

**STATEMENT OF COMMISSIONER KENNETH R. PAPAJ
U.S. DEPARTMENT OF THE TREASURY
FINANCIAL MANAGEMENT SERVICE
BEFORE THE UNITED STATES SENATE
HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS**

Chairman Levin, Ranking Member Coleman, and Subcommittee members, thank you for inviting me here to testify today. I ask that my entire statement be included in the record. I am pleased to have this opportunity to report on the success of the Financial Management Service's (FMS) debt collection program and on our recent accomplishments and ongoing plans to further improve the Federal Payment Levy Program. I'd like to thank the members of this subcommittee and your staffs for your continuing interest in and support of these important efforts.

Record Collections and Steady Growth

FMS operates a highly efficient and effective government-wide debt collection program that collects both tax and nontax debts owed to federal agencies and certain debts owed to states including delinquent child support obligations. I am extremely pleased to report that in fiscal year 2007 the program brought in record-breaking collections of \$3.76 billion, \$1.7 billion of which was for child support. Of the \$3.76 billion, federal tax debt collections totaled approximately \$345 million, an increase of \$42 million over fiscal year 2006 collections and an increase of over \$256 million since fiscal year 2003. Significantly, as shown on the attached chart, collections have shown a steady rise over the last 4 years. Since the inception of the debt collection program at FMS in 1996, we have collected over \$31.5 billion in delinquent debt that would otherwise not have been collected.

Of particular interest to this subcommittee, with regard to federal contractors who owe delinquent taxes, I am pleased to report that the number of levies against federal vendor payments increased from 31,054 levies in fiscal year 2006 to 34,388 levies in fiscal year 2007, an increase of 11 percent. Collections from federal contractors totaled \$47.4 million in 2007. This number reflects only collections received directly through FMS' Federal Payment Levy Program and does not include additional collections paid to IRS upon the contractor's receipt of the due process notice of the intended levy action.

Recent Accomplishments

Despite these record collections, we realize there is always more to be done and we continuously strive to improve the program. In just the short time since the last subcommittee meeting in March 2007, significant developments have taken place.

First, we have added additional types of payments to the program. In June of this year we added payments issued by the Army Corp of Engineers to both the offset and levy

programs. In October, FMS began offsetting Railroad Retirement Board (RRB) payments with \$844 thousand collected in the first two months. We will soon add RRB payments to the levy program when IRS programming changes are complete. Also in August, four months ahead of schedule, we successfully implemented a process to ensure that delinquent taxpayers are not able to bypass the levy process by receiving federal payments via Fedwire, which is a same-day payment mechanism. Delinquent taxpayers are now blocked from receiving Fedwire payments and must receive their payment through a payment mechanism that is subject to levy.

Next, we have put in place reciprocal agreements with the states of Maryland and New Jersey. Under this pilot program, FMS offsets certain federal payments to collect debts owed to participating states and in return, state payments are offset to collect federal debt. Since offsets began in July we have collected \$11.8 million of debt owed to Maryland and New Jersey and those states have collected \$439,000 of debt owed to the federal government.

Additionally, we continue to work with IRS to increase the number and dollar amount of tax debt that is activated for levy and that work has paid off. The amount of tax debts activated for levy has increased from \$53.1 billion in fiscal year 2006 to \$62.7 billion in fiscal year 2007. This represents approximately 51% of the tax debt IRS has referred. This is an increase of 2% from last March. To increase this number even further, the administration has proposed a legislative change that would allow IRS to forego the due process that is currently required prior to levy and allow instead for post levy due process under certain circumstances. We believe this would be particularly helpful in ensuring that we don't miss the opportunity to levy payments to federal contractors which are often one-time, non-recurring payments.

Ongoing Efforts

We continue to work to ensure that payments from all the various systems used for making payments to vendors are subject to levy. The latest system to be added, known as the Automated Clearing House – Corporate Trade Exchange or ACH-CTX system, is on target for implementation by the end of December.

We are ready to conduct testing with the United States Postal Service to incorporate into the levy program Postal Service payments to vendors. While programming changes at FMS are complete, this project, initially scheduled to be implemented in June 2007, has been delayed slightly so that the Postal Service can resolve some remaining technical issues. We are on track for full implementation by the end of this year.

FMS continues to pursue legislative initiatives to enhance our debt collection program. We have proposed an initiative that would eliminate the 10-year statute of limitations currently applicable to the collection of nontax debt by administrative offset. In the context of levy, we continue to seek a technical correction to the Internal Revenue Code that would allow IRS to levy up to 100% of all federal vendor payments. This authority was generally granted in 2005 but has not been fully implemented because of a technical deficiency in the statutory language.

At the March hearing, this subcommittee brought to light the important issue of Medicare providers who owe significant amounts of federal tax debt yet continue to receive payments from the federal government. At that time, we committed to working with the IRS and the Center for Medicare and Medicaid Services (CMS) to find a solution. I am very pleased to report that since that time, much progress has been made toward implementing a pilot program to levy Medicare payments through the Federal Payment Levy Program. Staffs from all three agencies participate in a subgroup of the Federal Contractor Tax Compliance Task Force formed to meet this challenge. The subgroup meets on a regular basis and the level of cooperation and support toward achieving this common goal has been extraordinary. FMS staff recently participated in a table-top exercise presented by CMS and its contractor which walked through, in substantial detail, the proposed process for matching CMS payment records with records of delinquent taxpayers and levying those payments when appropriate. We also recently conducted a test match with CMS, matching Medicare Parts A and B payment information from their Healthcare Integrated General Ledger Accounting System (HIGLAS) from just one day with tax debts in the federal payment levy program that have been activated for levy. This resulted in 335 matches with potential collections of \$1.1 million.

While the idea of collecting overdue taxes from Medicare providers is relatively straightforward, it is an enormously complex undertaking involving a significant number of systems. Nevertheless, as a result of the commitment and dedication of the three agencies and the support of this subcommittee, the pilot program to levy some Medicare payments is expected to begin in October 2008. In the interim, the task force is working to develop a manual process whereby FMS could provide information to IRS on specific Medicare providers who owe taxes and are about to be paid, so that IRS can issue paper levies. We also continue to work with CMS to explore the option of having FMS disburse Medicare Parts A and B payments so that levies can be conducted using the processes in place for levying other FMS disbursed payments.

We continue to work closely through the Federal Contractor Tax Compliance Task Force on this and other initiatives to improve the Federal Payment Levy Program. More detail regarding the accomplishments of the task force will be included in a written report to be issued to the subcommittee early next year.

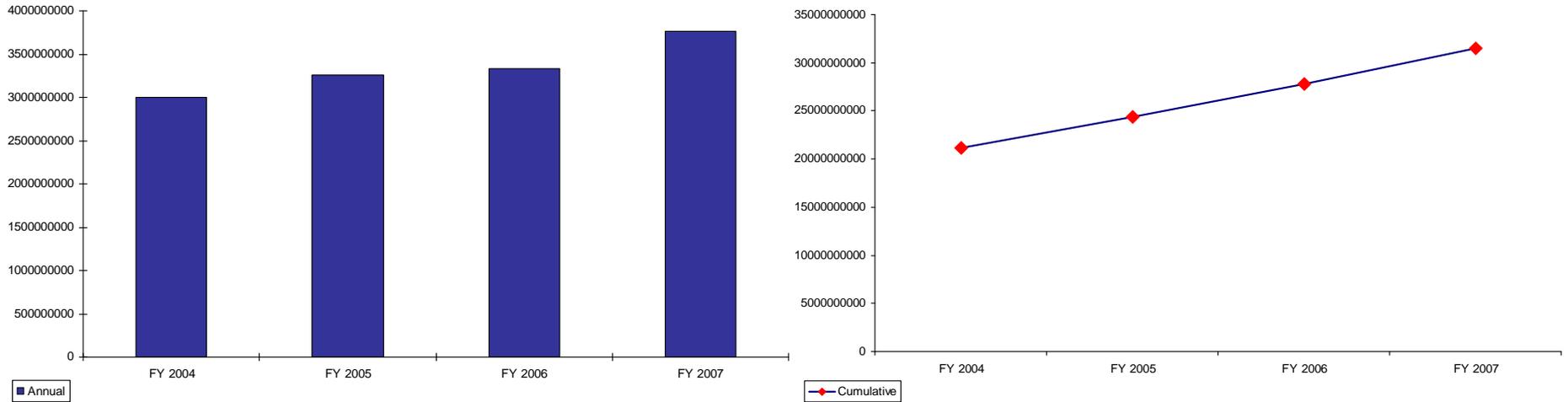
Levying Medicaid Payments

You have specifically asked me to address issues surrounding the levy of Medicaid payments in response to recent findings by the Government Accountability Office on Medicaid providers who owe delinquent taxes. Unlike Medicare payments which are disbursed by the federal government, Medicaid payments to providers are issued by the states. This introduces legal and operational complexities that are not present under Medicare. The Federal Contractor Tax Compliance Task Force has examined the issue of incorporating Medicaid payments into the Federal Payment Levy Program. IRS has determined that such payments are not federal payments subject to continuous levy under current law. Nevertheless, along with IRS and CMS, we will continue to examine this

issue to determine how best to overcome existing legal hurdles and ensure that any process to levy payments to Medicaid providers is operationally feasible and not unduly burdensome and costly to the federal government or to states. We expect that this will be a complex and long-term effort. However, in the interim, because of the significant overlap between Medicare and Medicaid providers, we are optimistic that progress can be made toward reducing the tax obligations of Medicaid providers through our continuing efforts to implement a process to levy Medicare payments.

This concludes my statement. I would be happy to respond to any questions.

FMS Collections



Annual

2004	\$3,005,174,029
2005	\$3,252,877,421
2006	\$3,336,476,916
2007	\$3,758,212,151

Cumulative

2004	\$21,163,293,032
2005	\$24,416,170,453
2006	\$27,752,647,369
2007	\$31,510,859,519