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Debt Collections: Progress Made But Opportunities for Improvement Still Exist

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Secretary of State Audit Report

Summary

Purpose
The purpose of our audit was to determine if state agencies could improve their collection of delinquent debt. A second purpose was to review the implementation status of recommendations from our October 1997 report (Report No. 97-77) on this topic.

Results in Brief
In 1997, we issued a report that found that agencies could increase their collections and decrease their costs of collecting by improving interagency coordination and using technology. While progress has been made since our 1997 report was issued, we identified additional opportunities for agencies to improve their collection results. We found:

- Insufficient staffing of collection units and large caseloads are preventing timely follow up on delinquent accounts.
- Revenue agents at the Department of Human Services did not initiate any direct telephone contact with the department's debtors.
- The Oregon Judicial Department's oversight of its accounts assigned to private collection agencies could be strengthened.
- Systematic assessment and evaluation of private collection agency performance issues is limited.
- Assigning debtor accounts to private collection agencies from some state agency internal collection units may not be cost effective.

We noted issues of lesser significance that did not warrant inclusion in an audit report. Those issues were communicated to the Oregon Employment Department in Management Letter 471-2004-05-02.

Recommendations
We recommend:

- Agencies with collection units review the costs and benefits of their collection activity and take steps to reduce workload or increase staffing, or both, with the goal of improving the frequency and timeliness of collection activities.
- The Department of Human Services develop procedures to ensure that its collection staff initiate telephone contact with debtors.
- The Oregon Judicial Department periodically review accounts assigned to private collection agencies to confirm that adequate collection efforts and proper accounting of payments is occurring.
- The Department of Administrative Services oversee a systematic process for evaluating the performance of private collection agencies under contract with the state.
- The Department of Administrative Services oversee a review of the cost effectiveness of assigning debtor accounts to private collection agencies after those accounts have first been worked by a state agency internal collection unit.

Status of Prior Recommendations
We reviewed agencies' efforts to implement recommendations in our October 1997 report on delinquent debt collections. Our review showed that 10 of 13 recommendations had been implemented or partially implemented, two recommendations were no longer applicable, and one recommendation had not been implemented.

Agency's Response
Officials from the following agencies generally agreed with the findings and recommendations presented in this report: Oregon Employment Department, Department of Human Services, Oregon Department of Transportation, Department of Consumer and Business Services, Oregon Judicial Department, Department of Environmental Quality, and Department of Revenue. Written comments from these agencies are included following each recommendation.

Introduction

Individuals and businesses may owe money to state government for a number of reasons. Such debts, sometimes called "receivables," include unpaid taxes, penalties, fees, and benefit overpayments. A debt becomes delinquent if the responsible party fails to make a required payment by a specified date. Once an account becomes delinquent, and the responsible party has had an opportunity to appeal, the debt becomes subject to collection action.

State agencies rely on three different approaches for collecting delinquent debts. First, some agencies have their own internal debt collection units. Examples of this approach exist at the departments of Employment, Human Services, Transportation, and Consumer and Business Services. A second approach relies on a collection group at the Department of Revenue, called the Other Agency Accounts Unit. Staff from this unit pursue collection of delinquent accounts at the request of other state agencies. Finally, agencies contract for the services of private collection agencies. Recent changes to state statutes require agencies to include the use of private agencies as part of their collection programs. Currently, 11 private collection agencies are available to state agencies under a statewide agreement managed by the Department of Administrative Services.

Our audit reviewed delinquent account oversight and collection procedures for the following collection programs:

- Weight-mile taxes at the Oregon Department of Transportation.
- Criminal fines and other fees at the Oregon Judicial Department.
- Food Stamps, Temporary Assistance to Needy Families, and other benefits at the Department of Human Services.
- Unemployment benefit overpayments at the Oregon Employment Department.
- Unemployment insurance taxes at the Oregon Employment Department.
- Civil penalties at the Department of Environmental Quality.
- Workers' compensation taxes at the Department of Consumer and Business Services.
- Other Agency Accounts Unit at the Department of Revenue.

Effective collection procedures are important because of the large sums owed to state agencies. According to the Legislative Fiscal Office (LFO), at the end of fiscal year 2002 Oregon's total delinquent debt was about $1.2 billion. During that fiscal year, state agencies collected about $200 million.[1] The state collection units we reviewed reported that they accounted for approximately $237 million of the state's total delinquent debt, and they collected approximately $45 million during fiscal year 2002.

[1] Legislative Fiscal Office, *Report on Liquidated and Delinquent Accounts Receivable June 30, 2002*, (December 2002), page 3.

Audit Results

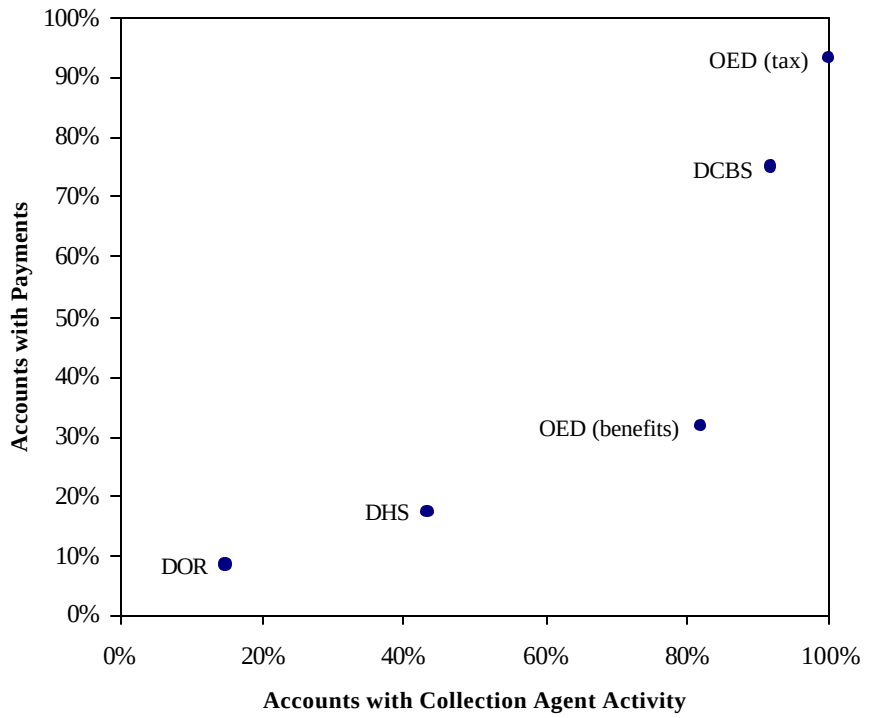
Since the release of our last report on this topic in October 1997, we noted some strengthening of collection efforts. We also noted opportunities to further strengthen state collection procedures. Our audit of state agency collection programs showed a range of abilities to recover delinquent debts. Some agencies demonstrated substantial effectiveness, while others have lagged in their ability to produce results. We identified alternative approaches that could improve collections and yield additional revenues to support state government operations. The following sections of our report discuss ongoing collection problems and provide recommendations for improvements.

Insufficient Staffing and Large Caseloads Prevent Timely Follow-Up on Delinquent Accounts

Our review of collection efforts suggests that some state collection units may be collecting less than they could due to very large collection caseloads and a lack of staff to pursue delinquent debts. We reviewed a sample of past due accounts at various collection units and found a strong statistical relationship between revenue agent activity and accounts with payments. These accounts were drawn mostly from fiscal year 2001, with one agency submitting accounts from fiscal year 2002. We defined revenue agent activity as telephone contact with debtors, or garnishment attempts, or both. In other words, units with the most agent activity had the best collection results and those with less activity had worse results.

Figure 1 illustrates the relationship between revenue agent activity and payments. It shows that the Department

Figure 1: Relationship Between Agent Activity and Payments



Key

Agent Activity refers to telephone calls to debtors and account garnishments performed by the revenue agent. It does not include collection tools that are primarily automated, such as computer-generated demand letters, and withholdings on tax refunds and benefit payments. Nor does this analysis account for other differences between account types that influence the collectibility of a given account.

DOR = Department of Revenue, Other Agency Account Unit
DHS = Department of Human Services, Client Overpayment Recovery Unit
OED (benefits) = Oregon Employment Department, Unemployment Benefit Overpayment Unit
DCBS = Department of Consumer and Business Services
OED (tax) = Oregon Employment Department, Unemployment Insurance Tax Collection Unit

of Revenue's (DOR) Other Agency Accounts Unit had activity on 13 percent of accounts, producing payments in 9 percent of the accounts. The Department of Human Services' (DHS) Client Overpayment Recovery Unit had activity on 43 percent of accounts, yielding a 17 percent payment rate. The Employment Department's Unemployment Benefit Overpayment Unit (OED benefits unit) had an 82 percent activity rate and a 32 percent payment rate. This pattern of higher collection activity producing higher payment rates held for the final two units shown in Figure 1. The Department of Consumer and Business Services (DCBS) had collection agent activity on 92 percent of delinquent accounts yielding a 75 percent payment rate. We found the highest payment rate, 93 percent, at the Employment Department's Unemployment Insurance Tax Collection Unit (OED tax unit) where 100 percent of cases had agent activity.

Also, to help us understand the reasons why some collection units were more successful at collections than others, we reviewed collection agent caseloads. We found that the DOR Other Agency Accounts Unit had exceptionally high collection agent caseloads. According to DOR management, each collection agent within this unit had a work queue of approximately 3,600 accounts. Each agent was also responsible for collections on 10,000 to 13,000 other accounts determined to be less collectible.

On the other hand, units with higher revenue agent activity and collection rates had much lower collection agent caseloads. Agency reported workloads for collection agents at the OED tax unit were about 600 accounts per agent; this ratio was about 1,900 accounts per agent at the OED benefits unit.

Another aspect of collections that should be considered is the timeliness of collection efforts. Collection professionals advise that delinquent debt becomes harder to collect with the passage of time. Lower levels of collection activity early in the collection process can eventually result in fewer collections.[2] Consequently, the large caseloads and low collection activity at the DOR Other Agency Accounts Unit may also be lowering collections by delaying contacts with debtors. Since the chances of successful collection decrease over time, if an account is first referred to the Other Agency Accounts Unit and is not addressed in a timely way, the odds of subsequent collections are greatly decreased.

Under current procedures, each year state agencies refer a large portion of the state's delinquent debt to the Other Agency Accounts Unit. At the end of fiscal year 2002, the delinquent debt being

[2] The Association of Credit and Collection Professionals. Collections Information. Online. Available at http://www.acainternational.org/images/press/collections.doc.pdf (1 May 2003 Update).

pursued by the unit totaled more than $150 million.[3]

Managers of the state collection units we reviewed reported costs for collection activity that were much lower than the revenues generated by these units. For example, during fiscal years 2001 and 2002, the managers reported that for every dollar spent on collections, at least three dollars were returned in collected debts. The median return rate exceeded eight dollars for every dollar spent.

We recommend that agencies with collection units, particularly the Other Agency Accounts Unit of the Department of Revenue, review the costs and benefits of their collection activity and take steps to reduce caseload, or increase staffing, or both, with the goal of improving the frequency and timeliness of collection activities. These steps may include defining the most collectible types of accounts and focusing available resources on those accounts, or requesting additional collections staff positions.

The Department of Administrative Service's Response for All Agencies:

The agencies agree that they should always be looking for ways to increase their collections. Improved recoveries may be obtained through reduced caseloads or an increase in staffing. Four agencies; Department of Consumer and Business Services (DCBS), Department of Human Services (DHS), Oregon Judicial Department (OJD), and the Department of Revenue's Other Agency Account (OAA) unit, all indicated they have added staff or are preparing to do so.

Automation solutions can facilitate similar results. This might be accomplished through:

- *Select collection software, as DCBS is currently implementing.*
- *System enhancements, as DHS is contemplating.*
- *Automating data transfers and reports between OAA and state agencies.*
- *Automation of the payment process, as ODOT is doing with their Motor Carrier e-commerce payment process.*

Money collected at the time of a transaction—at the "point of sale"—eliminates the establishment of an account receivable and resulting collection efforts.

Efficiencies may be found through preprocessing methods to stratify delinquent accounts and identify those offering the highest probability of collection. This will allow staff to focus on cases with the highest return.

Work has also begun on a "skip-tracing" contract to identify a centralized company to help agencies track down debtors whose whereabouts are unknown.

The Department of Revenue's Response:

The Department of Revenue generally agrees with the recommendations in the report.

OAA collection rates are more comparable to private collection agencies than to other state agencies. In general, accounts sent to OAA have already undergone unsuccessful collection activity at the sending agency. Therefore, we feel it is appropriate to use the private collection ratios as our performance benchmark. Our collection methodology has resulted in an overall OAA collection rate of 7.79% of all accounts assigned to it versus 1.86% achieved by private collection resources.

The department has prepared a policy option package asking for 20 revenue agents to pursue active collections on more of the accounts assigned to OAA. These additional revenue agents are expected to generate increased collections of $21 million dollars a biennium. We are also working with our largest client agency to return accounts that do not meet OAA collectibility standards within 120 days rather than the one-year time frame provided in statute. The accounts can then be more quickly assigned to an outside collection agency.

More Direct Telephone Contact Could Improve Collection Results at the Department of Human Services

As part of our audit, we researched effective collection procedures as described in professional literature. Our research suggested the use of one tool, the telephone, to strengthen collection programs. In one study, the General Accounting Office concluded that telephone calls were much more effective than billing statements at generating additional collections. This study also found that the sooner telephone contact was initiated, the greater the chances were of collection.[4]

The research suggests that telephone contact with debtors should be an important part of any collection program. We found, however, that not all state agencies were taking advantage of this tool. For the sample of cases we reviewed at DHS, we found no evidence that collection staff had initiated telephone contact with debtors. DHS lacked procedures to guide its staff in using the telephone as a collection tool.

In nine instances, debtors contacted DHS after receiving a collection letter. In six of these instances, the telephone contact was followed by payment a-

[3] *Report on Liquidated and Delinquent Accounts Receivable June 30, 2002,* page 5.

[4] United States General Accounting Office, *New Delinquent Tax Collection Methods for IRS*, GAO/GGD-93-67, (May 1993), page 5.

rangements being made. Conversely, for 14 other accounts in our sample, when collection letters were sent but no telephone contact took place, payment was made on only one account.

We recommend that the Department of Human Services develop procedures to ensure that its collection staff initiate telephone contact with debtors.

The Department of Human Services' Response:

We agree with the recommendation that the Overpayment Recovery Unit develop procedures to ensure that Revenue Agents initiate phone contact with debtors. We will develop and train staff on procedures that ensure debtors are contacted by phone and mail early in the collection cycle and at other appropriate times.

The Judicial Department Should Strengthen Oversight of Private Collection Agencies

Our review of collection procedures at the Oregon Judicial Department found that department staff appropriately assigned delinquent accounts to private collection agencies. Once accounts were assigned, however, the department performed little or no further review. Follow-up oversight is necessary to ensure that the state is receiving all of the services for which it has contracted. Our review suggests one reason for the lack of monitoring was the lack of staff available to perform these activities.

The *Oregon Accounting Manual* (OAM) (35.30.40.PR.110) stresses the need for periodic review of accounts returned from private collection agencies to confirm that adequate collection efforts are being performed. Similarly, professional literature suggests that referring agencies monitor the results of private collectors' work to identify any unrecorded or improperly recorded transactions, and to make corrections if errors are discovered.[5]

Insufficient monitoring of private collection agencies means that the Judicial Department was unlikely to detect inadequate collection efforts or payment recording errors. The risk of fiscally significant problems is increased because of the large amount of money owed to the department—more than $300 million in fiscal year 2002.[6] This amount represents 27 percent of the total reported delinquent debt owed to state agencies during the year. Much of this debt was turned over to private collection agencies; the Judicial Department reported nearly $100 million in debt was assigned to private collection agencies by the end of fiscal year 2002.

We recommend that the Oregon Judicial Department periodically review accounts assigned to private collection agencies to confirm that adequate collection efforts and proper accounting of payments is occurring. Such a review could be accomplished by periodically testing samples of returned accounts or assigned accounts to verify collection agency activities and results. The department should also review its staffing needs and reallocate or request additional resources to perform this function.

The Oregon Judicial Department's Response:

We agree with the audit recommendation. In January 2004, the OJD was able to hire a Collections Manager after obtaining legislative approval for a new Collections Manager position. The Collections Manager is working with the private collection agency (PCA) and courts to establish reports and processes that will routinely monitor PCA collection efforts, such as identification of those cases that have received no collection activity in a specified period of time. To assist in monitoring PCA collection efforts, the PCA has recently given OJD the ability to view the status of referred cases on line via the Internet. The collections Manager is also working with the PCA and court staff to implement new programs and processes intended to enhance collection efforts and to increase amounts collected. One example is expansion of a program where the PCA notifies the court if a debtor fails to make scheduled payments. In such cases, the court may sanction/suspend the debtor's driver license as an additional step in the collection process. We are also working on a process to quarterly reconcile receipts actually sent to OJD and receipt information reported to the Department of Administrative Services by the PCA for the purpose of ensuring timely remittance of monies collected. A review of PCA accounting activities will also be considered for inclusion in future internal audit plans.

Adequate Systematic Review of the Performance of Private Collection Agencies is Needed

Our audit found that only limited oversight of private collection agency performance was occurring. We noted a pattern of performance problems with one of the 11 firms currently authorized to perform debt collection work for state agencies. The problems involved the accuracy of account balances and the firm's ability to provide necessary account information to state agencies.

The firm in question did not provide us with collection histories for eight of the 35 accounts that we requested. For another five accounts, the firm provided collection summaries that lacked

[5] David N. Ricchiute, *Auditing*, 3rd ed. (Cincinnati: South-Western, 1992), page 233.

[6] *Report on Liquidated and Delinquent Accounts Receivable June 30, 2002*, page 9.

specific actions taken and dates. Discrepancies between the firm's records and agency records left us unable to reconcile account balances. Staff from the Employment Department reported that this firm had incorrectly calculated the interest rate charged on some of their accounts. Despite these problems, in 2002 the state re-awarded this firm a contract when the statewide contract for private collection agencies came up for renewal.

It is important for private collection agencies to maintain accurate and complete information consistent with agency records because these records provide the basis for future collection efforts. If account errors are not caught and corrected, delinquent account owners may be asked to pay on incorrect account balances. Errors in an account balance will result in too little or too much interest charged to the account. The longer the cause for errors is left undetermined and uncorrected, the more account balances will be affected. Finally, private collection agencies need to provide accurate information to agency managers on a regular basis so they can ensure that collection work is being performed.

Our review suggests that the Department of Administrative Services could more systematically evaluate the performance of private collection agencies. OAM 35.30.40.PO.106 provides that state agencies should report any concerns about private collection agencies to the Department of Administrative Services. State agencies must initiate a complaint. With 11 collection firms available under the statewide contract, state agencies may find it easier to switch collection agencies if they encounter problems. Also, some degree of central oversight of private collection performance is necessary because individual state agencies are not in the position of hearing and analyzing any pattern of comments or complaints from other agencies.

The problems we noted with one private collection firm suggest the need for a centrally managed performance review process to periodically assess the effectiveness of all private collection agencies under contract with the state. Such a process would be consistent with current guidelines. As we stated in the previous section, OAM 35.30.40.PR.110 stresses the need for periodic review of accounts returned from private collection agencies to confirm that adequate collection efforts are being performed.

We recommend that the Department of Administrative Services, as administrator for the statewide contract for private collection agencies, implement the following changes:

- Regularly solicit reports and feedback from state agencies on the performance of private collection firms. These solicitations could include requests for information on the overall performance of individual private collection agencies, any specific problems agencies are experiencing with private collection firms, and any other aspects of contractor performance that may impact the delivery of services under the statewide contract.
- Using the information solicited, periodically evaluate the performance of private collection agencies and, if necessary, revise the list of qualified contractors based on the results of this assessment.

The Department of Administrative Service's Response:

Each year, prior to the statewide collection contract renewal on July 1st, agencies are surveyed for their feedback regarding their PCF performance. During the year, agencies are asked to copy DAS on emails and letters discussing issues regarding high-risk situations or escalating events concerning their PCFs. Where appropriate, DAS intercedes by email or through written "cure letters" to an offending PCF. These processes are built upon OAM 35.30.40.PO.106 and the statewide collection contract.

Assembled information is compiled and maintained for annual review and consideration. Audit's recommendation for a "systematic process" to evaluate PCFs is well founded. The information currently received is based on what each agency deems consequential and of a magnitude worthy of reporting at a point in time.

We are developing a form to be used each year by state agencies to evaluate their PCF's performance. The form will offer several levels of evaluation, provide us year-to-year comparability as well as PCF-to-PCF comparability, and more readily permit DAS to score and observe trends of good or poor performance, interceding accordingly. PCF's receiving repeatedly poor performance scores may not have their contract renewed.

Determine Cost Effectiveness of Further Assigning Debt After It Has Been Worked by an Internal Collection Unit

As a part of our audit, we reviewed a sample of delinquent accounts from state agencies with internal collection units. Agency collection staff are to pursue a series of contacts with debtors in an attempt to collect on accounts. After a period of time, if it becomes apparent that a debt is likely uncollectible, agency staff will assign the account to a private collection agency for additional collection work.

We obtained from private collection agencies a sample of 61 accounts assigned by three of the internal collection units in our review. Detailed collection activity was documented for 48 of the accounts. Of the approximately $500,000 owed on the 48 accounts, collections totaling about $200 were made on two accounts.

Good business practices suggest that managers should use available resources in ways that generate the most return for the least cost. Our analysis suggests that, for accounts assigned from agencies with internal collection units, private agency collection returns may be less than the state's costs to monitor the accounts.

Most state agencies are required by statute to incorporate the use of private collection agencies into their collection programs. This includes agencies that have internal collection units. The Department of Administrative Services has the authority (ORS 293.233) to grant exemptions for certain categories of delinquent debt from this statutory requirement, and the OAM (35.30.20.PO) allows state agencies to request exemptions. In line with good business practices—and to reduce unnecessary costs—some agencies with internal collection units may warrant such exemptions.

We recommend that the Department of Administrative Services oversee a review of the cost effectiveness of assigning debt to private collection firms after this debt has first been worked by an internal collection unit. If an agency's monitoring costs exceed the amounts collected, the department should consider developing guidelines for state agencies to use in requesting an exemption under ORS 293.233.

The Department of Administrative Service's Response:

The audit suggests that, where there are low PCF recovery rates, an agency's staff time used to monitor PCF collection activity could be better spent performing those collection actions in house.

Having PCFs evaluate and return cases to the agency sooner may be beneficial. For instance, returning bad cases as soon as possible for write off improves overall recovery rates and reduces the costs associated with monitoring these cases at the PCF. This ROI approach to case management will focus efforts on the cases having the highest probability of collection. To further this effort, we are proposing legislation to help speed up the efficiency of this evaluation process.

Evaluating cost effectiveness concerns will involve identifying all the costs, i.e., management, staff, issue resolution, account reconciliation, interest posting, recontacting debtors, report monitoring, account tracking, cash processing, etc. Couple this with a proposal under evaluation to make the cost to collect a "Statewide A/R Performance Measure." Cost analysis coupled with trends of documented recovery rates could provide the foundation of a business case that evaluates the ROI of various collection approaches. While collection rates will likely vary from agency to agency due to debt variety, collection tools, and experience; the cost to collect will likely be influenced by the size of the agency, the level of automation, the types of debt, and the demographics of the agency's debtor population.

Agencies may develop and submit a cost benefit analysis for certain types of accounts for consideration as an exemption from assignment.

Status of Recommendations from Oregon Audits Division Report No. 97-77

We reviewed the implementation of the recommendations from audit report No. 97-77, "Opportunities to Improve Delinquent Debt Collection by State Agencies." Of the 13 recommendations, 10 were fully or partially implemented. Among these were recommendations to form a statewide collection committee, to pursue legislation to provide the Department of Consumer and Business Services and the Department of Human Services the authority to garnish debtor accounts, and to develop and use a statewide contract for hiring private collection agencies. Two recommendations are no longer applicable due to changes in agency operational and information needs.

One recommendation to establish a statewide vendor payment offset program was considered, but not implemented. This recommendation was to create a central process for identifying state vendors with delinquent accounts in any state program, and to withhold payments to these vendors in the amounts needed to repay the state.

A 2001 Department of Administrative Services report cited potential problems with Oregon attempting to create a vendor payment offset program. Specifically, the report stated that Oregon would need to amend the state's accounting software, maintain current information on vendors, and ensure due process for all vendors with state-owed debts. The report stated a concern about possible duplication of collection activity. The report also stated that the department contacted seven states with vendor payment offset programs and found that these states were experiencing low returns on their program investments.

We were able to obtain current information from three of the five states that provided collection totals for their vendor payment offset programs in audit No. 97-77. These states provided the revenue their programs generated in fiscal year 2002, and their program's yearly ongoing costs. Massachusetts reported that its vendor payment offset program required one full-time position and had annual collections of $2 million. Kansas reported operating costs of $5,839 and collections of $141,661. Utah reported that its program required a "fraction" of one employee's time and had collections of $193,817.

We recommend that the Department of Administrative Services contact the states of Kansas, Massachusetts and Utah, and determine the basis for the ongoing success these states have reported with their vendor payment offset programs. If the potential exists for Oregon to have similar success, the department should reconsider the feasibility of establishing a vendor payment offset program for Oregon.

The Department of Administrative Service's Response:

Per the Audit recommendation, we have already begun an evaluation of the vendor-offset process in use by the states identified.

We are building a business case analysis based on data gleaned through contacts with the aforementioned states. The business case will compare state processes, statutory similarities, the degree of centralized payment processing systems, and the volume of payment activity. It will develop costs and ROI to determine the viability of such a system in Oregon.

Further, we are looking at other alternatives like piggybacking on the federal tax offset program and considering legislation to improve collections when assets are identified.

Objectives, Scope and Methodology

The primary objective of our audit was to determine if state agencies could improve their collection of delinquent debt. A secondary objective was to review the state's implementation of the recommendations from our October 1997 audit (No. 97-77) on this topic.

Our audit reviewed the delinquent account oversight and collection procedures for the following collection programs:

- Weight-mile taxes at the Oregon Department of Transportation.
- Criminal fines and other fees at the Oregon Judicial Department.
- Food Stamps, Temporary Assistance to Needy Families, and other benefits at the Department of Human Services.
- Unemployment benefit overpayments at the Oregon Employment Department.
- Unemployment insurance taxes at the Oregon Employment Department.
- Civil penalties at the Department of Environmental Quality.
- Workers' compensation taxes at the Department of Consumer and Business Services.
- Other Agency Accounts Unit at the Department of Revenue.

To accomplish our objectives, we reviewed applicable *Oregon Revised Statutes*, Oregon Administrative Rules, and the *Oregon Accounting Manual*. We also reviewed federal regulations and guidelines pertaining to the collection of delinquent debt. We interviewed state agency management and staff from each of the state agencies involved, and we gathered information from the private collection agencies. We also obtained information from the Department of Administrative Services on statewide delinquent debt collection efforts.

We selected random samples of approximately 40 delinquent accounts from each of the collection programs in our review. Six of the state agency collection samples were from fiscal year 2001. The sample from the Department of Environmental Quality was from fiscal year 2002. We reviewed the history of collection activity for each account, including any collection activities conducted by the DOR Other Agency Accounts Unit, or by private collection agencies, or both.

Our testing of state agency collection efforts focused on documenting collection agent activities. We considered telephone calls to or from debtors, and attempts at garnishment, to be evidence of collection activity. These types of actions are in contrast to activities that could be considered information gathering or research. Accounts we did not consider to be eligible for our analysis of collection agent activities included accounts with filed bankruptcies, accounts collected by automated benefit offsets, accounts collected in full by automated tax offsets, accounts paid in full without contact from a collection agent, and accounts with no collection histories. This analysis forms the basis for Figure 1 on page 3 of the report.

Figure 1 does not contain results for the Department of Transportation because we did not quantify collection agent actions for its collection unit. However, we saw no evidence in the department's records that there were any reportable issues regarding the level of collection effort. Figure 1 also does not include results for the Department of Environmental Quality nor the Judicial Department because neither agency has an internal collection unit.

Accounts assigned to the DOR Other Agency Accounts Unit are collected by matching against tax refunds ("Restricted") or by using collection methods similar to those employed by other debt collection entities ("Unrestricted"). The dollar amounts we use throughout the report for the Other Agency Accounts Unit are for unrestricted collections.

We found the state's data used in our sample testing to be sufficiently reliable for our purposes. We came to this conclusion by comparing source document data with electronic account data; we found no errors in these comparisons. We did not test the data for completeness because our objectives did not call for determining values relating to the total population of delinquent accounts.

We conducted our audit in accordance with generally accepted government auditing standards.

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The courtesies and cooperation extended by the officials and staff of all the agencies audited were commendable and much appreciated.

This report, which is a public record, is intended to promote the best possible management of public resources. Copies may be obtained by mail at:

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