

STATE CONTROLLER'S DIVISION
Statewide Accounts Receivable Management

STRATEGIC PLAN

Liquidated and Delinquent Accounts 2009–2010

Analysis of the Legislative Fiscal Office
Report on Liquidated and Delinquent Accounts for FY 2008

*A discussion of the areas state agencies should monitor
and recommended actions to improve collection efficiencies.*

Accounts Receivable Core Committee (ARCC)
March 2009

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ACKNOWLEDGEMENTS

DEFINITIONS

Strategic Plan

*Statewide Accounts Receivable Management (SWARM)
Based on the Legislative Fiscal Office Liquidated and
Delinquent Accounts Receivable Report FY 2008*

Executive
Summary

Summary of Findings

- For Fiscal Year (FY) 2008, the combined efforts of state agencies, the Other Agency Accounts (OAA) unit at the Department of Revenue and Private Collection Firms (PCF), collected \$327,795,578. Of the total collections during FY 2008, roughly \$42 million came from offsets against the 2007 kicker refunds. The statewide collection rate of 15.15% for liquidated and delinquent accounts in FY 2008 reflects a slight decrease over the rate for FY 2007 which was 15.77%.
- The current Account Turnover Rate (ATR) of 101.0% means that there were fewer accounts in the system at the end of the year than in the beginning. The following agencies saw the biggest decrease of accounts: Department of Justice and Department of Revenue.
- Of the approximately \$417 million in interagency receivables shown in the 2008 Comprehensive Annual Financial Report (CAFR), only \$1,976,705 (or 0.47%) is reflected in the Legislative Fiscal Office (LFO) Report as delinquent. Interagency receivables are only 0.11% of the total liquidated and delinquent debts reported to the LFO. This illustrates that, overall, agencies continue to effectively manage the process of paying interagency receivables on a timely basis.
- State agencies involved in collection activity exchange information and ideas at monthly ARCC meetings, vendor fairs, training sessions and meetings involving the PCFs. In addition, the Statewide Accounts Receivable Management Coordinator (SWARM) is a resource to facilitate the exchange of ideas and process improvement.

Plan Purpose

- Provide analysis of the data for executive branch agencies presented in the LFO Report on Liquidated and Delinquent Accounts Receivable.
- Discuss areas to be monitored and recommend actions that may be taken to improve collection efficiencies.
- Based on data from the 2008 LFO report, the plan addresses **four areas of observation**:
 - ✓ Collection Effectiveness
 - ✓ Account Assignment Pipeline
 - ✓ Interagency Receivables
 - ✓ Communication Effectiveness

Background

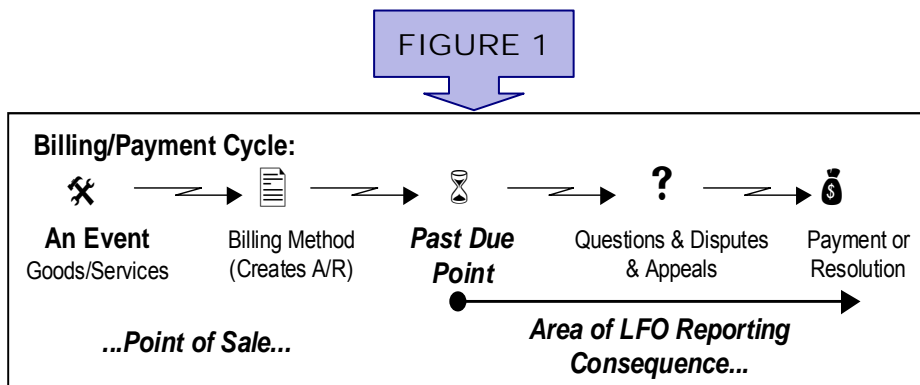
On December 29, 2008, the LFO released their *Report on Liquidated and Delinquent Accounts Receivable* for the fiscal year ending June 30, 2008. The 2008 LFO report, required by ORS 293.229, is the ninth compilation of data supplied by state agencies under the law.

The Accounts Receivable Core Committee (ARCC) is comprised of representatives from state agencies who meet monthly to discuss current collection practices and develop strategies in improving statewide accounts receivable management. Within the ARCC is a sub-committee called the Strategic Planning Committee which is comprised of ARCC members. This committee meets annually to analyze the data submitted to LFO and to prepare this Strategic Plan. The ARCC makes recommendations for improvements that state agencies and the SWARM Coordinator can take to maximize the return on state resources and further improve debt collection practices. This Strategic Plan contains information on liquidated and delinquent receivables as submitted by state agencies to the LFO. Reporting requirements imposed by law require state agencies to track the character of their receivables based on several considerations:

- Is the debt delinquent?
- Is the debt liquidated and was a hearing requested?
- Is there cause for the account to be placed in exempt status?
- Is the exempt status temporary or permanent?
- How long has the account been liquidated and delinquent?
- What is the date of the last payment?
- Has the account been submitted to an OAA unit or a PCF?
- Is account activity at a status that would suggest it should be written off?

Agencies should periodically review accounts and answer each of the above questions to ensure the account will continue moving through the assignment pipeline and ensure proper reporting to the LFO each year by October 1.

Billing/Payment Cycle – Figure 1 illustrates the process when an agency’s receivables are created from providing a good or service to the customer.

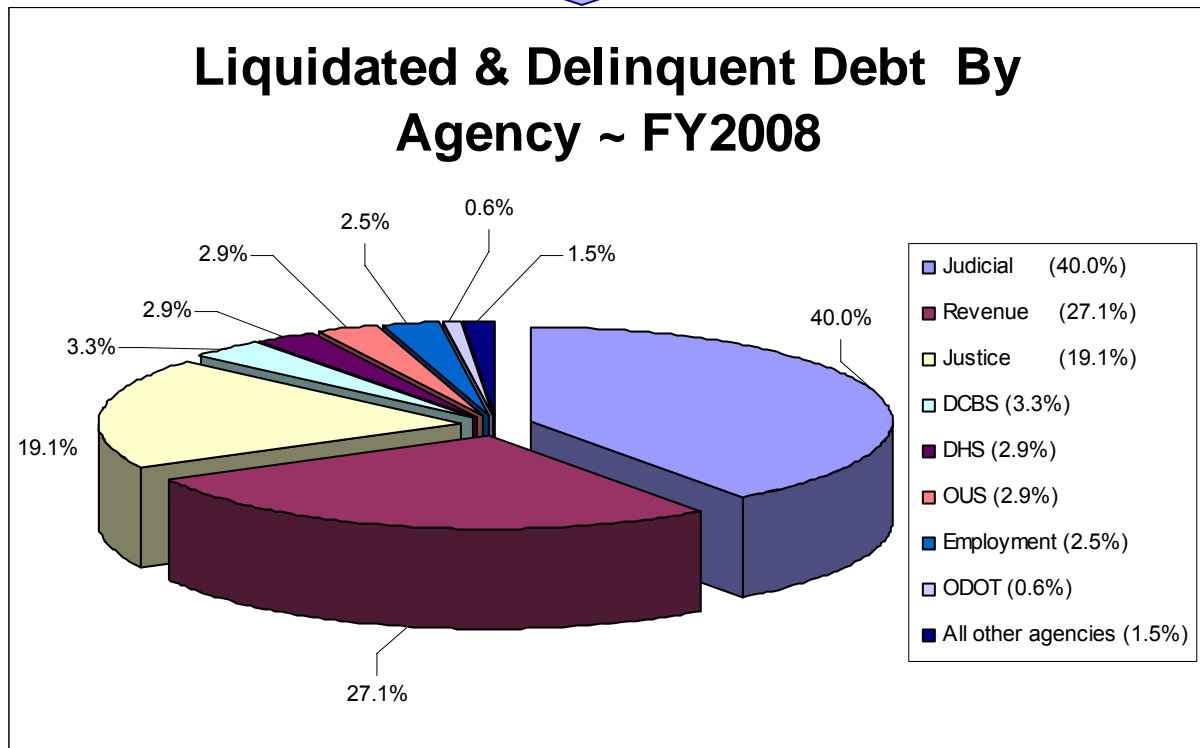


To reduce the number and amount of accounts receivable owed to the state, it is important to look at the way the state does business and when payment for services or goods is required. To improve the collection process, the state must consider what options are offered to pay for a service. The agency's ability to obtain a payment customer improves when options regarding payment for services such as cash, credit card, check, ACH, or online are available to the customer. Delinquent debt issues would not exist if collection took place at the point of sale. It is also important to note that most often, state agencies do not have the option to deny services or to perform pre-debt credit checks on customers.

Agency Summary

To understand the nature of the debt, it is important to understand which agencies have the largest delinquencies. Figure 2 shows that eight agencies comprise 98.5% of the total debts reported.

FIGURE 2



Three agencies comprise 86.2% of the total debts reported, Oregon Judicial Department, Department of Revenue and the Department of Justice. Below, each agency has provided a brief description of the debts that they are collecting.

Judicial – Oregon Judicial Department – 40.0% of total debt

Judicial Department liquidated and delinquent debt includes fines, fees, assessments, restitution and recovery of court-appointed counsel amounts ordered by the court as part of the judgment. Amounts due are sanctions imposed pursuant to law. Ability to pay is not a primary consideration. Outstanding amounts due are due from individuals who are unable to pay in full at the time of final judgment. Debtors may be incarcerated, transient or unemployed. The ability to take collection actions for amounts ordered in criminal cases can be as long as 50 years after entry of judgment. Recipients of amounts collected are primarily state and local governments and crime victims.

Revenue – Department of Revenue – 27.1% of total debt

Debt balances managed by the Department of Revenue (DOR) are comprised of taxes or fees, along with any accompanying penalties and/or interest, owed the State by individuals or businesses. This debt is primarily general fund money. The majority of the debt managed by DOR is Personal Income tax owed by residents and nonresidents who earn income in Oregon. The Personal Income tax debt is comprised of taxes owed as reported by taxpayers and compliance assessments initiated by the department.

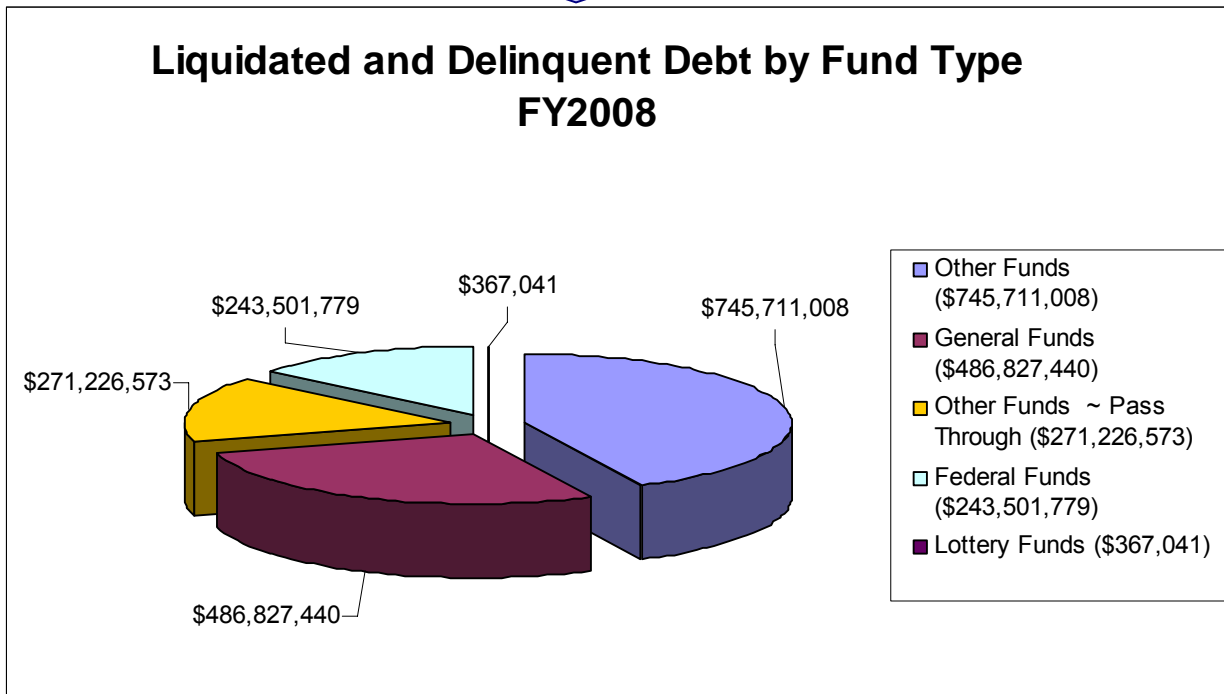
Justice – Department of Justice – 19.1% of total debt

Department of Justice (DOJ) debt is comprised primarily of child support recoveries, the portion of punitive damages awarded to the Crime Victims Assistance Section and court judgments from the Financial Fraud/Consumer Protection and Charities programs.

TYPE OF DEBT

In addition to knowing which agencies comprise the debt, it is also important to understand to what fund types the debts are applied. Figure 3 shows the allocation of the FY2008 liquidated and delinquent debt by fund type. Less than 28% of the debt owed applies to the General Fund.

FIGURE 3



ACCOUNTS RECEIVABLE HISTORY

Over the last six years state agency inventory percentages have remained constant at 61% with a slight decline in 2006 to 56%. Over the same time OAA inventory has dropped from 15% to a low of 10% in 2006 and ending at 12% in 2008. Meanwhile the PCF inventory grew from 24% in 2003 to 34% in 2006 and then dropped to 27% by 2008. Figure 4 displays the nine year history of percentage of ending inventory by location.

FIGURE 4

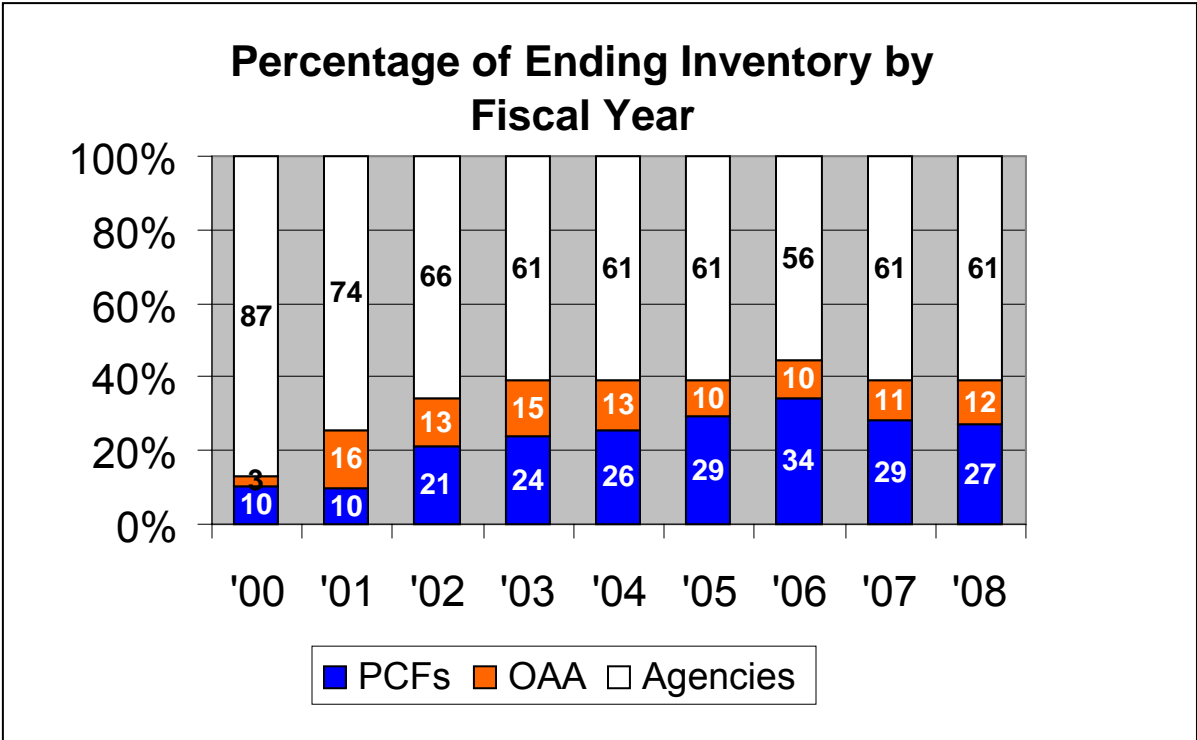
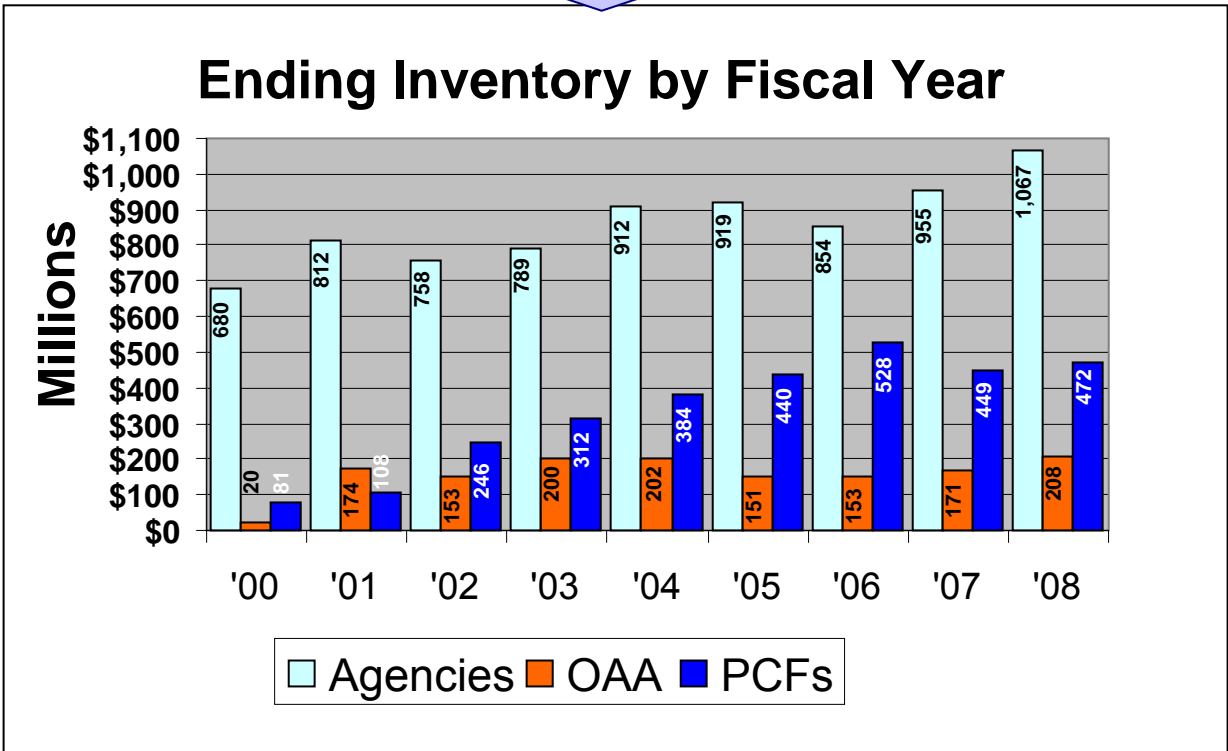


Figure 5 displays the nine year history of inventory in dollars.

FIGURE 5



Over the last nine years, the status of the economy has influenced the total collections by state agencies. The impacts of the recession from 2001-2003 clearly had a significant impact by reducing total collections. Since that time, there has been a steady increase in collections through 2007. In 2008, the impacts of the current recession become evident by the first collections decrease in seven years. OAA collections have risen from \$16 million in 2001 to \$28.7 million in 2008. PCFs have also seen an increase in collections from \$2.7 million in 2001 to a high of \$17.4 million in 2006. Figure 6 shows the nine year history of collections by fiscal year.

FIGURE 6

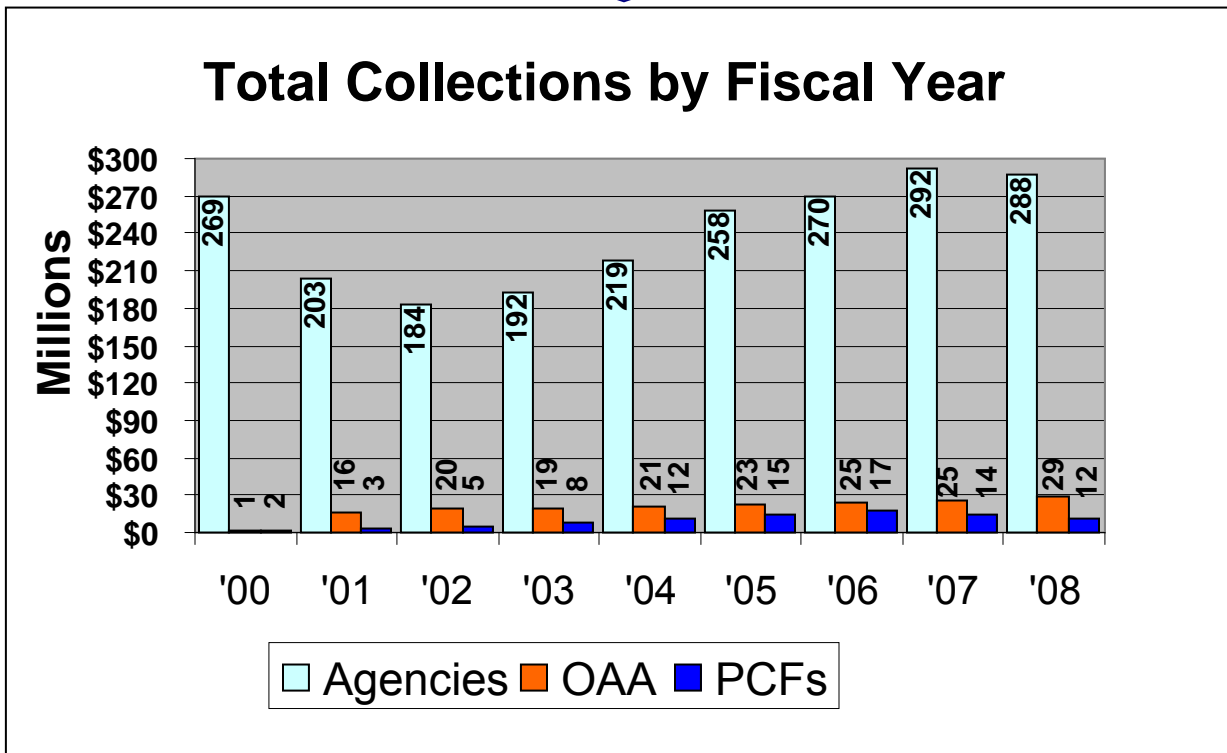
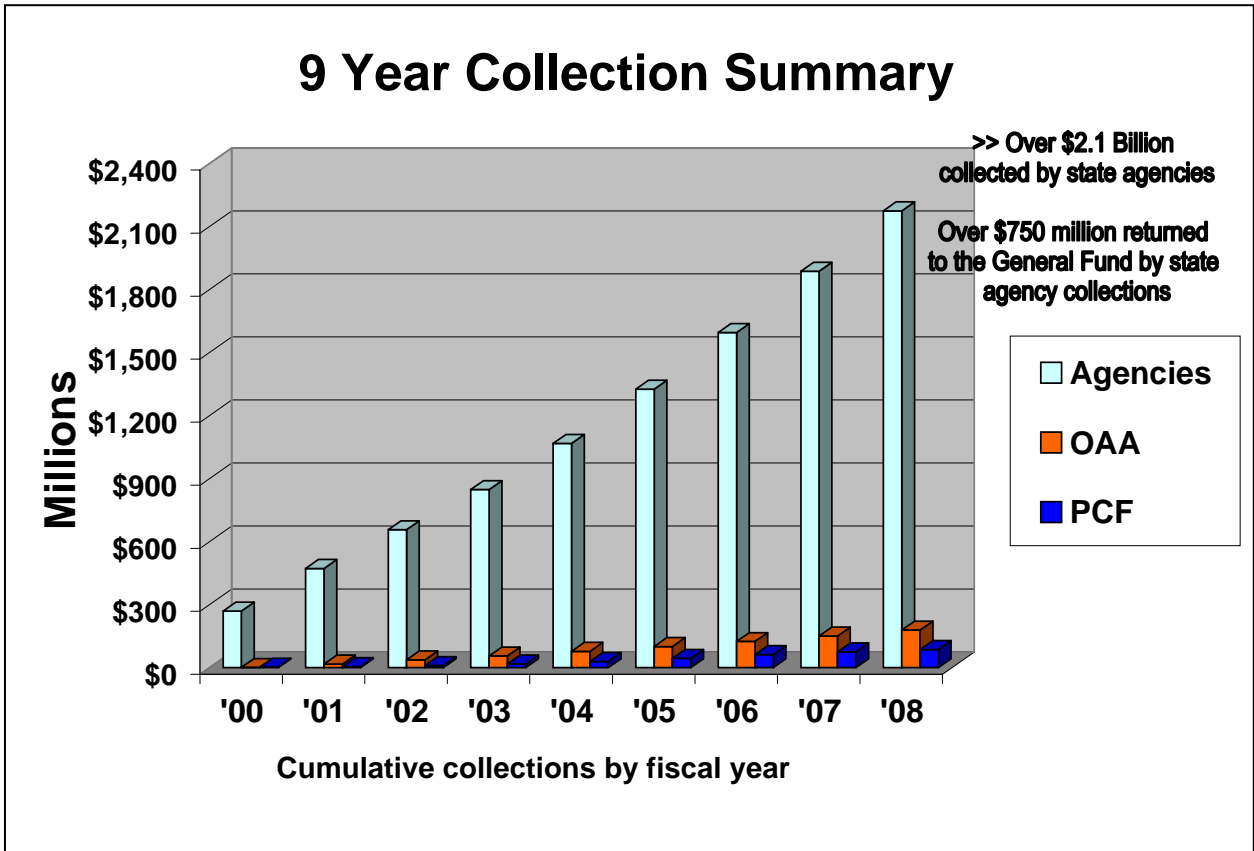


Figure 7 shows the cumulative collections by fiscal year. Over the nine year history, state agencies have collected over \$2.1 billion in liquidated and delinquent receivables. In the same period, the Other Agency Accounts Unit (OAA) collected over \$179 million while the private collection firms (PCF) collected over \$87 million.

FIGURE 7



OVERVIEW

Table I represents all liquidated and delinquent accounts reported by Executive branch agencies, including those pursued by OAA and PCFs.

TABLE I

State of Oregon Liquidated and Delinquent Accounts		
June 30, 2008		
	<u>Number of Accounts</u>	<u>Dollar Value of Accounts</u>
1. Beginning Balance	1,860,858	\$1,575,615,079
2. Additions	450,666	\$587,422,281
3. Collections		*(\$327,795,578)
4. Accounts Closed	(420,174)	
5. Write-Offs	(16,948)	(\$39,789,053)
6. Adjustments		\$6,702,604
7. Reversals	<u>(32,008)</u>	<u>(\$54,521,492)</u>
8. Ending Balance	<u>1,842,394</u>	<u>\$ 1,747,633,841</u>

(Further break down of data from prior year to current year's information is provided in Appendices III, IV, V, and VI)
 * Includes roughly \$42 million collected from Kicker refund offsets

Statewide Dollar
Collection Rate

$$\frac{\$327,795,578}{(\$1,575,615,079 + \$587,422,281)} = 15.15\%$$

The *Dollar Collection Rate* is determined by using collections divided by the beginning balance plus additions. This represents the relative ability to collect the maturing liquidated and delinquent accounts. It also measures how much of the balance of accounts worked by state agencies converts into dollars.

Table II data represents liquidated and delinquent accounts pursued by OAA. OAA has extensive access to information that assists in locating debtor's assets. OAA also has the ability to apply state tax refunds to delinquent debt owed to the state.

TABLE II

Other Agency Accounts Unit June 30, 2008		
	<u><i>Number of Accounts</i></u>	<u><i>Dollar Value of Accounts</i></u>
1. Beginning Balance	195,859	\$170,699,153
2. Additions		\$143,679,040
3. Collections		(\$28,714,962)
4. Returned		<u>(\$77,237,752)</u>
5. Ending Balance	<u>228,392</u>	<u>\$208,425,479</u>

OAA Dollar Collection Rate

$$\frac{\$28,714,962}{(\$170,699,153 + \$143,679,040)} = 9.13\%$$

Table III data represents liquidated and delinquent accounts pursued by PCFs for Executive branch agencies:

TABLE III

Private Collection Firms June 30, 2008		
	<u><i>Number of Accounts</i></u>	<u><i>Dollar Value of Accounts</i></u>
1. Beginning Balance	665,581	\$449,508,653
2. Additions		\$165,649,837
3. Collections		(\$11,559,295)
4. Returned		<u>(\$131,411,519)</u>
5. Ending Balance	<u>688,691</u>	<u>\$472,187,676</u>

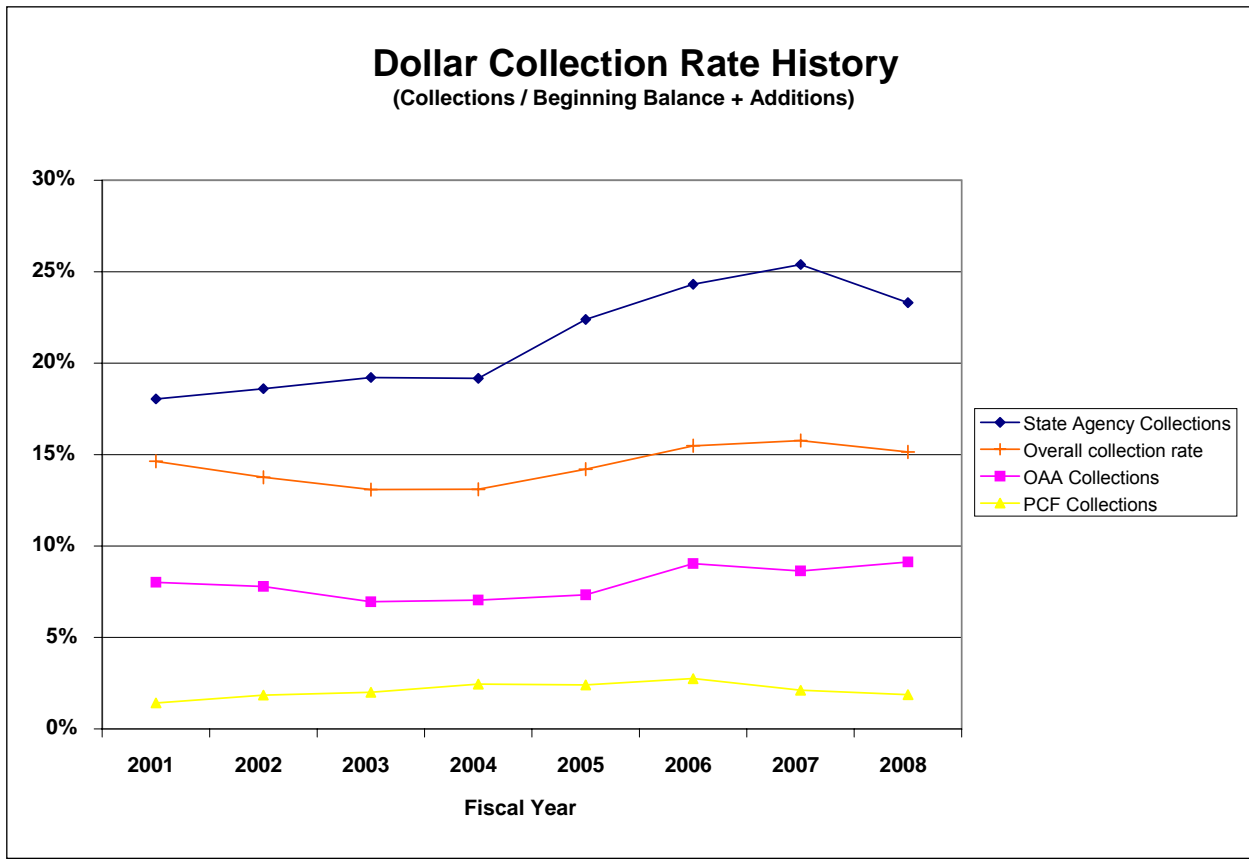
PCF Dollar Collection Rate

$$\frac{\$11,559,295}{(\$449,508,653 + \$165,649,837)} = 1.88\%$$

DISCUSSION

Based on the LFO data from the last eight years, the status of the economy is impact by the overall dollar collection rates. Based on the economic factors identified on page 20 collection rates have already started to decline and that is likely to continue throughout the current recession. Figure 8 shows the dollar collection rate for executive branch agencies over the last eight years.

FIGURE 8



The unemployment rate directly affects the effectiveness of agency collection efforts. As the graph in Figure 13 on page 23 shows, whenever the unemployment rate rises there is a corresponding drop in total collections of liquidated and delinquent accounts receivable. FY 2008 collections include roughly \$42 million in one time offsets from the Kicker refund issued in December 2007.

Collecting liquidated and delinquent debt will become increasingly difficult as the unemployment rate continues to rise. Fiscal year 2009 will likely see a significant reduction in total collections because of the economic climate.

COLLECTION EFFECTIVENESS COMMITTEE

In the winter of 2008, ARCC convened the Collection Effectiveness Committee, which surveyed state agencies regarding the types of accounts they collected and the collection practices that they used. Using that information and analyzing the LFO data, the committee provided several recommendations for improving the effectiveness of agency collections:

- Establish an ARCC sub-committee to suggest and develop more collector level training for agency employees.
- Agency procedures should require timely handling of delinquent accounts.
- SWARM should develop the ARCC website as a “handbook” of collection resources including modules for new collectors.
- Agencies should review agency procedures with SWARM to ensure the handling of accounts occurs in the most efficient manner possible and comply with the Oregon Accounting Manual.

PLAN OBJECTIVES

State Agencies

- Maximize collection effectiveness through utilization of the Cost of Collection formula (Appendix II). Agencies should be reviewing agency collection procedures to ensure the maximum return for each dollar spent to collect liquidated and delinquent accounts receivable.

Other Agency Accounts Unit

- Maximize collection effectiveness through strategies, such as: adjusting call techniques to the current economic status, prioritizing collection activity to accounts with wages, ongoing training on current collection tools.

Private Collection Firms

- Collaborate with client agencies to identify and recommend improvements in collections (small claims, garnishments, etc.) through regular meetings (by phone or in person).

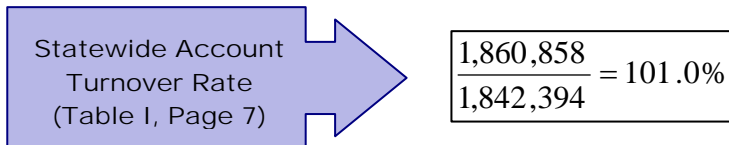
SWARM

- Provide assistance and guidance to agencies through leadership of the ARCC meetings. Provide consultation to agencies regarding collection procedures. Continue to serve as a resource for state agencies on topics such as:
 - Legislative Concepts
 - Accounts receivable best practices
 - State policies
 - Skip Tracing

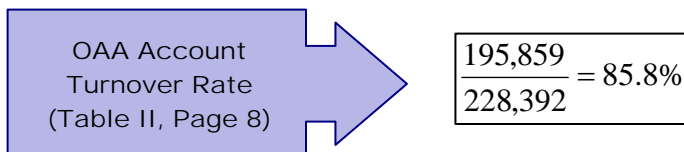
Account Assignment Pipeline

OVERVIEW

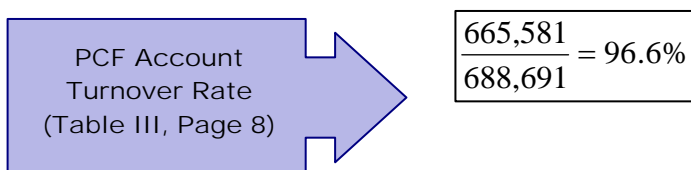
The account assignment pipeline includes collection efforts at state agencies, referrals to OAA, and referral to PCFs. The Account Turnover Rate (ATR) is a calculation that indicates how well accounts are moving through the account assignment pipeline. To calculate the ATR, divide the beginning number of accounts by the ending number of accounts. An ATR of over 100% means that there are fewer accounts at the end of the year than at the beginning.



The current ATR of 101.0% means that there were fewer accounts in the system at the end of the year than in the beginning. This is in contrast to the increasing balance of debts



While OAA makes every attempt to keep accounts moving through the collections process, it does not control when the referring agencies assign the accounts. If large volumes of new accounts are assigned at the end of a fiscal year, the result would be more accounts in inventory at the end of the year and the turnover rate would fall under 100%. The increase in ending inventory could also be the result of some agencies assigning accounts towards the end of the year in preparation for the upcoming tax offset season in December and January. The converse would occur, if an agency recalled a large volume of accounts, causing the turnover rate to increase.



The increase in PCF inventory came mostly from the Judicial Department. Judgments issued by a court are enforceable for up to 50 years. PCFs collect on Judicial accounts until two years elapse without a payment by the debtor. Judicial accounts comprise 94% of the outstanding accounts assigned to PCFs.

DISCUSSION

ORS 293.231 requires state agencies to assign accounts to either OAA or a private collection firm 90 days from the date the account was liquidated or 90 days after the most recent payment.

Accounts assigned to OAA are collected for up to twelve months; if no payments are received, the account is returned to the agency for assignment to a PCF. OAA continues to collaborate with state agencies to streamline the collections process and return accounts if assets are not readily available or the debtor has moved out of state. This streamlining allows more accounts to flow through the assignment pipeline and allows OAA to focus collection resources where they are most effective.

Under the statewide collections contract, accounts assigned to a PCF may be worked for up to a maximum of twenty four months, if no payments have been received in that time the account is returned to the agency. Most state agencies allow the PCF to work an account for up to 12 months; however, the Oregon Judicial Department, which accounts for 94% of the total accounts assigned to PCFs, allows the maximum 24 months.

Once an account has moved through the pipeline from agency to DOR and onto the PCF, if the account is still unpaid then the agency will review the account to see if it meets the Secretary of State criteria for uncollectibility as identified in OAM 35.50.10.PO. Accounts that meet the criteria are written off, with proper authorization.

PLAN OBJECTIVES

State Agencies

- Actively seek and implement opportunities for improvement in agency collection practices to ensure compliance with the assignment requirements of ORS 293.231.

Other Agency Accounts Unit

- Utilize DOR query tools to prioritize collectable accounts by age and wage. Improve the paper account assignments, by updating department forms. Encourage and assist client agencies to convert to an electronic data exchange, using the File Transfer System.

Private Collection Firms

- Perform monthly reviews of State Agency inventories and return accounts that are determined to be uncollectible according to the criteria identified in the Purchase Order and Contract. Provide state agencies with effective and efficient methods of assigning accounts and monitoring of collection process.

SWARM

- Provide consultation with agencies regarding collection policies and implementation of changes to agency procedures to ensure compliance with the assignment requirements of ORS 293.231. Provide educational resources regarding state policies and accounts receivable best practices.

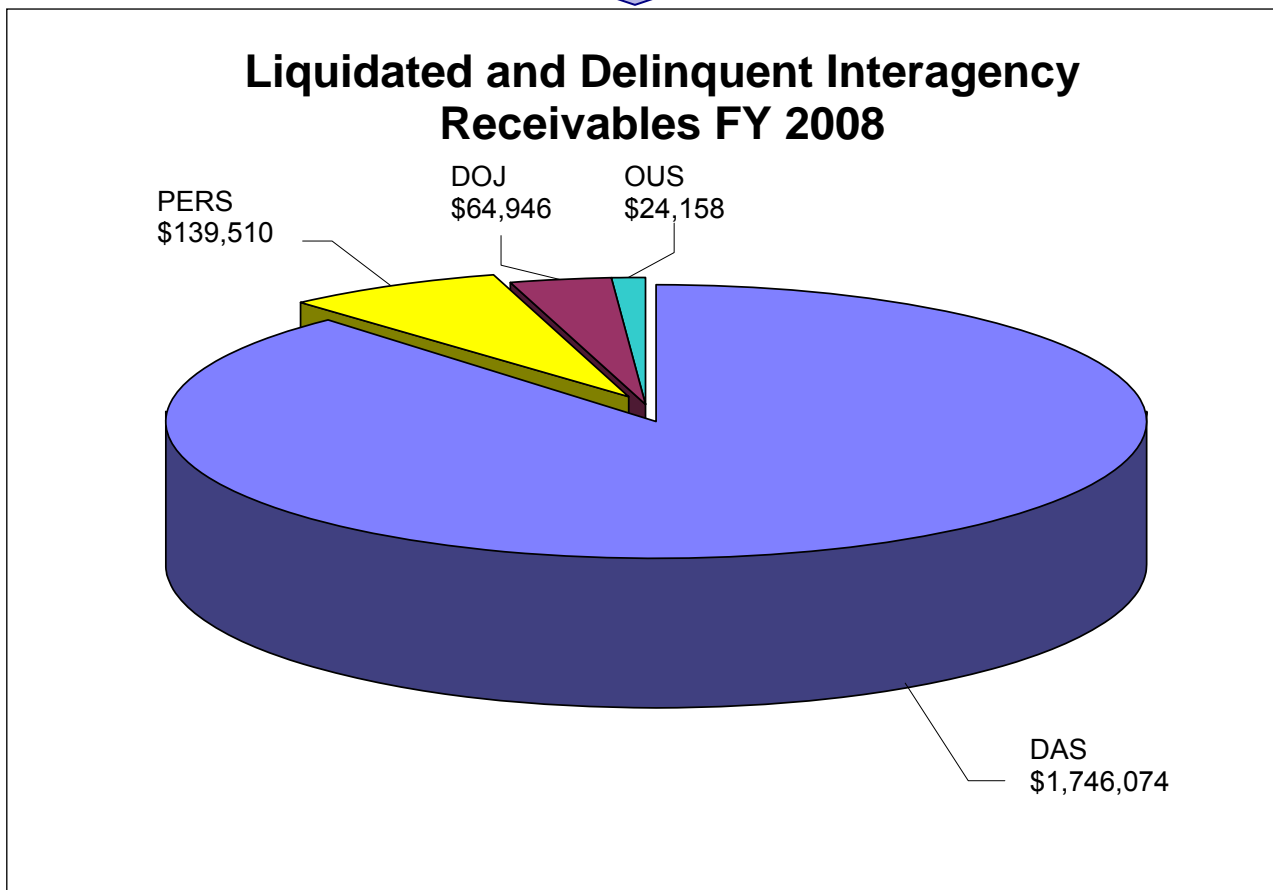
Interagency Receivables

OVERVIEW

Of the approximately \$417 million in interagency receivables shown in the 2008 CAFR, only \$1,976,705 (or 0.47%) is reflected in the LFO report as delinquent. Interagency receivables are only 0.11% of the total liquidated and delinquent debts reported to the LFO. This illustrates that, overall, agencies continue to be effective in managing the process of paying interagency receivables on a timely basis.

Figure 9 shows the breakdown of those agencies with the highest delinquent interagency receivables for FY 2008.

FIGURE 9



DISCUSSION

The FY2008 LFO Report shows that interagency delinquencies increased by more than \$500,000 when compared to FY2007. Over 88% of the total interagency receivables are owed to DAS, which is a direct result of the specific funding model of how DAS bills for services.

There is an expectation that interagency receivables will occur throughout the year, however, if agencies comply with the provisions established in OAM 15.45.10 and 35.70.10 those receivables would be paid timely and therefore not become delinquent. However, due

to funding issues, not all agencies pay their receivables due to other government agencies within the timeframes identified by the OAMs.

OAM policies applicable to Interagency Receivables include:

- [OAM 35.70.10](#)- describes state agency responsibilities when issuing and paying invoices between agencies.
- [OAM 35.70.20](#)- process for state agencies to implement progressive actions to effect prompt payment on interagency receivables.
- [OAM 35.70.30](#)- dispute resolution for interagency billings.

PLAN OBJECTIVES

State Agencies

- Collaborate with SWARM regarding agency procedures for collection of interagency receivables to ensure compliance with the provisions of OAM 35.70.10-35.70.30. Provide information regarding current interagency receivables at the request of SWARM.

SWARM

- Consult with agencies reporting high interagency receivable balances and recommend changes in billing policies to facilitate prompt payment. Follow up with agencies regarding progress in their efforts to reduce interagency receivables and facilitate ARCC discussions regarding process improvements.

Communication Effectiveness

OVERVIEW

The SWARM coordinator chairs the Accounts Receivable Core Committee (ARCC), and its membership is comprised of state agencies involved in collection activity. Through this committee, SWARM has developed a communication pipeline for its members. In addition, SWARM is a resource to facilitate the exchange of ideas and process improvements. ARCC and SWARM have jointly expanded communications as follows:

- ARCC meetings – Monthly meetings provide a forum for agency staff to discuss and share their concerns and ideas and to develop an action plan to improve the receivable and collection practices of the state. Information about upcoming ARCC meetings can be found at: <http://egov.oregon.gov/DAS/SCD/SRS/training.shtml>
- Legislative coordination – ARCC solicits input from agency staff on legislative concepts that could improve collection and receivable practices. Concepts receiving the approval of ARCC are proposed and managed by DAS.
- SWARM website – Information is available on collections and receivables with links to the statewide collection master contract, information on the contracted PCFs, OAMs being reviewed and/or updated, the annual LFO reporting process manual, liquidated and delinquent accounts receivable information, and much more. The SWARM website is located at: http://www.oregon.gov/DAS/SCD/SRS/SWARM_main.shtml
- Training – SWARM provides training sessions for agency staff in the area of receivables and collection practices. Information about upcoming training sessions can be found at: <http://egov.oregon.gov/DAS/SCD/SRS/training.shtml>
- Collection RFP – A subcommittee was formed to review and draft language for a new collection contract. Amendments are shared with ARCC at the monthly meetings. The final collection contract and other private collection firm information is available at: <http://egov.oregon.gov/DAS/SCD/SRS/newpcf.shtml>
- Skip Tracing RFP- A subcommittee was formed to review and draft language for a new statewide skip tracing contract. Vendor selection is expected to take place by April 2009.

SWARM has provided or arranged for the following training sessions this year:

- Accounts Receivable Overview- Small Agency Head Meeting
- Annual LFO Reporting Process
- Servicemember Civil Relief Act

DISCUSSION

State agencies exchange information and ideas at monthly ARCC meetings, vendor fairs, training sessions, and meetings involving the PCFs. SWARM compiles and monitors feedback on the PCF performance received from participating agencies. This performance data is distributed to ARCC and shows year-to-year and PCF-to-PCF comparability.

Each state agency should have a Single Overriding Communication Objective (SOCO) in place for their collections efforts. A suggested format is provided in Appendix I. When collection staff, accounting staff, and management jointly prepare a SOCO, it can serve as an instrument for agency discussion, planning, and decision-making and should be used by state agencies in an effort to communicate their collection recovery success.

PLAN OBJECTIVES

State Agencies

- Actively engage in conversation with OAA and PCFs to review agency collection efforts, policies and procedures to discuss possible improvements for all stakeholders.

Other Agency Accounts Unit

- Visit client agencies to present training on current or new processes, publish periodic newsletter containing collection statistics and account handling information, maintain a website for client agencies and debtors, and conduct survey with client agencies to monitor customer service.

Private Collection Firms

- Respond to state agency inquiries within 24 hours. Communicate to state agencies regarding information that is available through the contractor's client access website.

SWARM

- Facilitate ARCC meetings to provide a forum for open discussion and sharing of ideas and agency best practices. Ensure that all agencies are aware of the consultation and resources that are available through SWARM through increased email communications and promotion of agency visits. Provide agencies with increased resources regarding collection topics through the ARCC website.

Summary of Plan Objectives

State Agencies

1. Maximize collection effectiveness through utilization of the Cost of Collection formula (Appendix II). Agencies should be reviewing agency collection procedures to ensure the maximum return for each dollar spent to collect liquidated and delinquent accounts receivable.
2. Actively seek and implement opportunities for improvement in agency collection practices to ensure compliance with the assignment requirements of ORS 293.231.
3. Collaborate with SWARM regarding agency procedures for collection of interagency receivables to ensure compliance with the provisions of OAM 35.70.10-35.70.30. Provide information regarding current interagency receivables at the request of SWARM.
4. Actively engage in conversation with OAA and PCFs to review agency collection efforts, policies and procedures to discuss possible improvements for all stakeholders.

Other Agency Accounts Unit

1. Maximize collection effectiveness through strategies, such as: adjusting call techniques to the current economic status, prioritizing collection activity to accounts with wages, ongoing training on current collection tools.
2. Utilize DOR query tools to prioritize collectable accounts by age and wage. Improve the paper account assignment process, by updating department forms. Encourage and assist client agencies to convert to an electronic data exchange, using the File Transfer System.
3. Visit client agencies to present training on current or new processes, publish periodic newsletter containing collection statistics and account handling information, maintain a website for client agencies and debtors, and conduct survey with client agencies to monitor customer service.

PCFs

1. Collaborate with client agencies to identify and recommend improvements in collections (small claims, garnishments, etc.) through regular meetings (by phone or in person).
2. Perform monthly reviews of State Agency inventories and return accounts that are determined to be uncollectible according to the criteria identified in the Purchase Order and Contract. Provide state agencies with effective and efficient methods of assigning accounts and monitoring of collection process.
3. Respond to state agency inquiries within 24 hours. Communicate to state agencies regarding information that is available through the contractor's client access website.

SWARM

1. Provide assistance and guidance to agencies through leadership of the ARCC meetings. Provide consultation to agencies regarding collection procedures. Continue to serve as a resource for state agencies on topics such as: Legislative Concepts; Accounts receivable best practices; State policies; Skip Tracing
2. Provide consultation with agencies regarding collection policies and implementation of changes to agency procedures to ensure compliance with the assignment requirements of ORS 293.231. Provide educational resources regarding state policies and accounts receivable best practices.
3. Consult with agencies reporting high interagency receivable balances and recommend changes in billing policies to facilitate prompt payment. Follow up with agencies regarding progress in their efforts to reduce interagency receivables and facilitate ARCC discussions regarding process improvements.
4. Facilitate ARCC meetings to provide a forum for open discussion and sharing of ideas and agency best practices. Ensure that all agencies are aware of the consultation and resources that are available through SWARM through increased email communications and promotion of agency visits. Provide agencies with increased resources regarding collection topics through the ARCC website.

Factors in Collecting Delinquent Debt

Oregon's collection rates have continued to improve; however, several economic factors will affect the collection of liquidated and delinquent accounts in the near future. Those factors include:

- Mortgage foreclosures
- Unemployment rates
- Bankruptcy rates

MORTGAGE FORECLOSURES

Mortgage foreclosures have become an increasing economic issue over the last few years.

Figure 10 shows the number of foreclosure filings between 2005 and 2008 for both Oregon and the United States.

FIGURE 10

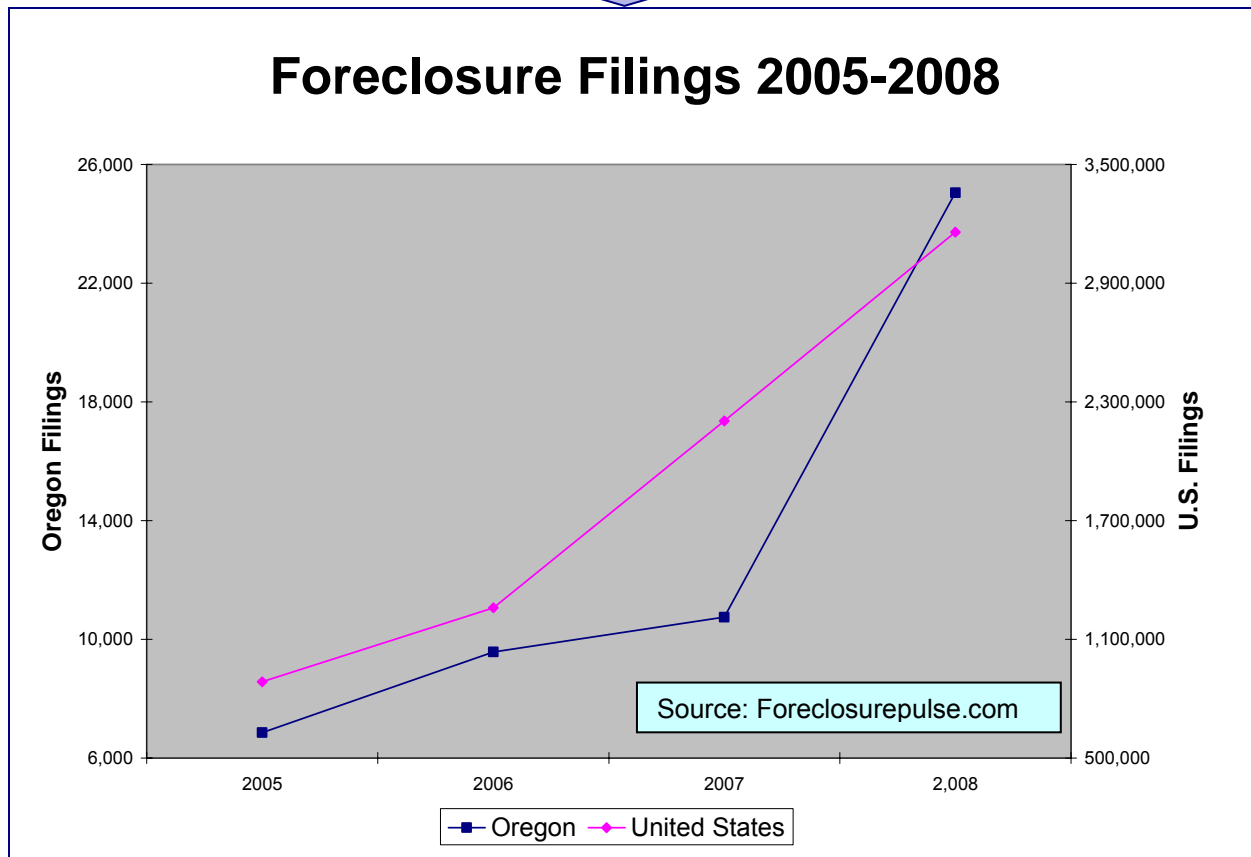
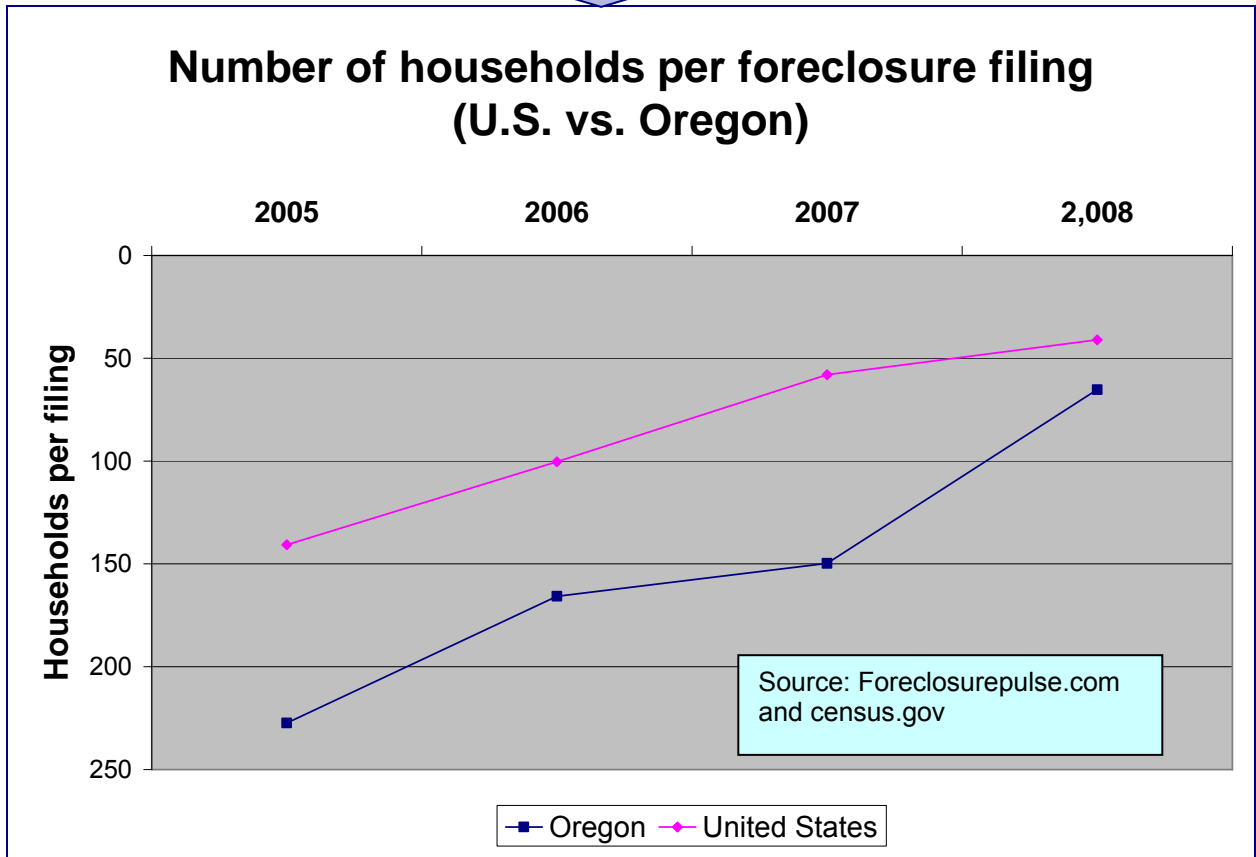


Figure 11 shows the number of foreclosure filings per household between 2005 and 2008 for both Oregon and the United States. While Oregon is considerably behind the U.S. trend, we have seen a 52% jump over the last two years.

FIGURE 11



As mortgage foreclosures increase, the collection of state debts will become more difficult. An increasing number of people find they are unable to pay their mortgage, and they have fewer resources available to pay other debts. There is also likely to be a corresponding increase in bankruptcy filings as taxpayers look for relief from debts.

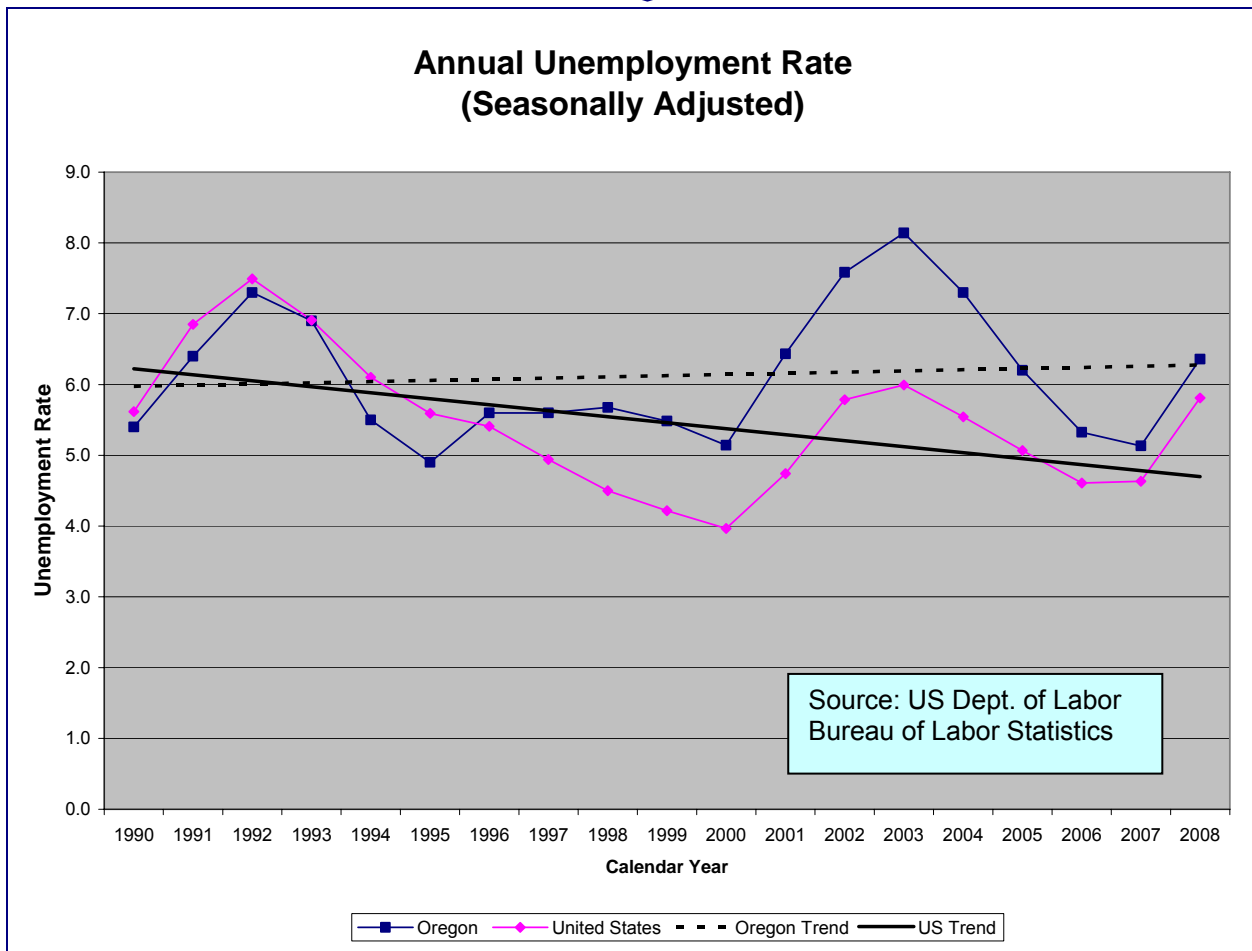
UNEMPLOYMENT RATE

Between December 2000 and June 2003, Oregon's unemployment rate rose from 5.1% to 8.5% while the U.S. rate rose from 3.9% to a high of 6.3%. In February 2008, Oregon's unemployment rate was 5.4% and as of February 2009 has doubled to 10.8% in just twelve months.

Based on statistics from the U.S. Department of Labor, Figure 12 shows that between 1990 and 2008 Oregon's unemployment rate has fluctuated between 4.9% and a high of 8.1% while during the same time the U.S. rate ranged between 4.0% and 7.5%.

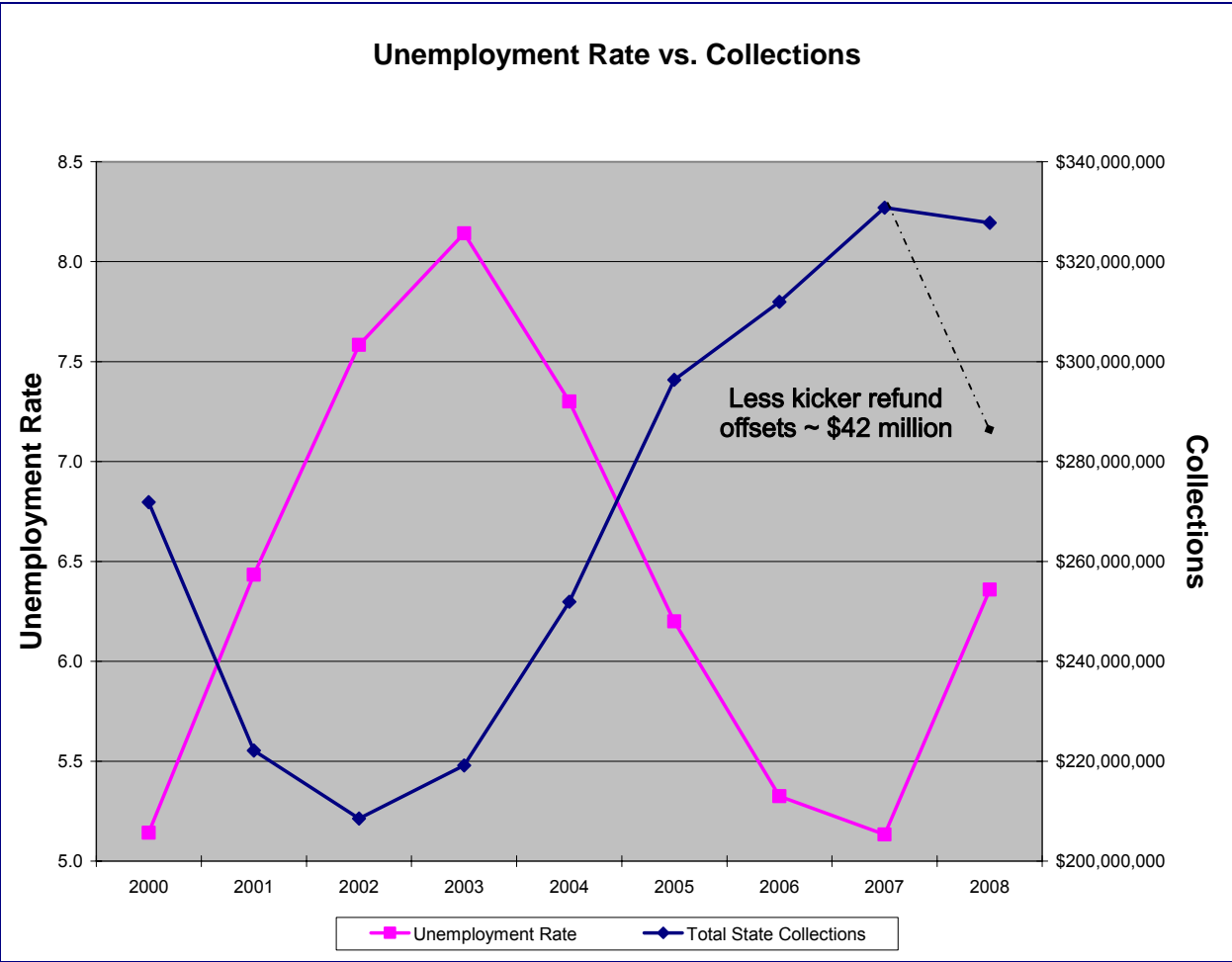
As more Oregonians find themselves unemployed, collecting delinquent state debts will become more difficult as households find themselves struggling to provide basic necessities with less income each month.

FIGURE 12



There is a direct correlation between the unemployment rate and state collection of liquidated and delinquent accounts. Figure 13 shows the nine year history of this correlation.

FIGURE 13



Note that the dashed line represents what the FY 2008 collections would have been without the \$42 million in Kicker offsets. Figure 13 only reflects a history with the annual unemployment rate as high as 8.1%, as of February 2009 Oregon’s unemployment rate was already 10.8% (preliminary) and expected to go higher. The impact of a potential double digit annual unemployment rate on collections is unknown.

BANKRUPTCY RATES

In April 2005, President Bush signed the Bankruptcy Abuse Prevention and Consumer Protection Act into law. The provisions of the Act made filing for a Chapter 7 bankruptcy more difficult. In response to the October 2005 effective date of the new law, a massive increase in bankruptcy filings occurred prior to the October effective date of the Act.

Bankruptcy filings immediately after October 2005 dropped to 1/3 of the pre-Act rate, however, they have been consistently increasing ever since. As more people are facing mortgage foreclosures, it is believed that bankruptcy filings will continue to rise. Figure 14 compares the number of bankruptcies filed in Oregon vs. United States from 1997 and 2008.

FIGURE 14

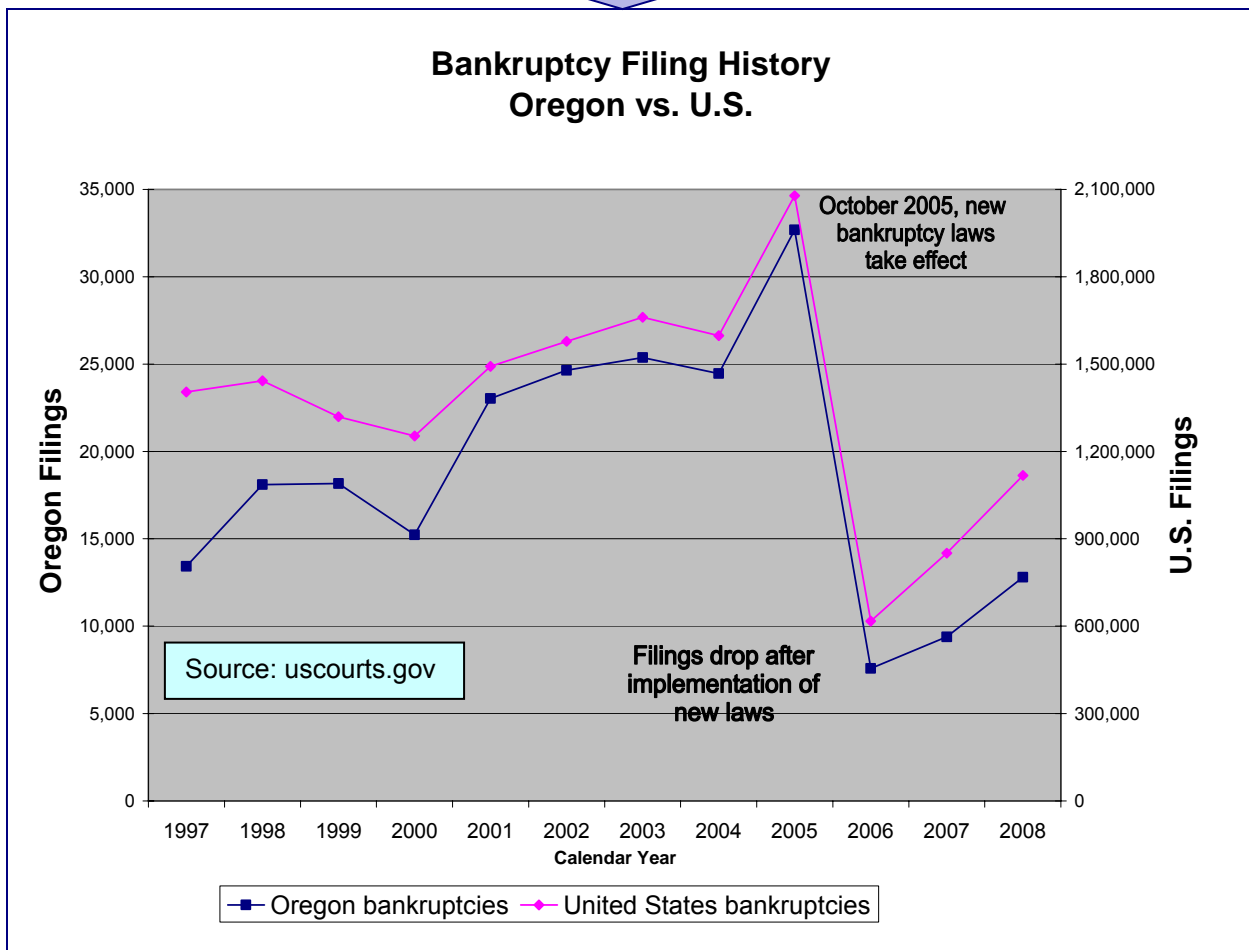
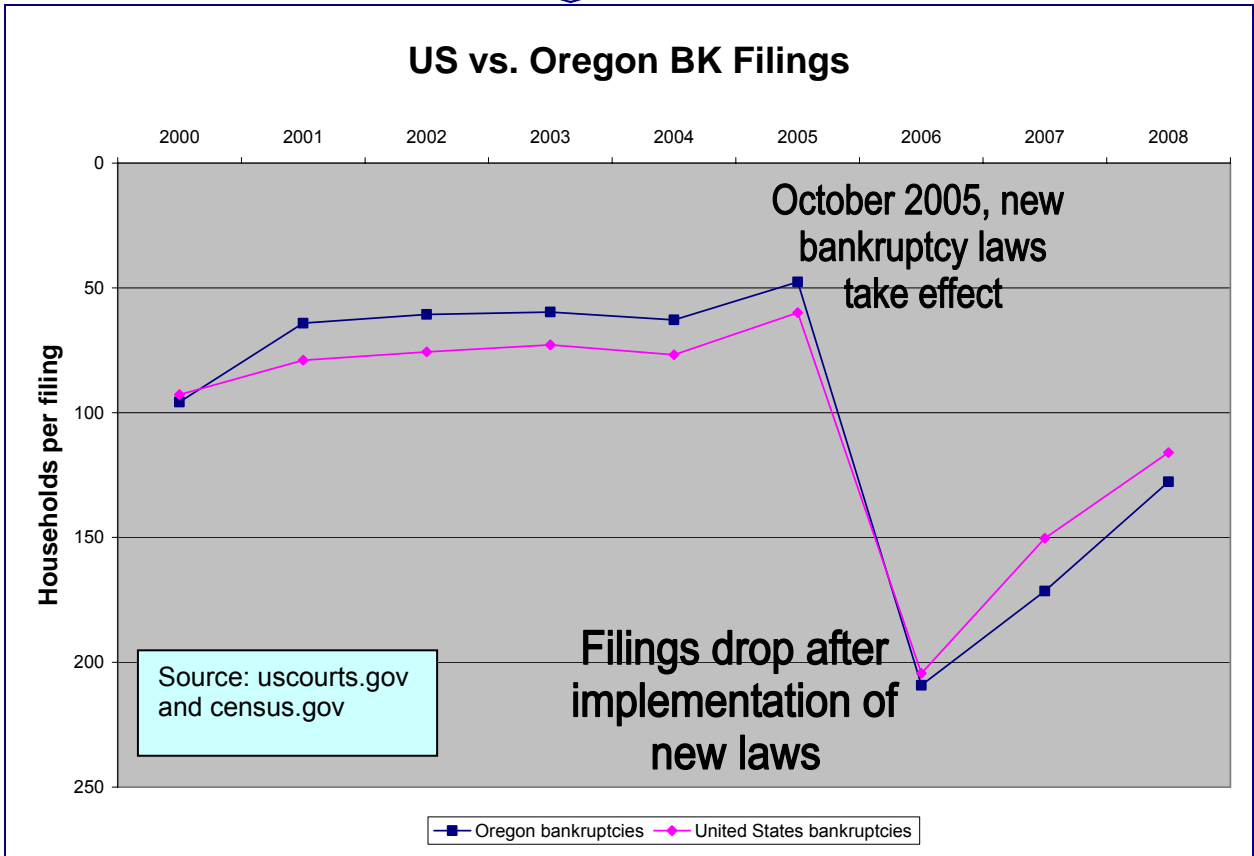


Figure 15 shows the number of households per bankruptcy filing for both Oregon and the U.S. between 2000 and 2008.

FIGURE 15



Higher bankruptcy rates will result in an environment that significantly slows or in some cases completely stops an agencies ability to collect a liquidated and delinquent account. Even if the debt is not discharged in the bankruptcy, the very fact the debtor has filed for bankruptcy indicates the debtor's lack of ability to pay a debt.

SINGLE OVERRIDING COMMUNICATION OBJECTIVE (SOCO)**FOR LIQUIDATED AND DELINQUENT ACCOUNT COLLECTION EFFORTS**

As stated in the Plan Objectives for Communication Effectiveness, each state agency should have a Single Overriding Communication Objective (SOCO) in place for their collections efforts. This appendix provides a suggested format for agencies to use in developing a SOCO. When jointly prepared by collection staff, accounting staff and management, the SOCO form can serve as an instrument for agency discussion, planning, and decision-making. It can assist agencies when responding to questions from the media or the legislature. When a copy of the form is provided to the agency's legislative coordinator and public relations contact, it could serve as an educational tool and as a reference document for future inquiries.

The form should be used by state agencies in an effort to communicate their collection recovery success. It offers state agencies a series of informational points to explain and promote their agency's collection performance. To remain effective, it must be kept current through the annual collection and evaluation of data.

The following points make up the form:

SOCO (Single Overriding Communication Objective)

Sum up the agency's collection objective with regard to customer service.

Agency Mission

What is the agency's mission in regard to collections?

Revenue/Fund/Activity Perspective

Are the recovered funds general fund, other fund, etc.? What activities are supported by the funds collected?

Clients, Customers, Constituency

Describe the agency's clients and debtors.

Collection Rates

Choose the rate or rates that permit the best comparability. Consider year-to-year comparability and comparisons to other agencies, even comparable agencies in other states.

Staffing Perspective

Provide an overview of staffing characteristics and include information like dollars collected per FTE, calls handled per year, etc.

Benchmarks/Performance Measures

What are the agency's benchmarks and performance measures for their collection efforts?

5-Year History

Collection Rates, Turnover Rates, Average Days Outstanding.

Trends

What trends is the agency seeing as a result of their collection efforts?

[Sample]
Single Overriding Communications Objective (SOCO)
for Liquidated and Delinquent Accounts Collection Efforts

SOCO (Single Overriding Communication Objective)

Our agency seeks high collection standards and quality customer services...

Agency Mission

Our agency's mission is to [do good things with the money we have collected.]

Revenue/Fund/Activity Perspective

Our agency collects \$X million of [Other Fund] monies that provide [X type of Services]

Clients, Customers, Constituency

Our agency works with everyday Oregonians that...

Collection Rates (Choose one or more)

- L&D Rate: $\text{Collections} \div (\text{Beg. Balance} + \text{Additions})$
- Paid Timely Rate: ???
- Avg. Days A/R Outstanding: $\text{AR} \div (\text{Revenue} \div 365)$
- Delinquency Rate: ???
- Turnover Rate: $(\text{Beginning Account Balance} \div \text{Ending Account Balance})$
- Cost of Collection: ??? (Total Direct Costs + Total Indirect Costs = Total Cost of Collection.)

Staffing Perspective

- We have X full time collectors on staff and a collection manager.
- They each collect about \$X millions per year.
- That means our agency spends less than 12¢ per dollar collected on these LIQUIDATED AND DELINQUENT accounts. (Use the "Cost of Collection" ÷ Amount Collected.)

Benchmarks/Performance Measures

- Our agency does X – this is comparable with agencies in other states that do X amount of volume (Revenue dollars, A/R collections, Delinquent rate, etc.)
- Are you part of a national organization that performs state comparisons?

5-Year History

	2001	2002	2003	2004	2005
Collection Rate	X%	X%	X%	X%	X%
Turnover Rate	X%	X%	X%	X%	X%
Average Days	X%	X%	X%	X%	X%
Outstanding	X%	X%	X%	X%	X%

Trends

Overall trends indicate...

CALCULATING THE COST TO COLLECT –

The Accounts Receivable Core Committee (ARCC) convened a sub-committee in the fall of 2008 to review methodologies for calculating the cost of collecting delinquent debt. While many larger agencies use their budgeting process for calculating these costs, below is the formula suggested for agencies that do not already identify and monitor their collection costs.

$$\text{Cost per \$ collected} = \frac{\text{Department costs*} + \text{PCF Fees} + \text{Legal Fees}}{\text{Dollars collected during period}}$$

* Department costs (to the extent possible) should include:

- Wages,
- Other payroll expenses,
- Training,
- Facilities costs (only the costs related to the FTE doing collection work)

Other costs (if available) would include:

- I.T charges,
- Communications costs
- Utilities (only for the FTE performing collection work and not included in facilities costs)
- External costs (search fees, postage, office supplies, etc.)

If only a percentage of employee's duties are delegated to collecting liquidated and delinquent accounts, then the costs should be multiplied by that percentage.

ARCC recommends that all state agencies use some methodology for calculating and monitoring the cost of their collection programs. Agencies should review the costs of their collection program at least annually.

If program costs exceed the current fee charged by the Other Agency Accounts Unit at the Department of Revenue, the agency should work with the DAS SWARM to review agency practices and propose recommendations for improving agency collection efficiencies and procedure changes.

LIST OF REFERENCES ON WEB

- The **SWARM** (Statewide Accounts Receivable Management) website is used to inform state agencies about receivable and collection issues, LFO reporting, training, presentations, meetings, etc.
http://www.oregon.gov/DAS/SCD/SRS/SWARM_main.shtml
- The SWARM website maintains a special web page to display and track the progress of **proposed additions to the Oregon Accounting Manual (OAM)** regarding accounts receivable and collections. This web page displays the formally adopted OAM policies and procedures.
<http://www.oregon.gov/DAS/SCD/SRS/policies.shtml>
- ORS 293.229 requires the Legislative Fiscal Office to produce an annual report by December 31 of each year for the legislature. These reports, entitled **Report on Delinquent and Liquidated Accounts Receivable**, offer a view of the state's liquidated and delinquent accounts.
<http://www.oregon.gov/DAS/SCD/SRS/lfo.shtml>
- The **Collection Contract Firms** website provides specific information about the statewide collection master contract. It includes a complete copy of the master contract along with the name, biography, address, email address, phone number and an individual link to each of the eleven collection firms who were awarded a master contract as of July 1, 2006.
http://www.oregon.gov/DAS/SCD/SRS/PCF_List.shtml
- Referred to as the **Unlawful Debt Collection Practices Act**, ORS 646.639 et. seq. provides Oregon with laws regarding unlawful debt collection practices. This law, coupled with the guidelines provided in the OAMs, furnishes state agencies the boundaries for lawful collection policies.
<http://www.leg.state.or.us/ors/646.html>
- The **Federal Trade Commission administers the Fair Debt Collection Practices Act**. For information on this and other consumer and business issues.
<http://www.ftc.gov/os/statutes/fdcpajump.htm>
- The **ACA International** website is a resource guide built to educate consumers, business professionals and the media about the credit and collection industry. The ACA International is an international trade organization of credit and collection professionals that provide a variety of accounts receivable management services to over one million credit grantors. It was formerly known as the American Collectors Association.
<http://www.acainternational.org/>
- The **Skip Tracing website** is a resource added to assist agencies in searching for debtors who have left without leaving a forwarding address. It is a reference guide but is not intended to be the only source for online search resources available to agencies.
<http://www.oregon.gov/DAS/SCD/SRS/skiptrace.shtml>

Table IV represents a year-by-year comparison of all accounts reported; even those pursued by the OAA unit and private collection firms:

Appendix IV

TABLE IV

OVERALL COLLECTION RESULTS - THREE YEAR HISTORY				
		June 30, 2006	June 30, 2007	June 30, 2008
Total Dollar Value of Liquidated and Delinquent Accounts	Beginning	\$1,512,015,096	\$1,555,382,877	\$1,575,615,079
	Additions	502,226,251	541,861,265	587,422,281
	Collections	(311,947,925)	(330,790,218)	(327,795,578)
	Write-Offs	(64,203,956)	(43,163,914)	(39,789,053)
	Adjustments	(61,875,110)	(94,611,392)	6,702,604
	Reversals	<u>(42,040,824)</u>	<u>(53,581,868)</u>	<u>(54,521,492)</u>
	Ending Balance	<u>\$1,534,173,532</u>	<u>\$1,575,096,750</u>	<u>\$1,747,633,841</u>
Total Number of Liquidated and Delinquent Accounts	Beginning	1,463,918	1,506,855	1,860,858
	Additions	474,322	497,346	450,666
	Accounts Closed	(365,580)	(383,492)	(420,174)
	Write-Offs	(35,028)	(52,126)	(16,948)
	Reversals	<u>(28,385)</u>	<u>(17,551)</u>	<u>(32,008)</u>
	Ending Balance	<u>1,509,247</u>	<u>1,551,032</u>	<u>1,842,394</u>
Overall Collection Rate		15.49%	15.77%	15.15%
Overall Account Turnover Rate		97.0%	97.2%	101.0%

Table V represents a year-by-year comparison for accounts assigned to OAA:

Appendix V

TABLE V

OTHER AGENCY ACCOUNTS UNIT COLLECTION RESULTS – THREE YEAR HISTORY				
		June 30, 2006	June 30, 2007	June 30, 2008
<i>Dollar Value of Liquidated and Delinquent Debt at OAA</i>	Beginning Balance	\$150,171,156	\$153,328,078	\$170,699,153
	Additions	122,434,400	138,284,438	143,679,040
	Collections	(24,673,284)	(25,209,086)	(28,714,962)
	Returned	(95,258,731)	(95,503,215)	(77,237,752)
	Ending Balance	<u>\$152,673,541</u>	<u>\$170,900,215</u>	<u>\$208,425,479</u>
<i>Number of Accounts</i>	Beginning Balance	213,433	195,534	195,859
	Ending Balance	<u>195,644</u>	<u>197,264</u>	<u>228,392</u>
<i>OAA Dollar Collection Rate</i>		9.05%	8.64%	9.13%
<i>OAA Account Turnover Rate</i>		109.1%	99.1%	85.8%

Table VI represents a year-by-year comparison for accounts assigned to PCFs:

TABLE VI

PRIVATE COLLECTION FIRM COLLECTION RESULTS –THREE YEAR HISTORY				
		June 30, 2006	June 30, 2007	June 30, 2008
<i>Dollar Value of Liquidated and Delinquent Debt at Private Collection Firms</i>	Beginning Balance	\$439,794,986	\$530,357,479	\$449,508,653
	Additions	192,091,580	126,785,297	165,649,837
	Collections	(17,422,531)	(13,923,831)	(11,559,295)
	Returned	<u>(86,582,374)</u>	<u>*(194,082,490)</u>	<u>(131,411,519)</u>
	Ending Balance	<u>\$527,881,661</u>	<u>\$449,136,455</u>	<u>\$472,187,676</u>
<i>Number of Accounts</i>	Beginning Balance	591,320	682,550	665,581
	Ending Balance	<u>682,221</u>	<u>665,488</u>	<u>688,691</u>
<i>PCF Dollar Collection Rate</i>		2.76%	2.12%	1.88%
<i>PCF Account Turnover Rate</i>		86.7%	102.6%	96.6%

* The increase in returned accounts for FY 2007 includes \$92.8 million for the Dept. of Revenue, \$51 million for the Oregon Judicial Department and \$15.7 million for the Department of Consumer and Business Services (granted an agency exemption under ORS 293.231(6)).

Appendix VII

Collection of Agency Liquidated and Delinquent Accounts

		2006	2007	2008
Totals for All Collection Efforts	Beginning Inventory	(a) \$1,512,015,096	\$1,555,382,877	\$1,575,615,079
	Additions	(a) 502,226,251	541,861,265	587,422,281
	Total Available for Collection	\$2,014,241,347	\$2,097,244,142	\$2,163,037,360
	Total Ending Inventory	\$1,534,173,532	\$1,575,096,750	\$1,747,633,841
	Total Collected (All Sources)	(a) \$311,947,925	\$330,790,218	\$327,795,578
% Total Available Collected		(b) 15.49%	15.77%	15.15%

Total for State Agencies (X)	Net Ending State Agency Inventory	\$853,618,330	\$955,060,080	\$1,067,020,686
	Total Collected	\$269,852,110	\$291,657,301	\$287,521,321
	% Total Available Collected	24.32%	25.39%	23.31%

Totals for Other Agency Accounts	Beginning Inventory	(a) \$150,171,156	\$153,328,078	\$170,699,153
	Additions	(a) 122,434,400	138,284,438	143,679,040
	Total Available for Collection	\$272,605,556	\$291,612,516	\$314,378,193
	Ending Inventory	\$152,673,541	\$170,900,215	\$208,425,479
	Collections for the State	(a) \$24,673,284	\$25,209,086	\$28,714,962
% Total Available Collected		(b) 9.05%	8.64%	9.13%

Totals for Private Collection Firms	Beginning Inventory	(a) \$439,794,986	\$530,357,479	\$449,508,653
	Additions	(a) 192,091,580	126,785,297	165,649,837
	Total Available for Collection	\$631,886,566	\$657,142,776	\$615,158,490
	Ending Inventory	\$527,881,661	\$449,136,455	\$472,187,676
	Collections for the State	(a) \$17,422,531	\$13,923,831	\$11,559,295
	Avg Historical Cost of Collections	(c) \$3,484,506	\$2,784,766	\$2,311,859
% Total Available Collected		(b) 2.76%	2.12%	1.88%

- (x) State agency totals are calculated [total LFO - (OAA + PCF)] for the purpose of benchmarking collection and inventory percentages.
- * LFO Data adjusted to reflect reporting error of \$124.35 million in additions and collections; the account was not liquidated.
- (a) This information is from the LFO Liquidated and Delinquent Account Reports.
- (b) Based on LFO data [Collection Amount / (Beginning Inventory + Additions)]
- (c) Based on prior and current contracted average collection rates.

CHRONOLOGY OF SWARM IMPLEMENTATION

▶	HB3509 becomes law. (Oregon Laws 1999, Chapter 1092)	10/23/99
▶	Assignment law becomes operative. (ORS 293.231 – See Section 6 under note.)	01/01/00
▶	First reporting period ends. (ORS 293.229(3) permits an agency a 1-year report exclusion.)	06/30/00
▶	First Statewide Collection Master contract in place. (Eight private collection firms were awarded a contract.)	08/01/00
▶	First L&D reporting to LFO is due. (Turnover of mature accounts – pre-stabilization period)	10/01/00
▶	First private collection master contracts in place.	11/27/00
▶	First LFO report to the legislature is due.	12/31/00
▶	Second reporting period ends. (Judicial included in the report per ORS 1.195)	06/30/01
▶	DOR assignment law becomes operative. (This time frame, combined with law changes, produced an increased transfer of mature accounts.)	07/01/01
▶	SB 70 becomes law. (Oregon Laws 2001, Chapter 823)	07/20/01
▶	Second LFO report to Legislature. (This report allowed for comparison to the first year's report, however, it was not a true year-to-year comparison.)	12/31/01
▶	New statewide collection master contract. (There were 11 private collection firms awarded a master contract.)	11/15/02
▶	Third LFO report to Legislature is published.	12/23/02
▶	House Bill 2055 becomes law. (Oregon Law 2003 Ch. 66. allows agencies to add collection costs to debts.)	05/07/03
▶	House Bill 3023 approved by the Governor. (Oregon Law 2003 Ch. 805, requires agencies to turnover L&D accounts in 90-days rather than 1 year.)	09/24/03
▶	Fourth LFO report to Legislature is published.	12/15/03
▶	House Bill 3023 becomes law. (Oregon Law 2003 Ch. 805)	01/01/04
▶	Fifth LFO report to Legislature is published.	12/15/04
▶	Amendment to collection contract allowing contractors to file Small Claims and Garnishments with proper approvals.	07/01/05
▶	Sixth LFO report to Legislature is published.	12/15/05
▶	New statewide collection master contract. (There were 10 private collection firms awarded a master contract.)	07/01/06
▶	Seventh LFO report to Legislature is published.	12/15/06
▶	Eighth LFO report to Legislature is published.	12/28/07
▶	Ninth LFO report to Legislature is published.	12/29/08

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Collection Effectiveness Committee-

Jan Jackman –DOR
Shiloh Sierra –DOR
Sue Gross –DHS
Monica Williamson –OJD
Kevin Tegland –OED
Arlen Stewart –DCBS

Sheri Davis –DOR
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Paul Pickerell –DHS
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Rochelle Begin- OED
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Paul Brown -PERS

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Strategic Planning Committee-

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Sue Nunley – DOJ
Karen Collette – DHS

Doug Kleeb – ODOT
Mitch Nauta – DOJ
Gerold Floyd – DAS

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- The Oregon Collectors Association for their assistance in making the collection process work for the benefit of the state.
- The Statewide Accounting and Reporting Section which each year compiles and presents the state's Comprehensive Annual Financial Report (CAFR) and their sharing of the receivable data, thereby permitting a more detailed analysis.
- The State Controller, John Radford, and Statewide Financial Services Manager, Jon DuFrene, for their valuable advice and counsel.

Accounts Receivable (A/R) – In governmental activities an A/R is usually created by regulations based on taxes, licensing, fees, fines, restitution, penalties, etc. This governmental type of A/R does not allow state agencies to select their customer or perform credit checks. In the private sector, an A/R is generally created when credit is extended for the transfer of a good or a service. Also, private industry organizations typically screen those customers to whom they choose to extend credit.

Accounts Receivable Core Committee (ARCC) – The ARCC provides the opportunity for state agency representatives to meet and share ideas to help improve business practices and enhance state receivable and collection policies and results.

Automatic Clearing House (ACH) – A nationwide electronic funds transfer network which enables participating financial institutions to distribute electronic credit and debit entries to bank accounts and to settle such entries.

Comprehensive Annual Financial Report (CAFR) – This annual report provides an accounting of the state’s financial and budgetary operation as of June 30th of each year. The report is prepared under Generally Accepted Accounting Principles and is audited by the Secretary of State’s Division of Audits.

Department of Administrative Services (DAS) – DAS works to effectively implement policy and financial decisions made by the Governor and the Oregon Legislature. This agency also sets and monitors high standards of accountability, ensuring that tax dollars are used productively.

Legislative Fiscal Office (LFO) – Is a permanent, non-partisan legislative service agency. It provides research, analysis, and evaluation of state expenditures, financial affairs, program administration, and agency organization. The LFO also provides fiscal impact statements on legislative measures.

Liquidated and Delinquent (L&D) – [OAM 35.30.10](#) defines L&D debts as accounts that have proceeded past the status of a regular account receivable. Delinquent implies the account was not paid by the due date. Liquidated implies the amount owed is known by the debtor, the debtor has been notified of the debt, and that the debtor has been given an opportunity to go through a due process proceeding. Within this report, we refer to these accounts collectively as “liquidated and delinquent” accounts.

Oregon Accounting Manual (OAM) Policies – Is intended to provide a comprehensive set of policies and procedures to assist state fiscal managers with analyzing, processing, and reporting financial transactions in accordance with Generally Accepted Accounting Principles (GAAP).

Other Agency Accounts unit (OAA) – Located at the Department of Revenue, is the “in-house” collection agency for State of Oregon agencies. OAA was established in 1975 under ORS 293.250 (amended 2001) to collect debts owed to any agency of the State of Oregon. The program is self-supporting based on the retention of a percentage of dollars collected for other state agencies.

Private Collection Firm (PCF) – Private sector debt collection organizations contracted by the State to assist in state agency debt collection.

Single Overriding Communication Objective (SOCO) – A document that is designed to sum up the agency’s collection objective with regard to customer service and communicate the agencies recovery success. See Appendix I

State Controller’s Division (SCD) – The State Controller's Division exists to support and ensure accuracy and accountability in state government financial systems by providing services and controls in the management of statewide accounting, receivables, financial reporting, and payroll functions.

Statewide Accounts Receivable Management (SWARM) – A unit of the Statewide Financial Services section, State Controller’s Division.