Our review of the cross-servicing database showed that FMS continues to face challenges in reviewing uncollected debts returned from secondary PCA contractors. Specifically, as of February 28, 2003, FMS had approximately $80 million of debts in inactive status even though its PCA contractors returned these uncollected debts to FMS during fiscal year 2002. According to an FMS official, the backlog occurred because the automated cross-servicing system did not always identify debts returned to FMS by secondary PCA contractors that required further collection review by in-house FMS collectors. The FMS official stated that FedDebt, when implemented in January 2005, would correct this problem.

Inadequate Monitoring and Reporting of Closed-Out Debts to IRS

DCIA gives OMB responsibility for annual reporting to the Congress on any problems regarding federal agency progress in improving policies and standards for closing out debts,[28] and FMS is responsible for the form and content of the TROR, which FMS uses to monitor federal agencies' implementation of DCIA. Neither OMB nor FMS monitored or reported on the extent to which agencies governmentwide closed out debts and reported them to IRS. The TRORs for 24 CFO Act agencies showed that the agencies reported that about $1 billion of the approximately $3.2 billion of nontax debts that were reported closed out by those agencies were reported to IRS as income to the debtors for calendar year 2002.[29] Additionally, the TRORs that the agencies used to report did not disclose why closed-out debts were not reported to IRS and did not include closed-

[28]Specifically, DCIA requires OMB to (1) review the standards and policies of each federal agency for compromising, writing down, forgiving, or discharging indebtedness arising from programs of the agency; (2) determine whether those standards and policies are consistent and protect the interests of the United States; (3) direct the head of the agency to make appropriate modifications to any federal agency's standards or policies that the OMB Director determines are not consistent or do not protect the interests of the United States, and (4) report annually to the Congress on deficiencies in the standards and policies of federal agencies for compromising, writing down, forgiving, or discharging indebtedness, and progress made in improving those standards and policies.

[29]In previous work, we found that certain federal agencies may not be properly reporting closed-out debts to IRS. For example, in fiscal year 2002, we reported that the Centers for Medicare & Medicaid Services was not reporting certain closed-out Medicare debts to IRS as income to debtors. U.S. General Accounting Office, *Debt Collection Improvement Act of 1996: HHS's Centers for Medicare & Medicaid Services Faces Challenges to Fully Implement Certain Key Provisions*, GAO-02-307 (Washington, D.C.: Feb. 22, 2002). In addition, we found that Farm Services Agency officials were unaware of the requirement to report closed-out debts to IRS as income for secondary debtors. U.S. General Accounting Office, *Debt Collection: Agriculture Making Progress in Addressing Key Challenges*, GAO-03-202T (Washington, D.C.: Nov. 13, 2002).

out debts that had been previously classified as currently not collectible (CNC). These are significant reporting deficiencies because without such information, the TRORs cannot be used to determine the extent to which all eligible debts are closed out and reported to IRS. As a result of inadequate monitoring and reporting of closed-out debts to IRS, opportunities for recovery by reporting closed-out debts to IRS as income to debtors may have been lost.

Neither OMB nor FMS officials could specifically explain why certain agencies had reported different amounts for debts closed out and debts reported to IRS. According to an OMB official, OMB does not have a formal process in place to review federal agencies' standards and policies regarding debt collection, including reporting closed-out debts to IRS, and does not monitor the extent to which agencies close out debts and report them to IRS. The OMB official stated that OMB examiners, at their own discretion, might look at how federal agencies are closing out debts as part of the examiners' overall evaluation of the agencies' implementation of the President's Management Agenda.[30] According to the official, OMB has not submitted any reports to the Congress regarding problems with agencies' standards and policies for closing out debts and reporting them to IRS.

FMS officials stated that the large difference on the agencies' TRORs between closed-out debts and debts reported to IRS may be attributable to situations involving debts that are not required to be reported to IRS.[31] However, FMS does not require federal agencies to disclose such information in their TRORs. Without such disclosures in the TRORs, it is not possible for FMS, OMB, or any other interested party to determine whether federal agencies are reporting their closed-out debts to IRS accurately and completely.

Moreover, the agency TRORs understated the amount of debt closed out during calendar year 2002. Specifically, we determined and FMS officials acknowledged that the $3.2 billion of debts that were reported closed out

[30]The President's Management Agenda, announced in the summer of 2001, is a strategy for improving the management of the federal government. The President's Management Agenda includes an emphasis on strategic management of human capital, competitive sourcing, improved financial performance, expanded electronic government, and budget and performance integration.

[31]For example, 26 U.S.C. 6050P and 26 C.F.R. 1.6050P-1 exclude certain debts that are discharged in bankruptcy and debts less than $600 from IRS reporting requirements.

by the 24 CFO Act agencies did not include debts previously classified as CNC that were subsequently closed out. This is a significant deficiency in the TROR because CNC debts that are eventually closed out can be substantial. For example, the 24 CFO Act agencies reported about $10.1 billion of CNC debts at the end of calendar year 2002. Without information on whether CNC debts are closed out, the TRORs cannot be used to fully determine the extent to which all debts are closed out and reported to IRS. In spite of these reporting deficiencies, FMS officials stated that FMS does not have any plans to revise the TROR.

FMS Missed Certain Opportunities to Improve Overall Collections

In addition to taking little action to improve collections for debts that were returned uncollected by PCA contractors, FMS missed certain opportunities to improve overall cross-servicing collections. FMS did not establish effective processes or procedures for identifying debts to forward to DOJ. As a result, FMS had relatively few debts (about $30 million as of February 28, 2003) at DOJ for enforced collection action even though DOJ has been successful in collecting debts through civil litigation in the past. In addition, FMS did not report all eligible debts that had been referred for cross-servicing to TOP, as required by its cross-servicing procedures, and did not report secondary debtors, such as cosigners, to TOP.

FMS Missed Enforced Collection Opportunities

DOJ serves as the federal government's "collector of last resort." When a federal agency, including FMS, cannot collect certain debts administratively, DOJ can litigate the claims and, with judicial oversight, enforce collections by seizing bank, stock, and similar accounts from debtors; seizing and selling debtor-owned real estate and other property; and garnishing a higher percentage of debtors' wages than AWG under DCIA allows.[32] The benefits of enforced collection are reflected in past DOJ recoveries. In its fiscal year 2002 report to the Congress, FMS noted that DOJ collected about $10.9 billion in cash recoveries through civil litigation from fiscal year 1998 through fiscal year 2002.

[32]Federal agencies, in cases where there is no evidence of assets, can also refer delinquent debts to DOJ for judgment liens only rather than for enforced collection.