Secretary of State

State of Oregon

OPPORTUNITIES TO IMPROVE DELINQUENT DEBT COLLECTION BY STATE AGENCIES

Audits Division

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This report makes specific recommendations that will improve the collection functions in state agencies. Debt collection is an important function in state government and has grown in importance in recent years as the total amount of debts owed the state has risen. The delinquent debt balances at the seven collection units of the five agencies included in our review increased from about $750 million in December 1994 to nearly $940 million in December 1996.

This review noted several opportunities for these units to improve the efficiency and effectiveness of their collection functions by adopting certain "best practices" used by various collection organizations, including other Oregon agencies, private collection firms, other states, and the federal government. Recommendations for improving collection practices suggested by our review fall into two general categories: those that involve interagency coordination and those that make use of technology.

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T A B L E O F C O N T E N T S

Page

SUMMARY vii

INTRODUCTION 1

BACKGROUND 1

SCOPE AND METHODOLOGY 3

AUDIT RESULTS

IMPROVING COLLECTIONS THROUGH INTERAGENCY COORDINATION 5

IMPROVING COLLECTIONS THROUGH USE OF TECHNOLOGY 11

RECOMMENDATIONS 15

REPORT DISTRIBUTION 18

COMMENDATION 18

APPENDIX A: DELINQUENT DEBT COLLECTION STATISTICS FOR COLLECTION UNITS REVIEWED 19

APPENDIX B: STATUS OF COLLECTION PRACTICES AT UNITS REVIEWED 21

AGENCIES' RESPONSES TO THE AUDIT REPORT 23

SUMMARY

PURPOSE

In recent years state agencies, other governments, and private collection firms have developed a number of innovative methods for collecting debt. The primary purpose of this review was to identify and recommend ways in which the state could improve its processes for collecting delinquent debts.

BACKGROUND

Individuals and businesses owe money to state government for a number of reasons, such as taxes, penalties and benefit overpayments. Not all of these debts are paid on time. The five agencies included in this review (Department of Revenue, Department of Human Resources Adult and Family Services Division, Department of Consumer and Business Services, Employment Department, and Department of Transportation) are owed nearly $940 million in past due debt and collect nearly $100 million each year.

RESULTS IN BRIEF

Oregon agencies can increase their collections and decrease their costs of collecting by improving interagency coordination and the use of technology. One of the most promising techniques is a statewide vendor payment offset program that detects a payment a state agency is to pay to a vendor that owes money to another state agency, intercepts the payment, and offsets it against the debt owed the second agency. During 1996, other states collected between $400,000 and $2.7 million through such programs. Another technique is the use of administrative garnishments or distraint warrants. One agency that recently obtained legal authority to use administrative garnishments estimates it will save more than $300,000 in the current biennium as a result. Other techniques to increase collections and reduce costs include the use of master contracts for private collection firm services and the use of current collection technology.

RECOMMENDATIONS

To improve the efficiency and effectiveness of the state's collection function, **we recommend**:

- State agencies form a statewide collection committee to foster interagency coordination on collection issues and sharing of best practices, including establishing a statewide vendor payment offset program, using a statewide master contract to hire private collection firms, doing pilot tests on different ways of assigning accounts to private firms, and seeking legislative authority to access information maintained by other state agencies.

- Certain agencies improve their collection processes by requesting legislative authority to perform administrative garnishments, obtaining on-line terminal access to Driver and Motor Vehicle Services data, improving automation, and using autodialing systems.

AGENCIES' RESPONSES

See page 23.

INTRODUCTION

Individuals and businesses owe money to state government for a number of reasons, including income taxes, welfare and unemployment benefit overpayments, noncomplying employer workers' compensation penalties, unemployment insurance taxes and penalties, and trucker weight-mile taxes. Not all of these debts are paid on time, and delinquent debt continues to grow faster than it can be collected. At the five agencies included in our review, delinquent debt increased from about $750 million in December 1994, to nearly $940 million at December 1996.

BACKGROUND

Effective and efficient debt collection is important to government to help fund increasing demands for critical needs such as education and highways and to assure taxpaying citizens that their tax rates are not inflated to cover the unpaid bills of delinquent debtors. The importance of debt collection to government is demonstrated at the federal level by the recent passage of the Debt Collection Improvement Act of 1996.

In Oregon the collection process is decentralized, with differing roles played by various organizations. The Oregon Department of Administrative Services (DAS) provides central guidance on collection activities to state agencies. Under DAS rules, each state agency is responsible for collecting its own debts and may make efforts such as demand letters, phone calls, or wage garnishments. State agencies may request assistance from the Other Agency Accounts Unit of the Department of Revenue, which can offset debtors' tax refunds as well as provide full-service collection efforts, including demand letters, phone calls, or legal actions. The Credit and Bankruptcy Unit of the Department of Justice provides assistance to state agencies when complex legal issues are involved or when litigation is needed to obtain or execute judgments. A 1979 opinion from Oregon's Attorney General also permits state agencies to use the services of private collection firms to collect state debts.

There are several reasons the collection of state debt is decentralized. First, state governments including Oregon's have historically been organized into individual agencies, each responsible for a program area. For example, the duties related to unemployment benefits were assigned to

the Employment Department, while duties related to state roads and highways were assigned to the Department of Transportation. Consequently, the collection of delinquent debts arising out of each state agency's unique operations has been considered an integral part of the agency's own fiscal responsibilities.

Second, state and federal laws and regulations grant unique collection powers and impose restrictions on specific agencies. This serves to keep the collection process decentralized. For example, the Department of Revenue and the Employment Department each must obey certain confidentiality restrictions, which are not shared by other agencies. The Departments of Transportation and Revenue have specific legal authority to issue warrants against debtors while other state agencies do not.

The collection units we included in this review are among the larger ones in state government. The collection units of the Department of Revenue (DOR), for example, handle delinquent accounts (including those assigned from other agencies) totaling more than half a billion dollars and collect more than $85 million dollars a year. The Employment Department's units and the Adult and Family Services Division (AFSD) unit are next in size with each agency handling about $40 million dollars of delinquent accounts and each collecting more than $5 million dollars annually. The units at the Department of Consumer and Business Services (DCBS) and the Department of Transportation (ODOT) are smaller, with each unit collecting $2 million to $3 million dollars a year. Appendix A shows statistics for the collection units reviewed.

State collection units sometimes use the services of private collection firms. Generally, state agencies assign only older, already worked accounts or out-of-state accounts to private firms for collection. The Department of Revenue assigns accounts when it cannot locate the debtor or if the debtor is outside Oregon. Several other state agencies also use private firms including DCBS, ODOT, the State Scholarship Commission, and the Judicial Department. Some agencies, such as AFSD and the Employment Department, do not use them at all. Less than one percent of total state collection activity is handled by private firms.

Private firms' small percentage of total state collection activity occurs partly because some state agencies, such as DOR and ODOT, believe their own efforts are more cost-effective and deliberately refer only small parts of their total accounts to private firms. Confidentiality restrictions also inhibit the use of private collection firms by some agencies. Some, such as the Employment Department, also believe they need specific legislative authority in order to refer debts to private firms.

Regardless of whether collections are made by government, private collection services, or other entities, the key element in the collection process is speed. Organizations that start work on debt accounts faster will collect more than organizations that are slower. Debts become harder to collect the older they get because as time passes, debtors disappear, spend their assets, and begin to doubt the seriousness of collection efforts.

SCOPE AND METHODOLOGY

The primary purpose of this review was to identify and recommend ways in which the state could improve its processes for collecting delinquent debts. Accordingly, we considered practices of several state agencies, private collection firms, other states, and the federal government as well as those recommended by professional collection associations.

We performed detailed on-site reviews at seven collection units in five agencies with some of the largest amounts of delinquent debt among state agencies. These units accounted for nearly 80 percent of unsecured debt and almost one-fourth of total debt owed the state. The collection units and types of delinquent debts we reviewed were:

- Department of Revenue Other Agency Accounts Unit — Various debts assigned from other state agencies.
- Department of Revenue — Income taxes.
- Adult and Family Services Division — Benefit overpayments.

- Department of Consumer and Business Services — Noncomplying employers — penalties and worker claims costs.

- Employment Department — Unemployment benefit overpayments.

- Employment Department — Employer unemployment insurance taxes, penalties, and interest.

- Department of Transportation — Weight-mile taxes from truckers for use of state highways.

We inquired at the Department of Justice Credit and Bankruptcy Unit as to its role in providing legal assistance on collections to other state agencies. We obtained basic information on collection practices from other agencies, such as the State Scholarship Commission and Department of Justice Support Enforcement Division, which collect mostly on behalf of the federal government or individuals. We also surveyed other states, inquired about collection practices at four private collection firms in Oregon, and reviewed publications of professional organizations such as the National Association of Credit Management.

We did not include in our review various state lending agencies whose loans are generally secured by real estate or other assets to satisfy delinquent amounts. We also did not include the Judicial Department for on-site review work because it was converting to a new accounts-receivable system and its internal auditors had reviews already scheduled for this area.

This audit was conducted in accordance with generally accepted government auditing standards. We limited our review to the areas specified in this section of the report.

AUDIT RESULTS

IMPROVING COLLECTIONS THROUGH INTERAGENCY COORDINATION

Oregon's decentralized collection process has resulted in state agencies' sharing only limited information about best practices or individual debtors. Although the Oregon Department of Administrative Services has provided guidance on collection policies and procedures, agency collection units have not adequately considered collection issues from a statewide perspective. Nor is there any formal mechanism to promote interagency coordination on collections or help agencies share their best collection practices. The collection practices described below require the sharing of information between state agencies.

1. Statewide Vendor Payment Offset Program

A number of states, including Utah, Montana, Arizona, Iowa, Kansas, Kentucky, Virginia, Massachusetts, and Wyoming, have established vendor payment offset programs to increase delinquent debt collection. These programs detect a payment a state agency is to pay a vendor that owes money to another state agency, intercept that payment, and offset it against the debt owed the second state agency. A vendor who owes the state money will receive a payment reduced by the amount owed; a state agency will collect what it is owed quickly, without incurring the expense of traditional collection efforts.

A statewide vendor payment offset program can be accomplished through the creation of a comprehensive database of debts owed to participating state agencies against which all agencies' pending vendor payments are checked. For the most part, this would involve computer programming and operational costs. In states such as Iowa, Kansas, and Kentucky, individual agencies, including the revenue and employment departments, send lists of their delinquent accounts via tape, diskettes, or hard copy to their state's central finance or administration agency that processes payments to vendors (similar to the Oregon Department of Administrative Services). The central payment processing agency then arranges for matching pending vendor payments to the delinquent debtor lists.

Kentucky estimates its start-up costs for its vendor payment offset program at slightly more than $200,000. Massachusetts has a completely centralized state accounting system in which all details of both delinquent accounts receivable and accounts payable are recorded for all state agencies. The system can routinely offset payables to vendors against any delinquent debts those vendors owe the state, but it also can accommodate individual state agency timing preferences. Massachusetts personnel estimated the start-up cost of their offset program at $412,000.

The rewards of offset programs are substantial. In 1996, Kansas collected almost $400,000, and Utah recovered more than $700,000. Some states did even better: Iowa collected almost $1.5 million and Virginia took in $2.7 million. Massachusetts collected $4.6 million between March 1995 and February 1997. Its managers say the state recovered the $412,000 in start-up costs in just seven weeks. As would be expected, states with larger populations generally collected more through offset programs than states with smaller populations.

Although Oregon does not have a program to offset vendor payments, it does recognize the usefulness of payment offset as a collection tool. The Department of Revenue's Other Agency Accounts Unit offsets debtors' income tax refunds against their debts to other agencies when specifically requested to do so. Anecdotal evidence suggests that Oregon could benefit from a vendor payment offset program. At the Department of Justice, Credit and Bankruptcy employees periodically become aware of debtors who owe one agency being paid as vendors by other state agencies.

To determine the potential of such a program in Oregon, we manually compared the debtor list of the Department of Consumer and Business Services (DCBS) to the vendor data of the Oregon Department of Administrative Services (DAS). We reviewed the first 378 names on the DCBS list, and found 29 DCBS debtors who were also listed on the DAS records as vendors for various state agencies. We found eight DCBS debtors (more than 2 percent of the sample of 378) who had actually been paid as vendors by various state agencies at the same time they owed debts to DCBS. For example, one debtor who owed a DCBS penalty of $1,000 was paid nearly $4,300 by another

agency. A second debtor who owed DCBS $6,500 was paid $2,173 by another agency. A third debtor who owed a $1,000 penalty was paid $675 by another agency. The debtors in these three cases, as well as the 26 others we noted, remain state vendors and may receive future vendor payments while still owing debts to state agencies.

The potential for a matching program in Oregon was also indicated by an Employment Department pilot project. Employment personnel manually compared debtor names to certain DAS vendor data. They found seven matches out of 231 names, for a 3 percent match rate. Of the seven, they found one firm that subsequently voluntarily paid its $3,600 debt. Because DAS processes payments for most state agencies, the Employment Department issued a garnishment to DAS involving another firm that owed $3,900. No funds have yet been collected in this case, however, because of confusion about whether the agency actually using the vendor should have received the garnishment instead of DAS. Three of the seven matched firms had previously established payment plans with the Employment Department, one was bankrupt, and one was later determined not liable.

Based on the debtor-vendor matching tests described above, there is potential in Oregon for a successful vendor payment offset program. Kansas and Iowa, two states similar in size to Oregon, collected $400,000 and $1.5 million, respectively, through such programs in 1996.

Some law changes may be needed to fully implement an offset program. For example, some agencies, such as the Department of Consumer and Business Services and the Adult and Family Services Division, may need administrative garnishment or distraint warrant authority as discussed in more detail below. DAS and debt collecting agencies may also prefer general enabling legislation to govern vendor payment offsets.

2. Wider Use of Effective Tools

One best practice already used by the Departments of Revenue, Transportation, and Employment is the direct issuance of distraint warrants. The State Scholarship Commission and the Department of Justice Support Enforcement Division are both successfully using a similar

process—administrative garnishments. These tools allow agencies to attach debtors' funds such as wages or bank accounts quickly and cheaply. The State Scholarship Commission, which obtained administrative garnishment authority about one year ago, estimates this authority will save the agency more than $300,000 in the current biennium. The federal government has also recognized the efficiency of this process; the federal Debt Collection Improvement Act of 1996 grants authority to all federal agencies to administratively garnish wages.

Two collection units we reviewed, the Benefit Overpayment Recovery unit of the Adult and Family Services Division (AFSD) and the Collection unit of the Department of Consumer and Business Services, do not have legal access to either of these tools, and their ability to collect debts is hindered as a result. For example, AFSD currently must go to small claims court to obtain judgment against a debtor and get authority to garnish wages, or it must have the Department of Justice obtain such authority from other courts. With administrative garnishment authority, AFSD could directly garnish a debtor's wages. A cardinal rule in the collection profession is that the faster the collection of a debt is begun, the more likely it is to be collected. The American Collectors Association states that "the more time debtors get, the less they pay."

Furthermore, both AFSD and DCBS may need administrative garnishment or distraint warrant authority to participate effectively in a statewide vendor offset program. State agencies making payments to vendors might not withhold the payments unless directed to do so via garnishments or distraint warrants.

The status of administrative garnishment and distraint warrant processes and other best practices at the five agencies we reviewed is presented in a chart in Appendix B at the back of this report.

3. Use of Private Collection Firms

With better coordination, state agencies could improve the state's use of private collection firms. Through use of statewide master contracts available to all state agencies, the state could contract for use of private firms' services at

lower cost. State agencies could also conduct pilot tests to determine whether there are more effective ways of assigning accounts to private firms.

Because there is no statewide master contract for collection services, state agencies now generally contract individually for private collection firms' services. For other services such as data processing professional services and telecommunication services, the state typically negotiates master contracts for use by all state agencies. We noted that five of the six largest state agency users of private collection firms, however, had separately contracted with private collection firms, while only two agencies made use of a common contract.

By using a statewide master contract, the state would eliminate the costs of multiple bid processes. Based on data supplied by DAS contract personnel, we estimate the state would save more than $20,000 by using only one bid process. Furthermore, by using the leverage of a statewide contract, the state could negotiate a lower collection fee. Reducing the average collection fee by only one or two points would save the state between $28,000 and $56,000 per biennium, based on the level of collections now made for the state by private firms.

Oregon state agencies tend to use private collection firms, if they use them at all, only for older accounts for which collection has been attempted or for out-of-state accounts. Agencies have not tested the cost-effectiveness of different ways of assigning accounts to private collection firms. To its credit, the Department of Revenue did perform a pilot test with one private firm five years ago. The Department found that it collected more than the private firm on an equal number of similar accounts, but the study did not consider the costs or efficiency of each entity's collection efforts.

Through tests, state agencies might find interim use of private firms cost-effective in reducing temporary backlogs of unworked debts, such as low-priority smaller balance accounts. Agencies might find it beneficial to assign more accounts to private firms at the start of the collection process, or they might find other ways of assigning accounts to be cost-effective.

A survey of states' collection programs by the National Federation of Tax Administrators concluded that issues related to the cost-effective use of private collectors by governments would require carefully designed tests. The survey found that although many states use private firms the same way Oregon uses them, other states now successfully use private firms as an integral part of their collection programs. Congress also faced these issues. In 1996 it required the Internal Revenue Service to conduct a pilot project on using private firms as part of its collection program.

4. Better Service for DOR¾ Other Agency Accounts Unit Customers

The Other Agency Accounts Unit (OAA) of the Department of Revenue can improve service to its customers, other state agencies, by providing them more timely collection reports. Providing timely OAA collection data is important because the other state agencies may take unnecessary actions on debtors or delay time-critical collection actions when they don't know what the OAA has or has not collected for them from debtors.

The OAA currently provides monthly reports to its customers, but data on individual debts may be as much as six weeks old when customers get their reports. We found that private collection firms also report monthly, but upon request from customers they provide interim collection reports. In 1995, the OAA tried to respond to its customers' needs by submitting a request for weekly reports to the Department of Revenue Computer Services section. The Computer Services section has not yet acted upon this request due to agency prioritization of other projects.

5. Expanded Access to Employer Reports of New Hires

Information known as "new hire data" is currently available to the Support Enforcement Division (SED) of the Department of Justice. Employers in the state are required to report to SED within 14 days the names of employees hired or rehired. Under current laws this information is currently available only to SED, but it could

prove valuable to other collection units trying to locate missing debtors or determine if their debtors become able to pay. If an agency were able to find out in a timely manner that one of its debtors had just been hired, it would not only know the debtor now had a means to pay but also his or her location. Some agencies now access hiring data the Employment Department gets from employers in relation to unemployment insurance taxes, but this data can be as much as six months old by the time quarterly reports are run. As stated previously, speed is critical in collections. Access to the SED "new hire" data could allow agencies to garnish wages they might otherwise not know about.

IMPROVING COLLECTIONS THROUGH USE OF TECHNOLOGY

Oregon agencies can increase the efficiency and effectiveness of their collection efforts by making use of technology. Technology can enable agencies to work more accounts faster and to track results more accurately without adding personnel. Because agencies have multiple demands on limited resources, and many agencies view revenue collection as secondary to delivering certain services, Oregon agencies have not made beneficial enhancements to existing technology or adopted other useful technologies that are available.

1. Enhancements of Agencies' Existing Technology

One agency, the Department of Revenue, is successfully using technology to automate the assignment of accounts to its Tax Unit collection agents via on-line terminals. The benefits of this technology are not currently available to the OAA, however. The Tax Unit agents see what accounts they need to work each day and all relevant details about those accounts on their terminals. Because of certain technical problems, the OAA agents do not benefit from this feature.

The OAA agents must manually load their own work queues from hard-copy lists of assigned accounts. The OAA, in August 1995, requested that the computer services

section resolve the problems, but other matters have been given priority. Consequently, OAA personnel estimate they spend more than four hours per agent each month on tasks the computer could do for them. Because the OAA collects nearly $390,000 a year per each full-time agent, we estimate that on a unit-wide basis, this use of agents' time is costing DOR about $150,000 each year in forgone collections. DOR computer services personnel estimated OAA's requested computer enhancement would cost less than $20,000.

The Employment Department also has an opportunity to adopt existing technology to save time and money. The Departments of Revenue, Transportation, and Consumer and Business Services and the Adult and Family Services Division all have on-line terminal access to Driver and Motor Vehicle Services (DMV) records, but the Employment Department does not. DMV records are routinely used by collection agents to locate debtors. The Employment Department agents must phone DMV to request the information, wait until DMV personnel can take the request, and then wait again while DMV personnel retrieve the information. Direct on-line terminal access would encourage Employment Department agents to request DMV information more often, which would help them collect their accounts faster.

The Adult and Family Services Division and the Department of Consumer and Business Services need computer programming enhancements to provide certain collection management information currently available to other agencies. AFSD and DCBS computer systems do not produce periodic summary level "aging reports" of delinquent debts. An aging report summarizes account balances into age categories (i.e., one month, six months, one year, etc.) depending on how long the debts are overdue, and provides management with an overview of the success of its collection efforts.

Aging of accounts is a standard practice recommended by the Oregon Accounting Manual. Debts get harder to collect the longer they are overdue. Without summary level aging reports, managers cannot adequately monitor aging trends and make informed judgments on how best to apply collection efforts. As a result, collection resources may not be used in the most effective manner and collections may decrease.

The Employment Department Benefits Overpayment Collection unit could use the services of the Department of Revenue's Other Agency Accounts unit more effectively by resubmitting "rejected" accounts. When state agencies submit accounts to the OAA for offset against income refunds due to the debtors, the OAA "rejects" accounts for which it cannot find a prior or current record of tax return filing. Two major users of the OAA, the ODOT Weight-Mile Tax unit and the AFSD Benefit Overpayment Recovery unit, routinely resubmit such "rejected" accounts for subsequent match because some debtors later file tax returns. The Employment Department, which has had about $1.5 million of such accounts returned from the OAA, does not resubmit its "rejects." The Employment Department's computer personnel stated they were unaware of a need to do this. In the past, the OAA has collected about 3 percent of the balances for the Employment Department's "nonrejected" accounts. If resubmitted accounts were collected at only half this rate, the Employment Department would receive an additional $22,000 from OAA.

2. New Technology To Improve Collections

Two available technologies not currently used by some state agencies can also improve collection activities: integrated software packages designed specifically for collection activities, and autodialing, which enables collectors to call more debtors with less work.

Integrated collections software tracks dollar transactions on accounts, allows collectors to post narrative histories of actions taken, provides a tickler system to alert collectors when follow-up actions are needed, and prioritizes accounts in accord with management parameters. These features save time and allow collectors to concentrate on locating and contacting debtors. Private collection firms we contacted use commercially available integrated software packages with these features. The Department of Revenue has also implemented a system with these capabilities. The Weight-Mile Tax unit has software that tracks only the dollar transactions in accounts.

ODOT collectors must manually post account action history narratives on index cards, and must make written notes to themselves on needed follow-up actions and deadlines. Consequently, ODOT collectors lose time working with a cumbersome combination of manual and computer records. This is time they could spend on direct collection efforts. The ODOT collection unit collects about $400,000 a year per full-time equivalent employee (FTE). An integrated software package that can serve as many as eight collectors is available for $25,000, or only about 6 percent of ODOT's annual collections per FTE.

Autodialing is a technology not currently used by any of the five agencies at which we did on-site reviews. Autodialing systems automatically call preprogrammed debtor phone numbers and display related debtor account data on a viewing screen as the calls are made. Autodialing enables collectors to make more contacts with debtors in any given time period. None of the agencies have current information on this technology nor have they recently studied the potential benefits to be derived from using it.

Although autodialing technology has yet to be tried by state agency collections units, we noted its use at two of the four

private Oregon collection firms we contacted, the State Scholarship Commission, and revenue and employment departments in other states, including Florida, Wisconsin, Arizona, Kentucky, and Iowa. In addition, autodialing technology is used by major commercial enterprises such as Sony UK, GE Credit, and First Chicago Bank.

Although this technology may not be appropriate in some agency collection units, units that typically make high volumes of phone contacts, such as those at the Department of Revenue and the Employment Department, may benefit from it. One private collection firm we contacted reported that its autodialing system increased the number of contacts each collector makes from 70-80 to 120-130 per day.

RECOMMENDATIONS

To improve the efficiency and effectiveness of the state's collection function through interagency coordination, **we recommend**:

- State agency collection units and the Oregon Department of Administrative Services form a statewide collection committee to foster interagency coordination on collection issues and sharing of best practices.

- The Oregon Department of Administrative Services and state agencies with collection units establish a statewide vendor payment offset program. A statewide collection committee can be used to design and coordinate such a program.

- The Adult and Family Services Division and the Department of Consumer and Business Services request legislative authority to perform administrative garnishments. Other agencies, such as the State Scholarship Commission, have recently obtained such legislative authority and may provide insight into this process.

- State agency collection units use a statewide master contract to hire private collection firms. A statewide collection committee could formulate contract specifications.

- State agency collection units conduct pilot tests to determine how private collection firms can be used to better advantage by the state. The agencies could use a statewide collection committee to discuss the issues and coordinate the tests.

- The Department of Revenue improve customer service to other state agencies by providing weekly as well as monthly reports of collections made by its Other Agency Accounts unit for its state agency customers.

- State agency collection units should seek legislative authority to access "new hire" data now being reported by employers to the Support Enforcement Division of the Department of Justice.

To improve the efficiency and effectiveness of the state's collection function through expanded use of technology, **we recommend**:

- The Department of Revenue make the automated case-handling features of its collection software available to its Other Agency Accounts unit.

- The Employment Department obtain on-line terminal access to Driver and Motor Vehicle Services data, which its collectors currently must request by phone.

- The Employment Department routinely resubmit for collection those accounts that are initially rejected by the Department of Revenue's Other Agency Accounts unit.

- The Adult and Family Services Division and the Department of Consumer and Business Affairs collection units request their computer services sections to provide them with monthly summary level aging reports of delinquent debt accounts.

- The Department of Transportation use integrated collections software for its Weight-Mile Tax unit.

- The Departments of Revenue and Employment and other interested agencies review autodialing systems currently available and determine whether use of such systems would be beneficial in their collection units.

REPORT DISTRIBUTION

This report is a public record and is intended for the information of the management of the agencies included in the review, the governor of the state of Oregon, the Oregon Legislative Assembly, and all other interested parties.

COMMENDATION

The courtesies and cooperation extended by the officials and staff of the agencies included in this review were commendable and much appreciated.

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DELINQUENT DEBT COLLECTION STATISTICS FOR COLLECTION UNITS REVIEWED

Agency	1 Delinquent Debt Balance 12/31/95	2 Accounts Added During CY 96	3 Sum of Column 1 and Column 2	4 Collected In-House CY 1996	5 Collected by Benefit Offset CY 1996	6 Collected by Private Agency CY 1996	7 Collected by OAA CY 1996	8 Total Collections CY 1996	9 Ratio Total Collected To Column 3	10 In-House Collections per FTE	11 Total Dollars Collected per FTE	12 Average Account Size	Comments About Debts
										(See note A)	(See note C)		
Revenue (DOR) Other Agency Accounts Unit (unrestricted)	$78,782,757	$19,123,776	$97,906,533	$10,430,017	N/A	N/A	N/A	$10,430,017	10.65%	$386,297	$386,297	$700	Debts are older because the assigning agency has already tried to collect.
DOR-OAA Unit (restricted)	$509,255,855	$5,975,173	$515,231,028	$4,077,293	N/A	N/A	N/A	$4,077,293	0.79%	N/A	N/A	$4,400	Debts submitted for tax refund offset only. No active collections.
DOR-Tax Unit Personal Income Tax	$180,462,189	$116,300,945	$296,763,134	$70,551,317	N/A	$377,590	N/A	$70,928,907	23.90%	$783,904	$788,099	$1,100	Personal income tax generally seen as priority by debtors.
Transportation Weight-Mile Tax Unit	$11,048,917	$3,624,574	$14,673,491	$1,997,805	N/A	$1,000	$16,047	$2,014,852	13.73%	$399,561	$402,970	$4,500	A high percentage of accounts are in bankruptcy status, where collection efforts are not allowed.
Employment-Benefits Overpayment	$21,620,874	$10,006,097	$31,626,971	$2,833,141	$1,189,759	N/A	$532,750	$4,555,650	14.40%	**B** $446,989	$506,183	$1,200	Debtors likely have low income.
Employment-UI Tax and Penalty Unit	$21,603,937	unavailable	unavailable	unavailable	N/A	N/A	N/A	unavailable	unavailable	unavailable	unavailable	N/A	
Adult and Family Services Benefits Overpayments	$38,382,085	$9,120,766	$47,502,851	$2,394,449	$2,530,358	N/A	$627,938	$5,552,745	11.69%	**B** $351,772	$396,625	$700	Debtors likely have low income.
Consumer and Business Services	$36,546,686	$10,659,195	$47,205,881	$2,485,437	N/A	$97,036	$394,157	$2,976,630	6.31%	$621,359	$744,158	$14,000	Many old balances. No collection unit before 1991.

Sources of Data: Accounting records of each agency's collection units.

Note A: Column 10 amounts are columns 4 and 5 amounts divided by applicable FTE for each unit.
Note B: In-House Collections per FTE include the benefit offset amount since it is a collection tool used within the agency.
Note C: Column 11 amounts are column 8 amounts divided by applicable FTE for each unit.

STATUS OF COLLECTION PRACTICES AT UNITS REVIEWED

Collection Practices	DOR Taxes Receivable	DOR OAA	Employment Tax-Penalties-Interest	Employment Benefit Overpayment	DCBS	ODOT Wt/Mile Taxes	AFSD Benefit Overpayment
Collections personnel share best practices via statewide collections committee.	No	No	No	No	No	No	No
Statewide vendor payment offset program available.	No	No	No	No	No	No	No
Statewide master contract available for private collection agency services.	No	N/A	N/A	N/A	No	No	N/A
Authority for administrative garnishments or distraint warrants to speed collections.	Yes	Yes	Yes	Yes	No	Yes	No
DMV database available on-line for locating debtors.	Yes	Yes	No	No	Pending	Yes	Yes
Agency uses automated letters to contact debtors.	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Summary aging reports available to aid management of collection activities.	Yes	Yes	Yes	Yes	No	Yes	No
Individual account files electronically record collection steps performed and other account history information.	Yes	Yes	Yes	Yes	Yes	No	Yes
Use of autodialing technology.	No	No	No	No	No	No	No

AGENCIES' RESPONSES TO THE AUDIT REPORT

Oregon

DEPARTMENT OF
ADMINISTRATIVE
SERVICES

OFFICE OF
THE DIRECTOR

October 6, 1997

Mr. John Lattimer, Director
Oregon Audits Division
255 Capitol NE
Salem, OR 97310

Dear John:

We appreciate the opportunity to respond to the *Delinquent Debt Collection* report addressing ways state government could improve statewide revenue collections.

Your recommendations were divided into two general areas; improve overall statewide coordination of the debt collection function and expand the use of technology. We concur with the recommendations.

The Department of Administrative Services will convene a statewide debt collection committee led by the State Controller's Division. This committee will initially meet to review the audit report and examine areas where statewide policies, procedures, processes, and communications need to be strengthened and improved. Thereafter, the committee will meet regularly to keep coordination of debt a routine priority.

Additionally, the committee will examine the recommendations regarding the expanded use of technology. They will consider current system(s) functionality as well as the application of new technologies that would support improved debt collection across all state government operations. The committee will be a focal point of developing and approving necessary technology investments.

Sincerely,

Jon Yunker
Director

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Oregon

DEPARTMENT OF
CONSUMER AND
BUSINESS SERVICES

October 8, 1997

John Lattimer, State Auditor
Audits Division, Suite 500
Secretary of State
255 Capitol Street, NE
Salem, Oregon 97310

Dear John:

We appreciate being given the opportunity to review the draft report *Opportunities to Improve Delinquent Debt Collection by State Agencies.* The recommendations included in the report have raised a great deal of interest within the department. Over the past several years, the department's collection rate has continually increased, but this report has identified a number of areas where additional improvement may be possible.

DCBS will follow-up on the ideas presented in the report by working with other state agencies to share best practices and to develop legislation, systems, and programs to increase the state's collection of delinquent debt.

In response to the recommendations made specifically for DCBS, we have, or will be, taking the following actions:

Develop and submit legislation to increase our statutory authority for debt collection, including the authority to issue distraint warrants and administrative garnishments.
Obtain on-line terminal access to Driver and Motor Vehicle Services data.
Consider requesting authority to access the Support Enforcement Division's "new hire" data. This data would be useful in locating assets of debtors, especially if the agency also receives authority for administrative wage garnishments.
Enhance, or replace, in-house collection tracking systems to provide recommended improvements, including monthly summary-level aging reports of delinquent accounts.
Consider implementation of an in-house vendor payment offset program, if such a system is not pursued on a statewide basis.

Again, I would like to thank you and your staff for the time spent reviewing our collection practices. We support the recommendations made and will make every effort to ensure successful implementation.

Sincerely,

Kerry Barnett
Director

cc: Mark Neeley
Jackie Lefevre

Oregon

EMPLOYMENT DEPARTMENT

October 7, 1997

Cathy Pollino
Acting Deputy Director
Oregon Audits Division
Secretary of State
255 Capitol Street NE
Salem, Oregon 97310

Dear Ms. Pollino,

Thank you for the opportunity to comment on the draft copy of the audit report on Opportunities to Improve Delinquent Debt Collection by State Agencies. Please accept the following comments on the recommendations contained in the report:

Statewide Collection Committee: This is an excellent idea. This seems like a really good way to increase interagency coordination and could operate as a clearinghouse for best practices, new ideas, and pilots. It could also identify training opportunities and effective use of new technology, including the use of Internet. In agencies with diverse collection programs such as Employment, we recommend that each program be represented.

Statewide Vendor Payment Offset Program: We initiated a pilot vendor crossmatch program in 1995 with DAS after staff attended a national conference where other states showcased their systems. Experience in other states and our pilot indicate it can be effective. Program design involving the core agencies, appropriate automation, legislative changes, consensus on legal processes, and contractual notice to vendors are a few of the considerations for successful implementation.

Administrative Garnishments: The Employment Department has this authority.

Statewide Contract for Private Collection Firms: Statewide master contracts have been effective for other processes, such as data processing, and could be beneficial in this area.

Private Collection Firms: The Employment Department has had ongoing discussions over several years with private collection agencies about the viability of assigning accounts for collection. The information we have obtained through such contacts has not shown that the process would be more cost effective or productive than our own collection efforts. Some States have used private collection firms with success, but they typically do not have the same collection tools that we have been authorized to use in Oregon. We would be open to a pilot test of assigning some accounts to private collection firms, but we have two issues that would need to be addressed:

a. Confidentiality: Confidentiality is already mentioned in the Audit Report, and this remains a concern to us. If we provide information to a private collection firm, they

John A. Kitzhaber
Governor

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may use a credit bureau reporting system to verify employment or address information. This would require them to share with that system the address information we provided. That information then becomes available to anyone with access to that system.

b. Payment: Private collection firms would not be allowed to retain any portion of either unemployment insurance taxes or benefits recovered. All amounts recovered are required under Federal law to be deposited in our Unemployment Trust Fund in the U.S. Treasury. We also would not be allowed to use federal funds to pay collection costs and fees to private firms. These costs would have to be paid out of state funds which are not currently designated for this purpose.

Department of Revenue Reports: We agree with this recommendation.

New Hire Data: The Employment Department has been granted the authority to use "new hire" data as of October, 1998. However, this law has a sunset in 2001, if it is not renewed.

Department of Motor Vehicles Access: We are in the process of applying for access to DMV records.

Autodialing Systems: We will review the feasibility and cost effectiveness of autodialing systems for collection purposes within the context of the Department's other information technology needs and priorities.

We found the Draft Audit Report overall to be positive and constructive and believe that many of the suggested practices will improve the efficiency and effectiveness of collection efforts. Thank you for the opportunity to comment.

Sincerely,

Virlena Crosley

Virlena Crosley
Director

Oregon
DEPARTMENT OF
HUMAN RESOURCES
Human Resources Building

ADULT AND
FAMILY
SERVICES
DIVISION

Administration

October 7, 1997

Cathy Pollino, Acting Deputy Director
Oregon Audits Division
Secretary of State
255 Capitol Street NE, Suite 500
Salem, Oregon 97310

Dear Ms. Pollino:

I am writing in response to the Audit Report of October 10, 1997, entitled "Opportunities to improve delinquent debt collection by state Agencies".

AFS has developed over time a very good collection effort that is well managed, innovative and responsible to the needs of the organization. While we agree with most of your recommendations, we do have some concerns. Our comments for each recommendation follows:

- **Statewide collection committee**: The formation of a statewide committee to foster interagency coordination on collection issues and sharing best practices could have some benefit to our collection effort.

- **Statewide vendor payment offset**: Such an arrangement would be beneficial if it included the actual "Vendors" agencies purchase services from, and excluded vulnerable clients who have marginal economic situations at best. Inclusion of low income clients could undermine a large investment of time and money in the development of a self-sufficient, productive and responsible Oregonian. We recommend that this issue be considered further by the statewide committee.

John A. Kitzhaber
Governor

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- **Contracting with private collection firms**: The hiring of private collectors may be appropriate with our needs after the judgment stage has been reached (about three years). We have many tools not available to the private collector that should be exhausted before we turn the case over for private collection. These tools make collection on new cases relatively easy and inexpensive. Previous Agency attempts to interest private collectors in handling these types of cases have not been productive.

- **Information from other State Agencies**: Seeking legislative authority to access information maintained by other state agencies is another area that could be covered by the statewide collection committee proposed in your first recommendation. In the text on "Expanded Access to Employer Reports..." the mention of access to " new hire" information concerns us because our mission is to assist client's to become self -sufficient and in many cases the critical point in the process is that first job. Aggressive collection action could cause the loss of the job and a major set back to the client's self-sufficiency plan. We agree debts need to be collected, but we would request agreements between agencies be made to take into account the bigger picture. The manner and timing of the collection could make a difference in the success or failure of a client in whom the public has invested. One benefit of case managers receiving timely notice of a new hire is that an overpayment may be avoided.

- **Administrative garnishments**: AFS had the authority to perform administrative garnishments but it was withdrawn in 1973, because the process created many problems. We feel that operating though the due process of the court system is best for all concerned.

- **On-line DMV data**: AFS currently has on-line access to DMV data. This information is helpful to our collection efforts and we have a fine cooperative relationship with DMV.

- **Improving automation**: AFS supports the use of technology to enhance collection efforts. However, with limited technology

resources priority must be given to those system changes and improvements which are most cost effective and beneficial in achieving the agency mission.

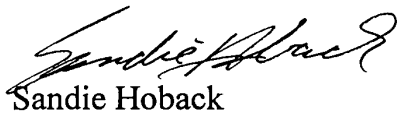
- **Auto-dialing**: The use of auto-dialing is not cost effective for AFS. Many of our clients do not have telephones of their own and often rely on message phones. Auto dialing could jeopardize these fragile communication links with our clients.

In summary, we agree that there is room for improvement and that a cooperative sharing group of state agencies focused on developing more effective means of debt collection is the best way to address the issues. This group could review the other recommendations within a broader context, to ensure implementation would be cost effective and in support of other state government efforts.

Our mission is to help clients become self-sufficient and large sums of public funds are invested in this outcome. We have a strong commitment to program integrity and our recovery programs. However, when cost effectiveness of the collection is considered, an understanding of all public funds at risk needs to be taken into account. In considering the cost effectiveness of collection efforts we must consider whether a relatively large investment of public funds may be put at risk to collect a small debt.

Thank you for the opportunity to respond and we are looking forward to collaborating with other agencies to improve the debt collections process in a manner most beneficial to all parties involved.

Sincerely,



Sandie Hoback
Administrator

SH:CM:sh

Oregon

DEPARTMENT OF REVENUE

October 10, 1997

Cathy Pollino
Acting Deputy Director
Division of Audits
Office of the Secretary of State
158 12th Street, NE
Salem, Oregon 97310

Dear Cathy:

I am responding to the draft audit report titled "Opportunities To Improve Delinquent Debt Collection By State Agencies". In general we are in agreement with the draft report. We believe your recommendations will improve the collection process for delinquent state debts.

RECOMMENDATION:

State agency collections units and the Oregon Department of Administrative services form a statewide collection committee to foster interagency coordination on collection issues and sharing of best practices.

RESPONSE:

We agree with the recommendation.

RECOMMENDATION:

The Oregon Department of Administrative Services and state agencies with collection units establish a statewide vendor payment offset program. A statewide collection committee can be used to design and coordinate such a program.

RESPONSE:

We agree with the recommendation. A vendor payment program would be an excellent project to be studied by the Statewide Collection Committee.

RECOMMENDATION:

State agency collection units use a statewide master contract to hire private collection firms. A statewide collection committee could formulate contract specifications.

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150-800-075 (Rev. 1-91)

RESPONSE:

We agree with the recommendation. One master contract may be advantageous for all state agencies. The Department of Revenue currently has a favorable rate for private collections. If a large volume of less collectible accounts were included in the master contract, the rate the department receives may be adversely affected. A lower collection fee may be contracted with a larger volume of assigned accounts. The statewide collection committee should work closely with DAS to negotiate this contract.

RECOMMENDATION:

State Agency collection units conduct pilot tests to determine how private collection firms can be used to better advantage by the state. The agencies could use a statewide collection committee to discuss the issues and coordinate the tests.

RESPONSE:

We agree with the recommendation and feel the statewide collection committee would be the logical body to develop and coordinate tests.

RECOMMENDATION:

The Department of Revenue improve customer service to other state agencies by providing weekly reports of collection made by its Other Agency Accounts unit for its state agency customers.

RESPONSE:

The department's Other Agency Accounts unit would like to be able to provide more frequent reports to our customers. A System Development Request to enable us to do this was submitted for consideration November 16, 1995. The department has limited Computer Services staff to address system development needs. Prioritizing development work is essential. The department has a process to prioritize and approve system development requests. This process ensures that the limited resources are used to achieve the most benefit to the agency and all the programs we administer. The request has had a lower priority than other agency needs, such as preparing systems for year 2000.

RECOMMENDATION:

State agency collection units should seek legislative authority to access "new hire" data now being reported by employers to the Support Enforcement Division of the Department of Justice.

RESPONSE:

We agree with the recommendation and will propose legislation in the 1999 session to obtain access to the "new hire data base" which is reported to the Support Enforcement Division.

RECOMMENDATION:

The Department of Revenue make the automated case-handling features of its collection software available to its Other Agency Accounts unit.

RESPONSE:

The department's Other Agency Accounts unit would like to be able to use the department's automated case handling software for our accounts. A System Development Request to enable us to do this was submitted August 22, 1995. The department has limited Computer Services staff to address system development needs. Prioritizing development work is essential. The department has a process to prioritize and approve system development requests. This process ensures that the limited resources are used to achieve the most benefit to the agency and all of the programs we administer. This request has had lower priority than other agency needs.

RECOMMENDATION:

The Department of Revenue and Employment and other interested agencies review autodialing systems currently available and determine whether use of such systems would be beneficial in their collection units.

RESPONSE:

The Department of revenue has reviewed the Oregon State Scholarship's auto dialing system since this study was conducted. We have also looked at auto dialing systems in the past and they did not meet our needs. We will continue to review and evaluate available auto dialing systems.

Sincerely,

Elizabeth Harchenko

Elizabeth Harchenko
Director

Oregon
John A. Kitzhaber, M.D., Governor

Department of Transportation
Financial Services Branch
550 Capitol Street NE
Salem, OR 97310-1309

FILE CODE:

October 3, 1997

Ms. Cathy Pollino
Acting Deputy Director
Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, Oregon 97310

Dear Ms. Pollino,

On behalf of Ms. Grace D. Crunican, Director of the Department of Transportation, I am responding to your recently issued exit draft copy of your audit report addressing Opportunities to Improve Delinquent Debt Collection by State Agencies.

As the Tax, Audit and Collection Manager for the Financial Services Branch of ODOT, I appreciate the fact that your staff took the time to review our collection procedures in the context of other State agencies. Many of your recommendations have already been acted upon, and the others will be in the very near future. I am particularly interested in your recommendation that agencies coordinate their efforts through formation of a statewide collection committee to exchange information and ideas, and to coordinate collection efforts. I look forward to this occurring.

Please note that you might wish to consider revising your comment appearing on Appendix A as it relates to the Transportation Weight-Mile Collections Unit. The draft comment states that collections are not attempted when accounts are in a bankruptcy status. By law, collection efforts are prohibited once a petition for bankruptcy has been filed. The current wording gives the reader the impression that we are not doing something we should be doing when, in fact, we are doing precisely as permitted by law. *

* Comment from Audits Division: We have revised our wording in Appendix A.

Ms. Pollino, our responses to your recommendations impacting our collection functions are attached. If you have any questions or require additional information, please contact me at your convenience.

Sincerely,

David W. Tyler, CPA
Tax, Audit and Collection Manager
Financial Services Branch
Oregon Department of Transportation
(503) 373-1958

cc: Ms. Grace D. Crunican, Director

Mr. Benjamin P. Wallace, Chief Financial Officer

Ms. Cindi Sample, Collections Unit

Attachment

RESPONSE TO THE DIVISION OF AUDITS DRAFT REPORT DATED SEPTEMBER9, 1997: OPPORTUNITIES TO IMPROVE DELINQUENT DEBT COLLECTION BY STATE AGENCIES.
SEPTEMBER 30, 1997

Note: Only those recommendations which are pertinent to the operations of the Collections Unit within the Financial Services Branch are addressed herein.

INTERAGENCY COORDINATION

Recommendation #1: State agency collection units and the Oregon Department of Administrative Services form a statewide collection committee to foster interagency coordination on collection issues and sharing of best practices.

ODOT Response: FSB supports this recommendation, and will look for DAS to take the lead in organizing such a group.

Recommendation #2: The Oregon Department of Administrative Services and state agencies with collection units establish a statewide vendor payment offset program. A statewide collection committee can be used to design and coordinate such a program.

ODOT Response: FSB supports this recommendation. While we currently utilize the offset program available through the Department of Revenue for income tax refund offsets of weight-mile tax obligations, it is desirable that vendor offset programs with other state agencies be established and utilized to reduce the volume of delinquent weight-mile taxes.

Recommendation #4: State agency collection units use a statewide master contract to hire private collection firms. A statewide collection committee could formulate contract specifications.

ODOT Response: In early September, FSB coordinated efforts with the Department of Revenue to be covered under an existing master contract for private collection agency services. The statewide committee should consider utilizing contracts already in existence if services presently provided to DOR are satisfactory.

Recommendation #6: The Department of Revenue improve customer service to other state agencies by providing weekly as well as monthly reports of collections made by its Other Agency Accounts unit for its state agency customers.

ODOT Response: FSB supports the recommendation, as this change in reporting would be beneficial not only for Collections but also for the Fuels Tax Group who uses the services of the Department of Revenue for assistance with delinquent motor vehicle and use fuel accounts.

Recommendation #7: State agency collection units should seek legislative authority to access "new hire" data now being reported by employers to the Support Enforcement Division of the Department of Justice.

ODOT Response: This is an excellent suggestion, and one that will be acted upon through the next Oregon Legislative session Combined with the distraint warrant power presently available to the Collections Unit, this additional tool would have a significant, on-going impact in both collections and reduced delinquency levels. It would also be very beneficial if access to Department of Employment records could be obtained in a similar fashion.

EXPANDED USE OF TECHNOLOGY

Recommendation #5: The Department of Transportation use integrated collections software for its Weight-Mile Tax unit.

ODOT Response: We are in agreement with this recommendation, and will investigate software alternatives immediately. Interfacing of the software proposed with the existing motor carrier system, of which the collections activities are only a small part, would be extremely beneficial, but probably not terribly practical.. All available options will be explored over the next several months, but ISB resources will be difficult to obtain given the effort currently devoted to the Year 2000 efforts.