

Secretary of State Audit Report

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Oregon Needs Stronger Leadership, Sustained Focus to Improve Delinquent Debt Collection

Executive Summary

Liquidated and delinquent receivables owed to the state of Oregon have almost doubled since 2008, to nearly \$3.2 billion, while collection rates on the debt have dropped. The state's debt collection system needs more leadership, sustained focus and accountability to improve performance over time.

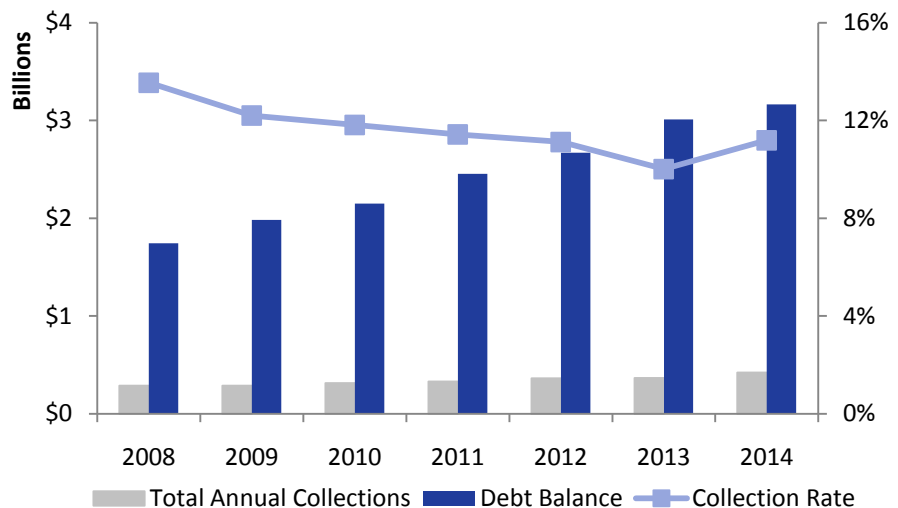
Past due receivables are growing

Oregon's liquidated and delinquent debt rose from \$1.7 billion at the end of fiscal year 2008 to nearly \$3.2 billion by 2014, while statewide collection rates on that debt dropped from 13.5% to 11.2%. Nearly \$800 million of the debt is tied to the state's general fund.

Delinquent: Not paid by due date.

Liquidated: Debtor notified of debt, given chance to contest it.

Liquidated and Delinquent Receivables



Source: Legislative Fiscal Office. Adjusted for PERS errors. Excludes Department of Administrative Services interagency debt.

The recession contributed to the increased debt. Evidence indicates many of the debtors are low-income, and more than half the debt may be uncollectible.

However, bumping up Oregon’s collection rates could still make a substantial difference over time. At 2014 debt levels, every percentage point increase in the statewide collection rate would improve collections by about \$38 million. If Oregon had collected delinquent debt at a 13.5% rate in 2014 – last achieved in 2008 – the state would have brought in nearly \$90 million more in collections.

Our audit found four key improvements that could help Oregon increase collections:

- Improved oversight of collections;
- Enhanced performance measurement and reporting;
- Increased expectations for private collection firms and the state’s central collection agency;
- Better use of proven collection tools.

Oregon has not focused on improving collections

Our audit found Oregon’s highly decentralized approach to collections has contributed to a lack of sustained focus on improvement.

This is our sixth collections-related audit since 1997. Significant improvements identified in those audits have not been implemented, some dating back 18 years.

Oregon has not implemented productive collection tools used by other states, has not resolved lingering legal issues that hinder collections, and has allowed inadequate performance measurement to persist.

Individual agencies have made some improvements. Statewide, however, no one has been tracking collection improvement efforts or encouraging them.

Our discussions with leading states on debt collection highlighted the importance of having a system “expert” responsible for identifying potential improvements, looking outside the state system for new opportunities, and reporting to decision makers.

In Oregon, the statutory authority and history of the Department of Administrative Services (DAS) indicate it is the best agency to serve as a statewide strategist on debt collection.

Performance reporting, measurement are flawed

State agencies routinely collect receivables, or bills for charges and services. Statewide performance reporting focuses on receivables that become “liquidated and delinquent” – past due debt that debtors have had a chance to contest.

The Legislative Fiscal Office prepares an annual report on liquidated and delinquent debt collection, designed 16 years ago by the Legislature to help drive collection improvements.

Debt Collection Milestones

- 1997 ♦ First statewide collections audit.
- 1999 ♦ Legislature requires LFO report; debt assignment.
- 2001 ♦ Statewide committee on debt collection established.
- 2004 ♦ Second statewide audit finds high OAA caseload and minimal oversight of private collection.
- 2010 ♦ Statewide debt collection committee eliminated.
- 2013 ♦ Institute for Modern Government begins collections work.
- 2014 ♦ Third statewide collections audit begins.
♦ DAS starts committee to evaluate collection issues.
- 2015 ♦ Institute for Modern Government drafts collection bills.
♦ Audits Division recommends additions.
♦ Legislature passes SB 55 to improve collections.

However, the report includes few large-debtor agency details – not even their collection rates – contains noteworthy inaccuracies, and does little to hold agencies accountable for collections performance. It also does not identify potential collections improvements or detail the status of agency improvement efforts, key to encouraging advances.

In addition to reporting, we also focused on “assignment” of debt, accounts sent by agencies to private collection firms or the Other Agency Accounts unit (OAA) at the Department of Revenue, the state’s collectors of last resort.

Private collection firms carried nearly \$1 billion of the state’s debt as of 2014 – more than double the 2008 balance – with a collection rate just over 1%.

Other Agency Accounts, the state’s central collection agency, had a better rate, roughly 7%, according to Legislative Fiscal Office data. Assignment to OAA has stayed relatively flat, however, hitting \$259 million in 2014.

We found the Department of Administrative Services is not evaluating the performance of OAA or private collection firms. We also found some large-debtor agencies are not using performance information to strategically assign debt.

Oregon is not using some proven collection tools

Our research, discussions with other states and interviews with Oregon officials suggested eight tools Oregon could pursue to increase collections, including some the state has considered for years but not implemented.

Among the most promising:

Other Promising Tools

- State Lien Registry
- Lottery winnings offset
- Incarceration listings
- Unclaimed property offset
- Timely warning letters

State vendor offset: Forty states are intercepting state payments to debtors who are also state vendors, including corporations and consultants. Our work indicates vendor offset in Oregon would collect at least \$750,000 a year.

Bank levies: Other states have systems that allow for automated matching of a wide variety of debtors to bank account records, a process that yielded \$30 million for Wisconsin in 2014.

Internet posting of debtors: Twenty-three states maintain public online lists of debtors, some focused only on large debtors, to increase collections. Many of the debtors pay after they receive a warning letter but before the information is posted.

2015 legislative changes should help

The Institute for Modern Government at Willamette University drafted Senate Bill 55 in the 2015 legislative session to improve debt collection. We issued an interim report to the Legislature to suggest further legislative

Senate Bill 55, passed by the 2015 Legislature, included changes we recommended.

changes. Our recommendations were incorporated in the bill, which the Legislature passed and the governor signed in July.

At our recommendation, Senate Bill 55 charged the Department of Administrative Services with monitoring and improving debt collection. DAS's duties, detailed in the bill, include improving performance reporting and assignment of debt for collection. DAS started a committee last year to address statewide collections, and contributed to Senate Bill 55.

Even with stronger oversight, improving collection of Oregon's rising debt will not happen overnight. During our audit, we found that improving collections requires meticulous work with agencies.

DAS officials – and policy makers – will also have to be persistent to ensure improvements are made.

Recommendations

Beyond the changes implemented in Senate Bill 55, we found improvements OAA could focus on. We also found other steps DAS could take, including:

- Preparing meaningful annual reports on debt collection, relevant to the public and policy makers.
- Helping agencies adopt successful collection tools.
- Developing short- and long-term plans for a sustained focus on debt collection.

Agency Responses

Both the Department of Administrative Services and the Department of Revenue generally agreed with our recommendations, with DAS noting that it recognizes its oversight role.

DAS said it would focus efforts on current receivables as well as liquidated and delinquent debt. The response also included concerns about the difficulty of adopting a fully integrated vendor offset program.

The Department of Revenue said agency officials will continue to discuss many of the collection improvements noted in our audit with policymakers and stakeholders. A computer system upgrade now underway will help the agency make further improvements, the response said.

The full agency responses can be found at the end of the report.

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Background

Delinquent: Not paid by due date.

Liquidated: Debtor notified of debt, given chance to contest it.

More than 120 state agencies routinely collect receivables for charges and services in Oregon. The data in this report focuses on the portion of receivables that become “liquidated and delinquent” – past due debt that debtors have had a chance to contest.

The variety of that debt is remarkable, a portfolio that includes past-due court fines, child support, income taxes, college tuition, and overpaid benefits, to name a few.

Most state agencies report liquidated and delinquent (L&D) accounts to the Legislative Fiscal Office for LFO’s annual collections report to the Legislature. As of June 2014, LFO reported nearly \$3.2 billion in total debt, with nearly \$800 million tied to the state’s general fund.

Ten agencies account for \$3.13 billion of the debt, or 98% of the total balance.

Top 10 Debtor Agencies

Agency	Top Receivables (All funds)	L&D Debt as of June 2014 (millions)	L&D Collection Rate FY 2014
Oregon Judicial Department	Court fines, fees, restitution	\$1,498	5.9%
Department of Revenue	Income taxes, individual and corporate	\$758	14.9%
Department of Justice	Child support	\$412	3.4%
Oregon Employment Department	Unemployment benefit overpayments, employer underpayments	\$147	22%
Public Employee Retirement System *	Retiree paybacks	\$131	18%
Oregon University System	Tuition, fees	\$71	29.4%
Department of Consumer & Business Services	Claims, fines and penalties, including workers’ compensation penalties	\$55	8.3%
Oregon Health Authority	Medicaid overpayments	\$34	24.9%
Oregon Department of Transportation	Weight mile taxes, DMV fees	\$13	19.3%
Department of Human Services	Benefit overpayments	\$12	11.3%

Source: Data reported to LFO.

* PERS figures adjusted for LFO reporting errors.

Agencies use multiple methods to collect delinquent accounts. As many debtors have discovered, persistent phone calls are a key to collections. Agencies can also send demand letters, set up payment plans, draw on wages and bank accounts through garnishments or levies, and send debt for offset against debtors’ state income tax refunds.

To find debtors, agencies can use locator services such as LexisNexis that collect data from public records and other sources. They can also check DMV records and Internet sources. Some agencies can search Oregon Employment Department data to find wages they can garnish by sending notices to employers.

Debt “Assignment”

Agencies can send debt for collection to either:

- Private collection firms
- Other Agency Accounts at the Department of Revenue

With exceptions, Oregon law requires agencies to “assign” or send debt 90 days past due or liquidated to either the Department of Revenue’s Other Agency Accounts unit or to private collection firms for collection. However, agencies with their own collection units are typically allowed to pursue collections for a year before assigning debt.

OAA, the state’s central collection agency, has direct access to Employment Department wage records and can draw limited debtor information from state tax returns. Private collection firms specialize in finding out-of-state debtors and using analytic software to “score” debt, prioritizing which debtors to pursue.

Statewide, agencies report making 94% of liquidated and delinquent debt collections themselves. OAA and private collection firms accounted for just 6% of total collections in 2014.

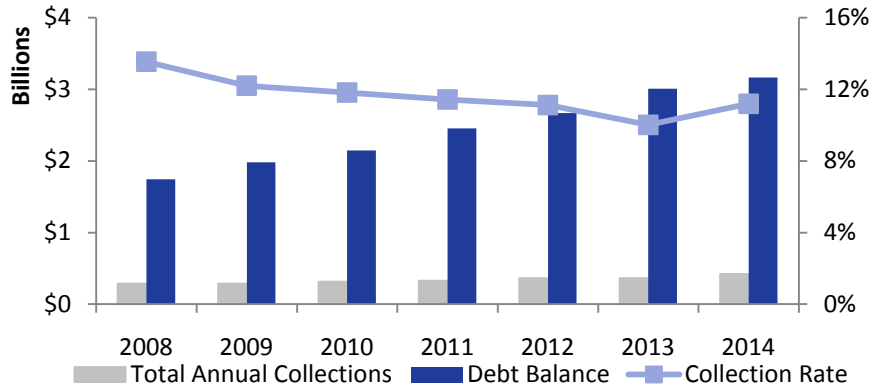
In general, OAA and private collection firms also have considerably lower collection rates than the agencies themselves, in part because they tend to get older debt that agencies have had the most trouble collecting.

Oregon’s debt is rising

Oregon’s total liquidated and delinquent debt has risen substantially, from \$1.7 billion in 2008 to nearly \$3.2 billion in 2014. New debt – annual additions – rose from \$545 million in 2008 to roughly \$750 million in 2014.

Oregon’s overall collection rate on delinquent debt also dropped from 2008 to 2014, contributing to the increase in the outstanding debt balance. The overall collection rate stood at 13.5% in 2008, according to LFO data, and fell to 11.2% by 2014.

Liquidated and Delinquent Receivables

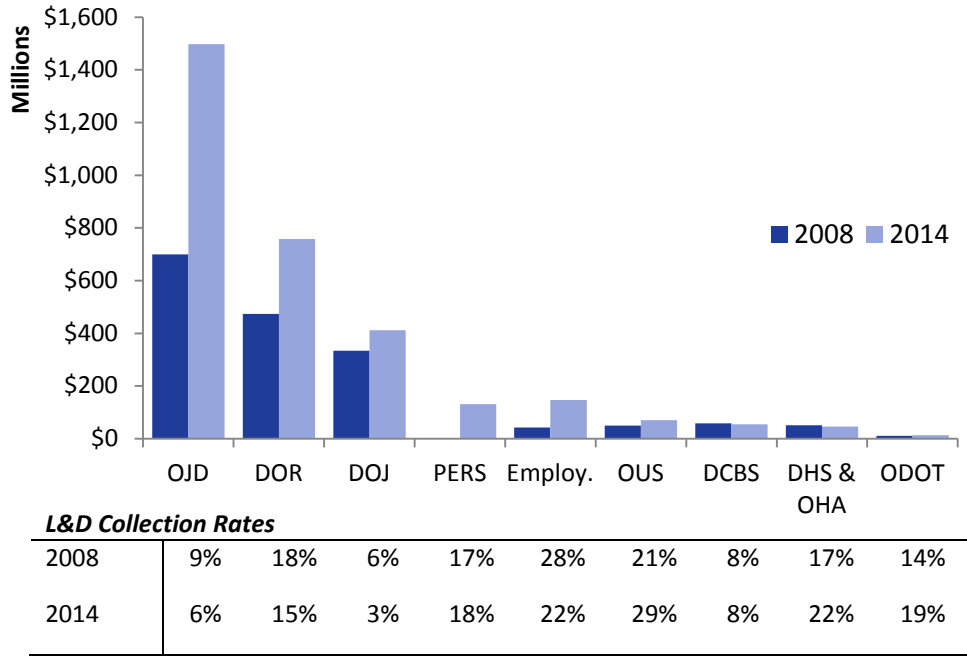


Source: Legislative Fiscal Office. Adjusted for PERS errors. Excludes Department of Administrative Services interagency debt.

At the agency level, debt increased for seven of the top debtor agencies from 2008 to 2014. Five agencies – the Oregon Judicial Department (OJD), Department of Revenue (DOR), Department of Justice (DOJ), Public Employees Retirement System (PERS) and the Oregon Employment Department – accounted for \$1.4 billion of the debt growth from 2008 to 2014.

All the top five agencies but PERS saw their collection rates fall in the period.

Agency L&D debt balances 2008 to 2014



Note: We combined DHS and OHA for these charts because OHA was part of DHS as of 2008.

At nearly \$1.5 billion, the Judicial Department has by far the largest amount of delinquent debt, and is responsible for more than half the growth from 2008 to 2014, partly because of increases in fines, fees and assessments.

The Department of Revenue, Oregon’s tax agency, accounted for about a fifth of the growth. Revenue officials say part of the growth came from increased pursuit of taxpayers who fail to file taxes, which generates debt that is more complicated to collect than taxes reported but not paid.

PERS accounted for 10% of the statewide growth, largely because of court rulings that required PERS beneficiaries to pay back some retirement benefits. Debt at the Employment Department tripled as unemployment benefits rose, accounting for 7% of the growth.

The recession's role

The recession contributed to the increase in delinquent debt and decline in collection rates in two ways. First, as a key state official told us, some state leaders were reluctant to aggressively pursue collections during an economic downturn, when families were already hard hit.

Second, our analysis indicated, not surprisingly, that increases in the unemployment rate lead to lower collection rates.

From 2008 to 2014, the relationship between unemployment rates and delinquent debt collection rates was weak from year to year – collection rates continued to drop even after unemployment rates began to fall in 2011. However, the correlation was relatively strong – up strengthened two years after a change in the unemployment rate, with unemployment rates explaining 55% of the collection rate two years later. This result suggests collection rates could rise over time if the economy remains relatively strong.

Rising revenues also contributed to delinquent debt growth – as a general rule, receivables rise with revenues. Despite the recession, the state's non-grant revenues, including taxes, actually rose 18% from 2008 to 2014, explaining perhaps a fifth of the debt increase in that period.

State debt is challenging to collect

Each year, financial managers at Oregon agencies estimate how much of their accounts receivable will not be collected. If the managers' latest estimates are right, more than half the roughly \$3.1 billion in liquidated and delinquent debt reported to LFO in 2014 by the 10 largest debtor agencies will never be collected.

Partly, the lack of collections is a function of agencies not aggressively implementing promising collection tools and making steady operational improvements to increase collections.

Collections also depend on collector caseload and effort. Our audit in 2004 demonstrated that collections rise as caseloads drop and collection efforts increase, including phone calls to debtors and wage garnishments.

Collecting all of the debt is unrealistic, however. Debtors can be difficult to track down. Some are in prison. Potentially effective methods can cost too much – sending staff to knock on doors to collect minor debts doesn't make financial sense.

Portions of Oregon's debt are very old, especially debt at the Judicial Department, required by law to keep state court judgments on its books for 10 to 50 years. A collections maxim – backed by data on collections results – is that the likelihood of collection falls substantially as debt ages.

Also, again not surprisingly, evidence suggests many state debtors don't have much income.

Three-quarters of debtors at OAA reported less than \$25,000 of income.

In 2011, the Department of Revenue analyzed the adjusted gross incomes of tax filers with non-tax debt at the Other Agency Accounts unit.

Three-quarters of those debtors reported an AGI of less than \$25,000. Only a sliver – 3.2 percent – reported an AGI above \$75,000.

State law imposes limits on how much the state can collect. Generally, wage garnishments are limited to 25% of an employee’s after-tax earnings. The worker has to be left with at least \$218 in earnings a week.

Oregon has made collections improvements

Since our first statewide collections audit in 1997, the state has made some improvements in delinquent debt collection, providing a foundation for further advances. The upgrades began in 1999, when the state revised key statutes. The next year, LFO published its first annual report on collections.

More recently:

- The Employment Department has begun participating in a federal program to recover benefit overpayments caused by fraud, netting more than \$6 million in 2014.
- The Judicial Department has implemented an electronic payment system and is looking at setting up payment kiosks in courts.
- The Department of Revenue is installing a more sophisticated computer system, GenTax, that Wisconsin credits for helping to increase collections.
- The Department of Administrative Services has set up a committee to try to improve the state’s collection efforts, focusing on collections training and clarifying write-offs of bad debt.

Earlier this year, the Institute for Modern Government at Willamette University proposed legislation, Senate Bills 55 and 56, to make further collections improvements.

We issued an interim report to the Legislature, based on preliminary results from this audit, to suggest further legislative changes. Our suggestions were added to SB 55, which the Legislature passed and the governor signed in July. DAS also contributed to the bill.

The state can make further improvements

This is our sixth collections-related audit. As detailed in our findings below, some of the recommendations we proposed in prior audits have either not been fully implemented or have been raised as concerns in our current audit work.

Two of the unimplemented prior recommendations – intercepting state payments to state debtors and improving evaluation of private collection firm performance – date to 1997.

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Ideally, we could judge Oregon's collections performance across the board by measuring it against results in other states. Comparisons between states can be deceiving, however. Revenue sources vary – income taxes versus sales taxes, for example – as do accounting treatments and the categories of debt states pursue.

But the federal government does publish comparable collections data for some state programs that receive federal funds. For those programs, Oregon has had mixed results.

The state's collection of overpayments in the Supplemental Nutrition Assistance Program is relatively strong – Oregon had the ninth highest collection rates among states for the fiscal years 2012 and 2013 combined.

However, collections of unemployment insurance payments ranked 34th in 2014 and 39th in 2013. Oregon's rankings on four metrics related to child support collections ranked from 27th to 46th last year, with Oregon's collector caseloads relatively high.

These results, albeit for a limited set of Oregon agencies, also suggest room for improvement. Our audit results indicate where Oregon can focus its improvement efforts.

Audit Results

Our audit found four key improvements that could help Oregon increase collections:

- Improved oversight of collections;
- Enhanced performance measurement and reporting;
- Increased expectations for private collection firms and the state's central collection agency;
- Better use of proven collection tools.

Oregon's Department of Administrative Services can provide oversight and help address the problems we identified in Oregon's system.

Stronger oversight will not improve collection of Oregon's rising debt overnight. Steadily increasing the state's collection rate over time, however, could make a substantial difference.

At 2014 debt levels, every percentage point increase in the statewide collection rate would improve collections by about \$38 million. If Oregon had collected delinquent debt at a 13.5% rate in 2014 – last achieved in 2008 – the state would have brought in nearly \$90 million more in collections.

Oregon has not focused on improving debt collection

Oregon has taken a decentralized approach to collecting debt, an approach that makes sense to some extent. Agencies have distinct budgets and different types of debt. The importance of debt collection to their mission varies, as does their legal authority.

In practice, however, Oregon's dispersed structure has reduced the state's focus on collections improvements. We found:

Recommendations not fully implemented:

- Implement vendor offset
 - Expand access to "new hire" report
 - Address insufficient staffing, large caseloads
 - Establish statewide collection committee
 - Evaluate private collection firm performance
 - Periodically review written-off accounts
- **Reduced support:** Amid budget cuts in 2011, the Department of Administrative Services eliminated its Accounts Receivable Core Committee, established after our 1997 collections audit to improve collection across agencies. Collections training has also diminished.
 - **Weak follow through:** Several key improvements identified in our prior audits have not been implemented. Legal issues that hinder collections remain unresolved.
 - **Inadequate reporting:** Oregon has not improved statewide performance reporting or systematically evaluated debt assigned for collection.
 - **Foregone collection opportunities:** Oregon is not pursuing collection tools used successfully in other states.

A lack of focus also shows up at the agency level. We surveyed 12 collection units in nine of the state's largest debtor agencies and interviewed managers and staff in those agencies. We found:

- **Static systems:** With exceptions, agency officials have not been looking outside their units for potential collections improvements or seeking legislative changes that could help increase collections.
- **Missing fundamentals:** Five units do not age their debt, crucial because collections decline as debt ages. Seven do not use data analysis to “score” or prioritize which debt to pursue.
- **Agency confusion:** Compliance with the state's collection rules varies significantly, with confusion widespread.
- **Incomplete performance measurement:** The three highest debtor agencies have key performance measures tied to receivables collection. The others do not. Several agencies could not readily provide collector caseloads, which tie directly to collections results.

Staff turnover contributes to these problems. So do high caseloads in some agencies and the limited time some accounts receivable staff are given to pursue collections.

Oregon also has no “go-to” central authority to hold accountable for reporting on and improving collection of delinquent debt. That differs from what we found in states with leading debt collection practices.

Stronger leadership, central oversight could increase Oregon's focus on collections

During our audit we spoke with U.S. Department of Treasury officials and collection officials in 15 states to gauge best practices in delinquent debt collection.

We focused on six states – Colorado, Kentucky, Maryland, New Jersey, Minnesota and Wisconsin – for in-depth discussions. These states all made improving collections a sustained priority. They have similar demographics to Oregon and, like Oregon, impose a state income tax.

Recommended practices emphasize active oversight

These states all emphasized the importance of having a system authority responsible for identifying potential improvements inside the delinquent debt collection system, looking outside for new opportunities, and reporting to decision makers.

The states all reported investing in new collection tools and system enhancements. They measured and reported on system operations and performance. They actively pursued legislation to facilitate system improvements – in its 2014 annual report, Wisconsin lists seven recent legislative updates.

None of those central authorities could compel agencies to comply with delinquent debt directives. Instead, they relied on monitoring, discussion and reporting to encourage agency compliance.

The federal government also emphasizes central monitoring of the debt collection system. A Treasury unit collects debt for more than 600 federal departments and offices, providing system expertise and reporting on performance.

That approach is consistent with a 2010 report issued by the National Association of State Auditors, Comptrollers and Treasurers and a nationwide consulting group.

Decentralized collection operations, outside tax agencies, tend to receive less focus and money, and are “limited in their ability to pursue significant opportunities for improvement,” the report concluded.

Central oversight improved results

We found evidence of improved results in states with some degree of centralization, and in two Oregon programs monitored by their federal partners.

Comparing state collection rates head-to-head can be misleading, partly because of differences in debt types and calculation methods. However, three of the states with central oversight of delinquent debt collection provided us with collection rate trends that, unlike Oregon, showed collection rates rising over time.

Colorado saw its collection rise from 19% in fiscal year 2012 to 28% in 2014. Minnesota’s collection rate totaled 21% in 2011 then averaged 45% over the next three years. Wisconsin saw rates rise from 2012 to 2014 for its unit that collects debt from other agencies.

In Oregon, we saw two examples of significant improvements in state programs that operate under federal government oversight. Both cases demonstrate the value of an oversight system that identifies problems through publicly available performance data, requests detailed improvement steps, and reports progress on improvement:

Oregon Employment Department: The department reports performance data to the U.S. Department of Labor and submits a “corrective actions plan” when performance doesn’t meet federal standards. In 2012, the Employment Department submitted a corrective plan for detection of unemployment insurance overpayments. Four years later, its overpayment detection rate had more than doubled, to 39%, an improvement agency officials attribute to tracking progress quarterly and detecting overpayments through strategic audits.

Oregon SNAP program: Similarly, data reported to the federal government showed Oregon’s food subsidy program had relatively high overpayments in 2012 and 2013, at roughly 4% of total cases each year.

Those errors generated receivables that could turn into delinquent debt. The program filed a corrective plan detailing steps to reduce the error rate, including more training for new staff and more leadership tracking of performance data. So far in FY 2015, the error rate has fallen to 2.9%.

Both programs have also become more focused on improvement in general, investing in “business intelligence” systems that spotlight problems and opportunities for improvement.

Oregon’s Department of Administrative Services can provide oversight

In Oregon, the Department of Administrative Services’ statutory authority and history indicate it is the best agency to serve as a statewide strategist on debt collection.

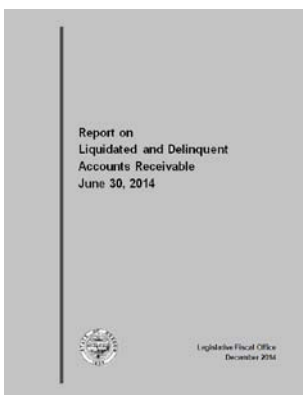
DAS’s role, as spelled out in state law, includes leadership in statewide performance measurement, training, and analysis of statewide issues for policymakers.

DAS develops and improves the Oregon Accounting Manual, which provides debt collection guidance. It has managerial authority over executive agencies. And it has tried to coordinate state debt collection in the past.

That coordination effort, the Accounts Receivable Core Committee, was useful as a discussion forum for agency collection officials. However, it did not provide monitoring, identify and report on potential improvements or use performance reporting to help promote improvements.

At our recommendation, Senate Bill 55 charged DAS with monitoring and improving debt collection. The Legislature provided up to \$660,000 for initial implementation in the 2015-17 biennium.

Oregon’s debt reporting lacks accuracy and relevance



[LFO's latest report.](#)

Oregon law requires the Legislative Fiscal Office to prepare an annual report on the liquidated and delinquent accounts of state agencies, a key to the 1999 Legislature’s effort to drive collection improvements. LFO has issued 15 annual reports from 2000 to 2014.

LFO also issues a budget brief that highlights trends in total debt over time and in collections by the Department of Revenue’s Other Agency Accounts unit and private collection firms. The two reports have helped highlight growth in the state’s debt, bringing more attention to the issue.

We found, however, that the data reported to LFO contains significant inaccuracies. The reports also lack crucial details that could highlight the collections performance of Oregon’s largest debtor agencies, increase accountability, and help agencies make steady improvements.

Report data can be inaccurate, inconsistent or misleading

The report appears to be roughly accurate at its most basic level: reporting the total liquidated and delinquent debt balance. For the 10 largest debtor agencies, the aggregate \$3.1 billion total reported to LFO for fiscal year 2014 roughly matches the total non-current receivables the same agencies recorded in the state's financial accounting system.

However, questions we directed to agencies revealed problems at a more detailed level. Among them:

- **PERS error:** PERS underreported collections by \$26 million in 2014. Adjusting for this change increased the agency's 2014 collection rate from 1.4% to 18%.
- **DHS error:** The Department of Human Services copied data from 2013 instead of using 2014 figures for a significant chunk of its debt.
- **DOJ labeling:** The Department of Justice labeled \$85 million in child support debt as available for sending to OAA or private collection firms, though DOJ collections officials say they have the option not to send it out and do not intend to do so.
- **Inconsistent reporting:** Some debt collected on behalf of others, such as court restitution owed to victims, is reported to LFO. Some is not reported, including more than \$680 million of past-due child support owed to parents.
- **Misleading numbers:** The Department of Administrative Services reported unusually high numbers in 2014: \$239 million in collections, with a 90.8% collection rate. These seemingly impressive results were overstated, DAS officials said, and came from routine collections of interagency debt. They generated large increases in Oregon's 2014 collections, reported as part of an all-agency total in the LFO report, but were not explained in the report.

Neither LFO nor the Department of Administrative Services, which sets reporting rules and oversees state accounting, is checking the information reported by agencies for basic accuracy.

The report lacks information that could encourage improvements

The Government Accountability Office, the federal Office of Management and Budget, and Oregon's now-defunct Accounts Receivable Core Committee all highlight the importance of reporting detailed information on collection activities to improve collections.

Potential details large-debtor agencies could report include:

- Collection rates, cost of collection and delinquency rates, which measure the amount of agency receivables becoming past due in the first place.

- Collector staffing and caseloads, which correlate strongly with collections success.
- Measures that show the effort agencies put into collecting debt, such as debt on payment plans or being garnished.
- Improvement obstacles and opportunities, such as agency use of collection tools and the potential to add more.

Oregon's reports do not include any of the measures above, aside from trends in total debt and details of overall collection rates for debt assigned to OAA or private collection firms.

The reporting includes minimal information on large-debtor agencies – only their total debt balance. It includes no mention of improvement efforts, or any data on their collections performance.

All the top debtor agencies report at least some debt on payment plans to LFO. But LFO's report includes no details of agency debt on payment plans, which would help indicate the amount of effort put into collections.

The report is not relevant to collection managers

Some collection managers pay little attention to the report, we found, or to the collections data their agencies send to LFO.

At several agencies, we found collection managers do not review data submitted to LFO. Collection managers also take little notice of the report itself. Managers at Other Agency Accounts, for example, the only state collection unit with collection rates included in the report, were not aware of the rates when we spoke with them. They noted they use other metrics to evaluate collections.

Managers in several other agencies were not aware of the collection rates easily calculated from the data they report to LFO. At the Department of Consumer and Business Services, which reported the largest debt write-offs among the nine agencies we examined, collection officials were not aware a large number had been reported. One collection manager told us he does not look at the report because it has no value for him.

Collection manager attention – and the report's accuracy – would likely increase if the report included agency performance details relevant to both agency management and policymakers.

At our recommendation, Senate Bill 55 charged the Department of Administrative Services with improving performance reporting. The bill requires DAS to:

- Develop performance standards for state debt collection;
- Work with agencies to improve data sent to LFO;

- Submit an annual management report that identifies issues and trends in agency collection and evaluates efforts by state agencies to improve collections.

Oregon is not monitoring or improving collections by private collection firms or Other Agency Accounts

Agency assignment of debt – to the Department of Revenue’s Other Agency Accounts unit or to private collection firms – is central to Oregon’s collection strategy.

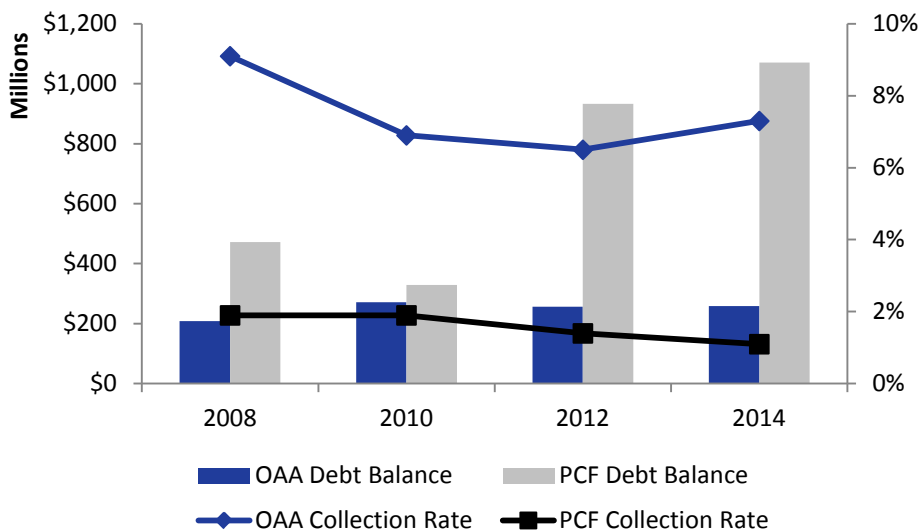
OAA is the state’s designated unit for centralized collection. Private collection firms have been a focus of legislative efforts to increase collections for nearly two decades.

Together, OAA and private firms held \$1.3 billion of the state’s \$3.2 billion of liquidated and delinquent debt as of June 2014. They serve as the state’s collectors of last resort.

Yet we found little focus by the Department of Administrative Services and some large-debtor agencies on improving results after debt assignment, despite dwindling collection rates.

Agencies can choose to send debt for collection to OAA or to private firms. From 2008 to 2014, agencies sent substantially more to private collection firms (PCFs), though OAA’s collection rates were higher.

L&D debt balances and collection rates



As discussed in the background section, agencies are typically required to assign liquidated and delinquent debt to OAA or to private firms after 90 days without a payment, or after a year without a payment if an agency has its own collections unit.

Agencies can also send debt to OAA solely for offset against tax refunds owed to debtors. Debt can sit in the “refund offset only” queue while private firms or state agencies are pursuing collections.

Performance evaluation is minimal

The Department of Administrative Services is not evaluating the performance of OAA or private collection firms. We also found some large-debtor agencies are not using performance information to strategically assign debt.

DAS, which issues central contracts for private collection firms, is not evaluating the firms’ performance, as recommended in our 2004 audit. DAS is also not coordinating pilot tests of different ways to assign debt, as recommended in our 1997 audit.

Since 2011, the Department of Revenue has not conducted a detailed analysis of private collection firm performance on the tax debt it sends to private firms. In the last decade, the department has more than doubled the number of privately assigned accounts.

Some agencies, notably the Oregon Judicial Department, do gauge the performance of private collection firms. Two large-debtor agencies, the Department of Human Services and Department of Justice, said they do not evaluate private firm performance.

Six of the top 10 large-debtor agencies are not sending meaningful amounts of debt to both OAA and private collection firms. That strategy leaves the agencies little opportunity to compare their own collectors’ performance with the performance of OAA and private collection firms, which could help agencies assign debt based on results.

Data suggest OAA may outperform private collection firms

OAA’s statewide collection rate is roughly six times that of private collection firms. Private firm officials attribute this in part to receiving older, less promising debt than OAA.

We asked the Oregon Judicial Department, the state’s largest debtor agency, to separate its collection data by age to help us gauge the relative performance of OAA and private firms on similarly aged debt.

We evaluated only debt older than two years, which OJD officials told us has typically been cycled through both OAA and private collection firms. We eliminated tax refund offsets credited to OAA and OAA’s large “outlier” collections. And we compared OAA’s results only to OJD’s most experienced and highest performing private collection firm.

We found:

- OAA did receive younger debt overall, helping explain part of the overall difference in collection rates.

- The debt's age did not explain all the difference. OAA had a higher collection rate than OJD's most experienced private collection firm at each age class we examined, ranging from 1.6-times to 3-times higher.

Private firm officials told us they were not surprised by the results. OAA has access to state databases, they noted, including DMV records and quarterly employment reports, an advantage in identifying garnishable wages and locating debtors. The information OAA obtains is not included when debt cycles back to agencies and then to private collection firms.

OJD officials said private collection firms have superior technology, but they also have higher staff turnover, giving OAA more familiarity with OJD's criminal and civil debt.

Oregon can help private collection firms improve

Private collection firms have some clear advantages. They have superior data on out-of-state debtors, and can hire new collection agents more quickly than state agencies when debt ramps up.

They can also make calls to debtors during productive evening hours, run location software on thousands of debtors at once, and use scoring software that helps them identify which debt is most likely to be collectible.

However, the state's unfocused approach to debt collection hampers the private collection firms' chances of success. Our audit work suggests several improvements that could help increase their low collection rate:

Scrutinize performance: The Department of Administrative Services could provide agencies with details of private collection firm performance. In coordinating contracts, it could also ask the firms for specifics on their staff turnover, call center capacity, and capability to score debt and match efficiently to data sources. These details would allow agencies to steer business to the most sophisticated, successful operations.

Increase data quality: Oregon agencies could improve the quality of data they send to private collection firms by including Social Security Numbers, DMV information, addresses, dates of birth and phone numbers. OJD officials, for example, say they can do a much better job of entering debtor phone numbers and addresses into their system, and said system upgrades underway will help.

Improve debt tracking: The state can better track how quickly state agencies assign their debt and the effort agencies put into collection. At this point, it is unclear how many unpaid debtor accounts state agencies are not "touching" – making phone calls or doing research, for example.

Other Agency Accounts can also improve

Officials at the Department of Revenue, where the Other Agency Accounts unit is housed, say the new GenTax operating system DOR is installing will

allow OAA to prioritize debt, match debtors efficiently to databases and provide around-the-clock access to a new online payment portal.

We found other potential improvements:

Reduce caseloads: Our 2004 audit indicated OAA had the highest caseloads of the five collection units studied, the lowest number of phone calls or garnishments, and the poorest collection results.

A decade later, our survey found that OAA has the highest caseload among large-debtor collection units, roughly 4,700 debt accounts per collection agent.

Department of Revenue data indicates OAA collectors are not making phone calls on more than half of accounts within 30 days of receiving debt or on about a quarter of its accounts within 90 days.

Allow tax information access: In early 2015, Department of Revenue officials decided to cut off OAA collectors' access to useful information from state tax returns filed by debtors, such as debtor addresses and income sources, concluding that state law does not clearly allow it. The Legislature could help OAA by amending the tax disclosure statutes to clearly allow access.

Absent a change, OAA will lose valuable data. If a debtor owes tax debt and debt to other agencies, the Department of Revenue would also have to use two separate collection agents – a tax collector and an OAA collector who would not have access to returns – to collect debt from the same debtor.

Share data: As with private collection firms, state agencies can send better information to OAA. In some cases, OAA collectors have to track down basic data such as phone numbers, addresses and Social Security numbers. OAA also tracks only the date it received debt from agencies – not the original due date. That limits OAA's ability to age accounts and prioritize the debt it pursues.

Increase full collections assignment: State agencies can also assign more of their eligible debt. Some debt – debt owed by people in prison or in a state hospital, for example – is reasonably exempt from assignment.

Yet data reported to the Legislative Fiscal Office indicates agencies don't assign about 40% of the available nonexempt debt to either OAA or private collection firms. Unassigned, nonexempt debt totaled nearly \$1 billion at the end of fiscal year 2014.

Increase tax refund offset assignment: Agencies that send debts to private collection firms can send them to OAA for offset against tax refunds at the same time. Yet we found five of the eight large-debtor agencies eligible to send debts to private firms do not simultaneously send them for refund offset. As of June 2014, those five agencies had \$7.2 million of debt with private firms.

OAA's automated refund offset program also only accepts debt with Social Security Numbers attached. We estimate that requirement eliminates roughly \$600 million in debt from OJD, which often lacks SSNs for civil cases and traffic violations. With more efficient data management, OAA could focus on finding SSNs for persistent debtors or large debts withheld from offset for lack of SSNs.

Boost outreach: We found OAA could conduct more outreach to other agencies to bring in new business. OAA management was not aware, for example, that some agencies were sending debt to private collection firms but not for tax refund offset. It could also analyze LFO data to determine which agencies are not sending debt and talk with them to determine why not.

Streamline service agreements: Currently, OAA carries roughly 160 separate service agreements with state and local agencies. Collection charges differ widely among its clients, creating more work for collectors. Thirty-six OAA clients, with debt at OAA totaling \$74 million as of September 2014, do not allow OAA to garnish wages or levy bank accounts to recover their debt.

OAA's federal counterpart, Treasury's "Cross-Servicing Program," recently worked with its client agencies to standardize its service agreements. It now has wage garnishment authority from most of its client agencies, and is working toward obtaining authority for all of them. Streamlining the agreements also helped the program improve the quality of debtor information agencies send.

Senate Bill 55 provisions

At our recommendation, Senate Bill 55 included one statutory provision that will allow agencies to charge OAA collection costs to debtors. Previously, agencies could tack on collection charges on debt assigned to private collection firms but, for agencies other than the Oregon Judicial Department, not for debt assigned to OAA. Senate Bill 55 allows all agencies to add collection fees to debt assigned to OAA, unless prohibited by federal law. This change means debtors will pay for collections costs, not agencies and taxpayers.

In addition, the bill gives private collection firms, OAA and agencies more authority to reach compromises with debtors. It provides limited reporting on agency debt that has gone beyond 90-day limits for assignment to OAA or private firms.

It also requires DAS to set criteria for effective and efficient debt assignment, set performance measures for assigned debt and adopt policies that improve communications between agencies, OAA and private collection firms.

The Institute for Modern Government at Willamette University is also trying to help Oregon improve its collections results. Among other

Garnishment Example

OAA collectors told us they see some Oregon Health and Science University debtors with significant wages – including some employed by OHSU – but cannot garnish those wages.

initiatives, it is studying what types of debt are best assigned to private firms. This information could help state agencies make more informed assignment decisions.

Important Oregon collection rules are unclear or not followed

Oregon's accounting manual, overseen by the Department of Administrative Services, lays out collection procedures for executive agencies to follow. In several cases, we found confusion and lack of compliance with these rules:

- Agencies are required to report problems with private collection firm contracts to DAS. None of the agencies we surveyed are currently doing so.
- In 2007, DAS apparently approved a permanent, blanket exemption from assigning debt to private firms for the Department of Consumer and Business Services, which reports one of the lowest delinquent debt collection rates in the state. Permanent exemptions for all accounts do not meet the intent of state law and policy, DAS officials say now.
- Also, DCBS interpreted the exemption to cover assigning debt to OAA as well, though the agency exemption application did not mention OAA. DCBS officials say they have assigned some debt and will apply for an allowed exemption to retain accounts for one year before assignment.
- One agency, the Department of Human Services, is not making collection calls to debtors as required by the state's collection rules.
- At least two collection units did not reconcile the debt they sent to Other Agency Accounts with OAA monthly reports as required by state rules.
- "Skiptracing," or using databases of public records and other sources to locate hard-to-find debtors, has been required since 2002. Yet, three of the agencies we surveyed did not use skiptracing. When we began our audit, three of the four Department of Revenue collection units also did not use a skiptracing service.
- DAS is also not monitoring the use of skiptracing services, or checking to see if agencies are using the statewide contract DAS negotiates, which is designed to save agencies the work of soliciting bids and price quotes. Four of the six agencies that reported using skiptracing services did not use the statewide contract.

At times, our questions prompted agencies to pursue clarifications with DAS. However, we found no evidence of these agencies pursuing clarifications before our interviews or of DAS checking with agencies on compliance.

DAS's elimination of receivables training during the recession likely contributed to these problems. The agency resumed training in March 2015.

Oregon is not using some proven collection tools

In some cases, Oregon's large-debtor agencies are actively pursuing new collection tools. The Department of Revenue's withholding and payroll tax section, for example, recently began matching debtors to 1099 rental income information from tax returns and to the state's unclaimed property list to improve collections.

The Office of Payment Accuracy and Recovery, which collects some receivables for the Department of Human Services and the Oregon Health Authority, is using one of the broadest sets of collection tools. The office's tools include an online payment portal and a subscriber database, that provides nationwide employment data.

The use of collection tools is not consistent across agencies, however, or even within agencies that have multiple collections units. Oregon has also not adopted tools used successfully in other states.

Implementing new tools can be complicated. Some require legislative authorization. Some raise legal issues or opposition from lobbying groups.

Some raise controversy: After critical news stories, the Legislature recently passed a bill requiring the Department of Revenue to offer suspended tax collection to impoverished debtors whose income is solely from legally protected sources, such as Social Security disability income.

However, our research, discussions with other states and interviews with Oregon officials suggested widely used tools Oregon could pursue to increase collections.

Among the most promising: state vendor offset, improved bank account levies, Internet posting of large delinquent debtors, and a state lien registry. Oregon has considered all four of these tools for years, but has not implemented them.

State Vendor Offset

For vendor offset, states compare lists of state debtors to lists of vendors the state is paying to do work. If a vendor owes money to the state, the state intercepts the payments due and applies them to the debt. Vendor payments include payments to corporations and consultants and non-salary payments to state employees, such as travel.

We first recommended that the state begin a vendor offset program in 1997, nearly two decades ago, but Oregon has not implemented it.

During our current audit, we used debt data from the Department of Revenue, vendor information from DAS, and vendor payments from the state's accounting system to gauge the potential returns from vendor offset in Oregon. We tracked payments from 2011 to 2014, counting a payment as a potential debt offset only if the state paid the vendor in the year after the debt was incurred or in subsequent years.

Our findings:

- The state is regularly making payments to individuals and businesses that owe the state money.
- More than 9,000 state debtors were on the state vendor list and had received payments or were authorized to receive payments.
- In four years – from 2011 to 2014 – the state could have collected roughly \$3 million dollars had vendor offset been in place, indicating vendor offset could return at least \$750,000 a year.

These numbers could underestimate vendor offset potential. The debtor list at the Department of Revenue does not include all the state's debt, only debt sent to OAA and tax debt. Our methodology also captured only payments made in years after the debt was listed as incurred, missing payments in the same year. Finally, OAA tracks only the date debt was sent to OAA – not the original due date. If we knew the original debt date, we could have captured more payments as potential vendor offsets.

In our analysis, we found state payments being made to debtors who owed substantial sums to the state and to debtors the state had tried to collect from for several years. For example:

- One vendor for the Department of Human Services and the Oregon Health Authority received \$1.4 million in regular payments from 2008 to 2014. During that period, he accumulated \$224,000 in state debt. The state could have collected \$166,695 by intercepting payments made after the debt was incurred.
- Another vendor incurred debt of \$86,000 with Oregon Parks and Recreation, which sent the debt to OAA in 2013. In 2014, Oregon State Police paid the business \$19,894, which could have been intercepted.
- A vendor hired by the Oregon Department of Fish & Wildlife in 2012 had \$60,200 in child support debt and roughly \$500 in court debt. His \$21,000 payment could have been intercepted.

Since our 1997 audit, state officials have raised numerous concerns about vendor offset. They range from the potential administrative cost to legal barriers in matching Social Security numbers between the two lists to vendors refusing to do work if their debt is offset.

These concerns have been overcome in other states – at least 40 states have implemented a state vendor offset program. To date, Oregon agencies have deducted only three debts from vendor payments.

The states we spoke with say they efficiently collect debt through an offset function, which is often highly automated after initial setup. They also believe vendor offset has reduced future debt, because vendors aiming for state business are aware the state will intercept payments to debtors.

The federal government also does vendor offset. In fact, Oregon is poised to begin offsetting its payments to Oregon vendors against federal debt. If Oregon continues to resist vendor offset at the state level, it would be redirecting state payments to cover debts owed to the federal government, but not to Oregon.

At our recommendation, Senate Bill 55 included language authorizing state agencies to participate in vendor offset. The bill also attempts to facilitate the process by requiring DAS to establish rules on the use of Social Security Numbers for debt collection. As a unique identifier, SSNs can help agencies efficiently match debtors to other sources of data, such as vendor lists.

Fully automated offset may take time to develop. Discussions with other states and Oregon officials, however, indicate the state could begin implementing vendor offset with interim steps.

DAS could check with the Department of Revenue for tax debt and debt at Other Agency Accounts, for example, either before approving a vendor for inclusion on the state's list or before authorizing vendor payments.

Over time, the program can become highly automated with little overhead, other states and the federal government indicate. North Carolina, for example, reports that it runs vendor offset with one full-time-equivalent employee. Since North Carolina began vendor offset in 2010 it has collected about \$8 million. In 2014, it collected \$1.6 million.

Bank account levies

When it comes to bank garnishments and levies, all but one of Oregon's largest debtor agencies have to guess where a debtor might be banking. Other states, including Wisconsin and California, have worked with financial institutions to implement broader statewide matching systems that allow them to quickly link debtors to specific bank accounts.

In Oregon, the only agency that can match debtors to bank balances for debt collection is the Department of Justice's child support program. Federal law requires all states to access bank information for child support debt.

Other Oregon agencies have to send requests to banks where they believe a debtor has money. If there is a match and required authorizations are in place, the bank takes money from the debtor's account and sends it to the agency.

Sometimes, collectors have a canceled check or other clues that allow them to see where a debtor banks. If not, they have to guess, typically based on the debtor's last known address. This lack of information deters filing bank account levy requests, which carry fees to the agency or OAA for each request filed.

Other states have created statewide bank account matching systems for debts beyond child support. The systems allow them to send levy requests to banks with much more confidence that debtor money is actually there.

Oregon officials have discussed implementing bank account matching for debts beyond child support since at least 2009, but haven't been able to implement it. Department of Revenue documents indicate the state's banking association has raised concerns.

Wisconsin provides a good example of how broader bank account matching can work. Its statewide system includes data from about 500 banks operating in the state – state law requires the banks to participate. In 2008, when Wisconsin officials first researched the process, they found 13 other states with similar programs.

Wisconsin works with a third-party data manager that matches state debtor information to bank data. The process is largely automated, generating automatic requests to banks when matches are found.

Banks can either submit account holder listings to the manager for matching, or they can receive a debtor list from the manager and run the matches themselves. In either case, the manager returns matched debtors to the state so the state can file levy requests with banks.

Wisconsin law also authorizes "continuous" bank levies. For Oregon agencies, a bank levy expires if the money isn't there when the request is sent. Wisconsin's levy requests remain in effect as long as they are attached to a proven debtor's account.

Wisconsin's annual report on delinquent debt showed about \$30 million in 2014 bank levy collections, roughly 15% of its total collections.

Wisconsin requires banks to participate – its third-party manager only works with states that have statutes requiring bank participation. Oregon does not have a comparable statute, and the Legislature would have to adopt one. Statutory language from other states and Oregon's own language for child support collection could help.

Internet posting of large debtors

Twenty-three states maintain public online lists of debtors in an effort to increase collections, according to an independent research tally as of Dec. 31, 2014. The amount of posting varies: California posts the top 500 debtors; Washington posts debt of \$10,000 or above; Georgia and Indiana are among states that post all debtors.

States have to consider privacy concerns when debating whether to post debts – a strategy also known as “Internet shaming.” Their debt data must be accurate.

But evidence suggests posting can be effective. A study earlier this year by researchers from the University of Michigan and Microsoft Research found posting tax debt reduces tax delinquencies. A “sizable fraction” of debtors pay after they receive a warning letter but before the information is posted, the researchers said.

Wisconsin posts taxpayer debt of \$5,000 or more. It reported \$12 million in collections for fiscal year 2013-14 attributable to Internet posting, and a sizable \$163.6 million in collections from January 2006 to June 2014. Wisconsin officials also noted that many taxpayers pay or set up payment plans after receiving warning letters.

Oregon Department of Revenue officials have debated whether to post large income-tax debtors on the Internet for a decade or more. They believe they have statutory authorization to post income-tax debtors, and may do a small pilot project next year. The Legislature would likely need to make statutory changes to allow posting of other types of non-tax debt.

State Lien Registry

A state lien registry would give state agencies a one-stop shop to register liens against debtors, instead of filing liens in individual counties where agencies believe a debtor may reside.

Agencies would be able to quickly see how much debt a debtor has, and where their liens stand in the hierarchy of claims against a debtor. Credit bureaus could access this public information for listing on credit reports, a proven means of increasing collections.

The Other Agency Accounts unit could also file liens that would remain in place or be easily renewed. Today, its liens lapse when the statewide collection unit returns uncollected debt to agencies.

However, bills to set up a statewide lien registry failed in 2005 and again in the 2015 legislative session, in part because of county concerns about losing lien filing revenue.

Other Potential Collection Tools

Lottery offset: Offsetting state lottery winnings against state debt appears common in other states. Maryland, for example, reports collecting \$1.2 million a year from offsetting lottery winnings. In Oregon, only two of the state collection units we surveyed reported matching debtors to lottery winnings. Increasing this total would likely require state legislation.

Incarceration listings: The Oregon Employment Department, working with county sheriffs and with state prisoner records, has developed a list of people in Oregon jails or prisons. Oregon agencies could use this list, which appears to be more comprehensive than online listings, to identify incarcerated debtors and defer collection efforts for those debtors.

Unclaimed property: Oregon's Department of State Lands maintains an unclaimed property list, typically money the state possesses that residents have not claimed. Our discussions with agencies indicate little matching of debtors to the list – only two collection units regularly match to the list. Experience in other states indicates unclaimed property offset can return significant sums, particularly in the initial years after implementation.

Warning letters: Some states we spoke with report strong results from well-timed warning notices to debtors that prompt payments. We did not ask every agency about their use of warning letters, but did find evidence that at least one agency is not experimenting with the content and timing of letters. Oregon's Department of Revenue sends an early notice that tax debt may be transferred to a private collection firm, with collection costs added, but does not send a notice just before it transfers the debt. It has not experimented to gauge the effect of a warning just before the debt is sent out.

Some collection tools raise legal issues that Oregon is not resolving

During our audit we found three tools – the “new hire” report, credit bureau data and Employment wage records – that could improve collections if used or shared more extensively. These tools each raise legal issues that must be resolved for agencies to use them more widely.

New Hire report

Under federal child support law, employers are required to submit lists of new employees within roughly 20 days of hire for use by child support collectors. The Employment Department also receives quarterly employer data on employees and wages, but three to six months after the hiring date.

In Oregon, only three collection units have access to the more timely New Hire report– the Department of Justice child support unit, which receives

the report, the Employment Department, and the Office of Payment and Recovery.

Department of Revenue officials would like to receive the New Hire report, and believe it would improve their ability to garnish wages and identify wage-earners who have not filed taxes.

DOR's research indicates that eight state taxing authorities have access to new hire information. Those states include California and North Carolina, which appear to be in a similar legal position to Oregon, the department concluded.

As of August 2015, Department of Justice officials have not responded to DOR's request for legal clarity on whether DOR can receive the report. Justice officials told us it is probable they can share some information, but details still need to be worked out. We first recommended expanded access to the report in our 1997 audit.

Credit bureau data

Collectors can potentially use credit bureaus in two ways:

- Reporting debt to commercial credit bureaus can prompt payments when debtors want to obtain new loans, buy a house or take other steps that require an adequate credit rating.
- Accessing credit reports on debtors helps collectors assess whether a debtor is worth pursuing and find key debtor details such as addresses and employer information.

Both uses raise legal issues. For reporting debt, a recent national settlement between state attorneys general and credit bureaus declares court fees, fines and tickets off-limits for reporting, as well as debt that "did not arise from any contract or agreement to pay." For accessing credit bureau data, legal cases have restricted access for some types of debt.

Our survey of agencies indicates they vary widely in their credit bureau practices.

Most large-debtor agencies do not access credit reports, citing legal issues. However, the Oregon Department of Transportation received legal advice from the attorney general's office allowing it to pull credit reports for debtors in the motor carrier and fuel tax programs because participants have completed applications that provide the required authorization. This suggests that revised contract language could help improve agency access to credit reports.

The Oregon Judicial Department, allows private collection firms to decide whether to access credit reports.

Other agencies, including the Department of Revenue, don't allow private collection agencies to either report debt or access credit reports. Others are in-between, allowing access or reporting, sometimes partially.

In our judgment, Oregon would benefit from clear legal guidance on the appropriate use of credit bureaus. To the extent that reporting debt to credit bureaus is not allowed, agencies with legal authority can ensure debt is picked up by credit bureaus through timely filing of liens, which credit bureaus capture as part of their public record searches.

Employment wage records

Several agencies, including the Department of Revenue's collection units, have access to the Employment Department's quarterly wage report, a useful tool for determining debtors' employers and finding wages to garnish.

Importantly, this includes the Department of Revenue's Other Agency Accounts unit, meaning any agency that sends its debt to OAA for collection is ensuring access to the report for its debt.

However, when debt is assigned to a private collection firm, the information sharing ends as long as the private collector holds the debt.

This means that a debt can go as long as three years with no check for debtor employment against the wage report. The impact is potentially substantial – as mentioned above, private collection firms held roughly \$1 billion in state debt at last count.

Employment Department officials told us they may not be able to legally share employment information with private collection firms, and noted that private firms could have to comply with significant confidentiality requirements. Legal clarity on this issue would be helpful.

An alert system that indicates when debtors show up in the wage report is also worth exploring. Alerts could trigger agencies to recall debt for garnishment or to notify private collection firms that the debtor is now employed.

Oregon needs more sophisticated data analysis to effectively prioritize debts

Ideally, all of Oregon's large-debtor agencies would quickly match debtors against large databases – wage and employment databases, for example, incarceration records and their own records of debt age and debtors' payment history. The matching could help agencies prioritize which debt to pursue and boost collection efficiency.

In practice, many of Oregon's agencies lack the ability to do broad-scale matching, forcing them to compare debtors to the databases one debtor at a time. This includes the Other Agency Account unit and other collection units at the Department of Revenue.

The Department of Revenue uses automated matching in one instance, for its tax refund offset program, and several other Oregon agencies do broad-scale matching of debtors to databases. More matching can be done immediately – our work with Department of Revenue analysts demonstrated they have the capability and interest.

Several of the other states we spoke with broadly match debtors to databases. Wisconsin sends automated garnishment requests when record matching indicates a debtor has wages, leaving collectors to follow up on non-matches.

Wisconsin also uses automated matching for lottery, vendor and unclaimed property offsets in addition to tax refund offsets, a capability enhanced by its GenTax system. GenTax is also handling data for the state's bank account matching system.

Department of Revenue officials say their own implementation of GenTax should greatly enhance matching and automation capabilities. That would increase the efficiency of both tax collection and collection by Other Agency Accounts, enhancing OAA's capabilities and encouraging more agencies to send their debt to OAA for collections.

This important upgrade may take several years to fully execute. If successful, it could reinvigorate OAA's role as the state's central collection agency, another step toward improving the performance and transparency of Oregon's debt collection. In our view, fully implementing GenTax's debt analysis capacity should be a high priority for Oregon.

Recommendations

Senate Bill 55 addressed our interim recommendations to the Legislature, making the Department of Administrative Services responsible for monitoring and helping improve delinquent debt collection.

To improve reporting, the bill directs DAS to help agencies improve data sent to the Legislative Fiscal Office and prepare an annual report that includes an evaluation of agency improvement efforts. It also requires DAS to set criteria for effective and efficient debt assignment, establish performance measures for assigned debt, and adopt policies that improve communications between agencies, OAA and private firms.

DAS officials requested that we prioritize our remaining recommendations. Based on our observations during this audit, we recommend that DAS focus on four steps first:

- **Lay groundwork for the annual management report.** Given the complexity of debt collection, DAS officials will have to meet regularly with officials at large-debtor agencies to understand their work, identify improvements and obstacles, and evaluate agency collection efforts.
- **Help agencies adopt proven collection tools.** Resolving legal issues and helping agencies adopt effective tools could increase collections and demonstrate progress to agencies, policymakers and the public.
- **Improve debt data.** In our experience, discussions with agency accounts receivable staff can readily identify significant problems with the data reported to LFO.
- **Prepare for a sustained effort.** Improving collections will not be a quick fix, and, as our work indicates, the focus on debt collection tends to fade over time. DAS could benefit from developing both short- and long-term strategic plans for improving collection.

Additional recommendations

We recommend that DAS:

- Further improve performance reporting by:
 - Focusing first on large-debtor agencies and on including information already available from the data reported to LFO, such as agency collection rates over time.
 - Helping agencies calculate and report delinquency rates, a measure designed to limit the amount of receivables becoming delinquent.
 - Developing measures that gauge the amount of effort agencies are putting into debt collection, such as caseload, staffing, and debtor accounts garnished or on payment plans.
 - Including separate data on debtors current on payment plans, and on debt the state collects on behalf of others.

- Further improve debt assignment by:
 - Promoting debt assignment based on collections performance.
 - Helping agencies test whether OAA, private firms or their own agencies collect aging debt most effectively.
 - Helping agencies improve the quality of information sent to OAA and private collection firms.
 - Helping agencies comply with assignment rules.

- Further improve use of collection tools by:
 - Implementing state vendor offset.
 - Working with agencies, and the Legislature when necessary, to implement new tools, such as bank data matching, Internet posting of debtors and a state lien registry.
 - Working with agencies and the Department of Justice to resolve key collections legal issues, such as new hire report availability and the use of credit bureaus and Employment wage data.
 - Exploring successful tools used in other states.

- Improve compliance with collection rules by:
 - Increasing training for agencies.
 - Clarifying assignment requirements and exemptions, handling of private collection firm contracts, and write-off procedures.
 - Helping agencies follow appropriate collection practices, including using skiptracing and reconciling debt sent to OAA.

We recommend the Department of Revenue:

- Improve Other Agency Account collections by:
 - Identifying optimal caseload for efficient and effective debt collection and pursuing additional staff if necessary.
 - Asking the Legislature to allow OAA collectors to access state tax return information.
 - Improving data sharing with client agencies.
 - Boosting outreach to increase full collections assignment and tax refund offset assignment.
 - Streamlining service agreements and working with clients to expand allowed garnishments.
 - Working with agencies to have original debt due dates included in accounts assigned to OAA.

- Prioritize automated matching of debtor data, for both OAA and tax units, to wage and other databases to improve collection effectiveness.

Objectives, Scope and Methodology

Our audit objective was to determine if Oregon can improve collection of liquidated and delinquent debt. Specifically, we wanted to know if promising practices in Oregon or other states could be replicated to improve statewide collections. The impetus for the audit was a five-year trend of increasing delinquent debt, declining collection rates, and a lack of statewide leadership overseeing the collection of delinquent debt.

Audit scope

Our primary auditees were the Department of Administrative Services (DAS), because of its statutory role in improving statewide functions, and the Department of Revenue (DOR), which houses Other Agency Accounts (OAA), the state's central collection unit.

We also focused on nine of the state's top 10 debt holding agencies, and on their reporting to the Legislative Fiscal Office for its annual reports on delinquent debt. We excluded one of the top 10 debt holding agencies, the university system, because its governance structure is changing. Our audit work also did not include a detailed review of smaller agencies, boards and commissions, or community colleges.

Summary of work performed

To address our audit objective, we interviewed key personnel from DAS, OAA, the nine large-debtor agencies, the U.S. Department of Treasury, other state governments, and two private collection firms. We also interviewed officials from the Federation of Tax Administrators, a nonprofit trade association that supports U.S. tax administrators, and the Institute for Modern Government, an Oregon based nonprofit working to improve Oregon government.

We reviewed current and prior laws and policies related to debt management and collections. With respect to collections, we reviewed planning and training documentation, agency collection and financial data, key performance measures related to collections, annual statewide collection reports and related data, agency performance data reported to the federal government, and past collection audits from Oregon and other states. For collection operations, we requested, and reviewed when available, collection-related staffing, caseload and cost data.

Our interviews included staff with specialized knowledge, such as collection agents, internal auditors, information technology specialists, and organizational, policy and data analysts from state agencies.

Interviews with officials from the U.S. Department of Treasury and 15 states focused on collections best practices. From these interviews we identified five best practice themes.

To assess the merits of these themes we focused on six states – Colorado, Kentucky, Maryland, New Jersey, Minnesota and Wisconsin – for in-depth discussions. These states all made improving collections a sustained priority. They have similar demographics to Oregon and, like Oregon, impose a state income tax.

Data analysis details

In addition to the work noted above, we used extensive data analysis at two points in our audit: to determine the potential for vendor offset and to analyze the performance of OAA and private collection firms in collecting Oregon Judicial Department (OJD) debt.

Vendor offset: We first matched the state vendor list we obtained in August 2014 from DAS to a list of DOR debtors as of September 2014, which included both tax debt and debt in Other Agency Accounts. Matching these two files revealed 9,140 state debtors who were on the state’s vendor list, with \$67 million in total debt. Next, we pulled details of state payments to those debtors from 2011 to 2014 from the state’s accounting system, including the agency making the payment, the date paid and the amount paid. We eliminated debtors whose debt was in dispute. We then matched the payment list to our list of state vendors who were also debtors, counting a payment to a vendor-debtor as a potential vendor offset if it occurred in the year after the debt was incurred or in subsequent years.

Oregon Judicial Department analysis: We obtained collection data from May to November 2014 from OJD. We then compared collections and collection rates between OAA and OJD’s most experienced and highest performing private collection firm across four different age classes: 2 to 3 years old, 3 to 4 years old, 4 to 5 years old and older than 5 years. To ensure a fair comparison, we excluded debt less than 2 years old because OJD had begun sending debt to OAA before sending it to private collection agencies, giving OAA an advantage with this younger debt. We also estimated and eliminated tax refund offsets credited to OAA and eliminated OAA’s “outlier” collections – large, single collections that could have skewed our results.

For both vendor offset and the OJD analysis, we assessed the data for reliability and sufficiency by reviewing internal controls over the data and conducting data reliability tests. We concluded the data were sufficiently reliable for our audit purposes.

Auditing standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained and reported provides a reasonable basis to achieve our audit objective.



Oregon

Kate Brown, Governor

Department of Administrative Services

Office of the Chief Operating Officer

155 Cottage Street NE, U20

Salem, OR 97301

PHONE: 503-378-3104

FAX: 503-373-7643

September 25, 2015

Gary Blackmer, Director
Audits Division
Office of the Secretary of State
255 Capitol Street NE, Suite 500
Salem, OR 97310

RE: Audit Report, *Oregon Needs Stronger Leadership, Sustained Focus to Improve Delinquent Debt Collection*

Dear Mr. Blackmer:

Thank you for providing the Department of Administrative Services (DAS) with the audit report noted above. The research and evaluation highlight the importance of oversight in management and collection of delinquent and liquidated accounts in state agencies. We appreciate the work of the Oregon Audits Division staff and are pleased to have the recommendations in the report to help guide future work on collections.

Earlier this year, DAS began work on an enterprise project with several state agencies to identify and remove collection barriers and provide training and education on existing policies. The project team also worked with the Institute for Modern Government and the Legislature to provide input on Senate Bill (SB) 55 during the 2015 legislative process. Through SB 55, DAS gained two permanent and one limited duration positions to provide oversight for collections. With these additional resources, DAS will continue the efforts of the project team and work to address audit recommendations. Due to the concurrent implementation of SB 55 and Secretary of State audit recommendations, the implementation of audit recommendations will begin early next year and culminate in the first management report by December 31, 2016.

Below you will find DAS' response to the specific audit recommendations. While the research presented in this report is not limited to DAS, we recognize the role of DAS to provide oversight to state agencies. DAS management generally agrees with the recommendations made, any specific concerns are identified in the individual responses below.

Audits Division prioritized recommendation:

Lay groundwork for the annual management report. *Given the complexity of debt collection, DAS officials will have to meet regularly with officials at large debtor agencies to understand their work, identify improvements and obstacles, and evaluate agency collection efforts.*

DAS' Response:

Management generally agrees with the recommendation. In addition to this recommendation, SB 55 included language directing DAS to submit an annual management report to the Legislative Assembly identifying important issues and significant trends in terms of state agency collections. This work will be undertaken with the new positions received, and the first annual report will be submitted

to the Legislature by December 31, 2016. An important role of the new positions will include communications and understanding of state agency accounts receivable, which will likely include regular meetings with agencies with the largest debtor balances, in addition to regular communications with collections managers from all agencies.

Audits Division prioritized recommendation:

Help agencies adopt proven collection tools. *Resolving legal issues and helping agencies adopt effective tools could increase collections and demonstrate progress to agencies, policymakers and the public.*

DAS' Response:

Management generally agrees with the recommendation. The enterprise project team has begun to identify barriers that prevent agencies from having access to tools and information that could assist in collections. DAS will continue work with state agencies to resolve legal barriers that prevent access to effective collection tools when the new positions received as a result of SB 55 begin work.

Audits Division prioritized recommendation:

Improve debt data. *In our experience, discussions with agency accounts receivable staff can readily identify significant problems with the data reported to [the Legislative Fiscal Office].*

DAS' Response:

Management generally agrees with the recommendation. Senate Bill 55 also directed DAS to work to improve the quality and value of the data reported to the Legislative Fiscal Office (LFO) for liquidated and delinquent accounts. Beginning with the 2016 LFO report, DAS will work to provide clear guidance to state agencies to help ensure accuracy and consistency in reporting liquidated and delinquent debt information to the LFO.

Audits Division prioritized recommendation:

Prepare for a sustained effort. *Improving collections will not be a quick fix, and, as our work indicates, the focus on debt collection tends to fade over time. DAS could benefit from developing both short- and long-term strategic plans for improving collection.*

DAS' Response:

Management generally agrees with the recommendation. Development of short- and long-term strategic plan for improving collections will be included as part of the duties of the new positions.

Audits Division additional recommendation:

Further improve performance reporting by:

- *Focusing first on large debtor agencies and on including information already available from the data reported to LFO, such as agency collection rates over time.*
- *Helping agencies calculate and report delinquency rates, a measure designed to limit the amount of receivables becoming delinquent.*
- *Developing measures that gauge the amount of effort agencies are putting into debt collection, such as caseload, staffing, and debtor accounts garnished or on payment plans.*
- *Including separate data on debtors current on payment plans, and on debt the state collects on behalf of others.*

DAS' Response:

Management generally agrees with the recommendation. DAS will work to develop performance reporting for state agency collections as directed in SB 55. One of the duties of the new positions will be working with agencies to determine what performance metrics best represent collection effectiveness. Once these metrics are selected, DAS will work to provide clear guidance on how information for these metrics should be calculated to ensure consistency among all agencies. As this work is undertaken, DAS will consider including the types of performance metrics described in the audit recommendation in its annual management report.

Audits Division additional recommendation:

Further improve debt assignment by:

- *Promoting debt assignment based on collections performance.*
- *Helping agencies test whether [the Other Agency Accounts unit in the Department of Revenue, or OAA], private firms or their own agencies collect aging debt most effectively.*
- *Helping agencies improve the quality of information sent to OAA and private collection firms.*
- *Helping agencies comply with assignment rules.*

DAS' Response:

Management generally agrees with the recommendation. As performance and other tracking mechanisms are developed, as described in the previous recommendation response, DAS will work to ensure performance measures include necessary information to monitor collections performance. Once metrics have been established, DAS will create processes to evaluate their effectiveness and work with agencies to ensure debt is assigned to the most effective collection method. In addition to monitoring performance, SB 55 authorized DAS to develop rules and policies to better help agencies share information between one another. This includes drafting rules to give clear guidance to agencies on how to collect Social Security numbers, which will aid greatly in collection efforts. The new positions will also work closely with agencies to provide training and assistance on new and existing policies and rules to ensure debt is assigned efficiently.

Audits Division additional recommendation:

Further improve use of collection tools by:

- *Implementing state vendor offset.*
- *Working with agencies, and the Legislature when necessary, to implement new tools, such as bank data matching, Internet posting of debtors and a state lien registry.*
- *Working with agencies and the Department of Justice to resolve key collections legal issues, such as new hire report availability and the use of credit bureaus and Employment wage data.*
- *Exploring successful tools used in other states.*

DAS' Response:

Management generally agrees with the recommendation, but have concerns related to the ease of implementing state vendor offset. Implementing a state vendor offset system across the enterprise is not a simple solution as audit findings suggest, due in part to technological limitations that prevent this solution from being easy to implement. The state currently uses the Statewide Financial Management Application (SFMA) as Oregon's official accounting system for accounting and financial reporting, but in some instances agencies have been authorized to use separate systems to distribute

payments (for example, issuing checks and electronic funds transfers). Additionally, many agencies utilize subsidiary systems to track debtors at a detailed level and only input high level summary information into SFMA. The combination of these two practices makes it more difficult to capture all disbursements being made to state debtors in a simple manner. Other agencies, such as the Department of Revenue, maintain necessary information on debtors that would have to be accessed by DAS' Financial Business Systems unit to perform vendor offset. The unit is not staffed to implement a state vendor offset within current resources. Due to the lack of detailed information in SFMA, DAS' role could only be one of leadership and coordination.

While DAS does recognize the benefits of having an integrated vendor offset solution, it may not be feasible without a great deal of manual processing at this time. DAS and other agencies have begun discussing a pilot project that may allow for some vendor offset capabilities between larger agencies. The results of this pilot project will help inform future work in this area.

Regarding other specific recommendations, the new positions received through SB 55 will have duties focused on the selection and implementation of tools to assist state agencies in collections. This work will likely include the review of current barriers that exist, such as lack of access to the new hire report, and will likely require DAS to receive guidance from the Department of Justice.

Audits Division additional recommendation:

Improve compliance with collection rules by:

- *Increasing training for agencies.*
- *Clarifying assignment requirements and exemptions, handling of private collection firm contracts, and write-off procedures.*
- *Helping agencies follow appropriate collection practices, including using skiptracing and reconciling debt sent to OAA.*

DAS' Response:

Management generally agrees with the recommendation. Senate Bill 55 directed DAS to create policies, provide training, and provide technical assistance that corresponds with this recommendation. Currently, the Oregon Accounting Manual (OAM) contains a chapter on Accounts Receivable Management. This chapter is already being reviewed by the enterprise project team, and review and updates will continue as DAS receives resources associated with SB 55. As the OAM is updated, training will occur to ensure that agencies have a clear understanding of the policies. The new positions received in SB 55 will regularly interact with agencies that have collection activity, and will be able to provide ongoing technical assistance and guidance on existing policies and collection contracts.

Closing:

In closing, DAS management understands the need to scope audits to a reasonable level of work, but feels focusing solely on the liquidated and delinquent accounts only tells part of the story related to accounts receivable and collections in state government. When reviewing collections it is important to consider current receivables, including those that are collected prior to becoming liquidated and delinquent.

Due to DAS' responsibilities as the central administrative agency in Oregon state government and with the intention of collaboration suggested in the audit recommendations, DAS solicited feedback from other state agencies named in this report. The Department of Consumer and Business Services, Department of Human Services, Oregon Health Authority, Department of Justice, and the

September 25, 2015

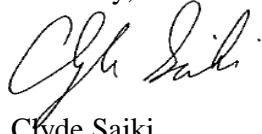
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Oregon Public Employees Retirement System expressed general agreement with DAS' responses and will continue working with DAS to improve collections tools and reporting.

One element of the project work that began earlier this year was the creation of a white paper that helps give additional information on accounts receivable management at state agencies. The project team believes this white paper gives greater insight into some of the issues agencies face as they work through the collections process, including how debts are created, current collection tools, and some agency specific information on collections. This document can be made available upon request.

DAS management appreciates your audit team's efforts and for the recommendations made in the audit report. We look forward to working with the Secretary of State's Audits Division along with our statewide partners to improve collections across the enterprise. If you have any general questions about this response, please contact Zachary Gehringer, Chief Audit Executive, at 503-378-3076.

Sincerely,



Clyde Saiki

DAS Director and Chief Operating Officer

Cc: Barry Pack, DAS Deputy Chief Operating Officer
George Naughton, DAS Chief Financial Officer
Rob Hamilton, DAS Statewide Accounting and Reporting Services Manager
Bret West, DAS Enterprise Goods and Services Administrator
Trudy Vidal, DAS Financial Business Systems Manager
Zachary Gehringer, DAS Chief Audit Executive



Oregon

Kate Brown, Governor

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Gary Blackmer, Director
Oregon Audits Division
Oregon Secretary of State's Office
255 Capitol Street, N.E., Suite 500
Salem, OR 97301

Dear Mr. Blackmer:

The Secretary of State's Liquidated and Delinquent Debt Collection audit largely confirms opportunities for improvement within statewide collection efforts that we've been actively discussing with policy makers and stakeholders for the past several years. Third-party validation by qualified auditors is always welcomed and valued.

The findings and recommendations within the report provide insight into the challenges associated with collections. We're grateful for the information provided and believe that the replacement of our core systems, which is currently in progress, will enable us to significantly improve our collection efforts.

Additionally, we've partnered with other state agencies on an enterprise project to identify and remove collection barriers and provide training and education on existing policies.

Please accept the following responses to the recommendations contained in the report:

Recommendation:

We recommend the Department of Revenue:

- Improve Other Agency Account collections by:
 - Identifying optimal caseload for efficient and effective debt collection and pursuing additional staff if necessary.
 - Asking the Legislature to allow OAA collectors to access state tax return information.
 - Improving data sharing with client agencies.
 - Boosting outreach to increase full collections assignment and tax refund offset assignment.
 - Streamlining service agreements and working with clients to expand allowed garnishments.
 - Working with agencies to have original debt due dates included in accounts assigned to OAA.

Response:

Management agrees with the recommendations to improve our Other Agency Account collections. We'll continue to work with all stakeholders, internal and external, to prioritize and implement initiatives that drive toward meeting these specific recommendations. We'll also consider all recommendations when making business decisions for Other Agency Account configuration during the third phase of our system conversion, which is scheduled for completion in fall 2016.

Recommendation:

- Prioritize automated matching of debtor data, for both OAA and tax units, to wage and other databases to improve collection effectiveness.

Response:

Management agrees with this recommendation. As we convert to GenTax, the data we currently collect from multiple sources will be available in one location. With our current system, agents must review several different data sets to research a garnishment source. Through GenTax, we'll have a daily search function for wage or bank sources that have been added to the data warehouse and will flag debtor accounts that meet the criteria for application of garnishments. This will be available with Rollout 2 of GenTax and the first search is planned for February 2016.

With Rollout 3 of our systems replacement, we'll have automated filing enforcement and automatching, data matching using information from i-Wire, and the ability to validate withholding and employer remittances through GenTax. Over time, the system will track and trend debtor characteristics that will help with scoring collectability. For example, the system will help us determine what collection actions have been most successful with certain debtor types.

We appreciate the opportunity to review and address the recommendations in the audit report. We invite you to contact our Chief Audit Executive Steve Bergmann, with any questions about this response.

Sincerely,

A handwritten signature in black ink, appearing to read "James C. Bucholz". The signature is stylized with a large loop at the beginning and a long horizontal stroke at the end.

James C. Bucholz, Director
Department of Revenue
955 Center St NE
Salem, OR 97301-2555

About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of her office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of other agencies within the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

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

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phone: 503-986-2255

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255 Capitol Street NE, Suite 500
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The courtesies and cooperation extended by officials and employees of the Department of Revenue and Department of Administrative Services during the course of this audit were commendable and sincerely appreciated.