

CONTROLLER ALERT: IMPROVING COLLECTION OF DELINQUENT DEBT

Controller Alerts are designed to bring your attention to emerging financial management issues that may require agency attention or action. These Alerts are intended to make sure that the Chief Financial Officer (CFO) community is aware of key issues where the Office of Management and Budget (OMB) believes further action may be warranted, but do not constitute official guidance or include specific tasks for agencies beyond consideration of appropriate steps to address the issue.

This Controller Alert provides information on key metrics regarding delinquent debt collection, and recommends that agencies assess internal progress towards these metrics and determine if corrective actions are necessary.

The Treasury Report on Receivables Dashboard reporting tool (available at [TROR Dashboard](#)) provides greater visibility and transparency on Federal agency performance in managing delinquent debt collection. A review of the most recent TROR data from FY 2012 reflects an increase in delinquencies on Federal non-tax receivables and a concurrent decline in collections on these debts. The review also identified specific opportunities for agencies to improve debt management practices in the following areas and reverse this troubling trend:

Compliance Metrics

The Debt Collection Improvement Act (DCIA) of 1996, OMB Circular No. A-129 (A-129), and other laws, establish specific requirements for agencies to follow in managing their portfolio of delinquent debt. These include the following:

- *Treasury Offset Program (TOP) Referral:* Federal agencies are required to notify Treasury of Federal non-tax debt 180 days delinquent for purposes of payment offset and to refer such debt to Treasury for centralized collection action (known as cross-servicing).
- *Write-offs:* Agencies must write-off delinquent debt older than two years to ensure that accounts receivable balances are not overstated and that all debt is adequately reserved for in the allowance account. Once debt is written-off, agencies must either classify the debt as currently not collectible (CNC) or close-out the debt.
- *1099-C Reporting:* Agencies must file a 1099-C form to the Internal Revenue Service (IRS) when closing out debt in order to report uncollectable debts as income to the debtor, and to facilitate the payment of any taxes due on such income.
- *Credit Bureau Reporting:* Agencies are currently required to report debt to credit bureaus for all non-tax, non-tariff commercial accounts (current and delinquent). When agencies inform delinquent debtors that credit bureau reporting is pending, it provides a strong incentive to businesses and individuals to become current in their Federal debts.

Compliance and progress on these requirements is tracked and displayed on the TROR Dashboard, and agencies should monitor these key metrics through the Dashboard and determine where additional actions are needed. OMB will also establish government-wide benchmarks for each of these compliance metrics.

Performance Metrics

The TROR Dashboard also provides visibility and transparency on debt collection performance metrics that are specific to each agency. Specific examples include:

- *Delinquency Rate*: By comparing the amount of an agency's delinquent debt relative to the total outstanding debt, the delinquency rate reflects the agency's effectiveness in collecting debt before it becomes past due.
- *Delinquent Collections Rate*: By comparing the amount of an agency's delinquent debt collected relative to the total amount delinquent, the delinquent collections rate reflects the agency's effectiveness in collecting debt after it has become past due.

These debt collection performance metrics reflect a variety of factors, including the nature of the debt, the age of the debt, and profile of the debtor. Accordingly, OMB will work with agencies on an individual basis to establish targets and measure performance on delinquency rates, delinquent collections rates, and other debt collection metrics that are relevant to individual agencies.

Through increased visibility on agency debt collection performance and increased diligence in addressing specific problems, together we will be able to take practical and collaborative steps to increase government-wide delinquent debt collections. If you have any questions regarding this alert, please contact Amanda Valerio (avalerio@omb.eop.gov) and John Karner (john.karner@cfoc.gov).