

---

*Office of Inspector General*

***Audit Report***

---

**WEAK INTERNAL CONTROLS FOR COLLECTING  
DELINQUENT DEBT PUT MILLIONS OF DOT  
DOLLARS AT RISK**

*U.S. Department of Transportation*

*Report Number: FI-2015-065*

*Date Issued: July 9, 2015*





# Memorandum

U.S. Department of  
Transportation

Office of the Secretary  
of Transportation  
Office of Inspector General

Subject: **ACTION:** Weak Internal Controls for Collecting  
Delinquent Debt Put Millions of DOT Dollars at  
Risk  
U.S. Department of Transportation  
Report Number FI-2015-065

Date: July 9, 2015

From: Louis C. King   
Assistant Inspector General for Financial and  
Information Technology Audits

Reply to JA-20  
Attn. of:

To: Assistant Secretary for Budget and Programs/  
Chief Financial Officer

In 1996, Congress passed the Debt Collection Improvement Act (DCIA)<sup>1</sup> to decrease delinquent loan and administrative debts that individuals and non-Federal entities owe the Federal Government.<sup>2</sup> Despite this law, the Government's cumulative delinquent debt has continued to increase. In fiscal year 2013, this debt totaled \$212.5 billion, an increase of \$49.8 billion (approximately 31 percent) from fiscal year 2012.

The longer debts remain delinquent, the greater the risk of them going uncollected. Under Department of Treasury regulations, agencies are responsible for monitoring and servicing non-tax receivables owed to the Federal Government to ensure payments are received on time. The Department of Transportation (DOT) uses the Federal Aviation Administration's (FAA) Enterprise Services Center (ESC) to collect and process most debt that has become delinquent. Under DCIA, an agency must refer eligible delinquent debts<sup>3</sup> that it cannot collect within 180 days to the Department of Treasury for further collection action.

---

<sup>1</sup> Public Law No. 104-134.

<sup>2</sup> Loans include direct and guaranteed loans, such as those provided to States for financing transportation projects. Administrative debts include defaulted student loans, unreturned payroll overpayments, and unpaid fines and penalties.

<sup>3</sup> Certain types of non-tax debt are ineligible or not required for Treasury referral, including debts that are subject to appeals, forbearance agreements, litigation, foreclosures, or bankruptcies, and debts owed by foreign sovereignties.

Since we last reported on DOT's delinquent debt,<sup>4</sup> concerns about delinquent debt across the Government have increased. We conducted this audit to determine whether DOT takes comprehensive action to collect its delinquent debt, and refers eligible delinquent debts to Treasury in a timely manner. Specifically, we (1) identified DOT's current delinquent debt and recent collections and any relevant trends and (2) assessed DOT's debt collection and referral policies, procedures, and oversight.

We conducted our work in accordance with generally accepted Government auditing standards. As a part of this audit, we selected a statistical sample<sup>5</sup> of 142 out of 41,278 debts from all Operating Administrations to project that DOT did not fully comply with debt collection procedures when processing \$494.1 million<sup>6</sup> (66 percent of \$673.3 million) of this debt. See exhibit A for more detailed information on our scope and methodology and exhibit B for a list of entities visited or contacted.

## RESULTS IN BRIEF

From fiscal year 1999 to September 30, 2013, DOT's reported delinquent debt increased over 300 percent from approximately \$170 to \$737 million. However, we identified both underreporting (debts not captured) and overreporting (non-delinquent debts identified as delinquent)—errors that indicate the increase in DOT's delinquent debt is even greater than reported. While its delinquent debt increased, DOT's reported collections on its delinquent debt decreased from fiscal year 2008 to September 30, 2013. However, these reports do not include the delinquent debt DOT collects because, according to a DOT official, ESC cannot separately track collections of accounts receivable and delinquent debts. For example, while ESC shows that DOT collected \$621 million in debt in fiscal year 2013, DOT could not quantify—or accurately report—the amount of delinquent debt it collected.

Ineffective internal controls—including inadequate debt collection policies and procedures, training, and oversight—underlie DOT's mounting delinquent debt and reporting errors. In one case, over \$1 million in debts were not referred to Treasury until they were on average 115 days past the 180-day statutory limit for delinquency referral, increasing the risk that these debts will not be collected. Despite the errors and delays we identified, DOT and Operating Administration policies do not require staff who report and collect delinquent debt to take training that would provide them the knowledge and skills needed to effectively carry out

---

<sup>4</sup> *Non-Tax Delinquent Debt*, OIG Report Number FE-1999-096, May 5, 1999. OIG reports are available on our website: <https://www.oig.dot.gov/>.

<sup>5</sup> We used a stratified probability proportional to size sampling methodology.

<sup>6</sup> Our \$494.1 projection has 90 percent confidence limits ranging from \$493.5 to \$494.6 million.

their responsibilities—such as how to define delinquent debt and interpret the law, debt collection processes and tools, and Treasury requirements and assistance. A lack of clear oversight and accountability further undermines DOT’s debt reduction efforts. For example, while DOT delegated debt collection monitoring to the Operating Administrations, a senior official in one Operating Administration stated that ESC is responsible for collecting and tracking delinquent debts. Finally, several ESC personnel said they do not use ESC’s standard operating procedures (SOP)<sup>7</sup> for collecting administrative debt; others indicated that they did not know the SOPs existed.

We are making recommendations to help DOT strengthen its internal controls and improve the accuracy of reported data and its collection of delinquent debt.

## BACKGROUND

Timely collection of delinquent loan and administrative debts is critical for ensuring the debts are collected. According to Treasury, the longer debts remain delinquent, the greater the risk of them becoming uncollectible.<sup>8</sup> The 1996 DCIA aims to decrease delinquent loan and administrative debts and ensure their timely collection.

However, since 2010, delinquent debt across the Government has steadily increased (see table 1).

**Table 1. U.S. Agencies’ Receivables and Delinquent Debts, Dollars in Billions**

Fiscal Year	Receivables	Delinquent Debt	Collection of Delinquent Debt	
			Total	Percentage
2010	\$625.8	\$103.6	\$27.6	26.64%
2011	777.8	131.0	18.3	13.97%
2012	931.1	162.7	26.7	16.41%
2013	1,049.3	212.5	31.2	14.68%
<b>Average</b>	<b>\$846</b>	<b>\$152.45</b>	<b>\$25.95</b>	<b>17.02%</b>

Source: Department of Treasury, *Fiscal Year 2013 Report to the Congress: U.S. Government Receivables and Debt Collection Activities of Federal Agencies*, July 2014.

Delinquency varies according to type of debt:

<sup>7</sup> SOPs provide detailed explanations of how policy is to be implemented.

<sup>8</sup> Department of Treasury, *Managing Federal Receivables: A Guide for Managing Loans and Administrative Debt*, May 2005.

- Direct and guaranteed loans, such as loans provided to States for financing transportation projects, become delinquent when a loan payment is not made by the due date or end of the grace period established in a loan or repayment agreement.
- Administrative debts, such as civil fines and penalties and payroll overpayments, become delinquent when payment on the debt is not made by the due date specified in the first billing notice, usually 30 days after the agency mailed the billing notice. If the debtor does not pay, the date of delinquency is the date the agency mailed or delivered the billing notice.<sup>9</sup>

The Department of Treasury's Bureau of Fiscal Services operates the Government's collections system for managing Federal delinquent debt. Its "Managing Federal Receivables" provides an overview of DCIA regulations as well as guidelines and procedures for managing debt collection and related activities. According to Treasury's guidance, Federal agencies must:

- Report accurate and timely information on receivables to Treasury using the Treasury Report on Receivables and Debt Collection Activities (TROR).<sup>10</sup> Treasury uses this data to report annually to Congress on agency delinquent debt collection activities.
- Use all available debt collection tools to collect debts, including wage garnishment.
- Ensure debtors are afforded due process, including a debt dispute process. The constitutional right of due process requires agencies to provide each debtor with a notice explaining what he or she owes and an opportunity to dispute the debt or the intended debt collection action.
- Refer all eligible debts more than 180 days delinquent to Treasury for further collection action.
- When appropriate, refer delinquent debt to the Department of Justice (DOJ) for litigation.

To better ensure Operating Administrations comply with Federal due process requirements, DOT established a policy for waiver of claims for Operating Administrations to follow when collecting administrative debts. Debtors can

---

<sup>9</sup> Department of Treasury, *Managing Federal Receivables: A Guide for Managing Loans and Administrative Debt*, May 2005.

<sup>10</sup> Agencies must verify and certify to the accuracy of the data, and report all required data on the TROR in accordance with Treasury instructions.

request a waiver of all or a portion of disputed debt. For most debts, such as payroll overpayments, the Operating Administration ultimately decides whether to waive the debt or not. Once a debtor has disputed a debt, collection procedures are put on hold until the Operating Administration makes the final decision. Debtors have the right to appeal agency decisions, which can further delay debt collection.

FAA's ESC provides several support services to DOT's Operating Administrations and other Federal agencies, including transaction processing and financial reporting. It uses the Delphi Financial Management application to track delinquent debt on behalf of the Operating Administrations. It has SOPs, including procedures for administrative debt collection.

In 2014, Congress passed the Digital Accountability and Transparency Act to make information on Federal expenditures more easily accessible and transparent to taxpayers and policymakers. Under the act, agencies are required to notify Treasury of any legally enforceable non-tax debt that is over 120 days delinquent—60 less than previously required. Treasury is required to notify Congress of any instance in which an agency fails to notify Treasury of such a debt.

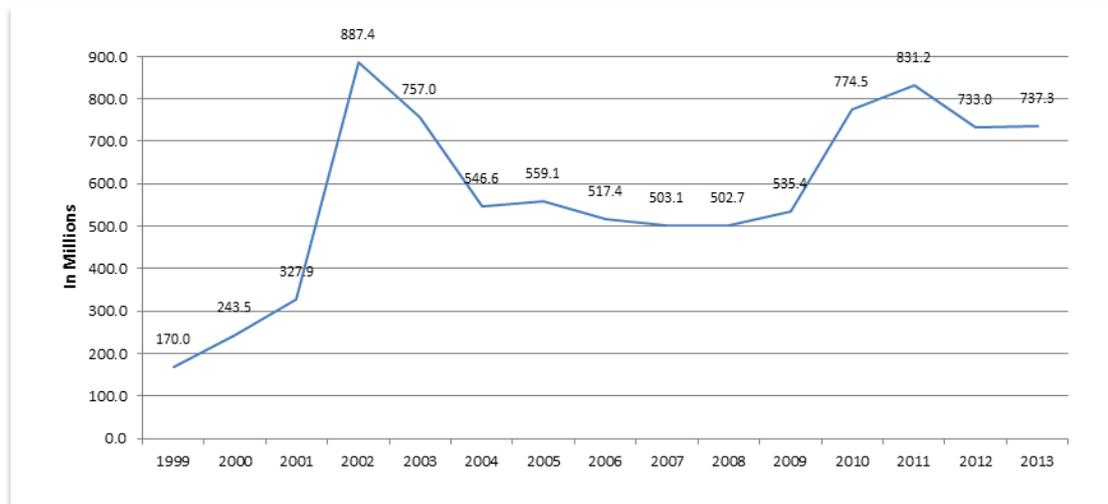
## **DOT'S DELINQUENT DEBT HAS INCREASED AND COLLECTIONS HAVE DECREASED, BUT BOTH ARE UNDERREPORTED**

For more than a decade, DOT has reported an overall increase in its delinquent debt. Further, our review indicates DOT's delinquent debt is even greater than it reported. At the same time, DOT's reported debt collection shows an overall decrease, but we determined that its collections were also underreported, but by how much is unknown.

### **DOT's Delinquent Debt Is Higher Than DOT Reported**

As of September 30, 2013, DOT reported a total of \$737.3 million in delinquent administrative and loan debts (see figure 1). Since 1999 when we last reported on the Department's delinquent debt, DOT's reported delinquent debt increased 333 percent, primarily because some recipients defaulted on guaranteed loans.

**Figure 1. DOT's Reported Delinquent Debt, Fiscal Years 1999 through 2013, Dollars in Millions**



Source: DOT's fourth quarter TRORs for fiscal years 1999 through 2013

However, DOT's delinquent debt may be greater than reported. For example, DOT's financial management system, Delphi,<sup>11</sup> shows \$744.6 million in delinquent debt in fiscal year 2013 (see exhibit C for a breakdown by Operating Administration). The gap between what DOT reported and what Delphi shows indicates that DOT underreported its delinquent debt to Treasury by \$7.3 million.

We identified other underreporting errors as well as overreporting errors—that is reporting debts that were not delinquent. As of September 30, 2013, we identified a total of \$13.6 million in errors due to under- and overreporting.<sup>12</sup>

- Underreported—three of the four Operating Administrations with delinquent loan debts were not aware that delinquent loans had to be reported on TRORs. As a result, \$7.1 million in delinquent loans was not reported to Treasury during the period covered by our audit.
- Operating Administrations overreported \$6.5 million in debt that was not actually delinquent. For example, the Federal Transit Administration (FTA) resolved a \$448,000 delinquent administrative debt in May 2012. However, FTA failed to inform ESC that it had resolved the debt. As a result, ESC reported this debt as delinquent on FTA's September 30, 2013 TROR.

Confusion about reporting loan debts has greatly increased the risk of underreporting. For example, while Treasury's guidelines call for agencies to

<sup>11</sup> DOT uses Delphi to report its debt to Treasury.

<sup>12</sup> Another \$212,385 was omitted from FAA's fourth quarter TROR. We found this error while we were validating the universe of delinquent debt. Since this amount was reported on a later TROR, it is not included in our projections.

report all delinquent debts on TRORs, regardless of eligibility for referral, Federal Highways Administration (FHWA) representatives were not aware that delinquent loan debt needed to be reported and, consequently, only reported delinquent administrative debt to Treasury. While not reporting loan debt can result in substantial underreporting, other reporting errors make it difficult to determine the actual amount that was not reported. For example, FHWA erroneously reported a \$3.2 million delinquent loan debt on its *administrative* TROR; had this error not been made, the \$3.2 million would not have been reported to Treasury.

Similarly, DOT's Office of Financial Management did not report a \$24,961 delinquency in the Short Term Lending Program (STLP) because the program's administrators had not prepared a report on the delinquent loan.

In one case, a delinquent loan debt we identified remained unreported for more than a year, further increasing the risk that the debt would become uncollectible. Specifically, a \$28.2 million Railroad Rehabilitation and Improvement Financing program debt that became delinquent after the debtor filed for bankruptcy protection in August 2013 had not been fully reported by the Federal Railroad Administration (FRA) until the first quarter of fiscal year 2015.<sup>13</sup>

Based on our findings, we estimate that TRORs contain inaccuracies totaling \$23.4 million.<sup>14</sup> DOT's inaccurate reporting to Treasury on delinquent debt makes Treasury's reports to Congress on the total debt owed to the Government inaccurate.

### **DOT's Delinquent Debt Collection Is Underreported by an Unknown Amount**

The amount DOT has collected is greater than what it has reported to Treasury. We found instances where delinquent debt had been recovered but was still reported as delinquent. However, shortcomings in DOT's process preclude, it from showing how much debt has been collected.

DOT reported that its delinquent debt collections for fiscal year 2013 (the most recent year for which data were available during our audit) totaled approximately \$1.8 million. However, the amount DOT reported as collected was inaccurate because the amount reported is what other agencies collect on DOT's behalf and does not include the amount collected by DOT. According to a DOT official, ESC does not have the capability to separately track collections of accounts receivable and delinquent debt. Therefore, the actual amount of collected delinquent debt by DOT lies somewhere between what DOT reported to Treasury and DOT's total

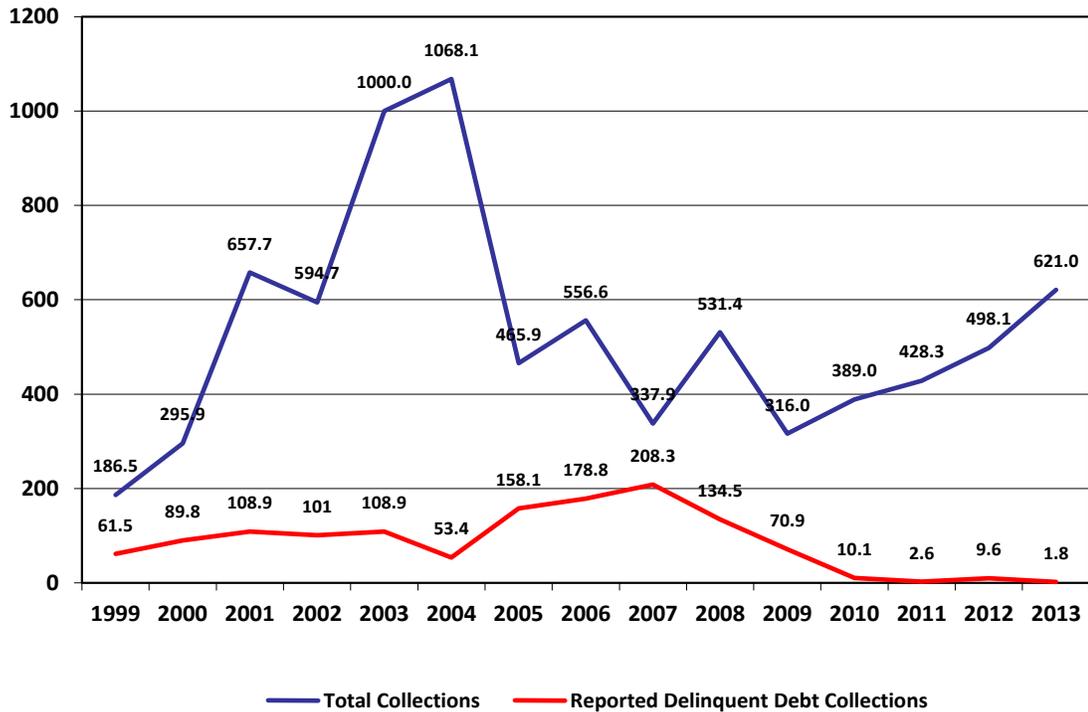
---

<sup>13</sup> FRA only reported \$2.9 million of the loan as delinquent debt as of September 30, 2014.

<sup>14</sup> Our estimate of \$23.4 million has 90 percent confidence limits ranging from \$22.9 million to \$23.9 million.

debt collection—a gap that ranges from \$125 million in 1999 to over \$1 billion in 2004 (see figure 2).

**Figure 2. DOT's Total Debts and Delinquent Debts Collected, Fiscal Years 1999 through 2013, Dollars in Millions**



Source: DOT's fourth quarter TRORs for fiscal years 1999 through 2013

DOT's inaccurate reporting to Treasury on delinquent debt and delinquent debt collections makes Treasury's reports to Congress on the total debt owed to the Government inaccurate.

ESC officials informed us that for fiscal year 2015, the Center will use a tool that will allow it to separately track delinquent debt collections and accounts receivable collections.

## **DOT LACKS SUFFICIENT INTERNAL CONTROLS TO ENSURE ACCURATE REPORTING AND COLLECTION OF DELINQUENT DEBT**

The Office of Management and Budget (OMB) requires departments and agencies to establish internal controls in accordance with Circular A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*, and

Circular A-123, *Management's Responsibility for Internal Control*. These circulars specifically call for establishing effective policies and procedures, training, and oversight to ensure timely and accurate identification and collection of delinquent debt. However, DOT lacks such internal controls.

### **DOT Policies and Procedures Contributed to Inadequate Debt Reporting and Collections**

DOT lacks adequate policies and procedures to ensure accurate reporting of delinquent debt, as was evident when several Operating Administrations did not report loans to Treasury. Treasury's guidelines, as well as its training, clearly call for agencies to report all delinquent debts—including loans—regardless of eligibility for referral.

Similarly, DOT's policies and procedures for collecting receivables do not address delinquent debt collection. A particular concern is that only a few Operating Administrations have specific policies and procedures that spell out their unique debt collection requirements.<sup>15</sup> DOT does not require—or even recommend—that Operating Administrations develop such policies or communicate with ESC regarding their unique requirements. Without such communication, ESC's collections staff rely solely on DCIA and Treasury regulations, which may not capture each Operating Administration's specific needs.

We found this to be the case with distinct procedures that some Operating Administrations have developed for complying with debtors' due process rights. For example, the Federal Motor Carrier Safety Administration (FMCSA) developed procedures for collecting fines and penalties levied against motor carriers for violations such as operating without proper authority. Specifically, FMCSA issues notices of claim to collect debts, and if the debtor does not accept, dispute, or pay the charges in the claim within 30 days, the debt becomes delinquent. FMCSA then issues a notice of default and final agency order. If the debtor does not accept, dispute, or pay the delinquent debt within 90 days, the Agency issues an order for the debtor to cease operations and transfers the delinquent debt to ESC for referral to Treasury. However, once ESC receives FMCSA's transfer, it restarts the clock to the date that the debt was first due. As a result, the delinquent debts that ESC referred to Treasury were on average 115 days past the 180-day statutory limit.<sup>16</sup> These debts totaled \$1.1 million. According to ESC staff, they were unaware that FMCSA had already sent out notices of claim and default, and that the Agency intended ESC to simply refer the debts to Treasury. Similarly, FMCSA staff were unaware that ESC was conducting its own collection procedures.

---

<sup>15</sup> FMCSA, FTA, the Surface Transportation Board (STB), and FAA have developed procedures for collecting delinquent debts but still work with ESC to collect their delinquent debts.

<sup>16</sup> Delays ranged from 1 day to 395 days beyond the 180 days.

We identified 29 cases in which the lack of communication resulted in late referrals, collection delays and, ultimately, errors in reporting to Treasury. Based on our sample, we project that \$30.9 million<sup>17</sup> in delinquent debt had noncompliance issues due to lack of communication.

We also found 43 occurrences in which delinquent debt was not referred to Treasury in a timely manner—projected at \$46.4 million.<sup>18</sup> In one case at the Office of the Secretary (OST), a \$600,000 civil penalty we reviewed was not referred to Treasury for 1,316 days past the 180-day statutory referral requirement. According to an ESC employee, the delinquent debt slipped through the cracks due to high staff turnover. Under the Digital Accountability and Transparency Act's new requirement of referring delinquent debt to Treasury within 120 days, such noncompliance is even more glaring.

Delinquent debts that are disputed are particularly vulnerable to going uncollected. DOT's guidance for processing dispute waivers, appeals, and hearings does not include timeliness requirements, and most of the disputed delinquent debts in our sample have gone unresolved for years. For example, a waiver request for an alleged overpayment of benefits made in August 2010 by a retired OIG employee is still pending. According to OIG's human resources office, the specialists handling the waiver left OIG and the request fell through the cracks. OIG issued waiver guidance in October 2013, but the guidance generally follows the Department's guidance which does not adequately address the types of waiver documentation and timeliness concerns we identified.

Overall, we found 19 instances of untimely due process. Based on this number, we project that \$8.8 million<sup>19</sup> in our sample did not fully comply with due process requirements. Delays in this process slow down debt recovery times and increase the risk that these debts become uncollectible.

Finally, DOT does not have a policy on documenting the process used to collect delinquent loans and loan guarantees. Delinquent loan collection processes affect both debt reporting and collection. Title 44, Section 3101 of the U.S. Code requires Federal agencies to maintain accurate records to protect the Government's legal and financial rights. Treasury's regulations require that each debtor's account file includes the debt's purpose, amount due, and any other documentation that would substantiate the debt.

However, some Operating Administrations do not maintain complete documentation on their loan debts. For example, the Maritime Administration

---

<sup>17</sup> Our \$30.9 million projection has 90 percent confidence limits ranging from \$30.5 to \$31.3 million.

<sup>18</sup> Our \$46.4 million projection has 90 percent confidence limits ranging from \$45.8 to \$46.9 million.

<sup>19</sup> Our \$8.8 million projection has 90 percent confidence limits ranging from \$8.6 to \$9 million.

(MARAD) could not provide sufficient documentation to determine the status of the loans it guarantees under its Title XI program.<sup>20</sup> Under the program, MARAD guarantees commercial loans to ship owners and shipyards—that is, if the ship owner or shipyard defaults on the loan, MARAD pays any remaining loan balances. MARAD is required to refer defaulted program loans to DOJ for collection, but does not maintain sufficient records to determine the status of the loans it has guaranteed. The Agency could not provide documentation on 9 of the 12 defaulted Title XI loans in our sample. We therefore could not determine when (1) banks demanded repayments on defaulted loans, (2) MARAD paid the loans, or (3) the ship owners and shipyards in default became indebted to MARAD. MARAD personnel also could not provide evidence of the dates that they referred debts on four loans to DOJ for collection. Agency personnel referred us to DOJ for this evidence.

Overall, we found 12 cases of insufficient documentation in our statistical sample. Based on this number, we estimate that \$419.1 million<sup>21</sup> of reported debt was not adequately supported. Without complete documentation, the risk of not being able to substantiate a debt increases.

### **DOT and Operating Administrations Lack Training Policies on Delinquent Debt Reporting and Collection Responsibilities**

Training for staff involved in Federal debt activities helps ensure that staff clearly understand the standards, guidelines, and procedures for successfully managing these activities, which can range from an agency's extending credit or financial assistance to closing out uncollectible debts.

However, DOT and Operating Administration policies do not require staff who report and collect delinquent debt to take training that would provide them the knowledge and skills needed to effectively carry out their responsibilities—including training offered by Treasury. Treasury's guidance states that agencies shall ensure that their personnel receive training on agency and governmentwide credit and debit management regulations and procedures.

To help agencies comply, Treasury offers several training courses—free to Federal employees—on the Government's debt reporting and collection policies and processes. Topics covered include defining delinquent debt, interpreting the law, Treasury requirements, debt collection processes and tools, and assistance that Treasury provides. Treasury also holds seminars on changes and new requirements related to debt reporting and collection. However, according to employees at the

---

<sup>20</sup> MARAD's Title XI program offers long-term financing at fixed interest rates to qualified ship owners and shipyards. The program supports these entities through the issuance of loan guarantees. MARAD is required to pay the balances of defaulted loans.

<sup>21</sup> Our \$419.1 estimate has 90 percent confidence limits ranging from \$418.8 million to \$419.4 million.

National Highway Traffic Safety Administration (NHTSA), FHWA, OST, OIG, and the John A. Volpe National Transportation Systems Center,<sup>22</sup> they have not received formal training on debt reporting and collection.

### **DOT's Lack of Oversight of ESC's and the Operating Administrations' Debt Collections Contributes to Errors**

In addition to lacking delinquent debt policies and procedures, DOT has not provided sufficient oversight or clear ESC SOPs to ensure that ESC and the Operating Administrations process delinquent debts correctly and in a timely manner.

DOT's Chief Financial Officer (CFO) is responsible for monitoring the Department's financial management activities.<sup>23</sup> The CFO assigned the Operating Administrations responsibility for managing their delinquent debts and ensuring they follow proper accounting principles, including overseeing work performed on their behalf. However, none of the Operating Administrations provides sufficient oversight of ESC personnel who monitor and track their delinquent debts. For example, OST staff did not record a delinquent STLP loan debt in Delphi's accounts receivable module. Because the debt was not captured, DOT did not report the debt on the Agency's fiscal year 2013 TROR. According to a senior OST official, the Operating Administration does not monitor or track its delinquent debts because ESC is responsible for performing the work.

During the course of our audit, FHWA recovered one delinquent loan—totaling \$2.9 million—after it informed the debtor that OIG was conducting an audit. Such action suggests that effective oversight can motivate debtors to pay their bills.

Unclear SOPs for administrative debt collection further undermine DOT's ability to collect delinquent debt in a timely manner. For example, a lack of clarity in ESC's SOPs on which services to apply to each Operating Administration contributed to the duplication of effort in the collection of FMCSA's debt.

ESC's SOP on notifying debtors of due debts is particularly problematic. According to Treasury regulations, an invoice, or notice in the case of FMCSA, should inform a debtor that the debt is due upon receipt of the notification. If the debt is not paid within 30 days, it becomes delinquent as of the date the agency mailed the notice to the debtor. However, ESC's SOP on debtor notification states that invoices should be mailed to the customer "at 30 days," making it unclear when the invoices should be mailed. As a result of this lack of clarity, ESC has sent delinquency notices 30 days after the initial invoice—rather than 30 days after

---

<sup>22</sup> The Volpe Center partners with public and private organizations to assess the needs of the transportation community.

<sup>23</sup> CFO Authority and Oversight Policy, CFO-2010-003.

the debt was due—providing debtors an additional 30 days to pay the debt before it was considered delinquent.

In addition, one ESC technician—who handles over 300 invoices a month relating to overflight fees<sup>24</sup> but did not follow FAA’s delinquent debt collection procedures—gives debtors an additional 60 days to pay the fees before making the debts delinquent. As of September 30, 2013, DOT reported to Treasury 1,666 invoices for delinquent overflight fees, totaling \$13.3 million.

We project delays in sending out delinquency notices for \$19 million.<sup>25</sup> Such delays increase the likelihood of the debts becoming uncollectible.

## **CONCLUSION**

Inaccurate delinquent debt reporting and delayed collections have put millions of DOT dollars at risk of going uncollected. While ESC is working to comply with Treasury’s delinquent debt collection requirements, DOT’s oversight and other internal controls are not sufficient to ensure full compliance with the Federal laws and regulations that have been designed to maximize collections of delinquent debt. Until DOT takes action to accurately identify its delinquent debt and ensure appropriate collection tools are used, Treasury will be challenged to recoup the Department’s delinquent debt and Congress will not have the data needed to make informed appropriations and other financial decisions that impact Federal Government operations.

## **RECOMMENDATIONS**

We recommend that the Assistant Secretary for Budget and Programs/CFO:

1. Develop and implement departmentwide policies and procedures for accurately identifying and reporting delinquent debt and recoveries, and collecting debts in a timely manner. Implementation of this recommendation could put \$494.1 million in funds to better use.
2. Establish clear policies and guidance for overseeing delinquent debt collections made by Operating Administrations and ESC.
3. Require relevant training for all personnel who are responsible for identifying, collecting, and reporting on delinquent debt.

---

<sup>24</sup> Overflight fees—fees FAA charges airlines that fly in U.S. airspace but do not take off from or land in U.S. territory.

<sup>25</sup> Our \$19.0 million projection has 90 percent confidence limits ranging from \$18.4 to \$19.5 million.

4. Direct Operating Administrations that must comply with legal requirements outside of DCIA to develop clear and effective debt collection policies and procedures for their unique requirements and to share these policies and procedures with ESC.
5. Direct ESC to clarify its SOPs, including (a) delineating the different processes for administrative and loan debts and (b) identifying the Operating Administrations that the SOPs apply to.
6. Direct Operating Administrations that have loan programs to develop or enhance policies and procedures for complying with their specific requirements for delinquent loan collections.

## **AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

We provided DOT with our draft report on May 29, 2015, and on June 30, 2015, received its response which is included as an appendix to this report. The Department fully concurred with our six recommendations, and provided appropriate planned actions and completion dates for recommendations 1, 2, 3, and 6. For recommendations 4 and 5, however, DOT provided completion dates but not corrective actions taken or planned.

## **ACTIONS REQUIRED**

We consider recommendations 1, 2, 3, and 6 resolved but open pending completion of the planned actions. We consider recommendations 4 and 5 unresolved and open and request that DOT provide specific information on actions taken or planned within 30 days of the date of this report in accordance with DOT Order 8000.1C.

We appreciate the courtesies and cooperation of DOT representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-4350, or George Banks, Program Director, at (410) 962-1729.

#

cc: DOT Audit Liaison, M-1

## EXHIBIT A. SCOPE AND METHODOLOGY

We conducted our work from November 2013 through May 2015 in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To conduct our work, we interviewed representatives in FAA, FHWA, FMCSA, FRA, FTA, MARAD, NHTSA, OIG, OST, the Pipeline and Hazardous Materials Safety Administration, Research Innovative Technology Administration, the St. Lawrence Seaway Development Corporation, STB, and the Volpe Center. We also interviewed ESC managers, analysts, and accounting representatives at the ESC in Oklahoma City, OK. Additionally, we reviewed loan agreements and loan related documentation for FHWA, FRA, MARAD, and OST.

We coordinated with OIG's Statistician and selected a statistical sample of 142 out of 41,278 DOT non-tax delinquent debts from all Operating Administrations for fiscal year 2013.<sup>26</sup>

To determine whether DOT takes comprehensive action to collect its delinquent debt and refers eligible delinquent debts to Treasury in a timely manner, we (1) reviewed DOT's delinquent debt and recent collections and identified any relevant trends, and (2) assessed DOT's debt collection and referral policies, procedures, and oversight. Specifically, we assessed DOT, ESC, and Operating Administration policies and procedures on debt collection practices for compliance with Federal laws and regulations such as DCIA, and OMB and Treasury guidance. We conducted interviews with DOT, ESC and Operating Administration staff to validate our understanding of relevant policies and procedures and their application. We reviewed supporting documentation for sample items including invoices, demand letters, evidence of communication with debtors, and evidence of delinquent debt transferred to Treasury.

By testing the 142 unique sample items, we identified 156 findings that applied to 101 sample items. One hundred and fifty-four of these findings relate to a lack of compliance with Treasury requirements for the processing of delinquent debts. The remaining two findings were related to delinquent debts collected as a result of this audit.

---

<sup>26</sup> Number of debts in universe: 41,278; number of debts in sample: 147; number of unique debts in sample: 142.

Based on our statistical sample of \$673.3 million in delinquent debt, we project that as of September 30, 2013, DOT did not comply with Treasury's debt collection procedures when processing \$494.1 million<sup>27</sup> (66 percent) of this debt.

We discussed all findings and issues relevant to this audit at individual debriefings with each Operating Administration between August and September of 2014.<sup>28</sup> We also held an exit conference with DOT officials in November 2014.

---

<sup>27</sup> This \$494.1 million projection has 90 percent confidence limits ranging from \$493.5 to \$494.6 million.

<sup>28</sup> We debriefed SLSDC by email because it had no issues.

**EXHIBIT B. ENTITIES VISITED OR CONTACTED**

Enterprise Services Center (ESC)

Federal Aviation Administration (FAA)

Federal Highway Administration (FHWA)

Federal Motor Carrier Safety Administration (FMCSA)

Federal Railroad Administration (FRA)

Federal Transit Administration (FTA)

Maritime Administration (MARAD)

National Highway Traffic Safety Administration (NHTSA)

Office of Inspector General (OIG)

Office of the Secretary (OST)

Pipeline and Hazardous Materials Safety Administration (PHMSA)

Research and Innovative Materials Safety Administration (RITA)

Saint Lawrence Seaway Development Corporation (SLSDC)

Surface Transportation Board (STB)

John A. Volpe National Transportation Systems Center (the Volpe Center)

## EXHIBIT C. SUMMARY OF UNIVERSE TOTALS AND SAMPLES PER OPERATING ADMINISTRATION

OA	Amount		Sample Items	
	Total	Sample Total	Total	Projectable Findings
FAA	\$35,914,012.59 <sup>a</sup>	\$5,969,184.36 <sup>a</sup>	33	17
FHWA	3,762,660.12	3,415,208.02	5	5
FHWA Loan	6,174,792.66	6,174,792.66	2	2
FMCSA	38,742,605.14	1,934,607.92	41	36
FRA	209,289.18	81,450.00	4	3
FRA Loan	983,900.84	983,900.84	2	2
FTA	6,320,138.66	6,144,080.35	5	5
MARAD	188,635.05	107,450.48	4	3
MARAD Loan	643,649,443.57	643,649,443.57	12	9
NHTSA	40,637.92	10,036.43	4	1
OIG	31,103.86	5,528.87	4	3
OST	6,285,279.54	4,334,316.66	8	6
OST Loan	24,961.13	24,961.13	1	1
OST-WCF	52,406.38	49,940.31	3	1
PHMSA	2,187,684.13	300,031.53	5	1
RITA	100,379.51	61,165.87	4	3
SLSDC	997.67	997.67	1	0
STB	10,269.34	2,160.00	2	2
VOLPE	5,132.60	3,725.18	2	1
<b>Total</b>	<b>\$744,684,329.89<sup>a</sup></b>	<b>\$673,252,981.85<sup>a</sup></b>	<b>142</b>	<b>101</b>

<sup>a</sup> Figure presented in absolute value.

**EXHIBIT D. MAJOR CONTRIBUTORS TO THIS REPORT**

George Banks	Program Director
Dory Dillard-Christian	Project Manager
Cordelia Bostic	Senior Auditor
Lakarla Lindsay	Senior Auditor
Allison LaVay	Senior Analyst
Wayne Summers	Auditor
Petra Swartzlander	Senior Statistician
Amy Berks	Senior Counsel
Karen Sloan	Communications Officer
Susan Neill	Writer-Editor

## APPENDIX. AGENCY COMMENTS



**U.S. Department  
of Transportation**

Office of the Secretary  
of Transportation

1200 New Jersey Avenue, SE  
Washington, DC 20590

JUN 30 2015

MEMORANDUM TO: Louis King  
Assistant Inspector General for Financial and Information  
Technology Audits

FROM: Blair Anderson *for / D. Anderson*  
Acting Chief Financial Officer and  
Assistant Secretary for Budget and Programs

SUBJECT: Management Response to OIG Draft Report on Delinquent  
Debt

The Department of Transportation (DOT) continues to strengthen the reporting and management of its delinquent debt portfolio. By dollar amount, the majority of debts due to the Department are related to direct loan and loan guarantee programs, as well as from non- payment of fines and fees levied by the Operating Administrations (OAs). The reference point of the OIG's report is DOT's delinquent debt balances at the end of FY 2013-\$737 million. As highlighted in the report, this compares to a balance of \$170 million in FY 1999, when the OIG last reviewed this matter, and a high of \$887 million in FY 2002. Of the \$737 million in FY 2013, \$644 million was associated with defaults on loans guaranteed by the Department. The majority of the FY 2013 balance, \$699 million, was in a currently not collectible (CNC) status<sup>1</sup>.

Of note, in 2012 Treasury's Bureau of the Fiscal Service (BPS) began rating agencies on a series of metrics that measure an agency's compliance with reporting delinquent debts. The rating reflects two years of delinquency as CNC for reporting purposes on the quarterly Treasury Report on Receivables. DOT has been fully compliant since 2013. In addition, DOT increased its collections of accounts receivable by 15 percent, from \$621 million in FY 2013 to \$711 million in FY 2014. DOT has also been successful in referring eligible delinquent debt to Treasury timely, exceeding Treasury's 95 percent referral rate requirement. In the 4th quarter of 2013 and 2014, DOT's referral rate was 99.9 percent. These results are important indicators of progress on these issues.

---

<sup>1</sup> DOT classifies a debt as CNC when it has been delinquent for two years and there has been no success in collecting payment from the debtor after a series of collection efforts have been exhausted. These efforts may include lengthy litigation. DOT leaves the debt in a CNC status in hopes of collecting some of the debt through the Treasury Offset Program, but the likelihood of collection is lower as the debt gets older.

DOT has initiated several efforts to address its delinquent debt reporting and processes. These initiatives will improve the Department's reporting accuracy and management. The following actions, to address these initiatives and some of OIG findings, have been completed or in the process of implementation:

- ESC has implemented changes to DOT's core accounting system that greatly improve the accuracy of reporting delinquent debt collections.
  - DOT now has the ability to identify the amount of delinquent debt collected by DOT prior to referring the debt to Treasury.
  - This enhancement was implemented during the first quarter of 2015 and as a result, DOT can report that \$23.9 million in delinquent debt was collected prior to referral to Treasury during the first quarter.
- DOT is now fully compliant with the Data Act requirement that delinquent debt be referred to Treasury within 120 days of delinquency. DOT implemented the 120 day referral policy in July 2014.
- DOT is in the process of finalizing a Departmental Order that establishes guidance and policy on managing delinquent debt. This order will reevaluate internal controls, including debt collection policies, procedures, training and oversight. We view this updated Order as critical in establishing an improved framework for OAs and our shared service provider, the Enterprise Services Center (ESC).
- The Department will continue to work with OAs, and their loan programs, to update their policies and procedures to address specific requirements for delinquent loan collections.

Based on our review of the draft report, we agree to implement OIG's recommendations, 1 – 6, as written. We intend to complete each of these actions by January 30, 2016.

We appreciate this opportunity to offer an additional perspective on the OIG draft report. Please contact Meredith Powell, Associate Director for Policy and Systems, on my staff at (202)-366-6088, or via e-mail at Meredith.Powell@dot.gov, with any questions.