STATEMENT BY

THE HONORABLE WILLIAM H. CAMPBELL
ASSISTANT SECRETARY FOR MANAGEMENT AND
CHIEF FINANCIAL OFFICER
DEPARTMENT OF VETERANS AFFAIRS

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COMMITTEE ON GOVERNMENT REFORM
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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 strategies for debt collection found in the Debt Collection Improvement Act (DCIA) of 1996. VA is doing well, but will continue to make every effort to improve our debt collection.

The VA Chief Financial Officer's (CFO) staff has worked with VA's three administrations—the Veterans Benefits Administration (VBA), Veterans Health Administration (VHA), and National Cemetery Administration (NCA), as well as other VA elements to take the steps necessary to ensure our compliance with the requirements of the DCIA. VA personnel continue to work closely with Department of the Treasury's Financial Management Service (FMS) to implement the provisions of the DCIA. As discussed later, our excellent relationship with the Treasury FMS staff has been a key element in our implementation of the DCIA.

In our previous appearances before this Subcommittee, we testified about our progress in referring eligible debt to the Treasury Offset Program (TOP) and for cross-servicing. In recent years, we have consistently referred well in excess of 90% of eligible debt to the TOP and cross-servicing programs.

SUMMARY OF VA DEBT COLLECTION STATUS

VA has made extensive efforts to reduce the establishment of debts and to collect those that have been established. For example, VA matches records with the Social Security Administration (SSA) and the Internal Revenue Service (IRS) to verify the income of VA benefit recipients. VA also matches records with the Bureau of Prisons to insure VA does not make benefit payments to incarcerated veterans. At the end of FY 1996, the year in which the DCIA was enacted, VA had $4.2 billion in total receivables, with $2.4 billion delinquent. When we last testified before this Subcommittee in 2001, VA had $3.8 billion in total receivables, with $1.4 billion delinquent, at the end of FY 2000. As of March 31, 2003, VA had $3.5 billion in total receivables, with $1.2 billion delinquent.

Of the $1.2 billion in delinquent debt at the end of the second quarter of FY 2003, $328 million was attributable to Direct Home Loan mortgages held by VA; $313 million to Compensation & Pension overpayments, $106 million to defaulted guaranteed home loans, $46 million to Readjustment Benefit (education benefit) overpayments, and $318 million to charges for the provision of medical care and services owed to VA's Medical Care Collection Fund.

The majority of the $318 million for medical care is comprised of claims filed with third-party health insurers. These claims are not referable to Treasury for cross-servicing or administrative offset because they are not sum-certain amounts owed. Rather, the existence and amount of such third-party liability, if any, for the charges billed is determined pursuant to an administrative process that frequently involves extensive negotiations and appeals. This process requires determinations concerning the health plan coverage applicable in the individual case, to include resolution of both medical and legal issues, comparable to the process performed by private sector health care providers.

In FY 2001, however, VHA analyzed the collections process and developed a Revenue Improvement Plan (RIP) for improving the Medical Care Collection Fund (MCCF) program. The plan concentrates on improving patient intake, medical documentation, coding, billing and collection of accounts receivable.

Within the past year, the VHA Chief Business Officer (CBO) has expanded the scope of the 2001 Revenue Improvement Plan by incorporating additional immediate, mid-range, and long-term improvements encompassing the broad range of business processes that impact VA revenue activities. The strategies being pursued include the establishment of health-care industry-based performance and operational metrics, technology enhancements and integration of proven business approaches, including the establishment of centralized revenue operation centers.

IMPLEMENTATION OF ADMINISTRATIVE OFFSET REQUIREMENT

At the end of the second quarter of FY 2003, VA referred $284.4 million, or 97%, of the $292.6 million in delinquent debt eligible for TOP.

VA began participating in the Tax Refund Offset Program in 1985. The Department collected $343 million from 1985 through 1999, when the Tax Refund Offset Program became part of the TOP Program. VA changed to the TOP file format in 2000 and has collected $110 million from TOP over the last three calendar years. TOP has collected $40 million for VA from January through May of this year. In addition, VA performed inter-agency matches over the last 10 years in order to offset VA debts from the pay of Federal employees or annuity payments of Federal retirees.

In February of 2001, VHA began referring debts, through our Debt Management Center (DMC), to TOP. The types of debt included in these referrals are 1st party medical debts, ex-employee debts, and vendor/contractor debts. At the end of the second quarter of 2003, VHA had referred $156 million and collected $75 million through TOP. In the third quarter of FY 2002, the Veterans Benefits Administration (VBA) also began referring debts from small dollar Veteran's

Benefits programs to TOP through the DMC. At the end of the second quarter FY 2003, VBA had referred $1.3 million through TOP.

IMPLEMENTATION OF CROSS-SERVICING REQUIREMENT

At the end of the second quarter of FY 2003, VA referred $171.4 million, or 95%, of the $180.6 million in delinquent debt eligible for the cross-servicing program.

In our last appearance before this Subcommittee in October of 2001, we reported that the referral of our debts to Treasury for cross-servicing took longer than originally anticipated. VA implemented cross-servicing in the 4th quarter of FY 2000. We worked very closely with Treasury for an extended period prior to implementation to successfully resolve differences in automated processes needed to update each other's databases. While working with Treasury on this project, VA continued to refer our debts to TOP.

The eligible debt remaining at the end of the 2nd quarter of FY 2003 is made up of debt from a few smaller benefit programs and miscellaneous VHA debt, such as vendor debt, employee debt, and non-federal sharing agreement debt. We continue to work toward referring most of this remaining debt for cross-servicing during FY 2003.

OTHER COLLECTION TOOLS

Each year, VA sells approximately 15,000 – 25,000 properties that we acquire due to foreclosure of our guaranteed loans. In FY 2002, VA sold a total of 16,000 properties for $967 million. About 9,000 of these home sales were made using vendee financing. Vendee loans, also referred to as direct loans, are established when VA acquires a property upon the foreclosure of a VA guaranteed loan, subsequently sells the property, and finances the purchase of this property. VA normally sells vendee loans three times each year. These loans are sold as mortgage-backed securities. However, in January 2003, the Secretary of Veterans Affairs directed that VA terminate vendee financing. VA has plans to sell all outstanding vendee loans established prior to January 2003 by the end of this fiscal year. Ultimately, this will reduce our debt portfolio.

VA has amended its regulations to comply with the revised Federal Claims Collection Standards (FCCS) and they will be published in the Federal Register. The amended regulations will include a new regulation to authorize VA's use of administrative wage garnishment, without prior judicial action, of up to 15% of any disposable non-Federal pay of an indebted individual. We will use this new debt collection tool in conjunction with the Treasury cross-servicing program. Our regulation package also includes a regulation barring delinquent debtors from obtaining certain benefits while a debt is outstanding.

VA DEBT MANAGEMENT CENTER

VA has had an automated collection system in place since 1975. Since 1991, VA has operated the Debt Management Center (DMC) in St. Paul, Minnesota, which controls and maintains this automated collection system. The DMC utilizes every collection tool available to Federal agencies in an operation that emphasizes the collection of debt. It also remains a highly efficient and effective operation that executes all requirements of a cross-servicing center. The DMC has for many years used automated payment processing and collections systems; benefit and salary offset; credit bureau reporting and private collection agency referrals; compromises and litigation; and write-offs. The DMC developed fully automated procedures for identifying and referring all eligible debts to the TOP and cross-servicing programs.

The DMC currently accepts credit card payments by telephone and is working to allow for credit card payments through its Web site. Debtors making credit card payments have paid $1.1 million through April of this year. This is a 16% increase over FY 2002 and a 56% increase over FY 2001.

VA FINANCIAL SERVICES CENTER

The VA Financial Services Center (FSC), located in Austin, Texas, reviews VA vendor payments daily to systematically identify, prevent and recover improper payments made to commercial vendors. In FY 2002, the FSC recovered more than $2.2 million, a 44% increase over FY 2001 recoveries of $1.6 million. The FSC's FY 2003 year-to-date performance through May is 79% above FY 2002 levels and recoveries should reach $3 million. In a FY 2001 report, the General Accounting Office recognized the FSC's efforts to recover excess expenditures as a good example of effective government financial management.

VA has also fully centralized its permanent change of station (PCS) travel payment processing at the FSC. This initiative consolidates all aspects of PCS travel payments, including travel authority and voucher preparation, bills of collection processing, and liaison for relocation-and-move management services. This consolidation will increase efficiency, reduce improper payments, and improve internal controls and accountability for VA travel funds.

Mr. Chairman, this concludes my statement. I certainly appreciate the opportunity to discuss VA's progress in implementing the DCIA and our continuing efforts to improve debt collection. I will be pleased to answer any questions the Subcommittee may have.