

**STATEMENT BY
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**BEFORE THE
SUBCOMMITTEE ON GOVERNMENT
MANAGEMENT, INFORMATION, AND TECHNOLOGY
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
U.S HOUSE OF REPRESENTATIVES**

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INTRODUCTION

Mr. Chairman, and members of the Subcommittee, it is my pleasure to testify on behalf of the Department of Veterans Affairs (VA) concerning our implementation of the Debt Collection Improvement Act (DCIA) of 1996.

As VA's Chief Financial Officer (CFO), I am working closely with our Veterans Benefits Administration (VBA), Veterans Health Administration (VHA), and other VA elements to take the steps necessary to ensure our compliance with the requirements of the DCIA.

VA DEBT COLLECTION

VA has long been regarded as a leader in the Federal debt management community. Historically, the management of VA's major debt programs was divided into two categories -- medical care cost recovery (MCCR) and the recovery of VA benefit debts. The Veterans Benefits Administration (VBA) has operated and maintained an automated collection system since 1975 for debts resulting from participation in VA benefit programs. The VBA Debt Management Center (DMC) in St. Paul, Minnesota, assumed control of these centralized benefit debts in 1991. The DMC oversees a centralized, automated collection system that utilizes every collection tool available to Federal agencies in an efficient operation that emphasizes both the prevention and collection of debt. Delinquent debts currently subject to collection by DMC fall into two categories. The first category involves overpayments of monthly benefits, such as compensation, pension, and education allowances. The second category contains deficiencies established after foreclosure on mortgage loans guaranteed or made directly by VA.

Over the past year, we have been moving closer to our goal of consolidating all

significant VA debt programs into one centralized, automated collection system. We have now made significant progress toward automating the billing and payment processing of first-party medical receivables, and we have laid the groundwork for consolidating the management of these debts under the DMC.

The results of our efforts will be felt throughout 1997 when the generation and collection of medical bills will be completely automated at centralized sites. Also in 1997, first-party medical care debts that are more than 90 days delinquent will be referred to the DMC for collection management activity. This referral will implement a recommendation by the National Performance Review and is consistent with the Department's strategy of achieving maximum consolidation of debt. During 1997 and part of 1998, we plan to develop and modify the systems that will allow for the DMC to manage all first-party medical care receivables, including nondelinquent receivables. Through our consolidation of these medical debts, we should increase the collection rate, while significantly lowering the cost of collection, since the centralized operations will be more efficient than spreading the operations out among the individual medical centers.

DEBT COLLECTION IMPROVEMENT ACT (DCIA) OF 1996

The enactment of the DCIA legislated the most sweeping changes for Federal debt collection management since the Debt Collection Act of 1982. This legislation provides Federal collection officials with some new collection tools, and it also imposes upon these officials some new requirements.

Let me expand on some of our responses to the earlier written inquiry of this Subcommittee.

ADMINISTRATIVE OFFSET AND CROSS-SERVICING

VA is preparing an initial referral from our DMC to Treasury of certain debts delinquent for more than 180 days. The DMC released notification to the referral candidates in March and will make actual referrals during this month of those debtors not responding to the notice. About 39,000 notices were released, representing debts valued at \$201 million.

The DMC is working with OMB and Treasury to explore the possibility of becoming a cross-servicer of government debt under the DCIA. In regard to this objective, the DMC will be submitting a debt collection business plan to OMB and on April 8, 1997, submitted a cross-servicing application to Treasury. These documents will serve as the basis for upcoming discussions between the DMC, OMB, and Treasury.

One of the major requirements that a debt center applicant must meet is to have successfully collected its own delinquent claims using all appropriate tools available. Since 1991, the DMC has established \$3.7 billion in new delinquent

debt while collecting over \$1.8 billion. It should be noted that this collection rate would in fact exceed 70% if we excluded defaulted home loan debts from the calculation. These debts are extremely difficult to collect, not only because of the financial status of the veteran, but also because section 3726 of title 38 of the U.S. Code prohibits these debts from being offset from any Federal payment, except VA benefit payments, unless the veteran agrees in writing to such offset or the debt was established through a judicial proceeding to which the veteran was a party. During the same period, portfolio balances of delinquent debt have been reduced by \$700 million and are expected to continue to decline.

The DMC has been quite successful in collection of VA debts because of the extensive use of available tools for collection. Demand letters are automatically generated in 30-day intervals on all newly established claims. Each letter includes a recitation of the debtor's rights and obligations, as well as a toll-free telephone number for inquiries. The letters also include payment remittance stubs barcoded with the appropriate account information.

Should a debtor not respond to the initial collection process, the automated program either selects the next appropriate tool of collection or alerts a DMC clerk that the account must be reviewed for the next action. Among the alternatives used extensively by the DMC are administrative offset from current and future VA benefit payments, Federal salary offset, and referral to IRS for tax refund offset. In addition, VA has been reporting delinquent benefit debts to credit reporting agencies since 1986, and we have routinely used private collection agencies since 1987, when the first contract was issued. In addition, the DMC reports uncooperative, delinquent debtors to the Credit Alert Interactive Voice Response System (CAIVRS), a HUD sponsored credit-screening service for Government agencies. Finally, as a last resort for collection, the DMC continues to refer debts to both the Department of Justice and our own Regional Counsels for litigation.

The DMC has an extensive management reporting system. Appropriate indicators and data are also available to measure performance in collecting VA debt, as well as other agencies' debts, which is a requirement that must be met in order to be designated as a collection center. Statistics are available on all major DMC collection initiatives, including IRS offset, Federal salary offset, private collection agency referrals, and administrative offset, all of which indicate the DMC's success and ability in using these collection tools.

All of the above is a strong indication of the DMC's demonstrated willingness and ability to collect the debts of other agencies or to provide incremental servicing of any collection function when the creditor agency itself performs a portion of the function. In addition, the DMC and VA Austin Automation Center recently completed programming that enlarged the capacity of the centralized automation system to accept debts from other agencies.

Finally, the DMC is capable of reporting necessary information to Treasury to allow monitoring of the debt collection performance on referred claims. This includes the ability to track and report on the status of receivables at any point in the collection process. The DMC can also develop necessary financial files in coordination with a creditor agency.

COMPUTER MATCHING

In conjunction with our efforts to comply with the administrative offset and cross-servicing provisions of the DCIA, it should be noted that the DMC continues to participate in various computer matches on a semi-annual basis, where DMC debt records are matched against employment records of other Federal agencies to identify indebted Federal employees. We are looking forward to working with Treasury on any new computer matching initiatives under the DCIA.

DEBT SALES

VA has a highly efficient process for selling loans. In 1992, legislation was enacted (Public Law 102-291) which authorized VA to directly guarantee securities issued in connection with vendee loan sales. Previously, VA could guarantee payment on the loans but not the securities which were issued and sold to investors. A new issuing vehicle named "Vendee Mortgage Trust" was created and features which have become standard for Agency mortgage securities were introduced. The program itself was nicknamed "Vinnie Mac." The securities are issued as Real Estate Mortgage Investment Conduits (REMICs) using multi-class structures. These "Vinnie Mac" securities were the first REMIC securities directly guaranteed by the United States of America.

VA executes three loan sales each year. In the three FY 1996 sales, plus the first sale of FY 1997, VA sold a total of 24,248 loans with a balance of almost \$1.7 billion. Costs of the sale have been lowered to less than 25 basis points (0.25%) and the net proceeds of the sales were just 43 basis points (0.43%) below the amount sold.

While VA has not yet implemented a program of debt sales under authority of the DCIA, we look forward to working with Treasury to ensure implementation of this portion of the DCIA.

TAX IDENTIFICATION NUMBERS (TIN)

The VA Finance Center in Austin, Texas, reviewed its vendor files containing information on commercial, Federal, and foreign vendors. It determined that 45,889 commercial vendors, out of a total of 262,629 vendors, had no TIN or Social Security Administration numbers (SSN) on file with VA. In January 1997, the VA Finance Center notified these 45,889 commercial vendors they must

supply TIN/SSN information in order to receive payment. To date, we have obtained TIN/SSN information on 32,148 of these 45,889 commercial vendors. Of the remaining 13,471 commercial vendors on which VA has no TIN/SSN information, we have subsequently determined that only 4,600 are still considered to be active vendors. We continue to pursue information from these remaining commercial vendors and are receiving an average of about 100 responses daily.

VA currently maintains SSN information for the majority of persons in receipt of, or entitled to receive, payments related to our various benefit payment programs. For example, of the 3.3 million VA compensation and pension beneficiaries in FY 1996, only 54,824 were found not to have provided SSN information, and 30,222 of these were children. We continue to pursue information from remaining beneficiaries. In addition, new applicants for VA benefits are now requested to provide SSN information. TIN/SSN information will continue to be integrated into the payment system modernization projects for the various program areas. As the projects are completed, TIN/SSN information will be transferred to Treasury in the Treasury selected format.

CIVIL MONETARY PENALTIES (CMP)

On November 1, 1996, VA published final regulations in the Federal Register, which adjusted civil monetary penalty amounts for inflation as required by the DCIA.

I thank you for this opportunity to present our progress in implementing the Debt Collection Improvement Act of 1996.