
State Controller's Division

Account Receivable Core Committee

Strategic Plan

An analysis of the data presented in the Report on Delinquent and Liquidated Accounts.

A discussion of the areas State Agencies should monitor.

Recommended actions for State Agencies to improve their account receivable and collection efficiencies.



Statewide Account Receivable Management

February 2001

Strategic Plan
Statewide Account Receivable Management
Based on the LFO Liquidated and Delinquent Report
February 2001

Table of Contents

	Page
Executive Summary:	
Executive Summary	1
Foreword:	
Introduction and Overview	3
Definitions, Timings and Considerations	
Areas of Concentration:	
A. Collection Measures	6
B. Account Assignment Pipeline	10
C. Reporting Efficiency.....	12
D. Interagency Receivables	14
E. Communication Effectiveness.....	16
Appendix I:	
State Agency Collection Self-Assessment Form.....	18
Appendix II:	
List of References on the Web.....	20

Executive Summary

Introduction

On December 20, 2000, the Legislative Fiscal Office (LFO) released their "Report on Delinquent and Liquidated Account Receivable." The report, required by ORS 293.229, is the first compilation of data supplied by state agencies under the new law. Another component of this new law requires state agencies to assign their inactive past due accounts to the Department of Revenue or a private collection firm, with some exceptions, within a year's time.

Discussion

This report discusses **five areas of observations** that were identified within the LFO report by the committee as areas in need of further attention. These areas are:

- Collection Measures
- Account Assignment Pipeline
- Reporting Efficiency
- Interagency Receivables
- Communication Effectiveness

The Strategic Planning committee believes progress is being achieved in improving statewide account receivable management. In addition, the Plan recommends actions state agencies and the Statewide Account Receivable Management can take to maximize the return on state resources and further improve collection practices.

Though receivable and collection data is limited in this first year of reporting, some findings and expectations can be developed by reviewing the LFO Report along with other available financial data.

Summary of Findings

Most state agencies chose to report the status of their past due accounts, even though some of their data was estimated. The data provided helps to establish a baseline for future reporting periods.

Analysis of the data can be summarized as follows:

- ◆ Generally, statewide collection measures appear adequate, but room for improvements and efficiencies exist.
- ◆ The initial phase of the data reveals the account assignment pipeline is flowing as significant numbers of accounts are moving from state agencies to both the Department of Revenue's Other Agency Accounts and to private collection firms.
- ◆ For this first reporting period, 86% of the agencies reported their liquidated and delinquent accounts. An additional 7% were reported as statutorily excluded.

- ◆ A committee of state agencies is establishing policies that will bring about greater efficiencies in the payment of interagency receivables. They are developing a process to swiftly and efficiently resolve billing disputes.

We have closely analyzed these first year reports along with other financial data and developed several findings. We will be working with agencies to further refine our understanding and validate our findings.

Acknowledgements

The **Strategic Planning Committee's** participation with data analysis and the development and deliberation of the ARCC Strategic Plan was much appreciated. This committee included:

- ★ Susan M. Browning from the Department of Revenue,
- ★ Jayne Martin from the Employment Department,
- ★ Valerie Wicklund from the Judicial Department, and,
- ★ Jon DuFrene from the Dept. of Administrative Services.

The **Account Receivable Core Committee** (ARCC) whose participation by state agency representatives is commended. This committee creates a fertile environment for sharing new ideas and providing feedback that shape improved business practices and hone state receivable and collection policies.

We would also like to acknowledge and thank:

The **Legislative Fiscal Office** (LFO) and Dallas Weyand III for sharing the raw agency data collected through the LFO data collection website to permit further evaluation.

The **Oregon Collectors Association** for their assistance in making the collection process work for the benefit of the state.

Representative Jackie Winters and former **Senator Neil Bryant** for their interest in the state's receivables and their feedback on various receivable and collection issues.

The **Statewide Accounting and Reporting Section** (SARS) who each year compiles and presents the state's Comprehensive Annual Financial Report and their sharing of the receivable data in its raw form thereby permitting a more detailed analysis.

The **State Controller**, John Radford, and the **Deputy State Controller**, Jana Tindall, for their valuable advise and counsel.

Foreword

Introduction and Overview

The 1999 Legislative Session passed House Bill 3509 to provide statutory guidance to state agencies on the collection of past due accounts. The bill became law October 23, 1999 (Oregon Laws 1999, Chapter 1092) and provided additions and revisions to Chapter 293, Oregon Revised Statutes, *Administration of Public Funds*. The statutes now require state agencies (with some identified exceptions) to turn over liquidated and delinquent accounts for which no payment had been received within a year, to the Department of Revenue's Other Agency Accounts, or to a private collection firm.

The statutes also require annual reporting of liquidated and delinquent accounts to the Legislative Fiscal Office. The Legislative Fiscal Office is then required to compile the agency reports and issue one report to the Legislative Assembly by December 31st.

Definitions

- CAFR – Comprehensive Annual Financial Report. 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.
- Liquidated and Delinquent ~ OAM 110300. These accounts have proceeded past the status of a regular account receivable. Delinquent implies that they were not paid by the due date. Liquidated implies that the debtor has been given an opportunity to go through a due process proceeding. For this report, we will refer to these accounts collectively as "past due" accounts.
- POS – Point of Sale. The transaction point where the exchange of goods or services occurs for valuable consideration.
- SWARM – Statewide Account Receivable Management.

Timings and Considerations

The **first year** of reporting is **not** conclusive. Though receivable and collection data is limited in this first year of reporting, some findings and expectations can be developed by reviewing the LFO Report along with other available financial data.

TABLE I

Chronology of 1999's HB3509's Implementation...

- | | |
|--|----------|
| ↻ Bill (1999's 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... 06/30/00
[ORS 293.229(3) permits an agency a 1-year report exclusion.]
- ↪ Statewide Collection Contract In-Place 08/01/00
- ↪ First L&D reporting to LFO is due... 10/01/00
[Turnover of mature accounts – pre-stabilization period]
- ↪ Date agencies to have private collection assignment agreement in-place... 11/27/00
- ↪ LFO report to the legislature is due by... 12/31/00
- ↪ Accounts outstanding 1 year... 01/01/01
- ↪ Second reporting period ends... 06/30/01
- ↪ DOR assignment law becomes operative... 07/01/01
[This time frame, combined with law changes, may produce an increased transfer of mature accounts. Some effects to be seen in the 2001 data, others will not appear until 2002.]
- ↪ Second L&D reporting to LFO is due... 10/01/01
[Will produce **Semi**-year to year comparison.]
- ↪ Third L&D reporting to LFO is due... **10/01/02**
[First true year to year comparison, barring significant changes to the collection law.]

Agency Responsiveness - A February Strategic Plan gives state agencies less than 5 months (February 2001 – June 30, 2001) to review and implement suggested changes and revised practices prior to the June 30th reporting cut-off.

Economics - Both Federal and State data suggests an economic slow-down over the current and next fiscal year. These economic conditions will likely impact the state's collection progress at all levels. We anticipate increases in the CAFR account receivables in the high single digits to low teens.

Account Receivable – An account receivable (A/R) is created in a number of circumstances. Generally, an A/R occurs when credit is extended for the transfer of a good or a service. However, in government, it may be created by regulations based on licensing, fees, penalties, etc. This second type of A/R does not allow the agency to select their customer and perform credit checks.

Another point to note is the new requirements imposed by the law. Agencies must now track the character of their receivables based on several considerations:

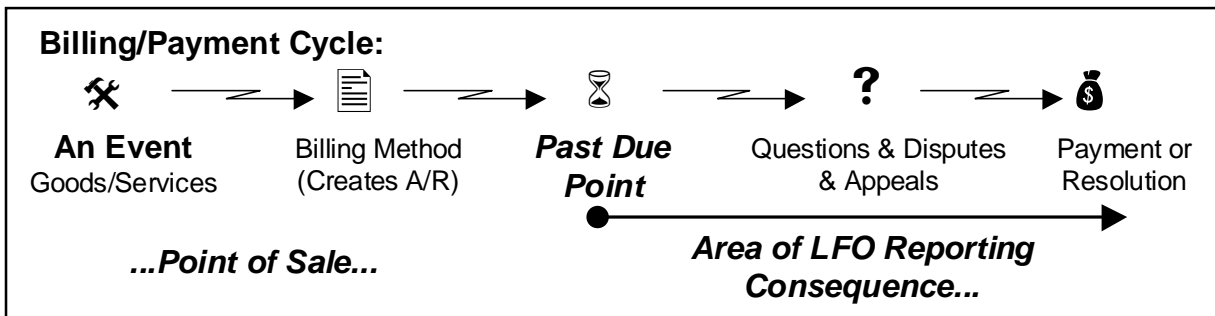
- Is the debt delinquent?
- Is the debt liquidated... when was the hearing date?
- Is there cause for the account to be placed in exempt status? Is that a temporary or a perpetual status?
- How long has the account been liquidated and delinquent?
- What is the date of the last payment?

Each of these questions must be answered periodically to keep the account moving through the assignment pipeline and to properly report its status each October 1st.

Building the above tests and considerations into some of the agencies' existing A/R systems has been challenging.

Billing/Payment Cycle – There are a number of ways an agency can accelerate payments. An agency's policies on how it accepts payments will influence its collection effectiveness. No plan to consider the reduction of past due accounts would be complete without due consideration of actions taken at the "point of sale." (See Table II.) By taking cash, there is no Account Receivable (A/R) created and no account to become past due. However, taking cash requires the application of more stringent internal controls to reduce other risks. Checks can bounce and thereby create an account receivable. Credit cards have risks and costs associated with their use. Most often, state agencies do not have the option to deny services. This raises the future promise of e-commerce transactions, and their impact on state receivables and future partnerships and dependencies with the private sector.

TABLE II



A. Collection Measures

Observations or Findings

Borrowing from data beginning on page 4 of the LFO Report, the following overall reported accounts were shown. This table represents all accounts reported by state agencies, even those being worked by the Department of Revenue and private collection firms:

TABLE III

**Delinquent and Liquidated Accounts
June 30,2000**

		<u>Number of Accounts</u>	<u>Dollar Value of Accounts</u>
1	Beginning Balance	295,994	\$748,785,885
2	Additions	207,933	\$358,809,511
3	Collections		(\$271,883,451)
4	Accounts Closed	(192,825)	
5	Write-Offs	(20,687)	(\$33,753,706)
6	Adjustments		(\$20,828,252)
7	Reversals	(234)	(\$605,474)
8	Ending Balance	290,181	\$780,524,513

Using the Beginning Balance, Additions, and Collections, we can formulate a raw *Dollar Collection Rate*:

$$\$271,883,451 \div (\$748,785,885 + \$358,809,511) = \mathbf{24.55\%}$$

The implication of this number is that as we view the maturing inventory of past due accounts that are accumulating for this period, agencies are able to collect roughly 25% of that past due group. This is in addition to the collection of their regular account receivables.

Comparing the Beginning number of accounts to the Ending number of accounts, we can also obtain a raw *Account Turnover Rate*:

$$295,994 \div 290,181 = \mathbf{102.0\%}$$

Similarly stated data for account collections performed by the Department of Revenue's Other Agency Accounts:

TABLE IV

**Department of Revenue
Other Agency Accounts
June 30,2000**

		<u>Number of Accounts</u>	<u>Dollar Value of Accounts</u>
1	Beginning Balance	2,691	\$20,517,950
2	Additions		\$3,188,395
3	Collections		(\$959,951)
4	Returned		(\$2,441,316)
5	Accts Outstanding	1,934	\$20,305,078

Dollar Collection Rate:

$$\$959,951 \div (\$20,517,950 + \$3,188,395) = 4.05\%$$

Account Turnover Rate:

$$2,691 \div 1,934 = 139.1\%$$

Similarly stated data for collections performed by private collection firms:

TABLE V

**Private Collection Firms
June 30,2000**

		<u>Number of Accounts</u>	<u>Dollar Value of Accounts</u>
1	Beginning Balance	24,584	\$50,437,258
2	Additions		\$44,818,940
3	Collections		(\$1,739,368)
4	Returned		(\$12,850,052)
5	Accts Outstanding	29,015	\$80,666,778

Dollar Collection Rate:

$$\$1,739,368 \div (\$50,437,258 + \$44,818,940) = 1.83\%$$

Account Turnover Rate:

$$24,584 \div 29,015 = 84.7\%$$

Discussion

The above “Dollar Collection Rate” and the “Account Turnover Rate” provide a feel for the collection efficiency of the collecting entity. The Dollar Collection Rate shows the relative collectability of the maturing past due accounts. This rate shows how much of the shifting balance is being converted into dollars. This rate compares very favorably with the 1999 national recovery rate¹ of **14.07%** attributable to professional third-party collection firms. This amount is sometimes referred to as a 1st placement rate².

TABLE VI

Summary of Observations

	<u>[Actual] Turnover Rates</u>	<u>[Actual] Collection Rates</u>	<u>[National Averages] Third-Party Collection Rates</u>
All State Agencies	102.0%	18.67%	14.07%
Other Agency Accounts	139.1%	4.05%	8.12%
Private Firms	84.7%	1.83%	5.03%
Statewide Rating	102.0%	24.55%	27.22%

¹ Industry Statistics, 11/8/2000. American Collector's Assn., Inc. website. Attributed to the *Commercial Law League*.

² Normally, this would be the rate of recovery expected from a private collection firm. However, because many state agencies have professional caliber collection staff and practices, it was felt this would more accurately apply to their collection actions.

The above national average rates include the following percentages:

- Average Recovery Rate – 2nd Placement³ 8.12%
- Average Recovery Rate – 3rd Placement⁴ 5.03%

The above numbers might be used as target ranges to frame the expectations for the OAA unit and private collection firms⁵. Again, because the LFO Report is predicated on data that was collected early in the account assignment cycle, actual rates are expected to improve over time.

The *Account Turnover Rate* shows the relative processing efficiency of the collection entity. An amount above 100% shows the entity is achieving a positive reduction in their maturing inventory. This means that the amounts are being collected, or passed on to the next collection entity as prescribed by the new law.

In their quest for collections, some state agencies might have inventoried accounts for several years in the expectation that a debtor's fortune would turn and the account would subsequently become collectable. This reasoning raises two opposing perspectives; in general there is a direct correlation between the age of an account and its collectability. However in some cases, a debtor has been known to get back on their feet and have the ability to make good on the debt. Regardless of the correctness of either contention, the law now dictates a timeline that more closely aligns to the statistical presumption.

Next year, the comparability of the above actual rates will show if the recovery progress is declining, maintaining, or accelerating.

Two Year Goal

The two-year goal for collection measures is an increase in the dollar collection rate and a higher account turnover rate. While we expect to see some improvement by the next reporting period, the numbers for next year will be somewhat tempered by:

- The concluding turnover of mature accounts from already participating agencies;
- The additional new accounts entering the pipeline from the agencies that were unable to complete system changes to participate in the first year;

³ American Collection Assoc., Detailed Statistics for 37 Markets, 1999 Top Collection Markets

⁴ Ibid.

⁵ Some agencies do not have professional collection staff. These agencies will turn over their accounts to the OAA unit, or some may skip the OAA and go directly to a private firm. Therefore, we might expect the recovery rates for the OAA unit to range from 8-14% and for private firms, from 5-14%. These numbers will be influenced by the account assignment practices of each individual state agency, and their percentage of account assignments to the entire state. The assignment practices of the agencies with the largest pool of accounts will exert the largest impact on the recovery rate percentages.

- The age and volume of the past due accounts coupled with the learning curve associated with the implementation of the new law; and,
- The impact of any 2001 law changes.

All of the above factors will work to diminish the full influence of the original legislation in the next year reporting process. These attributes will exert less influence over time, with the most significant stabilizing results appearing in the 2002 report.

Action Items

State agencies have completed much work on their system's account tracking and reporting processes. Those that have completed this process will be making minor fine-tuning adjustments and next be working to improve efficiencies in their collection functions. Those agencies whose system and process required greater efforts are now completing work on their system to fully facilitate reporting requirements.

Each state agency needs to:

- Track and work their accounts efficiently.
- Turnover past due accounts as soon as practicable. For agencies without a full-time collection staff, assignments should occur within 90 days.
- Adjust systems or processes to improve their past due account processing and reporting capabilities.
- Consider actions that can be taken at the inception of the debt, or while the debt is a fresh account receivable, that will minimize delinquencies and more expensive collection actions.

SWARM has provided training classes in:

- the account assignment process,
- the use of credit reports and credit bureaus,
- automated collection software,
- assisting the LFO in the report process...

along with other activities. There has been extensive work on the Oregon Accounting Manual (OAMs) that provide the agencies guidelines for receivables and collection issues.

SWARM needs to:

- Complete work on the OAMs to assure that they provide the needed guidance to state agencies.
- Continue creating opportunities to expose state agencies to new technologies and collection practices.
- Distribute the Strategic Planning form that was developed by the Strategic Planning committee and assist agencies in its completion.
- Improve state agency collection tools. Look at legislative concepts for: warrant/garnishment, officer liability, etc.

B. Account Assignment Pipeline

Observations or Findings

In Section A of this plan, we discussed the “Account Turnover Rate.” This term references the progress made on reducing the overall inventory of past due accounts. At a more detailed level, there are two main areas of observation to consider:

Table IV shows **additions** to the Department of Revenue’s Other Agency Accounts (OAA) unit running at 15.5% in terms of dollars. This amount references the turnover of accounts from the various state agencies to the OAA unit. A further indicator of the throughput of the accounts by the OAA unit is the number of accounts **returned**. Note that the OAA unit returned 11.9% of the dollar value of accounts with regard to their beginning balance.

Table V shows **additions** to private collection firms running at 88.9% in terms of dollars. In effect, the dollar amount of accounts in the hands of private firms nearly doubled. The accounts **returned** from assignment by these firms is 25.5% of the dollar value of accounts, again, with regard to their beginning balance.

Discussion

The assignment provision of the law, ORS 293.231, became effective on January 1st, 2000. While the account assignment process was new to some agencies, a number of agencies, most notably the Department of Revenue, had been using private collection firms for some time. Several state agencies piggybacked on the Department of Revenue’s collection contract for their private collection services.

To use the new collection contract, each state agency is required to establish a written agreement⁶ with a private firm or firms⁷ of their choice. State agencies were given the deadline of November 27, 2000 to have their private collection agreement(s) in place. The effects of these agreements, and the subsequent assignment of accounts, will appear in next year’s LFO Report.

The LFO Report shows an increased usage in private collection firms, as reflected by the high “additions” volume shown in Table V. That usage volume is expected to continue to remain at an elevated level through fiscal year 2001 based on several factors:

- Some agencies are still working through system issues that make it difficult to identify, report, and assign their accounts,
- Accounts that were assigned to the OAA unit at the law’s effective date will become eligible for turnover to private firms

⁶ See draft OAM 110303 regarding the procedures for completion of the account assignment agreement.

⁷ See the list of firms, contract, etc. on the Collection Contract Firm webpage at: <http://scd.das.state.or.us/AR/ARFirms.htm>

- beginning in early 2001,
- The 2001 legislative session may create opportunities for other agencies to use private collection firms,
- Some agencies are exploring ideas and methods to permit them to move exempt accounts to private collection firms.

While the volume of account turnover for fiscal year 2000 virtually doubled the dollar amount in the hands of private collection firms, the amount turned over in fiscal year 2001 may be almost as significant, depending on the absolute timings of the factors detailed above.

Two Year Goal

The second year data (fiscal year 2001) should continue to show a substantial amount of account turnover to both the OAA unit and private firms. As state agencies get a strong handle on past due accounts, and the tweaking on their account tracking systems produce solid results, the mature accounts are removed and only the more active accounts will remain. Again, another contributory factor to a large volume in accounts will be law changes and accounts coming out of exempt status and potentially moving to private collection firms.

The third year (fiscal year 2002) will show a beginning in the stabilization of the account transfers. Turnover volume should begin to reduce and collection rates should rise commensurate with the overall fresher status of the accounts in the collection pipeline.

Action Items

State Agencies need to:

- Work with private firms to automate and improve efficiencies in the account assignment, payment, and reconciliation process.
- Verify that their systems and practices are meeting the account turnover deadlines imposed by statute.
- Gain complete understanding of their agency's specific laws regarding collection practices, confidentiality, etc.

SWARM needs to:

- Investigate a standardized format for use with electronic account assignments.
- Continue providing agencies with training opportunities and distributing educational information.
- Quickly respond to questions where clarification of the laws or OAM policies are required.
- Complete and refine OAMs that impact the account assignment process taking into account changes in technologies.
- Investigate how e-commerce may be applied in this area.

C. Reporting Efficiency

Observations or Findings

Some state agencies experienced difficulties in accomplishing the system and process changes necessary to properly report their past due accounts. Some state agencies indicated that their data was not as easily accumulated on their financial systems as originally thought. As a result, some numbers are reported as best estimates or were mathematically generated from the known data. Overall, the numbers support a statewide agency attempt to participate in the reporting process.

TABLE VII

Summary of Reporting Results⁸

Agencies reporting no accounts	68	45%
Exempt agencies not reporting	11	7%
Agencies that could not report	9	6%
Agencies reporting accounts	<u>62</u>	<u>41%</u>
Total	150	100%

Discussion

For the first reporting period, some confusion and data anomalies were anticipated. To assist in the process, a committee chaired by the Legislative Fiscal Office developed a “report card” reporting format. This format segregated the data at the overall agency level, at the Department of Revenue Other Agency Account level, and at the private collection firm level. It also displayed the level of exemptions being claimed to provide the complete picture of the state’s past due accounts.

A Reporting Manual was available both in print and on the SWARM website⁹. State agencies were offered two training sessions and an opportunity to seek answers to their questions. They were shown the data collection screens that would be used on the LFO data collection website, the website was opened and available for a several week testing period, and agencies were encouraged to gain experience using the site and provide feedback. A Frequently Asked Questions (FAQs) webpage was also available and updated periodically.

Some of the agencies identified as exempt from reporting¹⁰ are caught in a statutory conflict. These agencies are the Semi Independent State Agencies (SISA) and the State Accident Insurance Fund (SAIF). While their authorizing statute excludes them from certain chapter 293 provisions, including the past due account reporting and assignment provisions, they are

⁸ LFO Report. *Report on Delinquent and Liquidated Account Receivable*, June 30, 2000. Page 3.

⁹ The address for this website is: <http://scd.das.state.or.us/AR/SWARM.htm>

¹⁰ LFO Report, Appendix 3, page 15

paradoxically included by reference from the state write off statute.

The statute excludes these agencies from reporting (ORS 293.229) and the specific account assignment requirements (ORS 293.231). However, they are required to use private collection firms to comply with the write-off statute (ORS 293.240). Arguably, the indirect reference to the assignment statute (ORS 293.231) from the write off statute (ORS 293.240) may require these agency to adhere to the assignment provisions. These agencies still appear excused from the reporting requirements.

Some of these agencies, being conscious of the opportunity offered in the price advantage available through the statewide collection contract, have joined in and are fully participating in account assignment and reporting process.

Two Year Goal

“All state agencies shall provide the report required by subsection (1) of this section for the fiscal year ending June 30, 2001, and every fiscal year thereafter.”¹¹

The report for fiscal year 2001 will provide a **relative** comparability of the collection progress of the state agencies. To be effective, state agencies and SWARM must cooperate to identify performance measures or benchmarks that will promote an accurate representation of collection progress. This feedback is necessary to identify the receivable and collection practices that are most effective.

The goal is 100% reporting from the agencies required to report.

Action Items

State agencies need to:

- Accurately report their past due accounts.
- Develop their own agency collection performance measures.
- Provide assurance in year-to-year comparability of reported collection performance measures.
- Offer suggestions to improve usability of the web-based data entry reporting system.
- Use collection benchmarks/performance measures for comparability to programs in other states, similar agencies, etc.

SWARM needs to:

- Provide agencies the tools and assistance in the development of specific performance measures for their organization type.
- Distribute the Strategic Planning form for self-assessment.
- Help explain and profile agency reporting performance measures to the legislature and the media.

¹¹ ORS 293.229(4)

D. Interagency Receivables

Observations or Findings

The LFO Report shows a total of interagency delinquencies amounting to nearly \$1 million. However, note that the average value of a past due account is fairly low, averaging about \$2,800 per account.

Over the last 5 years, receivables between state agencies have been generally showing a declining balance as of June 30th of each year. Data from the CAFR shows significant declines in interagency and interfund receivables from 1996, down more than 60%. For the last 4 years, the interagency/interfund amount has hovered around \$400 million and was down 5.6% in fiscal year 2000 from the previous fiscal year.

To summarize, there is about \$400 million in interagency/interfund receivables, of which, about \$1 million is reflected in the LFO Report¹² as past due amounts.

Discussion

There are always going to be interagency/interfund receivables throughout the year. At any point in time the total of these receivables may be more or less depending upon the volume of goods and services provided between agencies and the business cycle which facilitates prompt payment. Certainly, agencies recognize the opportunity to get their receivables caught up by year-end. Efforts need to be made to keep debts current all year-round.

Recognizing that delinquencies for some state agencies manifest themselves as cash flow problems, a committee was formed to address the problem. Various concepts were explored that would promote better management of working capital. The problems in this area are largely defined by three consequences:

- Agencies that are sometimes slow to pay.
- Agencies delayed while trying to verify the billings.
- Agencies that are disputing certain charges.

There is a multi-agency focus on developing policies and procedures that can quickly and efficiently resolve these issues.

Two Year Goal

Over the next year, billing agencies and debtor agencies will need to come to terms within the boundaries of the provisions established in the new OAMs. This should demonstrate itself by a

¹² LFO Report, page 7, line e1.

continued reduction in the interagency receivables as reflected in the CAFR. Also by next year, the delinquencies shown in the LFO Report should also show a reduction. Perhaps more importantly, we are expecting to hear less feedback from agencies experiencing working capital repercussions. By the following year, fiscal year 2002, we would expect that the only delinquencies reported in the LFO Report be those that are working through the dispute resolution process.

Action Items

State agencies need to continue their recent year's accomplishment of steadily reducing their interagency receivables by year-end. This is increasingly more important now that the policies dictate interagency receivables be paid within 30 days.

State agencies need to:

- Pay their interagency receivables within 30 days.
- Use balance transfers on SFMS to move money more cheaply and efficiently between state agencies.
- Use ACH transactions to move money between state agencies. Implement the use of STAN (State Treasury ACH Network) as part of an agency's standard bill paying process.
- Study more efficient methods to pay other state agencies than the current use of warrants and checks.

The interagency receivables committee has completed work on OAM 110600. This OAM provides the general policies and procedures for interagency receivables, billing statement guidelines, payment timelines, etc.

SWARM needs to:

- Complete statewide review and implement OAM 110601 ~ This OAM provides policies and procedures for interagency billing on delinquent receivables. It also provides guidelines for dunning letters to the debtor agency officials.
- Release for statewide review and implement OAM 110602 ~ This OAM provides policies and procedures for a third-party interagency dispute resolution process.

E. Communication Effectiveness

Observations or Findings

It is evident by feedback from a number of areas that there are educational and training issues that need to be addressed with respect to receivables and collection. There continues to be questions about:

- The LFO Reporting process.
- The account assignment process.
- What accounts qualify for exemption.
- What account information should be kept confidential.

These issues have complicated answers; some will change over time due to refined understanding and improved collection practices. Employee turnover always creates need for education, training, and improved communication methods and practices.

Discussion

As with any law change or new idea, there exists a discovery period where the concept gains understanding. Sometimes words leave varying perspectives on an issue. These and other details added to the complexity in the assignment and reporting process.

Committees were made up from a mix of administrators, management, and staff, with those participants coming from both accounting and collection backgrounds. While this mix greatly improved the comprehension and overall products associated with the output of the committees, it also highlighted the variability in understanding and viewpoint among the members.

For instance, the following concepts are associated with various ways an account may be impacted or manipulated. These may be the result of errors, omission, new information, law, etc.

- the effects of bankruptcy,
- account adjustments or accounting reversals,
- account write-offs,
- setting up a settlement agreement, or,
- how an account may be compromised.

Not only do the above-enumerated points share attributes of accounting and collection perspectives; there are also some basic legal issues involved as well. There may also exist layers of federal and state regulatory consequences with regard to the actions that may be taken on these accounts. Government must be more vigilant than the private sector with due process. There exist both federal¹³ and state¹⁴ constitutional limitations on the

¹³ U.S. Constitution, XIV Amendment. "...nor shall any **state** deprive any person of... property ... without due process of law..." (emphasis added)

¹⁴ Oregon Constitution, Article I Section 10.

collection action of government. Collection actions are further restricted by federal¹⁵ and state¹⁶ statute. These limitations require strict adherence to regulations established to both protect the debtor from unfair practices, and provide debtors with proper notification and appeal processes.

Two Year Goal

Agency staff needs to be knowledgeable in collection and accounting practices relating to the recovery of past due accounts. This knowledge must be available through:

- trained and experienced staff,
- adequate policies and procedures detailing agency practices,
- access to a well-indexed set of statewide policies and procedures – the Oregon Accounting Manual (OAMs).

Where personnel have not yet obtain the level of experience to make them fully confident, they need to be provided with the tools and information that permit them to easily search and locate needed answers.

Action Items

State agencies need to:

- Have a complete understanding of their statutory collection authority and have policies and procedure that express and explain that authority to their staff.
- Have clear policies and procedures on both collections and accounting practices that operate in harmony.
- Accurately communicate and report their past due accounts to LFO, the legislature, the media, and the public.
- Develop and distribute reports that facilitate reliable management decision-making.

SWARM communicates through its webpages, email contact lists, list server, the OAMs and various committee meetings.

SWARM needs to:

- Identify areas of communication deficiencies and seek further clarity. i.e. Where there is jargon, develop definitions and glossaries. Discuss various terms with committees and on the list servers and place and define them within the OAMs.
- Continue using the SWARM webpages to distribute ideas, notify agencies of training opportunities, and for the solicitation of new ideas and concepts.
- Work with the agencies to develop standardized reports for management decision making and agency comparability.

¹⁵ The Fair Debt Collection Practices Act - 15 U.S.C. §§1692

¹⁶ Unlawful Debt Collection Practices Act, ORS 646.639 – Taxpayer Bill of Rights, ORS 305.860, ORS 305.865

Appendix I

State Agency Collection Self- Assessment Form

The A/R-Collection Strategic Planning form, when jointly prepared by collection and accounting staff and management, can serve as an instrument for agency discussion, planning, and decision making. The annual collection and evaluation of the data in this format creates a valuable management tool.

The form can serve many purposes. It will be immediately available to respond to question from the media or the legislature. With a copy of the form provided to the agency's legislative coordinator and public relations contact, it can serve as an educational tool for them and as a reference document for future inquiries. To maintain its effectiveness, it must be kept current.

The form should be used by state agencies in an effort to communicate their collection recovery success. The form offers state agencies a series of informational points to collect to explain and promote their collection performance. The following points make up the form:

- SOCO (Single Overriding Communication Objective)
How would you sum up your collection objective with regard to customer service?
- Agency Mission
- 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 your 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
- 5-Year History of:
 - Collection Rates,
 - Turnover Rates,
 - Average Days Outstanding.
- A description of the overall trends

When distributing the form to state agencies, additional information and examples will be provided to clarify each of the components.

A/R-Collection Strategic Plan Communicating Your Success

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: ???
- ◆ A/R Aging Table: 30/? 60/? 90/? >90/?
- ◆ 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 3 full time collectors on staff with a collection manager.
- ◆ They each collect about \$X millions per year.
- ◆ That means our agency spends less than 12¢ per dollar collected on these PAST DUE accounts. (Use the "Cost of Collection" \div 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:

	1999	2000	2001	2002	2003
Collection Rate	X%	X%	X%	X%	X%
Turnover Rate	X%	X%	X%	X%	X%
Avg. Days O/S	X%	X%	X%	X%	X%

Overall trends indicate that the _____ is going down at a rate of X% annually.....

Appendix II

The Following References May be Found on the Web...

The **SWARM** (Statewide Account Receivable Management) website ~ This site is used to inform state agencies on receivable and collection issues, training, presentations, meetings, etc. A copy of the LFO Liquidated and Delinquent Account Report is available on this site:

<http://scd.das.state.or.us/AR/SWARM.htm>

The following link is to the presentation: ***Oregon's Receivables Management***. This presentation offers a 5-Year perspective on Oregon's receivables with a detailed breakdown, and comparisons to both six other western states and four major corporations:

http://scd.das.state.or.us/AR/AR_Slides.ppt

The SWARM website maintains a special webpage to display and track the progress of **proposed additions to the Oregon Accounting Manual (OAM)** regarding account receivable and collections. This webpage displays both the formally adopted OAMs as well as the current draft of OAMs still in draft form that are committee work-in-progress:

<http://scd.das.state.or.us/AR/ARoam.htm>

ORS 293.229 requires the Legislative Fiscal Office to produce an annual report by 12/31 for the legislature. The fiscal year 2000 report, entitled ***Report on Delinquent and Liquidated Accounts Receivable, June 30, 2000***, offers a view of the states liquidated and delinquent accounts:

<http://scd.das.state.or.us/AR/LFO2000.pdf>

The **Collection Contract Firms website** ~ This site provides specific information about the statewide collection contract. It includes a complete copy of the contract along with the name, biography, address, email address, phone number and an individual link to each of the eight collection firms. And more...

<http://scd.das.state.or.us/AR/ARFirms.htm>

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 **Fair Debt Collection Practices Act** is administered by the Federal Trade Commission. For information on this and other consumer and business issues:

<http://www.ftc.gov/os/statutes/fdcpajump.htm>

The **American Collectors Association website** is a resource guide built to educate consumers, business professionals and the media about the credit and collection industry. The American Collectors Association is an international trade organization of credit and collection professionals that provides a variety of accounts receivable management services to over one million credit grantors.

<http://www.collector.com/>