companies who are already involved in private—in private debt collection. Because you may find yourself losing some of your ardor for turning over this process when, apparently, some private companies don't seem to be doing it any better than the Government.

Mr. HAMMOND. I think that is good advice, and I think—don't let the title Office of Privatization confuse the issue in that what privatization is really about is figuring out those instances where it is in the best interest of the Government to sell obligations. And I would point to two recently completed transactions, the sale of Elk Hills Petroleum Reserve and then the privatization of the U.S. Enrichment Corporation——

Mr. KUCINICH. Right.

Mr. HAMMOND [continuing]. As examples of what we are working on.

Mr. KUCINICH. I would like to have some details about that, what you just said, and more in terms of where your privatization objectives are going.

Mr. HAMMOND. I will be happy to provide that.

Mr. KUCINICH. I noted in your presentation, though, that in the two areas where privatization is mentioned, you didn't use the word "privatization." So I just wanted to make sure that I used the word "privatization" in case it somehow skipped your testimony; privatization.

Mr. HAMMOND. Thank you.

Mr. KUCINICH. Thank you.

I yield to Mrs. Maloney.

Mrs. MALONEY. I would like to get back to the testimony where you say the Debt Collection Improvement Act barring delinquent debtors from obtaining loans, which passed and which we all supported, but you question, moving it further, to barring Federal permits, licenses, contracts and Federal employment is not in the best interest of government; yet, on the other hand, if they are getting a government loan and refusing to pay it back—I think about our—the gentlemen that blew up Oklahoma City.

I read in the paper that they were the recipients of several Government loans which they didn't pay back, then proceeded to try to—well, anyway, I just want to know why you think you shouldn't extend it to contracts and employment and permits and licenses, because that is a way of saying, we are really serious. And if you don't want a blanket approach, what do you propose?

Mr. HAMMOND. OK.

Let me—it's an excellent question. Let me give you a couple of examples and then explain a little bit more about our thinking.

For example, in the case of Federal employment we feel that we already have sufficient tools to collect from a Federal employee delinquent debts, and in fact it would probably be in the best interests of the Government to actually have the individual employed and subject to a wage garnishment order in order to ensure repayment as opposed to actually deny them employment on the front end.

Mrs. MALONEY. That makes sense.

Mr. HAMMOND. With regard to the broader provisions I think what we're concerned about is that the broad range of items included within the statutory scope could extend to things as small as, for example, a camping permit in a national park, and the administrative burdens related to denying somebody some of the smaller items——

Mrs. MALONEY. I understand.

Do you support H.R. 2063, the Debt Collection Wage Information Act?

Mr. HAMMOND. H.R. 2063, as Mr. DeSeve pointed out, has been certainly discussed at the Federal Credit Policy Working Group and other interagency forums. Treasury has—and I will yield to some of my colleagues from the tax administration side of the department—Treasury has been somewhat mildly concerned about some of the workload issues as well as the tradeoff between tax administration and using the application of income verification. I think we all understand the benefits of income verification on the front end. The issue is really one of not losing sight that the primary purpose of tax administration is to in fact collect tax obligations and that we would not want to impair those operations at the same time by adding ancillary functions.

So I think we're aware that, IRS has existing procedures for providing for income verification, and we would like to explore with the committee ways of using and elaborating on those existing procedures to minimize workload and at the same time provide the benefits across——

Mrs. MALONEY. That is 2347, which is Federal benefit wage information. The other is the collection.

Mr. HAMMOND. I'm sorry.

Mrs. MALONEY. The collection.

Mr. HAMMOND. The new hire data base? I think we, Treasury is all in favor of new resources to use. We are very, very sympathetic, however, to the fact that the new hire data base is very new and was just kicked off in the fall. We would very much like to give them the opportunity to get the data base operating to a point that we would not impede the purpose for which it was designed, collecting delinquent child support, until such time as they're comfortable using it for broader purposes.

Mrs. MALONEY. Well, I tell you I would like to come in early one Monday morning, early, and go by Treasury and look at how you are implementing the Debt Collection Improvement Act. As you know, it was enacted into law and then a year later we did a survey and found that only $23 million was collected. I mean that's not a very good record. You certainly have not placed your attention or your focus on it.

And I read in Congress Daily, and others, that you are making efforts to improve this particular department. You fired a lot of people, you hired new people. But I think to just collect $23 million in 1 year when $50 billion is owed is really pretty bad, to say the least.

And I'd like to come by with any interested parties from this committee and just sort of look at the operations, and I hope you are putting more of a serious focus on this. How can we say we're serious about the reinventing government and having a smaller

and better and more efficient government if we're not even handling that—what's before us? Believe me, Bill Gates could not even afford a $50 billion debt. I mean his microchip costs would go up dramatically.

So I think we have a right to know what's going on there, and I certainly hope that you've made more efforts.

Just one last question. What is your opinion on the proposal to garnish pension benefits?

Mr. HAMMOND. Well, I think with regard to pension benefits, and that is certainly an area that's well outside of Treasury's expertise, we were hopeful that the Department of Labor could be consulted to find out the impact and the considerations they might have with regard to the administration of ERISA.

But in addition, certainly the notion that you would means test pension benefits is consistent with the way Social Security, for example, is subject to offset under the DCIA, so I think there is certainly an area to explore there.

Mrs. MALONEY. OK, thank you.

Mr. HORN. Thank you, very helpful questions.

We now will go to Assistant Secretary Longanecker, Department of Education. It's always nice to have you here. You have got the second biggest amount of debt, I guess, in the United States on the Federal Government's part. Thank you for coming.

STATEMENT OF DAVID LONGANECKER, ASSISTANT SECRETARY FOR POSTSECONDARY EDUCATION, DEPARTMENT OF EDUCATION, ACCOMPANIED BY TOM PESTKA, DIRECTOR, DEBT COLLECTION SERVICE

Mr. LONGANECKER. Thank you for the invitation, Mr. Chairman, members of the committee.

For the record I'm David Longanecker. I'm the Assistant Secretary for Postsecondary Education at the U.S. Department of Education, and I'm accompanied today by Tom Pestka, who is the Director of our Debt Collection Service at the Department. For the sake of brevity I will condense my remarks and ask that my prepared text be accepted for the record.

We are committed at the Department of Education to managing our various student loan programs, which include the new direct student loan program, the old FFEL program, and the original Federal student loan program now called the Perkins loan program, in the most efficient way possible, including the collection of delinquent or defaulted student loans. This year we will provide nearly 9 million loans amounting to $33 billion to students and their parents. These loans will combine with over $286 million in loans made since 1965 of which 120—excuse me, that was billion, not million—of which $120 billion has been repaid or forgiven, $64 billion are held by students who are still in school, $73 billion are in repayment, and about $25 billion are in default.

With respect to the default collections, we are vigilant to our duty to collect all debts owed to the Federal Government and work hard toward that task. We work through our Guarantor and Lender Oversight Service to ensure that lenders and guaranty agencies perform appropriate and required due diligence and pre-claims assistance to collect loans, and it works. Each year the guaranty

agencies through their good work collect more than $1 billion. Through our institutional oversight efforts we have cracked down on institutions whose students default at high rates and have eliminated more than 400 such schools from participation in the student loan programs.

The combined results of these efforts and others are remarkable with the overall cohort default rate has dropped from 22.4 percent in 1992 to 10.4 percent for fiscal year 1995, the most recent year for which there are final statistics.

We also believe, however, that default prevention remains the best strategy for reducing the costs of defaults. To this end through our initial student aid delivery system we now identify students who have defaulted on student loans, the result of which led to more than 125,000 student aid applicants being denied loans and grants because they were prior defaulters, resulting in providing them—in not providing them more than $300 million in loans alone.

In addition, through our direct student loan program, which incidentally now originates about one-third of our loan volume in the country, we have built into both the loan origination system and the loan servicing system approaches such as the income contingent loan repayment option that help prevent future defaults. And through our debt collection service, which Mr. Pestka heads, we work hard to recover debts the lenders and guaranty agency have been unable to collect.

Over the past 6 years our debt collection service has collected almost $4.5 billion, with IRS offset of income tax refunds having brought in about $3.2 billion of that, and private debt collection contracts, which incidentally we have been using now for almost 20 years, bringing in $766 million.

With respect to the proposed legislation, we like many aspects because they would provide even greater tools for us to use in debt collection and are concerned about other aspects which we believe might impede either our or other agencies' capacity to collect Federal debt. Specifically, we support H.R. 2063, the proposed Debt Collection Wage Information Act. We have been initiating wage garnishment as a tool for Federal collection and have found it a sound and useful tool, restricted only by our ability to identify borrowers with employers. We believe that matching to the national directory of new hires could provide us with a tool as powerful, if not more powerful, than the Treasury offset program.

We also support in general H.R. 2347, the Federal Benefits Verification and Integrity Act. This would not only allow us to provide more accurate amounts of Federal benefits in the first place, a problem that recent I.G. studies that the department has indicated is real. It would allow us to simplify the process of applying for student aid, which is why we have endorsed a similar concept in our reauthorization proposal for the Higher Education Act.

With respect to the unnumbered bill on Government Waste, Fraud, and Error Reduction we have had only a short time to examine the bill but find many of the provisions useful. We are, however, a bit concerned about some possible aspects of the debt sales provisions referred to in section 302. Selling delinquent student loans after 1 year could often be counterproductive because as an

appreciating asset we often are able to collect on these loans later rather than sooner, and being required to sell our direct student loan portfolio within 6 months of disbursement could prove to be a disservice to many of the students we serve and could come at an exceptional cost to the Federal Government. We clearly need to examine these proposals more closely and look forward to working with you as we do so.

We concur with the 3 general principles of protection of privacy, simplicity of administration, and appropriate rules to the purposes of the program set forth by Mr. DeSeve. We also would hope that the authority to establish when sales are or are not in the best interests of the Government would be extended to the Secretary of the relevant agency, not solely to the Secretary of Treasury, who might not be wholly aware of the various important program considerations.

We hope these comments are useful to you and look forward to working with you, Mr. Chairman, and with the subcommittee as a whole as you move forward on these creative endeavors. I look forward to your questions. Thank you again for the opportunity to be before you.

[The prepared statement of Mr. Longanecker follows:]

Statement of David A Longanecker, Assistant Secretary
Office of Postsecondary Education
to the Subcommittee
on Government Management, Information, and Technology
United States House of Representatives Committee on Government Reform and Oversight

Hearing on Legislative Proposals in the Debt Collection Area

Mr. Chairman and Members of the Subcommittee,

Good afternoon, Mr. Chairman and members of the Subcommittee. I am pleased to be here today to respond to your request for the views of the Department on three bills being considered by your Subcommittee, namely:

- H.R. 2063, the Debt Collection Wage Information Act
- H.R. 2347, the Federal Benefits Verification and Integrity Act, and
- The draft Government Waste, Fraud, and Error Reduction Act of 1998.

The Department of Education administers several successful student loan programs, including our Direct Loan and Federal Family Education Loan (FFEL) programs. But we are always trying to improve all aspects of those programs, including debt collection. We believe that proposals like the legislation you are considering could help to increase our success in that area.

As a primary source of student loans, our Direct Loan and FFEL programs have enabled millions of students to enroll in postsecondary education. Through the Direct Loan Program, in which Federal loans are directly disbursed to students by the institutions of higher education they attend, we have made over $26 billion in loans since the program began in 1994. Through the FFEL program (and its predecessors), over $240 billion in loans have been made since 1965. Under the

FFEL program, loans are made to eligible students by participating lenders using private loan capital, and repayment of loans is insured against loss by guaranty agencies using federal reserve funds. The guaranty agencies in turn are reinsured by, and receive other funds from, the Department.

This year, the Department of Education expects to provide about $33 billion to more than 9 million students, including over $11.2 billion in Direct Loans to nearly 3.1 million students and almost $20.5 billion in FFEL loans to nearly 5.6 million students. Of the approximately $286 billion in loans made to students and their parents through the Department's loan programs (including $20 billion in loans made through the Federal Perkins Loan Program since 1959), approximately $162 billion are outstanding. Of the outstanding amount, about $73 billion are in repayment, another $64 billion are held by students still in school, and about $25 billion are in default.

Ensuring the effective and efficient delivery of these loans is one of the Department's highest priorities. Due to the size of these programs, we know that problems of waste, fraud, and abuse occur. The $25 billion in defaults constitute about 11 percent of $222 billion in cumulative loan volume, not including loans to students still in school. We believe, however, that defaults can, and must, be further reduced. We know that many of the defaulted borrowers are earning enough money to repay their debts. Therefore, the Department is committed to reducing defaulted loans as well as improving our collection efforts.

Default Reduction

The Department is taking vigorous steps to reduce the default rate on student loans and, consequently, the amount that needs to be collected. These efforts have reduced the FFEL cohort default rate from 22.4 percent in 1990 to 10.4 percent in 1995. This dramatic decline over the past six years has been facilitated by the adoption of legislation and policies supported by both the Congress and the Department.

Many parts of the Office of Postsecondary Education have contributed to our efforts to reduce defaults. The Guarantor and Lender Oversight Service (GLOS) helps to ensure that lenders and guaranty agencies comply with due diligence requirements and provide pre-claims assistance, among other efforts. The Institutional Participation and Oversight Service (IPOS) has, through its gatekeeping initiatives, tightened financial and administrative requirements that schools must meet in order to participate in the loan programs. The Department has also used our computer records of student aid recipients to deny additional aid under Title IV of the Higher Education Act to aid applicants with unresolved defaulted student loans. Over a recent 18 month period, the Department identified more than 125,000 student aid applicants as prior defaulters, helping to prevent these ineligible students from receiving about $300 million in loans.

While the vast majority of borrowers have repaid, or are currently repaying, their student loans, some borrowers do default. The Department is determined that defaulters fulfill their obligations to repay their student loans.

Increased Collections

The Debt Collection Service (DCS) is the organizational unit within the Department that has responsibility for collecting on defaulted student loans. Over the past 20 years and more, initiatives taken by the Department and DCS have substantially improved the effectiveness of our collection efforts.

Over the past six years, the Department has collected almost $4.5 billion on defaulted loans. Our two most effective tools are the federal income tax refund offset that works through cooperation with the Department of the Treasury and the use of private collection agencies. In 1986, the Department began referring to Treasury eligible debts that we had tried unsuccessfully to collect using other available tools. Using our data, the Treasury Offset Program (TOP) has been offsetting federal income tax refunds and other payments and has collected about $3.2 billion over the past six years, including about $500 million in FY 1997. Since 1979, we have contracted with private debt collection agencies and currently have 18 debt collection contracts. Over the past six years, private collection agencies have generated $766 million in collections.

Although the Department has been successful in collecting substantial amounts of defaulted student loans, we believe that obtaining some additional collection tools would increase our effectiveness and help taxpayers. In our proposals for reauthorization of the Higher Education Act, for example, we are recommending that states be required to share information with the Department about their employees who have defaulted on student loans. The legislative proposals before this Subcommittee also have a number of promising tools.

H.R. 2063, The Debt Collection Wage Information Act

One of the biggest obstacles to collecting defaulted student loans is the problem of locating defaulters. After leaving school, many borrowers relocate, often to increase their opportunities for employment.

The Debt Collection Wage Information Act offers an innovative approach to locating defaulters. This legislation would allow the Department to use the National Directory of New Hires, under development by the Department of Health and Human Services, to identify and locate their employers. The National Directory of New Hires is a database of all new hires and will also include quarterly wage data from state employment security agencies and other entities such as the federal government. Once defaulters are identified through their employers, the Department could use existing authority to garnish their wages, following the appropriate due process requirements.

The Department has found wage garnishment to be an effective tool in collecting defaulted student loans. Over 53,000 defaulted loans are now in garnishment status, and we have collected about $34 million through garnishment since 1992.

The Department supports H.R. 2063, with some technical and timing modifications to prevent disruption to the development of the National Directory of New Hires, and believes it would increase collections on defaulted student debt. This legislation could allow administrative wage garnishment to surpass TOP as the most effective Federal debt collection tool.

H.R. 2347, The Federal Benefits Verification and Integrity Act

Although most applicants for student aid accurately report data needed to determine their eligibility, some provide incorrect information, intentionally or unintentionally. According to the Department's Inspector General (IG), the accuracy of financial aid awards, including both grants and loans, could be improved if the Department had access to correct income data. A recent IG report found that 102,000 students were over-awarded $109 million in Federal Pell Grants for award year 1995-96 simply because students failed to report or underreported their income on the Free Application for Federal Student Aid. This type of error results because institutions of higher education cannot verify data reported by applicants without requesting copies of their or their parents' tax forms.

H.R. 2347, the Federal Benefit Verification and Integrity Act, could help reduce data errors and allocate resources more fairly. All applicants for Federal student financial assistance should be informed that their data may be shared with other Federal agencies to verify their eligibility, with appropriate attention to protecting the privacy of their data. Under current law, schools must require at least 30 percent of their students who receive federal student aid to verify the information reported on their financial aid application by providing copies of the student's and parents' federal tax returns. Several studies have shown that the cost effectiveness of this approach is questionable, and the burden upon the schools is substantial. A bill that requires up front verification would save government resources before the aid funds are disbursed. It would be an improvement over the current approach that identifies problems afterwards and then tries to

collect funds that should never have been disbursed. The Department supports the goal of this bill and hopes to work with the Subcommittee to clarify some of the bill's provisions.

The Government Waste, Fraud, and Error Reduction Act

The Department received Mr. Horn's unnumbered draft bill, the Government Waste, Fraud, and Error Reduction Act, this past Monday and has begun a careful review of it. We believe many of its provisions are useful, and in some cases, overdue.

The Department, however, has a number of concerns with this draft bill, mainly regarding loan sales. We believe the bill must give the Secretary of Education flexibility to conduct loan sales only if they are in the best financial interest of the government and can be done in a way that does not undermine our program mission.

The Department has found that uncollected defaulted loans become more valuable assets over time because defaulters' ability to pay increases. The Department, by virtue of being a Federal agency, also has debt collection tools such as the IRS offset and wage garnishment that are not available to the private sector. If the price the market would offer for loans is well below the level we know--from experience--that the Department can collect by holding them, these assets should not be sold. We would need to conduct an asset valuation to make this determination.

Mandatory loan sales after one year of delinquency could also interfere with our program objective of enabling borrowers to manage their debt burden through loan consolidation and

income-contingent repayment. These options, available to borrowers under the Higher Education Act, are key ways in which the government avoids penalizing students who have taken the financial risk of gain from a college education, but for whom it may not materialize. Income-contingent repayment and loan consolidation have helped many thousands of delinquent borrowers over the past several years to come back into repayment status. We are currently reviewing with the Office of Management and Budget whether selling delinquent student loan debt can be accomplished without undermining this important Administration priority.

Conclusion

Since the Department finds much merit in legislative proposals such as these, we hope to work with this Subcommittee in refining them. The Department of Education strongly supported The Debt Collection Improvement Act of 1996, and today offer our support for the goals of the two bills introduced by Representative Maloney and to many of the valuable ideas reflected in Representative Horn's proposal. I thank you for the opportunity to share our views with you on these most important matters and would be happy to answer any questions you may have.

Mr. HORN. Well, we thank you. It's very helpful.

Let me just ask, perhaps Mr. Pestka knows it, and we appreciate all you've done, and we know you're the expert as far as we're concerned in how these programs are administered, but I'm curious in terms of your results of your garnishments. It didn't sound like too much compared to the debt outside.

Do you have any data as to the level of loan the person is bearing which brings the difficulty of not being able to repay it in terms of monthly installment? Is there any factor there that you found statistically so you know what category that you're possibly dealing with here? I mean are there large outstanding loans or medium outstanding loans or what? Who is able to pay it back in this day and age?

Mr. PESTKA. The outstanding balance is one factor. Our average outstanding balance is somewhere between $3,000 and $4,000. So the population we're dealing with is a very high volume, low balance population, we don't have any of the million dollar debts that you spoke of earlier.

I think the thing that has the greatest effect on whether a person can pay is of course their income after they leave school and go on to employment. Fifty percent of the portfolio that we deal with, the persons attended a proprietary school, a trade school, not a traditional institution of higher education. They learned a trade, they may or may not be finding work in that trade, and those are our most difficult debts to collect.

Mr. HORN. Is that 85–15 rule still on the books for these proprietary schools?

Mr: LONGANECKER. Yes, it is. But in fact most of the schools are passing the 85–15 test.

Mr. HORN. When were the proprietary schools made eligible for these loans? What year? Do you remember?

Mr. LONGANECKER. I'm not sure. I believe it was 1976, but I'm not positive of that.

Mrs. MALONEY. Point of information. What is the 85–15?

Mr. HORN. Well, apparently you have to have at least 15 percent.

Mr. LONGANECKER. At least 15 of your revenue——

Mr. HORN [continuing]. Is Federal loans; is that——

Mr. LONGANECKER. Right, have to come from some purposes other than—from some source other than the Federal Government.

Mr. HORN. I hadn't realized when that was passed, and 1 day I was walking across the floor, I think it was the Democratic 103d Congress, wanted to make a call out of the cloakroom, and I was listening to the debate as I went, and my colleague from California, I thought she was very eloquent, and she was right, and that was Maxine Waters was up fighting that. I got into the fight with her on her side because I think probably a lot of PAC money was spread around in both parties, and they got eligibility, and that's one of your biggest problems.

Mr. LONGANECKER. That specific provision was passed in 1993.

Mr. HORN. 1993.

Mr. LONGANECKER. Yes.

Mr. HORN. So it had been in 1 year, I guess. This was probably 1994 or something, but she knew what it did when it damaged the young people in her constituency. They are signed up with all the

pressures you can imagine and say you don't have to worry, you just get a Federal loan, and then they don't learn anything in most of these schools. And isn't there something we can do to tighten that up, or is that just lost forever?

Mr. LONGANECKER. Well, I think that the Debt Collection Act on student loans, the one that gave us the—or Default Reduction Act, excuse me, the one that allowed us to eliminate schools that had a history of high defaults has really done a great deal to assist in this program, and there are still—we think there is a lot more that can be done. That's one of the reasons why we're excited about some of the provisions that are before us, because we think it would help us in a substantial way, but we think that there is much that has already been accomplished in the last few years. We ought to be, Congress and the administration ought to be, reasonably proud of some of the things that have occurred over the last 5 years.

Mr. HORN. Well, I think you have done a good job. I said many times the first time we got some decent management in your end was under the Carter administration. I forgot the gentleman that had your job at that time, but he was the first one to get some computerization in there to really start the collection process. And I was very impressed by that, and I've been very impressed with what you're doing, and I suspect Tom is behind all of you.

So how long have you been down there?

Mr. PESTKA. Twenty-five years.

Mr. HORN. Twenty-five years, so we should be giving you the credit for what happened in the Carter administration.

Mr. PESTKA. I'll take it all.

Mr. HORN. Well, it's helpful.

OK, any other questions?

Mrs. MALONEY. I just like to thank them—excuse me to the chairman—just want to thank him from just out of habit. Thank you for your work in this area. You really have shown improved management in education and a sensitive management. I just have two questions.

Do you support 2063? You came out in support of that. What about 2347, the Federal Benefit Verification Integrity Act?

Mr. LONGANECKER. I said we supported that in principle. I think we want to work with our colleagues in the Treasury Department and the Office of Management and Budget, but in principle we certainly believe that the way to—is very consistent with what I said in my testimony—the best way to prevent a default is to make sure that you have a sound loan and a sound borrower up front and integrity in the system. So if you can catch violations at that point rather than have to go and catch them after the fact you're way ahead of the game, and that would be one of our strong reasons for supporting that.

Mrs. MALONEY. Thank you, but you do support H.R. 2063, the Debt Collection Wage Information Act?

Mr. LONGANECKER. Yes.

Mrs. MALONEY. Now did I hear you correctly when you said you have already implemented it in your management plan so, in effect, you're putting it into effect now? Is that correct or not?

Mr. LONGANECKER. No.

Mrs. MALONEY. You didn't say that, no. No, you haven't taken steps to implement that?

Mr. LONGANECKER. No. I think if there is interest we would be interested in moving as quickly as possible on that. If Mr. DeSeve needs a pilot, I'm willing to offer myself as a guinea pig. We'd like to move as quickly as possible toward that, but we also recognize and also agree that you don't want to do something until you're ready to do it because you want to do it right. We have had some experience with that lately.

Mrs. MALONEY. Thank you.

Mr. KUCINICH. Mr. Chairman, I'd like to go back to Mr. Hammond for a question.

Mr. HORN. Sure.

Mr. KUCINICH. In terms of who owes money, does the International Monetary Fund have any ability to borrow money in addition to the money that we pay for kind of dues to participate within the IMF? Do we have any other financial relationship with the IMF where they have any debt to the United States?

Mr. HAMMOND. I'm not aware of any borrowings per se that the IMF has from the Treasury. We do have a tiered system of capital contributions with the IMF, but I'm not aware of any direct borrowing authority that they have undertaken from Treasury. I can certainly check and get back to you.

Mr. KUCINICH. I'd be interested in that.

OK, thank you, Mr. Chairman.

Mr. HORN. Thank the gentleman.

One more question for Education.

I happen to support the direct loan program, and I've always been worried about the guaranteed loan program. What does your data show as to the ease with which you collect on loans that are under direct loans or guaranteed student loans? I would just be curious if we figured that one out yet.

Mr. LONGANECKER. Well, our portfolio in the direct student loan program is still a very young portfolio and so it's a little bit unfair at this point to compare the 2 programs. What we are finding is that there is some distinct advantages of the direct loan program in that we have a closer feel and more current information on the borrowers than we tend to have in FFEL program. It's coming from the lenders who don't have to report to us until the loans are delinquent and such.

I'm not trying to denigrate either program. We just know much more sooner in the direct loan program and therefore as a department can do things more rapidly. And we think that that will in the future result in substantial benefits.

What we do know is that some of the repayment terms, such as income contingent repayment, are turning out to be very important opportunities for students who have, for one reason or another, current low incomes and are unable to move forward. We're finding it is a useful tool for students who have defaulted on their student loans to return to a more positive repayment stream. Often they don't have substantial resources, it's hard for them to enter into a regular repayment, but that provides them the option to get into—to essentially repair their credit record and to get into a positive repayment stream with us.

Mr. HORN. I would think the incentive of the direct loan is that if the university wants to still have money to loan out, they have got to be first counseling people that this is not a grant, it is a loan, you are expected to pay it back. I remember in the 1970's, where that wasn't clear to a lot of students. We in this room who might deal with that kind of finance are sort of surprised when we find students don't have the slightest idea how the economy works. They're pretty good at getting around some things once they find it out, but I would think that as opposed to the guaranteed Federal support to pay off the lender in the banking situation that didn't have any real stake in it, they're going to get their money one way or the other.

Now have we seen a change in that with the way we have tried to encourage them to do counseling of these students and so forth?

Mr. LONGANECKER. Both programs require both entrance and exit counseling of the students. And obviously I'm a strong fan of the direct loan program. I think it's—candidly, I think it's a better program than the FFEL program. My obligation is to run both programs as efficiently and effectively as possible, so I want to be balanced in our approach, and I also don't want to get ahead of the information. With such a new program—really only about $10 billion now in repayment in direct lending, though we've made over $20 billion—we only have about $10 billion in the portfolio and repayment, it's a little bit premature to draw—all of what you said makes sense and we believe is being borne out in the program, but we don't want to claim more than we can attest to.

Mr. HORN. Well, that's a good rule to follow.

I'd like to talk about risk sharing now just a little bit. Other lenders also loan to Federal borrowers as we suggested there. Do we require that they share in the write-down losses or does the U.S. taxpayer get it on the chin for the whole amount, and what about the guaranteed loans? Do we require the lender share some of the servicing requirements or is that simply the exit interview and one other that you mentioned?

Mr. PESTKA. In the Federal Family Education Loan Program the guaranteed program, the lenders share the risk. It's currently 2 percent lenders and 98 percent for the Government.

Mr. HORN. It's still a pretty good deal; isn't it? I'm a lender and I only have to worry about 2 percent, and you worry about 98. I don't call that much of a bargain, frankly. When did that get on the books?

Mr. LONGANECKER. Well, it was 100 percent until 1993, when it was moved down to 98 percent for the lenders. The lenders up to that point had not shared any risk. The guaranty agencies used to share risk. They still do on the books and at some exceptional levels of default, but by and large at this point they're not appreciating any of the risk in the program either.

Mr. HORN. Interesting. Doesn't sound like equity there very much.

We now have the next presenter, Karen Lee, the Acting Inspector General of the U.S. Small Business Administration. I thank you for coming.

STATEMENT OF KAREN LEE, ACTING INSPECTOR GENERAL, SMALL BUSINESS ADMINISTRATION, AND CHAIRPERSON, THE PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY, AD HOC COMMITTEE ON BENEFIT ELIGIBILITY VERIFICATION

Ms. LEE. Thank you, Mr. Chairman.

I'm pleased to provide an Office of Inspector General perspective on the need for Federal benefit and eligibility verification. Investigating and prosecuting fraud after it occurs is very resource intensive and does not always result in full recovery of the benefits fraudulently obtained. We have a keen interest therefore in preventing fraud—stopping it at the front end instead of trying to find it all at the back end.

When applicants submit false information on benefit or credit applications, they may be awarded benefits to which they are not otherwise eligible. To the extent this occurs, the Federal Government unknowingly rewards and encourages dishonesty, taxpayers bear the cost of the fraud committed, and truthful applicants may be denied assistance once program funding is exhausted.

The legislative authority for gaining access to verifying data is a cumbersome patchwork quilt. Unfortunately, there is currently no omnibus authority for efficiently and effectively addressing this cross cutting problem. As a result, taxpayers are unnecessarily subsidizing individuals who appear to have no compunction about lying to their Government.

Existing governmentwide legislation has significant limitations. The Privacy Act allows an agency to disclose information with the individual's consent. It does not, however, provide a very efficient basis for routine up-front eligibility verification. The Computer Matching and Privacy Protection Act, which amended the Privacy Act, allows Federal agencies to conduct computer matches pursuant to written agreement between agencies. The procedures for negotiating agreements for initial and recurring matches, however, require the expenditure of enormous personnel resources. In addition, most computer matches that have been done so far are back-end, file-to-file matches, occurring after an applicant has been determined eligible and the payments have been made. Front-end data sharing would avoid overpayments and allow agencies to move from a pay and chase mode to one that is more proactive.

The Internal Revenue Code prohibits the IRS from sharing tax information with other Federal agencies absent specific statutory authorization. Individual taxpayers under section 6103 may authorize the IRS to disclose their return information, and some Federal agencies have access to IRS data for specific programs without taxpayer consent through amendments to that section of the code. These amendments, however, again provide only a piecemeal framework for eligibility verification and do not cover all Federal programs.

The primary goal of a front-end verification procedure would be to improve the ability of all Federal agencies to prevent fraudulent and incorrect applications. In addition, the verification procedure using Federal and State data bases could ultimately reduce the amount of paperwork required of an applicant and shorten their response time as more agencies implement electronic application

processing. Preventing fraud and insuring program integrity would also increase public support for these programs because taxpayers would be more confident that only honest, deserving applicants were receiving hard-earned tax dollars.

Achieving these reasonable goals involves a three-part solution to providing the necessary authorization. Passage of omnibus legislation that would clearly authorize the use of Federal and State data bases for this purpose, amendment of Internal Revenue Code 6103 to allow the IRS to share relevant tax information with all Federal agencies administering such programs, and inclusion of a clearly stated consent on all application forms that advises applicants that their data will be verified. They will be given an opportunity to explain discrepancies, and that consent does not change any statutory eligibility criteria or appeal procedures.

Governmentwide legislation would establish as a matter of public policy the principle of eligibility verification and demonstrate the Government's commitment to preventing fraud. It would also ensure consistency in the treatment of applicants for all programs, foster cooperation between agencies and assist the IRS in identifying nonfilers.

As a member of the Inspector General community and a taxpayer, I strongly believe that eligibility verification is needed to detect and deter fraud in Federal benefit and credits programs. I understand that the proposed sharing of data between departments and agencies raises significant privacy concerns. Given the voluntary nature of these programs, however, it is not unreasonable for applicants to expect that their eligibility will be verified and, as a matter of fiduciary duty, the Federal Government will take all steps to safeguard the taxpayers' money.

My written statement includes examples of the kinds of problems that OIG audit and other reports have found, a discussion of the essential elements that we believe should be included in eligibility verification legislation, proposed language that would amend the Internal Revenue Code, and a discussion of implementation concepts for such a verification process.

That concludes my formal remarks. I'd be very happy to answer any questions.

[The prepared statement of Ms. Lee follows:]

Good morning Mister Chairman and Members of the Subcommittee. I am Karen S. Lee, Acting Inspector General of the Small Business Administration (SBA) and chair of an ad hoc committee on benefit eligibility verification. I am pleased to be here to provide an Office of Inspector General (OIG) perspective on the need for Federal benefit and credit eligibility verification and access to information to improve debt collection. The Inspector General Act directs us to prevent and detect fraud and abuse in Federal programs. Investigating and prosecuting fraud after it occurs is very resource intensive and does not always result in full recovery of the benefits fraudulently obtained. We have a keen interest, therefore, in deterring and preventing fraud -- stopping it at the front end instead of trying to find it at the back end.

I am also pleased to note that the issue of eligibility verification has been addressed in the FY 1999 Government-Wide Performance Plan submitted to the Congress under the Government Performance and Results Act (GPRA). In a section on Improving Performance Through Better Management, the Plan discusses an effort to reduce errors in Federal programs that lead to waste, fraud, and abuse by focusing on increasing accuracy and efficiency in three areas -- program eligibility verification, financial and program management, and debt collection.

I am convinced that we can enhance the integrity of Federal programs and ultimately save the taxpayers' money if Federal agencies work together to identify common sources of error and fraud and have the authority to develop integrated solutions. This afternoon, I will discuss an OIG view of the problem, applicable existing Government-wide legislation and its limitations, proposed solutions, and some implementation concepts.

THE PROBLEM

Many Federal Government departments and agencies administer benefit and credit programs where eligibility depends, at least in part, on the amount of an applicant's income or other financial resources and on other criteria such at marital status and number of dependents. Small business loans, educational loans and grants, veterans pensions, rental housing assistance, unemployment compensation, and food stamps are representative samples of such programs. The dollar value of benefits or assistance to any one applicant may range from several thousand to many hundreds of thousands of dollars.

As part of the eligibility determination process, applicants generally are required to submit financial data, which may include copies of Federal income tax returns, financial statements, or Form W-2 wage statements, as well as other data on completed department or agency forms. When applicants submit

information falsely overstating income (e.g., to demonstrate loan repayment ability), understating income (e.g., to qualify for rental housing assistance), or misrepresenting other qualifying criteria, they may be awarded benefits to which they would not otherwise be eligible. To the extent this occurs, the Federal Government unknowingly rewards and encourages dishonesty, taxpayers bear the cost of the fraud committed, and truthful applicants may be denied assistance once program funding is exhausted.

Several departments and agencies have initiated procedures to verify financial and other information submitted by applicants with Federal and State tax return data, Social Security Administration data, and other Federal and State data bases. The legislative authority for gaining access to verifying data, however, is a cumbersome, patchwork quilt. Unfortunately, there is currently no omnibus authority for efficiently and effectively addressing the cross-cutting problem of deterring and detecting fraud in all Federal benefit and credit programs. As a result, taxpayers are unnecessarily subsidizing individuals who appear to have no compunction about lying to their Government. Examples abound.

Department of Education (ED)

A January 1997 OIG audit disclosed that, for award year 1995-96, at least 102,000 students were overawarded approximately $109 million in Pell grants because they either failed to report or underreported their income on student aid applications. In addition, almost 1,200 students improved their eligibility for Pell grants by as much at $1.9 million by falsely claiming veteran status. Verifying data was obtained through a match with Internal Revenue Service (IRS) and Department of Veterans Affairs records under the Computer Matching and Privacy Protection Act. (Accuracy of Student Aid Awards Can Be Improved by Obtaining Income Data from the Internal Revenue Service CAN 11-50001)

Department of Housing and Urban Development (HUD)

HUD currently spends more that $19 billion annually in rent subsidies to assist over 4 million low-income households through a variety of programs, including Public Housing and Assisted Housing. While tenant income is a major factor affecting eligibility and the amount of rental subsidies, admission and subsidy determinations are almost entirely dependent on self-reporting. HUD performed a computer match with Federal tax data to determine the magnitude and effect of underreported and unreported tenant income. Based on the results of the match, HUD statistically projected that the amount of excess rental subsidies during calendar year 1995 was $409 million, plus or minus $122 million. (Nationwide Sample of Assisted Households to Estimate Unreported Income, Excessive Housing Assistance and the Effects on HUD Subsidies, Phase I, April 17, 1997)

Small Business Administration (SBA)

OIG investigations revealed the submission of fraudulent tax returns containing inflated figures to enhance the chances of loan approval. As a result, since October 1994 the SBA has been using Federal income tax verification to detect fraudulent loan applications and, thereby, disapprove loans to applicants suspect in both character and financial integrity. Loan applicants sign IRS Form 4506, Request for Copy or Transcript of Tax Form, for business loans or IRS Form 8821, Tax Information Authorization, for disaster loans. The data obtained from the IRS is compared with financial data submitted by the applicant to determine whether there are sizable discrepancies for which the applicant cannot provide a satisfactory explanation. Over the last seven years, the OIG has received allegations of false financial data involving $122 million in loans. While many of the allegations concerned loans disbursed prior to October 1994, the tax verification policy has resulted in the disapproval and withholding of $34 million in loans to undeserving applicants. In addition, many possible tax evaders have been identified; for example, in calendar years 1996 and 1997, respectively, 1,131 and 546 referrals were made to the IRS for apparent failure to file or possible underreporting of income on filed returns.

Parenthetically, I would like to acknowledge the cooperation we have received from the IRS staff in establishing and improving the verification process. Not only is verification helping to identify false financial information submitted with loan applications, it is also having a significant deterrent effect.

Other Federal Programs

An Office of Management and Budget (OMB) report found that many of the large Federal benefit programs are making significant overpayments. For those agencies whose accounting systems distinguish between overpayments due to client related errors (attributable to client fraud or unintentional reporting of incorrect information) versus other errors, several billion dollars in overpayments resulted from a total benefit payout of $180.4 billion for the most recent fiscal year available. (Strategies for Efficiency - Improving the Coordination of Government Resources, January 1997)

Finally, one has only to read the semiannual reports to the Congress published by Offices of Inspector General to see that virtually every Federal benefit and credit program is a victim of false information submitted by applicants.

EXISTING GOVERNMENT-WIDE LEGISLATIVE AUTHORITY

Privacy Act

The purpose of the Privacy Act (5 USC §552a) is to balance the Government's need to maintain information about individuals with the rights of individuals to be protected against unwarranted invasions of their privacy stemming from Federal agencies' collection, maintenance, use, and disclosure of personal information about them. The Act addresses four basic policy objectives: (1) restricting disclosure of personally identifiable records maintained by agencies; (2) granting individuals increased rights of access to agency records maintained on themselves; (3) granting individuals the right to seek amendment of agency records maintained on themselves upon a showing that the records are not accurate, relevant, timely, or complete; and (4) establishing a code of fair information practices that requires agencies to comply with statutory norms for collection, maintenance, and dissemination of records.

The Act allows an agency to disclose information about an individual pursuant to a written request by, or with the prior written consent of, the individual to whom the record pertains. OMB guidelines state that, at a minimum, such a consent should state the general purposes for or types of recipients to which disclosure may be made.

Computer Matching and Privacy Protection Act

The Computer Matching and Privacy Protection Act of 1988 (and the amendments of 1990) allows Federal agencies to conduct computer matches pursuant to written agreement of the agencies involved. The agreement must include the purpose and legal authority for conducting the match, justification and anticipated results, identification of the records that will be matched, procedures for providing individualized notice to applicants for and recipients of benefit programs, procedures for verifying information produced in the match, procedures for the timely destruction of records generated in the match, procedures for safeguarding the records and results of the match, specification of applicable prohibitions on duplication and re-disclosure of records, procedures governing the use of records by the recipient agency, information on assessments of the accuracy of the records to be used in the match, and provision for access to all records by the Comptroller General. Oversight is accomplished by requiring agencies to publish matching agreements in the Federal Register, report matching programs to OMB and the Congress, and establish internal Data Integrity Boards to approve their matching activities.

An initial matching agreement may remain in effect for 18 months, with a possible renewal of one year. To continue a match after 30 months, a new

agreement must be in place even if the purpose of the match is expected to continue indefinitely with little or no change. The January 1997 OMB report states that agencies find that the procedures for renegotiating agreements for recurring matches, such as would be required for program eligibility verification, require the expenditure of enormous personnel resources with little substantive benefit. In addition, most computer matching operations are "back-end file to file" matches occurring after an applicant has been determined eligible and benefit or assistance payments have been made. The report concludes that "front end" data sharing, i.e., verifying eligibility before payments are initiated, would avoid overpayments and allow agencies to ". . . move from a 'pay and chase' mode to one that is far more proactive and efficient."

Internal Revenue Code (IRC)

The IRS is prohibited from sharing any tax return or return information identified by taxpayer with other Federal departments and agencies absent specific statutory authorization (IRC §6103). Individual taxpayers may authorize the IRS to disclose their return information to such person(s) as the taxpayer designates in a written consent [IRC §6103 (c)]. By regulation, consent usually must be obtained from the taxpayer at the time of initial application for a Federal benefit program, and the consent must be physically received by the IRS within 60 days of the taxpayer's signature.

Some Federal departments and agencies have access to IRS data for specific programs, without taxpayer consent, through specific amendments to IRC §6103, although disclosure is limited to the taxpayer's mailing address in some instances. These amendments, however, again provide only a piecemeal framework for eligibility verification and do not cover all Federal benefit and credit programs.

SOLUTIONS TO DETECT AND DETER FRAUD

The primary goal of a front end verification procedure would be to improve the ability of all Federal agencies to prevent fraudulent and incorrect applications for benefit and credit programs. In addition, a verification procedure using Federal and, in some instances, State data bases could ultimately reduce the amount of paperwork required of an applicant and shorten the response time as more agencies implement electronic application processing. Preventing fraud and ensuring program integrity would also increase public support for these programs because taxpayers would be more confident that only honest, deserving applicants were receiving their hard-earned tax dollars.

Achieving these reasonable goals involves a three-part solution to providing the necessary authorization for eligibility verification: (1) passage of

omnibus legislation that would clearly authorize the use of Federal and State data bases for the purpose of program eligibility verification, (2) amendment of IRC §6103 to allow the IRS to share relevant tax information with all Federal agencies administering such programs, and (3) inclusion of a clearly stated Privacy Act and/or IRC §6103(c) consent on all benefit and assistance program application forms.

Eligibility verification could be accomplished under the existing consent provisions of the Privacy Act and IRC §6103(c); however, Government-wide legislation authorizing the use of existing data bases would produce several benefits. Legislation would –

- establish, as a matter of public policy, the principle of eligibility verification in Federal benefit and assistance programs and demonstrate the Government's commitment to deterring and detecting fraud;
- provide clear authority for the inclusion of a consent or acknowledgment statement signed by applicants in all benefit and credit program applications;
- ensure consistency in the treatment of applicants for all programs;
- foster cooperation between disclosing and recipient agencies in developing efficient procedures for verifying and maintaining the confidentiality of data;
- allow agencies to develop methods of sharing data in ways that could potentially reduce the amount of paperwork required from program applicants; and
- assist the IRS, to the extent that agencies used Federal tax information to verify applicant data, to identify non-filers and return them to the tax paying system.

Omnibus Legislation

Legislation to achieve the goals outlined above should include the following essential elements:

1. Applicable to all Federal benefit and credit programs. Any legislation that identifies coverage by reference to the Privacy Act definition of a Federal benefit program should also state that it applies to benefits to entities as well as individuals. The Privacy Act [5 USC §552a(a)(12)] defines Federal benefit

program as ". . . any program administered or funded by the Federal Government, or by any agent or State on behalf of the Federal Government, providing cash or in-kind assistance in the form of payments, grants, loans, or loan guarantees to individuals. . . ." Not all programs, however, provide benefits just to individuals. Federal credit programs, for example, provide loans to business entities such as corporations, partnerships, and limited liability companies.

2. Applicant consent or acknowledgment on application form. The application forms for all benefit and credit programs should include a statement, signed by the applicant, consenting to or acknowledging that the administering agency may obtain from any other Federal or State department or agency any information in the possession of such agencies that is necessary to confirm the accuracy of the eligibility data submitted by the applicant. Such a statement would also serve as a meaningful deterrent to submitting false information.

3. Scope of authorization and consent. An administering department or agency should be allowed to obtain any verifying information necessary to determine an applicant's eligibility for a Federal benefit program and the level of benefits for which an applicant qualifies.

4. Provision for electronic application processing. With increased use of communications technology, many departments and agencies are piloting telephone and electronic applications where an application process is initiated with nothing "written" in the traditional understanding of that word. Legislative language should foster such increased use of technology by allowing alternative methods of documenting an applicant's consent.

5. Definition of the applicant. In some Federal benefit programs, eligibility and the level of benefits is affected by and, therefore, requires verification of, the existence of a spouse and/or dependents. In some credit programs, the borrower for which data needs to be verified is a business entity such as a corporation or partnership. The definition of "applicant" or "person," therefore, must cover these variations in program requirements.

6. Reimbursement for cost of providing verifying data. As a general rule, departments and agencies that disclose verifying data from their data bases should be allowed to recover the direct costs of doing so from recipient agencies. Legislative language should be flexible enough so that departments and agencies providing data and those receiving data could establish agreements depending on the program, the amount of time and effort involved in providing the data, and whether there is a substantially equivalent exchange of data such that the reimbursement is "in kind." In addition, recipient agencies could be authorized to charge the applicant a fee in those programs for which there is already a statutory fee structure.

7. Sharing data with State, local, and private entities administering Federal programs. Applicant eligibility determination for some Federal programs is made by State or local government agencies, quasi-governmental agencies, or private entities operating under written agreement with the Federal program agency. Legislative language is required to allow the sharing of verifying data, under controlled conditions to maintain confidentiality, with these organizations.

8. Access for debt collection actions. Any legislation that authorizes data disclosure for eligibility verification should also authorize disclosure for debt collection actions. Debt collection action includes obtaining current addresses of individuals or entities that have been overpaid or have defaulted on direct or guaranteed loans and verifying information submitted with a request to compromise or waive a debt.

Amendment of IRC §6103

The most efficient method of providing access to Federal tax return information to verify applicant data and eligibility would be to amend IRC §6103(c), Disclosure of returns and return information to designee of taxpayer, by inserting the underscored language as shown below:

> (c) Disclosure of returns and return information to designee of taxpayer. The Secretary may, subject to such requirements and conditions as he may prescribe by regulations, disclose the return of any taxpayer, or return information with respect to such taxpayer, to such person or persons as the taxpayer may designate in a written request for or consent to such disclosure, or to any other person at the taxpayer's request to the extent necessary to comply with a request for information or assistance made by the taxpayer to such other person. Consent to such disclosure may be made by the taxpayer in an application for a Federal benefit program, as that term is defined in Section 552(a)(12) of the Privacy Act. However, return information shall not be disclosed to such person or persons if the Secretary determines that such disclosure would seriously impair Federal tax administration.

For many Federal benefit and credit programs, the most useful data for verifying eligibility is Federal tax return information. This proposed amendment would clarify the authority of the IRS to release information and reduce paperwork by eliminating the current requirement that taxpayer consent be given on a separate IRS form.

Consent or Acknowledgment Statement on Application

Applicants for benefit and credit programs should be clearly advised that (1) the application form they sign includes a consent or acknowledgment that allows the agency administering the program to verify applicant data with the agency(ies) specified in the statement, (2) the agency administering the program will follow-up with the applicant to obtain an explanation for inconsistencies between the application data and the verifying data, and (3) the statement does not change any statutory program eligibility criteria or appeal procedures.

To comply with OMB and judicial guidelines on the adequacy of a Privacy Act consent statement, the departments or agencies from which verifying data will be obtained should be identified and the use of the verifying data clearly stated. An example of a consent form follows:

> By signing this application for __(identify benefit or assistance program)___, I hereby authorize the __(name of agency(ies) that will be disclosing information)__ to disclose and release to the __(name of agency administering program)__ any information or copies of records necessary to verify, validate, or otherwise confirm the accuracy of the information I have submitted to obtain __(name of benefit)___, with the understanding that the information will be treated as confidential and that it will be used by the ___(name of administering agency)__ only for official purposes.

If IRC §6103(c) was amended as proposed above, the same statement could be used to obtain Federal tax information by simply identifying the IRS as the agency disclosing information.

IMPLEMENTATION CONCEPTS

Because the method of program delivery and the eligibility criteria for benefit and credit programs varies from program to program, the process of verification will, of necessity, vary from agency to agency. There are, nonetheless, common concepts that should apply.

1. Pilots to test the process should be authorized. Agencies should be allowed to establish pilot verification processes to test the procedures and develop cost/benefit data before full implementation. Part of the planning for a pilot would also include a determination as to which data base (e.g., the National Directory of New Hires, Federal or State tax data, or social security data)

includes the information needed to verify eligibility for a given benefit or credit program.

2. Primary responsibility for verification should rest with the benefit agency. The benefit or credit program agency should bear the primary responsibility for administering the verification process. This includes --

- informing applicants and providing them due process,
- maintaining records of applicant consent or acknowledgment,
- assuring the confidentiality and use for official purposes only of verifying data obtained from other agencies, and
- developing electronic means of obtaining data that are compatible with the systems of the agencies supplying the verifying data.

3. Program applicants should be informed and given due process. Information material accompanying program application forms and instructions should clearly inform the applicant that his or her data will be verified. In addition, the applicant should be given the opportunity to explain inconsistencies identified in the verification process and allowed to provide additional supporting documentation to support their eligibility.

CONCLUSION

As a member of the inspector general community, and a taxpayer, I strongly believe that eligibility verification is needed to deter and detect fraud in Federal benefit and credit programs. I understand that the proposed sharing of data between departments and agencies raises privacy concerns. Given the voluntary nature of these programs, however, it is not unreasonable for applicants to expect that their eligibility will be verified and, as a matter of fiduciary duty, that the Federal Government will take all feasible steps to safeguard the taxpayers' money.

Mister Chairman, that concludes my formal remarks. I will be happy to answer any questions you and the Committee members may have.

Mr. HORN. Well, that's an excellent statement and very well-organized, and I can assure you we're going to go through every sentence of yours, and it's very helpful, and I think your Inspector General experience has done you well because that's what we expect is how do you solve the problem once you see that there are so many problems. So thank you for that.

Our last witness this morning is Danielle Brian, executive director of the Project on Government Oversight, otherwise known as POGO, and when we say POGO is our philosopher, we also are depending on you and your fine organization. You have been very helpful, I know, to members of this committee.

STATEMENT OF DANIELLE BRIAN, EXECUTIVE DIRECTOR, PROJECT ON GOVERNMENT OVERSIGHT

Ms. BRIAN. Thank you very much, Chairman Horn. I appreciate the opportunity to speak this afternoon in support of the committee's efforts concerning specifically H.R. 2347, the elimination of fraud in Federal benefit programs, and in particular, our experience with Pell Grant fraud. My previous experience in working with this committee, Chairman Horn and particularly Congresswoman Maloney, in our efforts to encourage the government to collect royalties owed by the oil companies for the production of crude oil on Federal land has been so successful, that I have great expectations for your success in tackling the issues before us today as well.

Last year, a college financial aid officer contacted us as a whistleblower regarding her experience with fraudulent Pell Grant applications. This is a regular and widespread practice at her particular university, and I'd like to read to you, for example, from one of her more recent correspondences. She wrote,

> First and foremost having a match with the IRS data base would eliminate a majority of the fraud that I used to see on a daily basis. People always have their accountants do one set of taxes for the IRS and one set for financial aid. Because of the way the Federal regulations were set up, I did not have the authority to challenge the information any further than I already had. If I had the ability to cross match what the family had provided with what the IRS had on file, I could have given that Pell Grant to a student that really needed it.

And I know that is certainly the intention of this effort here, and I thought that it would be helpful for you to see the practitioner outside the Beltway and how it's going to help her in particular.

Our staff, once being contacted by this whistleblower, looked to see if this was an anomaly or whether this was really an example of a systemic nationwide problem and found that in fact the Department of Education Inspector General's Office, as well as the GAO, had already found that this was really a significant problem.

The GAO found that just in 1 year, $109 million was specifically wasted or lost to people who had lied in underreporting their income. We were not surprised, but thrilled to find that Congresswoman Maloney was already in the process of working on legislation to fundamentally address this blatant fraud and stop it for the future. Her bill, H.R. 2347, speaks directly to this issue by insuring that the Education Department, when determining the eligibility of Pell Grant applicants, has the means, by checking with other State and Federal agencies, to verify the claims made by the applicant and the grant application and of course serving as a deterrent so

that we won't be wasting the resources on collecting or correcting the problem after the fact.

I just want to point out that essentially while this is obviously an issue of correcting waste of taxpayer money, to me it's at least as important that this is a fairness issue that the needy students for whom the Pell Grants were intended are being hurt, and this is a terribly important issue for this committee to be taking on hoping that low-income individuals whose only chance of higher education is Federal financial aid are being swindled out of their future simply because they were honest and those who would rob the Government's pocketbook were not. So I'm very excited to see your efforts and support them wholeheartedly.

[The prepared statement of Ms. Brian follows:]

Good afternoon Mr. Chairman and Members of the Subcommittee. My name is Danielle Brian. I am the Executive Director of the Project On Government Oversight, a non-profit, non-partisan group whose mission is to investigate, expose, and remedy abuses of power, mismanagement and subservience to special interests by the federal government. I appreciate this opportunity to speak this afternoon in support of the Committee's efforts concerning the elimination of fraud in Federal Benefit Programs and, in particular, the Pell Grant Program.

My previous experience in working with this Committee, and particularly Congresswoman Maloney, in our efforts to force oil companies to pay what they owe for the production of crude oil on federal lands has been so successful that I have great expectations for your success in tackling the issues before us today as well.

The federal aid program known as the Pell Grant Program, administered by the Department of Education, makes higher education possible for thousands of students every year. Unfortunately, abuse of the Pell Grant Program has succeeded in funneling a large portion of these funds into the hands of ineligible students.

Last year, a college financial aid officer contacted the Project On Government Oversight regarding their experience with fraudulent Pell Grant applications. Throughout the correspondence that followed, they outlined a pattern of deliberate misrepresentation on the part of Pell Grant applicants, their parents, and in some cases, even faculty members, eager to lure prospective students with the promise of easily available federal financial aid. Struck by the audacity, blatancy, and the seeming ease with which these people committed such fraud, the whistleblower came to us with their concerns. Our whistleblower recounted witnessing an incident where an athletic coach actually described to parents how to go

about falsifying a set of IRS tax forms in order to be assured a full Pell Grant if ever the application were checked for accuracy by the Office of Financial Aid. Our subsequent research into this matter has alerted us to the various weaknesses in this particular arena of federal benefits.

Institutions of higher education, and in particular the financial aid officers, who ultimately approve the Pell Grant applications, have no way to accurately verify the validity of the information provided by the Grant applicants. Despite the ominous warning on the front cover of the Free Application for Federal Student Aid (FAFSA) threatening fines and/or imprisonment for purposely giving "false or misleading information" on the application, it appears, after our inquiry into the Federal Student Aid application process, that no effective deterrent exists for those bent on receiving Pell Grants through deception. Many believe, and rightly so, that their actions are unlikely to be exposed, given the lack of verification allowed.

As it stands, the Department of Education depends on the individual institutions to verify that students have given accurate information on aid applications. In fact, Federal law actually requires universities to verify at least 30 percent of the applications submitted by aid recipients. Unfortunately, while many colleges require that students submit copies of their federal tax records as a means of verification, the schools have no way of knowing whether those documents are the same as those that were filed with the Internal Revenue Service. With current Privacy Act laws, loan officers can do nothing more than trust whatever information is given by the applicant, even if it involves phoney IRS tax forms.

Representative Maloney's bill, HR 2347, speaks directly to this issue by ensuring that the Education Department, when determining the eligibility of Pell Grant applicants, has the means, by checking with other State or federal agencies, to verify the claims made by the

applicant in their grant application, eliminating the fraud being imposed on the government's coffers by various unscrupulous participants in the Pell Grant system. Let me stress that this verification is crucial to making the Pell Grant Program an efficient and effective operation. We believe that the IRS would be a natural source for that information. In fact, the Department of Education Inspector General has also endorsed this recommendation.

Last month, the Chronicle of Higher Education reported a case, very similar to our own whistleblower's, in which Federal officials charged an Ohio consultant and 22 parents of students attending Ohio colleges with fraudulently obtaining almost $200,000 in Pell Grants over a period of five years. Allegedly, this consultant had helped these parents, for a fee, to falsify parts of their applications for Pell Grants and Supplemental Educational Opportunity Grants. According to the Chronicle, investigators said the parents had understated their incomes, included fictitious dependents, and described non-existent special circumstances, such as guardianships, divorces, and estrangements of children.

In 1992, in a striking example of Pell Grant fraud, the Department of Education and its Office of Inspector General uncovered a consulting office peddling information to students otherwise ineligible to receive Pell Grants on how to falsify the information on the FAFSA, as well as how to fool the verification process for aid applications. Specifically, Mack Walker, of the Walker Education Center, sat down with students whose parent's income was too high to be eligible for any kind of Federal financial aid. He told them that thousands of dollars in aid was available, if only they were willing to break the law and lie on their application. When the student consented and paid the $350 to Walker, he and his employees drew up false income records for the family, who invariably received Federal aid in the form of a Pell Grant. Walker made more than $350,000 from his operation. Pell Grants awarded to clients of his between 1986 and 1992 totaled over $2 million.

This type of abuse is widespread. The General Accounting Office reported last January that during the award year of 1995-1996, $109 million in Pell Grants was over-awarded because of under-reported gross income on the part of the students. One applicant, who had reported over $1.3 million in adjusted gross income on his official income tax return, claimed on his Pell Grant application to the Department of Education that he had no income at all, resulting in a full Pell Grant.

These sorts of activities have contributed to losses by the Pell Grant Program and other Federal Benefit Programs running into the hundreds of millions of dollars. Not only are the taxpayers being hurt by this fraud, but more importantly, the needy students for whom the Pell Grants were intended are being hurt as well. Low-income individuals whose only chance at higher education is federal financial aid are being swindled out of their futures simply because they were honest and those who would rob the government's pocketbook were not. This must not be allowed to continue. By providing for smoother government information sharing, this bill closes the loophole that has allowed fraud to run rampant. The Committee's proposed Federal Benefits Verification and Integrity Act is the major step toward a remedy that until now has been lacking.

Mr. HORN. Well, thank you very much. I think we'll followup on a number of those things.

Let me just ask in general, but I think primarily for Inspector General Lee, in your testimony you note that many agencies are moving toward applications directly through the Internet's worldwide web. This can improve government operations, I think we would all agree, but it also has the promise of easier fraud as the IRS found in its first year of the—its electronic filing initiative.

And by the way, this committee has taken a lead in urging electronic filing in any number of areas.

How does that Federal Government verify that someone who sends in an application is the real person? What about digital signatures since many benefit laws require that an applicant sign an actual document and you do that now with a lot of master cards, can a digital signature authorize consent to review confidential records?

Ms. LEE. Yes. There are a couple of points I think I would make in response to your question which is a very serious question.

First of all, in the SBA we're working right now with the loan program managers on a pilot program with one of the—what's called the FA$TRACK loan—to allow electronic transmission of loan information from the lender to the SBA district office, and we are working in terms of doing that, using digital signature technology.

We're also working with a working group in the Justice Department to try to make sure that this digital signature technology will give us the kind of written signature that will allow us to prosecute in the event that a false statement is submitted. We don't have all the answers sorted out yet, but we're clearly trying to figure them out.

One of the comments that I think in my written testimony that I made concerning H.R. 2347 was that as agencies move to using more electronic processes, we're not necessarily going to be seeing the traditional wet signature as it's called, the piece of paper with somebody's written signature on it, and I think we need perhaps through OMB or the Justice Department or some combination of agencies to develop protocols and regulations for how we address the issue of what constitutes a signature.

I know there are some guidelines out there. The American Bar Association, for example, has published quite extensive guidelines on the use of digital signatures. Their guidelines are all directed toward trying to assure that the process that is used will provide a signature that is supportable for law enforcement purposes. That's something that internally within SBA we're addressing right now and trying to figure out. How do we do this to make sure it works?

Mr. HORN. That's a very interesting question, and it was also mentioned that there were some people that prepared tax returns that prepared two of them, one for the student aid applicant and another one for the IRS.

Ms. LEE. We have the same problem in the SBA.

Mr. HORN. Is there a law that can get us to deal with that?

Ms. LEE. Well, what we do right now—in fact, through our investigations several years ago we started discovering that the financial

data that loan applicants was giving to the SBA did not necessarily coincide with the financial data reported on tax returns. After finding enough of these problems, then Administrator Erskine Bowles agreed that we should start verifying this in some manner. So we went to the IRS, and we worked out an arrangement whereby when a loan applicant comes in, and amongst the other pieces of paper they fill out the IRS waiver form that under section 6103 of the Code allows the IRS to disclose information to the SBA.

Now, we don't get all the information because we're not interested in all of it. We're only interested in the information that deals with the business income and expenses. That information is then compared with the financial data that is submitted with the loan application to see that there is at least some reasonable consistency. When we find there is not consistency, the loan, of course, is turned down if the taxpayer borrower has no explanation, and it is referred to the Office of Inspector General for potential prosecution.

In most situations where we catch the problem before the money goes out the door, and there is therefore no loss to the Government, the U.S. attorneys' offices will not bring a criminal prosecution, but they may bring a prosecution under what's called their ACE Program, Administrative Civil Enforcement, where we will get a fine or penalty against the individual for making false statements.

Lenders tell me, and we don't have any statistical data to support this, but lenders tell me anecdotally that they think this tax verification process is a very good deterrent; that people will come in the door of the bank and ask for information about a loan, an SBA loan, get all of the materials including the IRS form they have to sign, and they never come back. A number of lenders had said to me that, you know, there are a whole lot of reasons why somebody might decide not to complete the application process, but they're convinced that one of the reasons is that people don't want us to verify what they were planning on telling the IRS or planning on telling us about their income and ability to repay a loan versus the income that they've reported to the IRS.

So we think it's working. We clearly see deterrence occurring. We clearly see less fraud on the front end during the application process, and we're stopping the money from going out the door in situations where people are not giving us straight information to begin with.

Mr. HORN. Anybody have another comment? Mr. DeSeve, do you want to comment on this discussion?

Mr. DESEVE. I do, Mr. Chairman. I want to go back for a moment to the digital signature question that you talked about. We currently have the Inspectors General working together with chief information officers and the chief financial officers and Justice to try to solve this problem. I've worked with Mr. Longanecker on the problem and even student loan application information, getting that information in and verifying it. We very much want to work with this committee over time in trying to find the solutions along the way.

Very much like fingerprints. When folks originally brought fingerprints forward, it wasn't until courts were willing to accept them as evidence that they could be widely used. We're going to

have that same kind of problem with digital signatures along the way.

So we're very anxious to work with you on that, and we'll be back and talk with you more about that when we get some agreement within the law enforcement community and the programmatic communities.

Mr. HORN. Well, it's very helpful.

On the business of having the IRS waiver, which gets the individual making that SBA application to sign away their privacy rights, if you will, on the IRS file, did you need any special authority from the Ways and Means Committee or did IRS need it as long—or how did this come about?

Ms. LEE. Internal Revenue Code Section 6103 very specifically provides that the taxpayer may consent to the disclosure of tax information to whomever the taxpayer designates.

Mr. HORN. I see. So it's wide open, and as long as you take advantage of that——

Ms. LEE. As long as the taxpayer signs the form, yes, we can do that.

Mr. HORN. And if they don't, you take those pretty good experiences here that a lot of people don't go back to their friendly bank because they don't want to file with the IRS.

Ms. LEE. Just to give you an example, I saw one that came across my desk, I think it was from Mississippi, a while back in which the information that the individual submitted with their application indicated that they had Schedule C sole proprietor income in 2 successive years of about $135,000 1 year and about $85,000 the first year. The printout, on the other hand, from the IRS showed that the individual had only $7,000 and $15,000 in W–2 wages in those 2 years, a major discrepancy. That individual was either lying to the IRS, or lying to us, or perhaps lying to both.

Mr. HORN. There is a False Records Act; isn't there, on the book?

Ms. LEE. False statements.

Mr. HORN. False statements.

Well, would that include one's IRS filing if it was a fake?

Ms. LEE. Sure.

Mr. HORN. OK, even though you hadn't filed it with the IRS, you filed the real one that presumably you're being honest about or your accountant or tax lawyer is being honest about?

Ms. LEE. Yes, and when we see discrepancies, we send all the information to the local IRS district office because we're not sure whether or not the individual is submitting false information to us or whether or not the individual has submitted false information to the IRS. Or it could be both.

Mr. HORN. Let's face it, the individual could simply type out their 1040 and say this is what I submitted, and you have no way of knowing?

Ms. LEE. That's right.

Mr. HORN. Now, unless they give you the right to know, right?

Ms. LEE. That's correct.

Mr. HORN. In other words, IRS won't let you access the file; is that not correct?

Ms. LEE. That's correct and——

Mr. HORN [continuing]. So you need a specific law if any Federal agency is to be able to annex or access the file on records at the IRS; isn't that correct?

Ms. LEE. If you follow the provisions in section 6103 and get the taxpayer's signature on the IRS form, then indeed the IRS has authority to disclose information. As more and more agencies, however, move toward the electronic application process, that's a rather cumbersome way to go about it. We could be more efficient if that consent was given on an application form, an electronic application form, for example. We could then electronically pull the identifying information, shoot it electronically off to the IRS, get electronically back the key information we needed out of the tax records in order to verify without having to send hard copy pieces of paper back and forth, which is what's happening now.

Mr. HORN. Well, listening to that, the Department of Education could in essence require a consent form of the parents when they take that parents' income tax. Is that not correct? I mean you could ask the IRS to verify.

Mr. LONGANECKER. We've had that discussion and it's not clear whether we might be able to use the IRS waiver form, but what would be, I think, ideal from our perspective is to be able to include that waiver as part of an application form so that it was simpler and more straightforward and less burdensome.

Mr. HORN. Well, we're in agreement, then, on it. Now who would have to—would that have to be in your authorization from the Education Committee or what?

Mr. LONGANECKER [continuing]. Have to come from Ways and Means and through the tax provisions, I think. Treasury actually is probably more expert in this area.

Mr. HORN. You didn't need Ways and Means, did you, to put a file together for that waiver—sign it or not.

Ms. LEE. But I think what he is suggesting and what I think would make sense is that right now we have to get an IRS form signed by the loan applicant. We then have to send that piece of paper off to the IRS processing center and get a piece of paper back. It would be more efficient if there was authority in the Internal Revenue Code for the IRS to accept electronically from Education or SBA or HUD or whatever the agency, electronic data files saying I have the following individual's Social Security number, et cetera, that I need to verify data for tax years 1995 and 1996, without having to send all those pieces of paper.

The other thing that I think would be helpful, and it would vary depending upon which program you were looking at, but in some programs I think the amount of information collected from the applicant could be decreased by simply getting the applicant's consent and advising the applicant you're going to verify this and then just going directly to the IRS tax files, pulling off the relevant data and using that as the eligibility data without having the applicant also submitting pieces of paper with the same information or hopefully the same information that you're trying to verify.

Mr. DESEVE. Mr. Horn, may I amplify on that?

Mr. HORN. Yes, and then the ranking Democrat——

Mr. DESEVE. That's one of the concerns that we have both from a privacy and a paperwork standpoint. We want to make sure that

it's very clear that the individual knows that this information will be given to the agency from the IRS. But from a paperwork standpoint, what we really don't want is to have that authorization form have to be held by the IRS. That's currently what has to happen now. Ms. Lee has to transmit a piece of paper that she has gotten signed over to the IRS.

We would suggest that if you go forward in 2347, we all need to think through the process of notifying the applicant that there will be this information gained from another agency——

Mrs. MALONEY. Point of information though. Doesn't 2347, my bill, already do that?

Mr. DESEVE. It requires authorization, not notification. The difference is if you have to sign an authorization, the IRS has to keep that authorization—have a physical record, has to be in their possession a copy thereof. If we indicate to the borrower that they are being notified that we will be going directly to the IRS to get information, then the IRS, as Ms. Lee indicated, would not have to keep the record. So it's notification versus authorization.

Mrs. MALONEY. OK. So you would like that changed to notification as opposed to an authorization.

Mr. DESEVE. The question is how we do that electronically and so on; that's the issue.

Mrs. MALONEY. May I followup on the point that he made?

I think that I have a way that might solve what both of you are talking about, and I thank Ms. Brian and Ms. Lee for your very professional and thoughtful statements. I consider an amendment that would recommend that OMB test and adopt best commercial business practices to help streamline the application process, eliminate paperwork, and ensure program integrity.

For example, use of the Internet could make benefit and loan processing significantly more interactive and customer friendly, and would such an amendment be productive and would such amendment take—really handle some of the problems that you're talking about?

Mr. DESEVE. We're very excited about those kinds of practices. We would like to work with you to design such an amendment. We may want to start with pilots and then move full-scale. We think that the networks, as they exist now—talked about card contracts earlier—give us some tremendous ability to take advantage of commercial network practices with all of the safeguards they have built in. They have—I went up to VISA recently out in Fairfax County to talk to them about exactly how they do this, and the logical systems, the inherently logical systems they have, are amazing due to pattern recognition and things like that.

So we would love to do that, and we think that could be very, very productive.

Mrs. MALONEY. Thank you.

Mr. HORN. Yield to the gentleman from Ohio.

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

I've listened to this discussion about delinquent debts and starting off going back to the beginning, estimated $50 billion outstanding. I assume that I'm listening to the discussion. All of this is kept in various data bases and various departments.

Mr. Chairman, I read a report a couple days ago which said that the—some key computers at the Department of Defense were attacked by hackers who attempted to invade data bases and possibly to affect the information. This is a front page, I think, in the Washington Post.

Mr. HORN. Also on television nationwide.

Mr. KUCINICH. I don't watch TV that much.

I'd like to ask Ms. Lee if IRS computers to your knowledge have been under attack by hackers?

Ms. LEE. Not that I'm aware of, but I'm the wrong person to ask.

Mr. DESEVE. Mr. Kucinich, let me testify to that. I've received briefings on IRS security measures. I had to be classified as top secret in order to receive such a briefing. So the information about any security or anything else is classified information. We'll be happy to have the IRS folks share that with you, but I just want to be very clear.

Mr. KUCINICH. I'm sure it would be, but you know here we are talking about debt collection. It seems to me there are very easy ways, if you're a hacker to pay off your debts. I mean why go to all the trouble? Just erase the file.

Now, I'm interested, since we're in this debt collection business here, I think it's—that if we don't cover this angle. We're missing out on everything because I think it's important whether it's in a private briefing at the chairman's discretion—I think it's mandatory that we be told what kind of efforts hackers have made at Treasury computers or any computers that have files that list debts owed to the United States.

So I understand you have top secret briefings on this. I think it would be important for us to know how much those secrets are worth.

Mr. DESEVE. We would be happy to, you know, arrange such a briefing. All you have to do is call, Mr. Ranking Chairman.

Mr. HORN. We are going to hold hearings, oversight hearings, on general computer security across the government in June. That's 1 of the 50 hearings that we're slowly working our way through.

But my colleague from Ohio is absolutely correct on that. Members of Congress are automatically cleared, as you know, for top secret, although if you want, we can all swear that we don't have student loans yet to be paid before learning about this.

Ms. LEE. Or SBA loans.

Mr. HORN. Or farm loans, or anything else they have built with the Federal Government.

Well, are there any more questions my colleagues have?

Well, thank you very much. Very productive hearing. The staff on both sides might send around some questions. We would appreciate it if you would get the answers back.

The following people have been responsible for the staff work on this hearing: J. Russell George, staff director and chief counsel for the majority on Government Management; Mark Brasher, the senior policy director who is on my left; John Hynes, professional staff member; Matthew Ebert, clerk to the subcommittee; David Coher, a very valuable intern, we get him for nothing; and Mark Stephenson, professional staff member for the minority staff.

And we also have today Mindi Colchico and Judi Mazur as court reporters, and we have Mark Guiton with Mrs. Maloney's staff.

We thank you all for your help, and with that this meeting is adjourned.

[Whereupon, at 2:55 p.m., the subcommittee was adjourned.]

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