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THE FINANCIAL CONNECTION

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A BUREAU OF THE U.S. DEPARTMENT OF THE TREASURY

FMS Payments and Debt Collection Strategies: What's Ahead

By KEN PAPAJ
Commissioner, Financial Management Service

COMMISSIONER'S REPORT

In previous articles, I have discussed the priorities and future directions for the Governmentwide Accounting and Reporting and Collections Programs. In this article, I will cover the priority initiatives for the Payments and Debt Collection Programs, given their integral relationship to each other.

Payments: A Call to Reduce Checks

The number one priority for the Payments Program is to eliminate as many check payments as possible in favor of direct deposit (i.e., ACH) or other electronic payment options. Direct deposit is a win-win situation for all parties—for the payment recipient because it is safer, more secure, and more reliable than a check, and for the federal government and the American taxpayer because of the cost savings associated with direct deposit.

As the central disbursing agency, FMS issues 85 percent of the government's payments. For fiscal year (FY) 2006, we issued over 964 million payments, valued at $1.6 trillion. While 77 percent of those payments were made electronically, we still issued over 219 million checks. Since a check payment is 80 cents more costly than an ACH payment, there is a potential savings of almost $175 million annually if we convert all checks to direct deposit. Recipients of Social Security (SSA) and Supplemental Security Income (SSI) payments are our primary focus because they account for over two-thirds—or 142.5 million—of the checks FMS disburses.

FMS has developed a three-faceted strategy to dramatically increase the use of direct deposit and other electronic payment tools for benefit recipients. The strategy addresses three distinct categories of benefit recipients: recipients currently receiving checks, unbanked benefit recipients, and baby boomers who will begin to enter the Social Security rolls next year. An ongoing marketing program called Go Direct targets current check recipients; a pilot program to disburse benefit payments using debit cards focuses on the unbanked; and a proposed initiative would require new benefit recipients—with one exception—to receive their payments electronically.

Go Direct

Go Direct is a nationwide campaign aimed at converting SSA and SSI check recipients to direct deposit. The campaign, which is in its second year, has partnered with over 800 community-based organizations and financial institutions. Another key aspect of this initiative has been to simplify and streamline the direct deposit enrollment process. Working with the **Federal Reserve Bank of Dallas**, we have developed phone and Web-based methods for SSA and SSI recipients to sign up for direct deposit. More than 600,000 individuals converted

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from check to direct deposit payments during the first year of the Go Direct campaign.

Go Direct will undertake two major events over the remainder of this campaign year. The first activity is a "friendly competition," called the Go Direct Challenge, among banks and credit unions that have partnered with Go Direct. The financial institutions will compete from January through June 2007 to enroll the largest number of individuals in direct deposit.

Banks and credit unions are viewed as a trusted source of financial advice and information by the retiree and elderly community and are key players in the campaign. Over 600 financial institutions, including 26 of the 30 largest, have partnered with Go Direct to spread the word about the safety, security, convenience, and reliability of direct deposit.

The other event is Countdown to Retirement, which began in January. The oldest baby boomers will become eligible for Social Security retirement benefits in 2008, and this activity begins a one-year countdown to their retirement.

On Jan. 3, FMS released the results of a national consumer poll on baby boomers' attitudes about direct deposit, retirement and other financial issues. One finding was that baby boomers are more than twice as likely as today's senior citizens to bank and pay their bills online. However, baby boomers between the ages of 51 and 60 are less inclined to rely on direct deposit than today's seniors. The survey found that 25 percent of baby boomers still get paid by their employers with paper checks, compared with only 13 percent of those 61 or older. As you can see, we have much work to do.

Countdown to Retirement will focus on motivating baby boomers to choose direct deposit for their Social Security payments when they retire, while also encouraging current retirees to convert to direct deposit.

Debit Card Pilot

A second major initiative is directed at SSA and SSI recipients who are unbanked. Based on research we conducted a couple of years ago,

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Check Reduction Initiatives

- ***Current benefit check recipients:*** *Go Direct marketing campaign; Go Direct Challenge for financial institutions and Countdown to Retirement to motivate baby boomers to choose direct deposit for Social Security payments when they retire.*
- ***Unbanked benefit recipients:*** *Direct Express, a MasterCard-branded debit card pilot.*
- ***Universal Direct Deposit:*** *A proposal now under study that at some future date would require new federal benefit payment beneficiaries to receive their payments by direct deposit unless they certify that they do not have a bank account.*

Navy Cash Stored-Value Card Marks Milestone

By SEAN KEMPLE

EMERGING TECHNOLOGY

Navy Cash, the U.S. **Department of the Treasury's** stored-value card (SVC) program developed in partnership with the **Department of the Navy**, reached its 100th ship installation milestone on Dec. 12 with the *USS Germantown* (LSD 42) based in San Diego, Calif.

The *Germantown* installation took six months from approval to completion and involved the Naval Supply Systems Command (NAVSUP), FMS, financial agent JPMorgan Chase and contractor L3 Titan.

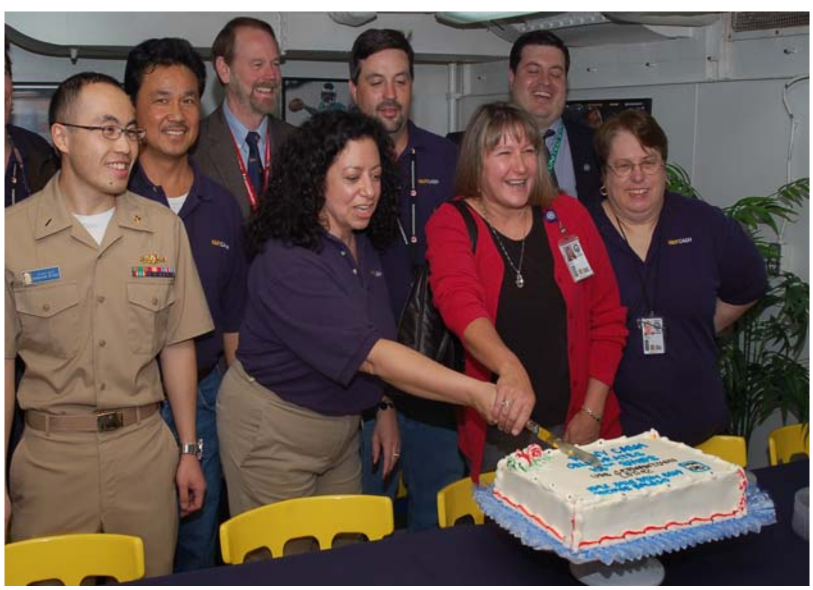
"The card can be used for all purchases aboard the ship, so it's a lot easier for sailors," said LTJG Jeffrey Seto, the *Germantown's* disbursing officer. "The best thing about the card for me is it reduces the disbursing office workload because we don't handle as much money."

The card, introduced in April 2001, allows sailors and Marines to receive electronic pay, access bank and credit union accounts, transfer and withdraw funds, and make purchases ashore and on ships. Users can withdraw funds from more than 900,000 ATMs worldwide and make purchases at more than 32 million merchants.

Navy Cash is one of three financial smart cards developed by FMS for the Department of Defense. The program aims to end the float loss associated with the more than $2 billion in coin and currency in circulation on military bases, ships, and other locations around the world. SVCs also eliminate the cost of securing, transporting, and accounting for cash held outside the Treasury. In addition, the cards do away with the manually intensive back-end operations necessary to support scrip, vouchers, meal tickets, money orders, travelers checks, and other paper payment mechanisms used in closed government environments.

The system, which utilizes commercially available financial concepts and systems technology, satisfies DoD requirements for a deployable financial system that:

- can be used in afloat and dangerous theaters of operation without traditional banking or telecommunication infrastructure,
- can be administered on board by non-technical Navy personnel and
- is secure, easy to use, scalable, fully auditable, and cost effective.



Navy and FMS representatives celebrate Navy Cash's 100th installation.

Over 320,000 Navy Cash/Marine Cash cards have been issued with $143 million loaded to the chip on the cards. The Navy plans to have Navy Cash aboard 175 ships by the end of FY2008.

For more information, contact Graham Mackenzie, SVC program manager, at (202) 874-1845.

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there are an estimated 4.5 million unbanked SSA and SSI recipients. Working jointly with SSA, FMS is initiating a limited one-year pilot in which SSA and SSI benefit payments would be loaded on a debit card. Under this voluntary program, called Direct Express, debit card accounts for benefit recipients will be established at an FMS-designated financial agent bank.

The debit card accounts will be individually owned and insured by the **Federal Deposit Insurance Corp.** (FDIC). They will have the full consumer protection afforded by the **Federal Reserve's** Regulation E. The debit card will be MasterCard-branded and can be used wherever MasterCard is accepted for automated teller machine withdrawals or point-of-sale transactions using a personal identification number or signature. Based on payment files submitted by SSA, FMS will disburse SSA or SSI funds electronically to the cardholder's account in the same way that a direct deposit payment is made.

FMS will solicit approximately 35,000 unbanked check recipients to obtain 3,000 participants for the pilot. The goal is to determine whether debit cards offer a cost-effective alternative to paper checks for the disbursement of federal payments to the unbanked. If the pilot is a success, it could be expanded beyond benefit payments to meet the needs of program agencies.

Universal Direct Deposit

With Go Direct focusing on current SSA and SSI check recipients and the debit card pilot directed at the unbanked beneficiaries, that leaves the baby boomers to be addressed.

Beginning in 2008, the first wave of an estimated 77 million baby boomers will become eligible for retirement and Social Security benefit payments. In addition, the growth in direct deposit has slowed. From 1997 to 1999, when direct deposit was viewed as mandatory, there was a 16 percent increase in direct deposit for SSA payments and an even larger increase of 20 percent for SSI payments. However, after the liberal waiver rules were introduced in 1999, the percentage increase in EFT payments decreased substantially. From 2000-2006, the cumulative increase was only 5.4 percent for SSA payments and 7.4 percent for SSI payments.

Unless this dynamic changes significantly, the costs to the Social Security Trust Fund and the taxpayer will only get larger. In the national survey, 83 percent of respondents indicated they are likely to receive their SSA payments by direct deposit when they retire. This is exactly the same percentage of recipients who received their SSA benefits electronically in FY2006.

FMS made 142.5 million check payments to SSA and SSI beneficiaries in FY2006. If all of those checks were converted to direct deposit (recognizing that we will never reach 100 percent electronic funds transfer), we could realize a savings of approximately $114 million annually, of which $83 million would accrue to the trust fund. The coming wave of baby boomers will only increase our payment costs if direct deposit enrollment does not accelerate significantly. Assuming the current ratio of direct deposit payments to checks, the 77 million baby boomers will add about 8 million checks annually by 2010 and almost 45 million more checks annually by 2020. The cost of those extra checks will be borne by the trust fund.

> *"Currently, FMS has over 30 separate payments systems, built over the years to meet agencies' unique needs. … The Payments Application Modernization (PAM) project is FMS's effort to consolidate these myriad systems into one configurable, primary application."*

FMS is studying a proposal called Universal Direct Deposit that would require all new SSA and SSI enrollees (as well as other new federal benefit payment beneficiaries) after some future date to receive their payments by direct deposit unless they certify that they do not have a bank account. The opt-out provision and the wide availability of low- or no-cost bank accounts, together with the lessons learned from Hurricane Katrina regarding the hardship that benefit recipients endure when they cannot receive their funds, make this the right time to pursue this initiative. This is a win-win proposition for everyone. It would substantially increase direct deposit, and thus

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bring greater security and peace of mind to SSA and SSI beneficiaries while also reducing the costs to the Social Security Trust Fund and the American taxpayer.

Modernizing Payment Applications and Processes

The second major initiative being undertaken in the Payments Program is a project to modernize, streamline and consolidate FMS payment systems and to automate a number of back-end check payment functions.

Currently, FMS has over 30 separate payments systems, built over the years to meet agencies' unique needs. We have one system for vendor/ miscellaneous ACH payments, another for vendor/ miscellaneous check payments, another for SSA cycled ACH payments and still another for SSA cycled check payments. You can imagine the operations and maintenance costs to keep these 30-plus systems running. We also faced many challenges remediating them for Y2K and in removing the Social Security numbers from the checks. In addition, some of these payment applications are still written in Assembler computer language. There aren't many Assembler experts still around.

The Payments Application Modernization (PAM) project is FMS's effort to consolidate these myriad systems into one configurable, primary application. Separate modules will be developed that support agencies' unique payment requirements and that can be accessed to supplement the core PAM application. A standard payment file will be created which contains fields for the Treasury Account Symbol (TAS) and the Business Event Type Code (BETC). As you recall from my August article on the Governmentwide Accounting and Reporting (GWA) Program, the TAS and BETC are two pieces of information that agencies will need to include in their daily reporting of transactions to the FMS central accounting system. However, program agencies will not have to change their existing payment file formats when PAM is first implemented. Over time, agencies will want to include the TAS and BETC in their payment files for reporting to the new GWA system. *(See related article on the Shared Accounting Module on Page 9.)* The PAM initiative will also enable us to automate a number of manual processes in the back-end check print operation.

We plan to implement PAM with one payment stream in early FY2008 and roll it out for other payment types throughout the remainder of FY2008 and FY2009.

Collection of Delinquent Debt

FMS's fourth business line is also our newest. The Debt Collection Improvement Act of 1996 (DCIA) gave Treasury significant new central agency responsibilities to administer and oversee the collection of delinquent non-tax debt owed to the federal government. FMS also collects delinquent child support debts and delinquent state income tax debts, and we assist the **Internal Revenue Service** (IRS) with the collection of delinquent taxes through the continuous levy program.

One of the primary reasons Treasury was given debt collection authority under the DCIA is that FMS is the government's central disbursing agency. Accordingly, the payment offset program is the primary tool FMS uses to collect delinquent debt. This program, called the Treasury Offset Program (TOP), compares the names and taxpayer identification numbers (TINs) of debtors in our debtor database with the names and TINs of federal payment recipients. If there is a match, the payments are reduced or "offset" to satisfy the debt in whole or in part. In FY2006, we collected over $3.2 billion of delinquent debts through TOP.

The Cross-Servicing Program is the second tool we use to collect debts. Under this program, federal agencies refer delinquent non-tax debt to FMS for collection by a variety of tools such as payment offset, demand letters, repayment agreements, administrative wage garnishment, credit bureau reporting, referrals to the **U.S. Department of Justice** and five private collection agencies (PCAs).

Since the DCIA's inception, FMS has collected over $28 billion in debts that would otherwise not have been collected.

FedDebt

Because of the pressures to implement the debt collection program quickly and show demonstrable collection results, systems and processes were

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developed in a fragmented, stand-alone fashion. As a result, we have separate systems for payment offset and cross-servicing with different file formats that agencies must use to refer the same debt as well as separate debtor databases.

FedDebt is the FMS initiative that will integrate the TOP and Cross-Servicing systems into a single application with an integrated database of debts and debt information. Agencies will benefit from the elimination of duplicate reporting since there will be a common file format for referring debts to FMS. FedDebt will then route the debt to the appropriate collection program, payment offset or cross-servicing, for collection action.

In addition, FedDebt will provide program agencies with batch and online capabilities via a single sign-on interface to access and obtain complete information on the status of a debt or collection activity instead of having to access two systems. FedDebt's first phase was implemented in October 2005 with the startup of the Cross-Servicing application. Our work is now focused on transitioning the TOP system into FedDebt. Due to the complexity and size of the TOP system, this transition is expected to be completed in 2009.

Adding Payment Streams for Debt Offset

Another key initiative we are working on is to increase collections of debt by adding more payment streams to the debt offset process. One type of payment used primarily for composite vendor payments (multiple payments made under a single schedule total), called CTX, is currently not being offset. FMS is making modifications to our systems to enable CTX payments to be offset by the end of calendar year (CY) 2007. Agencies will not need to make any changes to their CTX payment files as all of the required modifications are internal to FMS. We will be formally notifying agencies that CTX payments are subject to offset as we get closer to the implementation date for this enhancement.

Similarly, Fedwire payments are not currently offset to collect delinquent debt. Since Fedwire payments are same-day payments with straight-through processing, they do not lend themselves to offset. However, FMS is changing processes so that Fedwire payments will be matched against the debtor database. If there is a match, the payment will not be processed. Instead, we will contact the agency that submitted the Fedwire payment, explain that the payment is subject to offset, and request the agency to resubmit the Fedwire payment as an ACH payment so that the offset can be taken. No modifications will be needed to agency systems for this processing change, which will also be implemented by the end of CY 2007.

In addition, FMS continues to work with non-Treasury disbursing agencies to include their contractor payments in the payment offset and levy programs. Later this summer, contractor payments made by the **U.S. Army Corps of Engineers** and the **U.S. Postal Service** will become subject to offset and levy. Finally, FMS is working with the IRS and the **Department of Health and Human Services** to determine the most effective and efficient way to bring third-party provider Medicare payments into the continuous levy program.

Conclusion

As you can see, FMS is undertaking transformational changes in each of our four business lines: governmentwide accounting, collections, payments and debt collection. At the forefront of these changes is our use of technology and Web-based capabilities to move toward the goal of all-electronic cash management.

By converting paper transactions to electronic transactions, we will be able to provide agencies with more timely, useful and accessible financial information while ensuring the secure transfer of funds and information. These changes will also streamline financial reporting through uniform and standardized reporting of data and the elimination of duplicate reporting in favor of transaction events being reported one time at the initiation of the transaction. Finally, these changes will result in easier access to FMS systems through a single sign-on portal that will enable agency users to log on with a single PIN and password to the various systems that they are authorized to access.

Working together with the program agencies, we can strengthen financial management across government and provide improved services and products to the American people in an effective and efficient manner.

Prepaid Debit Cards Draw Agencies' Interest

By JOANN FRANKLIN

Nearly 25 people from four agencies or bureaus participated in a hands-on US Debit Card session following the forum.

Nearly 100 federal agency representatives attended the **Financial Management Service's** (FMS) US Debit Card Agency Forum on Nov. 2. The forum provided insights on how prepaid cards are changing the way the federal government is conducting business by replacing agencies' reliance on non-electronic payment mechanisms such as cash and checks.

FMS Federal Finance Assistant Commissioner Gary Grippo provided a history of the US Debit Card program and its current and potential uses. He also encouraged agencies to consider the use of debit cards as financial tools continue to evolve.

DEBIT CARDS

Dennis Moroney of TowerGroup gave an overview of the prepaid card industry and explained how the cards are used for travel, health care, convenience, the underserved and unbanked, and by corporate and government entities.

Other presenters described how agencies can use prepaid cards to replace cash and checks for payments related to intermittent payroll, invitational travel, survey incentives, spot awards, the unbanked and business continuity management.

In late December 2006, FMS began the Direct Express Card pilot for unbanked Social Security recipients in the Chicago area. The pilot will be used to determine the feasibility of offering debit cards in lieu of check payments.

After the forum, agencies participated in a hands-on session that demonstrated how the US Debit Card Agent Service Center works. Once an agency agrees to participate in the US Debit Card program, the center may be used to manage enrollments, funding, reporting and more. Nearly 25

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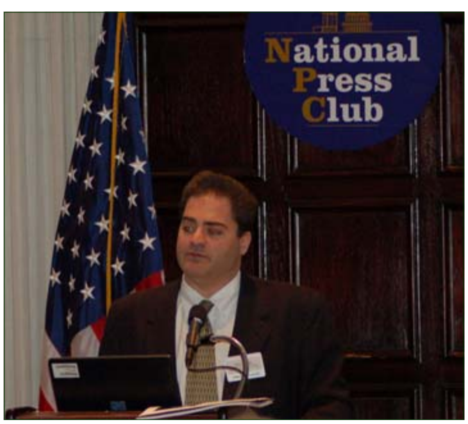

Gary Grippo, FMS Federal Finance assistant commissioner, and Ronda Kent, director of Federal Finance's Agency Enterprise Solutions Division, explained how the US Debit Card can benefit federal agencies.

ASAP Board Seeks Members

By MARGIE SPRINGER

The Automated Standard Application for Payments (ASAP) Customer Board (ACB) consists of ASAP system users who provide input and feedback to the **Financial Management Service** (FMS) concerning user-related issues and enhancements. As volunteers, ACB members represent their specific user group community. ASAP user group communities include federal program agencies, states, universities, Indian tribal organizations, and non-profit and for-profit entities.

ASAP allows grantee organizations receiving federal funds to draw from accounts pre-authorized by federal agencies. It also makes payments to financial agent banks that are performing financial services for FMS and other federal agencies.

ACB members actively provide feedback on redesign efforts, represent the board at their user group meetings, communicate with user peers and participate in testing for future ASAP releases.

ACB meetings are usually held quarterly, with two of the quarterly meetings conducted via conference calls. The relevant agency or employer must approve the member's involvement and agree to pay out-of-town meeting travel costs. When possible, FMS schedules ACB meetings in conjunction with other user group meetings.

FMS would like to recognize and congratulate two members for their tenure and dedication to the ASAP system and the ACB: Art LeBlanc, former board chair and federal program agency representative from the **Department of Agriculture's Food and Nutrition Service**, and Jerry Scribner, state representative from Oklahoma. Both men retired in December 2006.

LeBlanc recently served a two-year term as ACB chairman and was an ardent advocate for the federal user community since early 2000. He was a very proactive member, championing various changes, updates, refinements, and improvements for federal ASAP users.

Scribner, an ACB state representative since 2000, was a dedicated supporter of state users. He recommended an enhancement that will allow ASAP to notify a centralized state's treasurer when a centralized state entity changes bank accounts.

The ACB has vacancies for representatives from all the user group communities. If your organization is interested in providing a representative to serve on the ACB or if you have any questions about becoming a member of the ACB, please contact Margie Springer at (202) 874-9276 or by e-mail at Margie.Springer@fms.treas.gov. You can also mail your nominations to FMS, Liberty Center, Room 403D; 401 14th Street SW, Washington, DC 20227.

Former ASAP ACB members Art LeBlanc (l.) and Jerry Scribner.

FMS, Federal Reserve Bank Reach Out to Federal Agencies That Use 224s

The **Financial Management Service** (FMS) and the **Federal Reserve Bank** (FRB) of St. Louis are reaching out to federal program agencies (FPAs) that use the monthly Statement of Transactions Reporting by Agencies for Which Treasury Disburses, more commonly known as FMS 224.

FMS is modernizing its governmentwide accounting processes. Ultimately, each agency's account statement will be updated each day with the previous day's transactions by classification rather than the current two-step reporting process in which transactions are not classified until the end of the month. To do that, all financial transactions will need to be associated with a Treasury Account Symbol (TAS) and Business Event Type Code (BETC) at the time the transaction is reported.

FMS's Shared Accounting Module (SAM) will facilitate the capture of TAS and BETCs. SAM's core functionality is the classification of FPA financial transactions. The three different types of transactions SAM will classify are collections, payments, and intergovernmental transactions.

What Agencies Will be Asked

The FRB is working closely with FMS to consult with federal agencies on their monthly reconciliation process. To ensure the success of the SAM project, a thorough understanding of the business rules used to classify all Fund Balance with Treasury transactions and adjustments on the 224 is needed.

The FRB has already begun collecting this 224 data, and is contacting agencies that use the report to better understand each agency's mapping of accounting codes to the 224. To facilitate this, FMS is reaching out to agencies to determine the key contacts who handle 224s and who understand the agency's cashflows.

Next Steps

Once the appropriate contacts are identified, an FRB representative will work with each agency or bureau using 224s to understand current cashflows and how the mapping will change as a result of the Governmentwide Accounting (GWA) Modernization Project. FMS, FRB, and each agency's contact will work together on the TAS/BETC verifications.

For more information, visit **ww.fms.treas. gov/sam/** or contact Cheryl Murray, SAM project coordinator, at cheryl.murray@fms.treas.gov or (202) 874-7078.

Debit Card Forum

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people representing four agencies or bureaus--the **Internal Revenue Service, US Courts** and the **Departments of Homeland Security** and **Agriculture**--participated in the session.

For more information about the US Debit Card program, contact Alex Dashevsky at alexander.dashevsky@fms.treas.gov or (202) 874-6955.

ACH Reclamation Process Changes Ahead

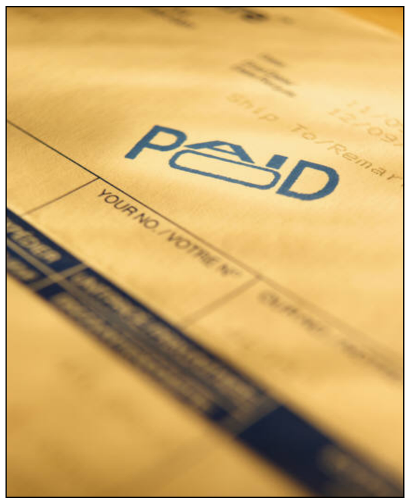
By MACEY BLUE

The **Department of the Treasury's Financial Management Service** (FMS) and the **Federal Reserve Bank** (FRB) of Richmond are implementing changes to the current ACH reclamation process. The Government Paperwork Elimination Act (GPEA, Pub.L.105-277) requires that federal agencies use electronic forms, electronic filing and electronic signatures when applicable to conduct business with the public.

The current reclamation process is very time consuming and paper based. The objective is to automate the current process by eliminating the paper involved and to improve the efficiency of collecting funds that are due to the government. FMS will centralize its reclamation processing at the FRB Richmond.

In Phase I, all financial institutions (FIs) will receive their FMS 133 Notice of Reclamations forms electronically. This will provide FIs with more timely daily reclamation notices. The forms will be transmitted to FIs via the FRB messaging system, which utilizes e-mail and/or fax. The electronic reclamation form will be attached to an e-mail message to the financial institutions.

The new electronic reclamation form will look identical to the current form. Using a secured method, the designated individual(s) at the financial institutions will receive the e-mail, view the reclamation form and download the form and process using the current Green Book procedures. The financial institution will receive the front and the back of Part 1 of the reclamation form and Part 5 of the notice to account holders.



FIs that do not have the capability to receive communications by e-mail will receive their forms via fax. This phase should be implemented in early 2007.

Further updates and processing procedures for Phase I will be provided to the FIs prior to implementation. In addition, the FIs will receive information regarding future phases.

For more information, contact Macey Blue at (202) 874-6601.

UPCOMING EVENTS

For more about FMS events, see www.fms.treas.gov/calendar.html.

March 27: *Debt Collection 101, San Francisco, Calif.*
March 28: *Treasury Report on Receivables and Debt Collection Activities (TROR) Training, San Francisco, Calif.*
March 29: *FedDebt Training, San Francisco, Calif.*
April 24: *Debt Collection 101, Charleston, S.C.*
April 25: *TROR Training, Charleston, S.C.*
April 26: *FedDebt Training, Charleston, S.C.*

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