
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 2002

Strategic Plan
Statewide Account Receivable Management
Based on the LFO Liquidated and Delinquent Report
February 2002

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Executive Summary

Introduction On December 20, 2001, the Legislative Fiscal Office (LFO) released their “Report on Liquidated and Delinquent Accounts Receivable” for fiscal year ending June 30, 2001. The LFO report, required by ORS 293.229, is the second compilation of data supplied by state agencies under the law. Another component of this law requires state agencies to assign their 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 observation** that were identified within the LFO report as areas for 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 Coordinator can take to maximize the return on state resources and further improve collection practices.

Though receivable and collection data was limited in the first year of reporting and the second year’s report includes data pertaining to the Oregon Judicial Department’s accounts receivable, which was not presented in the first year’s report, reviewing the LFO Report along with other available financial data can develop some findings and expectations.

Summary of Findings This year all state agencies reported the status of their past due accounts. This year’s data also provides information regarding liquidated and delinquent accounts held by the Oregon Judicial Department. This current year’s report will be the 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 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 private collection firms.
- For this second reporting period, 91% of the agencies reported their liquidated and delinquent accounts. An additional 9% were reported as statutorily excluded.

- A committee of state agencies has established two policies and will be establishing a final policy that will bring about greater efficiencies in the payment of interagency receivables. The new policies will develop a process to swiftly and efficiently resolve billing disputes.

Acknowledge-ments

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,
- ★ Gerold Floyd from the Lottery Department,
- ★ Jayne Martin from the Employment Department,
- ★ Linda Wells from the Department of Human Services,
- ★ Valerie Wicklund from the Oregon Judicial Department, and,
- ★ Kathleen Zaragoza from the Department of Administrative Services.

The **Accounts 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 enhance 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.

The **Statewide Accounting and Reporting Section** (SARS) which each year compile and present the state's Comprehensive Annual Financial Report and their sharing of the receivable data, thereby permitting a more detailed analysis.

The **State Controller**, John Radford, and the **Statewide Revenue Services Manager**, Jon DuFrene, for their valuable advice 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 Oregon Revised Statutes Chapter 293 *and Administration of Public Funds*. The statutes require state agencies (with some identified exceptions) to turn over liquidated and delinquent accounts for which no payment has been received within a year to the Department of Revenue's Other Agency Accounts, or to a private collection firm.

During the 2001 legislative session SB 70 (Chapter 823, Oregon Laws 2001) was passed which requires the Oregon Judicial Department to comply with similar collection and reporting requirements as other state agencies. This Bill provided additions and revisions to Oregon Revised Statutes Chapter 1. This year's report to the Legislative Fiscal Office is the first year the report contains Oregon Judicial Department data.

Both ORS 293.229 and ORS 1.195 require annual reporting of liquidated and delinquent accounts to the Legislative Fiscal Office by October 1st. The Legislative Fiscal Office is then required to compile 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 35.30.10. Accounts that have proceeded past the status of a regular account receivable. Delinquent implies that the account was not paid by the due date. Liquidated implies that the amount owed is known and that the debtor has been notified of the debt and been given an opportunity to go through a due process proceeding. Within 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, a unit of the State Controllers Division.

Timings and Considerations

This year's data includes Oregon Judicial Department liquidated and delinquent account information, which was not required in the first year.

The first year's receivable and collection data was limited since not all agencies had the capabilities to gather the data. The data provides benchmarks for agencies that reported in 2000 and 2001, and can be used to make projections concerning collection activities.

TABLE I Chronology of Statewide Accounts Receivable Management 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
↪	Statewide Collection Contract in place	08/01/00
↪	First L&D reporting to LFO is due... [Turnover of mature accounts – pre-stabilization period]	10/01/00
↪	Private collection assignment agreements in place...	11/27/00
↪	First LFO report to the legislature is due by...	12/31/00
↪	Second reporting period ends...	06/30/01
↪	DOR assignment law becomes operative... [This time frame, combined with law changes, may produce an increased transfer of mature accounts. Some effects were seen in the 2001 data, others will not appear until 2002.]	07/01/01
↪	SB 70 becomes law... [Oregon Laws 2001, Chapter 823]	07/20/01
↪	Second L&D reporting to LFO is due... [Will produce Semi -year to year comparison.]	10/01/01
↪	Second LFO report to Legislature... [This report will allow for comparison to the first year's report. However, it will not be a true year-to-year comparison.]	12/31/01
↪	Third reporting period ends...	06/30/02

↳ 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 2002 – June 30, 2002) to review and implement suggested changes and revised practices prior to the June 30th reporting cut-off.

Economic Outlook - Both Federal and State data suggest the current economic slow-down will continue over the next fiscal year. These economic conditions will likely impact the state's collection progress at all levels. This year has also experienced higher bankruptcy rates in many states. Oregon's unemployment rate hit an all time high in December of 2001.

Account Receivable – An account receivable (A/R) is created in a number of ways. 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, fines, restitution, penalties, etc. This second type of A/R does not allow the agency to select their customer and perform credit checks.

The reporting requirements imposed by law require 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 perpetual?
- How long has the account been liquidated and delinquent?
- What is the date of the last payment?
- Has the account been submitted to the Department of Revenue Other Agency Accounts or a private collection firm?
- Is the account at a status that would suggest it be written-off?

Each question needs to be answered periodically to keep the account moving through the assignment pipeline and to properly report its status each October 1st. Agencies have worked hard to modify their automated financial systems to retrieve the information required to report.

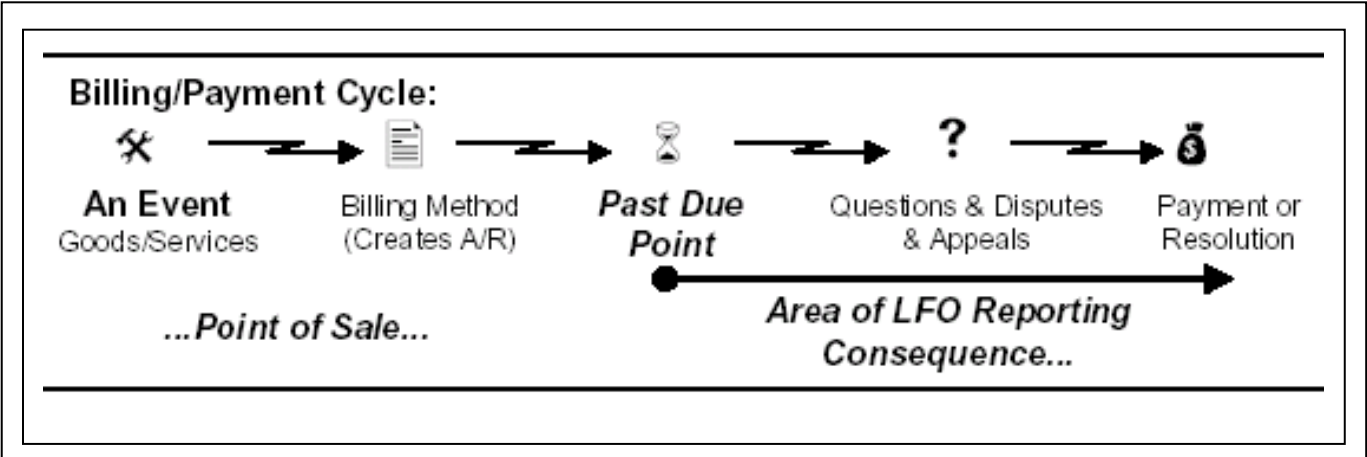
Billing/Payment Cycle – When looking at reducing the number and amount of accounts receivable owed to the state, it is important to look at the way the state does business and when payment for services or goods is required. In order to improve the collection process, the state must consider the options offered to pay for a service and the methods used to provide the service. If the customer is given options to pay for services, such as credit card, cash, or check, it enhances the agency's

chance to obtain a payment and may eliminate the need to set up an account receivable.

When an agency receives cash, an account receivable (A/R) is not created and there is 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 create an account receivable. Credit cards have risks and costs associated with their use as well. Most often, state agencies do not have the option to deny services.

With e-commerce and e-government, agencies may be able to change the way they currently do business. E-commerce can help reduce accounts receivable by changing the time frame that payment for the service or good would be received. It can also provide another way for a person owing a fine or tax to submit payments on their account.

TABLE II



Collection Measures

Observations or Findings

The following Tables III, IV and V include data regarding Oregon Judicial Department liquidated and delinquent accounts, which did not report last year. Further break down of data from prior year to current year's information is provided in Appendix III, IV and V.

Table III represents a comparison of all accounts reported by state agencies, even those being worked by the Department of Revenue and private collection firms. The table also includes information for the Oregon Judicial Department which was not required to report until passage of SB 70 in July 2001:

TABLE III

**Delinquent and Liquidated Accounts
June 30, 2001**

		<i><u>Number of Accounts</u></i>	<i><u>Dollar Value of Accounts</u></i>
1	Beginning Balance	925,048	\$1,085,854,277
2	Additions	382,820	432,052,941
3	Collections		(222,141,647)
4	Accounts Closed	(222,402)	
5	Write-Offs	(39,835)	(50,206,466)
6	Adjustments		(98,629,819)
7	Reversals	<u>(51,941)</u>	<u>(52,395,486)</u>
8	Ending Balance	993,690	\$1,094,533,800

Dollar Collection Rate:

$$\$222,141,647 \div (\$1,085,854,277 + \$432,052,941) = \mathbf{14.63\%}$$

Account Turnover Rate:

$$925,048 \div 993,690 = \mathbf{93.1\%}$$

The raw *Dollar Collection Rate* is calculated by using the collections divided by, the beginning balance plus additions. The Dollar Collection Rate is roughly 15% of liquidated and delinquent accounts for the fiscal year ending June 30, 2001. These collections are in addition to the collection of regular accounts receivable. An agency can monitor this number to see what percentage of maturing inventory of past due accounts they are able to collect.

The raw *Account Turnover Rate* is calculated by dividing the beginning number of accounts by the ending number of accounts. This 93.1% rate shows that more accounts are remaining in the collection pipeline than are being closed, written-off or reversed.

Table IV data represents account collections performed by the Department of Revenue's Other Agency Accounts:

TABLE IV

**Department of Revenue
Other Agency Accounts
June 30,2001**

		<u>Number of Accounts</u>¹	<u>Dollar Value of Accounts</u>
1	Beginning Balance	6,125	\$162,243,677
2	Additions		37,918,048
3	Collections		(16,043,455)
4	Returned		<u>(10,453,155)</u>
5	Accounts Outstanding	6,940	\$173,665,115

Dollar Collection Rate:

$$\$16,043,455 \div (\$162,243,677 + \$37,918,048) = \mathbf{8.02\%}$$

Account Turnover Rate:

$$6,125 \div 6,940 = \mathbf{88.3\%}$$

Table V represents data for collections performed by private collection firms:

TABLE V

**Private Collection Firms
June 30,2001**

		<u>Number of Accounts</u>²	<u>Dollar Value of Accounts</u>
1	Beginning Balance	32,066	\$122,113,363
2	Additions		68,879,522
3	Collections		(2,720,223)
4	Returned		<u>(79,797,652)</u>
5	Accounts Outstanding	38,470	\$108,475,010

Dollar Collection Rate:

$$\$2,720,223 \div (\$122,113,363 + \$68,879,522) = \mathbf{1.42\%}$$

Account Turnover Rate:

$$32,066 \div 38,470 = \mathbf{83.4\%}$$

¹ Information for Oregon Judicial Department is not included in this data as system modifications were still underway. Programming has been completed and next year's report will include this information.

² Ibid.

Discussion

The *Dollar Collection Rate* and the *Account Turnover Rate* reflect the effectiveness of the collecting entity. The *Dollar Collection Rate* of **18.05%**³ shows the relative collectability of the maturing past due accounts. This rate shows how much of the balance of accounts turned over is being converted into dollars. This rate, which reflects collections by the various departments, compares favorably with the 2000 national recovery rate⁴ of **11%** attributable to professional third-party collection firms. This amount is sometimes referred to as a 1st placement rate⁵.

TABLE VI

Summary of Observations

	<i>[Actual] Turnover Rates</i>	<i>[Actual] Collection Rates</i>	<i>[National Averages] Third-Party Collection Rates</i> ⁶
All State Agencies	93.5%	18.05%	11.00%
Other Agency Accounts	88.3%	8.02%	3.25%
Private Firms	83.4%	1.42%	0.61%
State wide rating	93.1%	14.63%	

The above national average rates include the following percentages⁷:

- Average Recovery Rate – 2nd Placement 3.25%
- Average Recovery Rate – 3rd Placement 0.61%

The above numbers might be used as target ranges to frame the expectations for the OAA unit and private collection firms⁸. However, it is important to remember that the timing on account turn over may affect the rates, if the number of accounts or the dollar value of the accounts is significant.

The Account Turnover Rate shows the relative processing efficiency of the collection entity. An amount above 100% shows an entity is achieving a positive reduction in maturing inventory.

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

³ See Appendix VII for how the All State Agencies Turnover and Collection Rates were calculated.

⁴ Omaha World-Herald - March 21, 2002.

⁵ 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.

⁶ This data is from ACA International 2000 Top Collection Markets Survey. The percentages were calculated using collections dollars reported. This was to assure that the same calculation method to arrive at the average percentage rates used for the prior year's report and current year's report are consistent. For details of the analysis see appendix VI on page 27.

⁷ Ibid.

⁸ 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. 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.

Two Year Goal

The two-year goal for collection measures, with the current economic conditions, is to maintain the Dollar Collection Rate and obtain 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 conclusion of mature account transfers from already participating agencies.
- The additional new accounts entering the pipeline from agencies that were unable to complete system changes to participate in the first year.
- The age and volume of the past due accounts coupled with the learning curve associated with the implementation of the law.
- The impact of Federal and State economic stimulus packages.

All of the above factors may diminish the full influence of the original legislation on collections of past due accounts of fiscal year 2001-2002. These attributes will exert less influence over time, with the most significant stabilizing results appearing in the 2002 report.

Action Items

State agencies continue to make improvements to current systems account tracking and reporting processes to increase efficiencies in their collection functions. Agencies whose systems and processes required greater efforts are still completing work on their systems to fully facilitate reporting requirements.

Each state agency needs to:

- Track and work their accounts efficiently.
- Turn over 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:

- Assignment of accounts.
- Statewide accounts receivable management.
- Using credit bureaus.
- Automated collection software.
- Assisting the LFO in the report process and other activities.
- There has been extensive work on the Oregon Accounting Manual (OAMs) that provides agencies guidelines for receivables and collection issues.

SWARM needs to:

- Complete work on OAMs pertaining to accounts receivable collections to provide 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 to improve collection efforts, officer liability, etc.
- Continue to support e-commerce and e-government alternatives for payment and collections.

B. Account Assignment Pipeline

Observations or Findings

In Section A of this plan, we discussed the “Account Turnover Rate.” The turnover rate allows the state or agencies to monitor how well accounts are moving through the pipeline to reduce the overall inventory of past due accounts. At a more detailed level, there are two main areas of observation to consider:

Referrals to the OAA Unit increased by nearly \$35 million compared to the prior year. Table IV shows the dollar value of accounts assigned to the Department of Revenue’s Other Agency Accounts (OAA) grew by 23.4% this year as measured by **additions**. As shown in Appendix IV, this year’s dollar additions were nearly \$35 million higher than the previous year, of which \$28 million was from the Oregon Judicial Department, which reported for the first time this year. The remaining \$6.5 million represents a significant increase in accounts from agencies that reported in the prior year. This increase was expected as agencies worked to clear up old accounts and move them through the pipeline.

Table IV shows **returned accounts** increased by \$8 million from the prior year. This does not reflect accounts returned to the Oregon Judicial Department. The increase is due in part to the implementation of the Department of Revenue’s automated system. The system identified and returned older uncollected accounts for further processing in the assignment pipeline. The volume of accounts returned as uncollectible by OAA should level off in the future now that the automated system is fully operational.

Table V shows **additions** to private collection firms running at \$69 million dollars. The change from the prior year dollar additions to the current years dollar additions is \$24 million of which \$21 million is from Oregon Judicial Department accounts.

Table V shows the dollar of accounts **returned** from assignment by private collection firms is \$80 million. The accounts returned dollar amount increased \$66 million, of which \$37 million is from the Oregon Judicial Department accounts.

Discussion

The assignment provision of the law, ORS 293.231, became effective on January 1st, 2000 for most agencies. The assignment provision, ORS 1.197-1.204, for the Oregon Judicial Department took effect July 20, 2001. The Oregon Judicial Department was unable to report the number of accounts turned over to the Department of Revenue or a private collection firm due to system limitations. The department has made necessary modifications to provide this data in next year’s report.

By looking at the various categories within the Department of Revenue and the private collection firms' data, it is apparent to see that agencies are moving accounts through the process. Additions and returns are expected to remain the same or increase slightly as old accounts move through the pipeline process.

The LFO Report shows increased use of private collection firms from the prior year, as reflected by the high "additions" volume shown in Table V.

To use the current collection contract, each state agency is required to establish a written agreement⁹ with a private firm or firms¹⁰ of their choice. There are currently eight firms that have a contract with the state. State agencies acknowledge the benefits received by using private collection firms. A new collection contract is anticipated as a Request for Proposal Committee works on drafting a proposal that stresses the importance of a good working relationship, competent collection actions and incentives for private collection firms to work towards a common goal with state agencies.

Two Year Goal

The third year data (fiscal year 2002) should begin to show a leveling in the number of accounts turned over to both the OAA Unit and private collection firms. As modifications are completed on account assignment and tracking systems, state agencies will be able to move mature accounts through the appropriate collection channels more effectively. This will allow only the more active accounts to remain with each individual agency for collection.

The fourth year (fiscal year 2003) will allow the state a better comparison in determining the results of the current collection processes. The fourth year data should also show stabilization in the number of accounts returned by both OAA and private collection firms.

By the fourth year agencies will be 100% compliant with legislative requirements for timely assignment of liquidated and delinquent accounts as system changes will have been made. Also, agencies will increase automation of account assignment, payment, reporting and reconciliation.

⁹ See OAM 353040 regarding the procedures for completion of the account assignment agreement.

¹⁰ See the list of firms, contract, etc. on the Collection Contract Firm webpage at: <http://scd.das.state.or.us/AR/ARFirms.htm>

Action Items

State Agencies need to:

- Work with private collection firms to automate and improve efficiencies in the account assignment, payment, reporting 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.
- Gain a complete understanding of State and Federal laws as they apply to agencies' collection processes and actions.

SWARM needs to:

- Investigate a standardized format for use with electronic account assignment.
- Continue providing agencies with training opportunities and distributing educational information.
- Quickly respond to questions where clarification of the laws or OAM policies is required.
- Complete and refine OAMs that impact the account assignment process, taking into account changes in technologies.
- Investigate how e-commerce and e-government may be applied in this area.
- Provide assistance and guidance to state agencies on using private collection firms.
- Share best practices for collecting past due accounts that are used by different state agencies.
- Oversee the development and implementation of the Statewide Collection Contract.

C. Reporting Efficiency

Observations or Findings

This year all state agencies were required to report, unless exempt by Oregon State Statute. The table below shows the categories that an agency has to choose from when reporting.

TABLE VII Summary of Reporting Results¹¹

Agencies reporting no accounts	71	47.3%
Exempt agencies not reporting	14	9.3%
Agencies reporting accounts	<u>65</u>	<u>43.3%</u>
Total	150	100%

Discussion

The current year's LFO reporting process was improved as the result of modifications. There was a "nothing to report" button added so even agencies reporting with no past due accounts receivable could submit their replies via the web site. An updated reporting manual was available both in print and on the SWARM website¹². State agencies were offered training to review modifications and to assist staff new to the reporting process.

The Oregon Judicial Department (OJD) introduced legislation during the 2001 legislative session to be consistent with the Executive Branch reporting requirement of HB3509. The Governor signed SB70 July 1, 2001. The required modifications are made to the current automated financial systems. Most of the modifications were done prior to the October 1, 2001 reporting deadline. However, the number of accounts with the Department of Revenue or a private collection firm was not available. Modifications to the system have been completed and this data will be included in the next reporting period.

Two Year Goal

All state agencies shall report accurate and timely information pertaining to their liquidated and delinquent accounts for the LFO report required by subsection (1) of this section for each fiscal year ending June 30.¹³

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.

¹¹ LFO Report. *Report on Delinquent and Liquidated Account Receivable*, June 30, 2001. Page 3.

¹² The address for this website is: <http://scd.das.state.or.us/AR/SWARM.htm>

¹³ ORS 293.229(4)

- Offer suggestions to improve usability of the web-based data entry reporting system.
- Use collection benchmarks and performance measures for comparability to programs in other states, similar agencies, etc.

SWARM needs to:

- Provide agencies with 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.
- Provide clarification of terminology used in the LFO reporting process.

D. Interagency Receivables

Observations or Findings

The LFO Report shows a dramatic decrease in interagency delinquencies. The current amount due from interagencies is \$419,000 as of June 30, 2001. This is less than half of the nearly \$1 million balance that was shown on the prior year's LFO report. It is also interesting to note that the average value of a past due account for this report is \$1,600 versus the prior year's average value of a past due account at \$2,800 per account.

Of the \$430 million in interagency/interfund receivables shown in the CAFR, about \$419,000 is reflected in the LFO Report¹⁴ as past due. The past due portion of the total accounts receivable is less than 1%. This shows that agencies have even further improved the process of paying interagency receivables.

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. Agencies work to get their receivables caught up by year-end. Efforts need to be made to keep debts current 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. There is a multi-agency focus on developing policies and procedures that can quickly and efficiently resolve these issues.

The Interagency Receivables Committee has completed work on OAM 35.60.10. This OAM provides the general policies and procedures for interagency receivables, billing statement guidelines, payment timelines, etc.

They have also completed work on OAM 35.60.20. This OAM provides policies and procedures for interagency billing on delinquent receivables. It also provides guidelines for collection letters to the debtor agency officials.

¹⁴ LFO Report, page 7, line e1.

Two Year Goal

Over the next year, billing agencies and debtor agencies must comply with the provisions established in the OAMs. Compliance will result in continued reduction in the interagency receivables as reflected in the CAFR. Also by next year, the interagency delinquencies shown in the LFO Report should also continue to decline. Perhaps more importantly, we are expecting to hear fewer problems from agencies experiencing working capital shortages.

Action Items

State agencies need to continue reducing their interagency receivables by year-end. This is more important now that OAM policy dictates 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 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.

SWARM needs to:

- Complete and implement OAM 35.60.30. This OAM provides policies and procedures for third-party interagency dispute resolution process.

E. Communication Effectiveness

Observations or Findings

It is evident from feedback that there are some educational and training issues that still need to be addressed with respect to receivables and collection. There continue to be questions about:

- The LFO Reporting process.
- The process regarding small claims court, bankruptcy, and civil penalties.
- Confidentiality of account information.
- The account write-off process.

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

ARCC and SWARM have contributed to effective communication among agencies. The passage of HB 3509 by the 1999 Legislature accelerated the need for greater understanding, by all state agencies, of issues and processes connected with receivables and collections. Though questions remain, and we anticipate more questions will continue to arise, there is now a process in place for the questions to be discussed and answered. ARCC and the SWARM coordinator provide a much-needed resource to agency staff.

In addition to being a resource to agency staff, SWARM is also a resource to legislators, private collection firms and the public in general. SWARM aids in sharing knowledge and understanding of state agency's collection and receivable practices.

Some of the ways in which ARCC and SWARM have contributed to effective communications include:

- Twice monthly ARCC meetings – These meetings provide a forum for agency staff to discuss and share their concerns and ideas, and to develop action plans to improve the receivable and collection practices of the state.
- Legislative coordination – ARCC receives input from agency staff on legislative concepts that could benefit all state agency collection and receivable practices. Those approved by the committee are developed by the committee and then proposed and managed by DAS.
- SWARM Website – This website provides a wealth of information regarding collection and receivables. The statewide contract with private collection firms is available, as are the OAMs being reviewed and updated. The website contains the direct link for agencies to report their annual liquidated and

delinquent information. It provides a manual with instructions to assist the agencies in correctly reporting. Recently skip-tracing tips were added to the website. These are just a sampling of the information provided by the SWARM website.

- Training – ARCC provides training opportunities for agency staff in the area of receivables and collection. Before the formation of ARCC, there was no coordinated effort to provide this type of training to state agencies. Now ARCC and the SWARM coordinator gather input on outstanding issues and then seek training to address the issues.

SWARM communicates through its web pages, email contact lists, list server, the OAMs and various committee meetings. SWARM and ARCC keep agencies informed of changes to both federal¹⁵ and state¹⁶ constitutional limitations on the collection action of government. Collection actions are further restricted by federal¹⁷ and state¹⁸ 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 need to be knowledgeable in collection and accounting practices relating to the recovery of past due accounts. This knowledge must be available through:

- Training.
- Website access.
- Access to the set of statewide policies and procedures – the Oregon Accounting Manual (OAMs).
- Sharing best practices through ARCC group meetings and emails to agency personnel responsible for accounts receivable collection.
- SWARM coordinator.

Where personnel have not yet obtained the level of experience to make them fully confident, they need to be provided with 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 procedures that express and explain that authority to their staff.

¹⁵ U.S. Constitution, XIV Amendment. "...nor shall any **state** deprive any person of... property ... without due process of law..." (emphasis added)

¹⁶ Oregon Constitution, Article I Section 10.

¹⁷ The Fair Debt Collection Practices Act - 15 U.S.C. §§1692

¹⁸ Unlawful Debt Collection Practices Act, ORS 646.639 – Taxpayer Bill of Rights, ORS 305.860, ORS 305.865

- Keep SWARM informed of personnel changes of staff that deal with the account receivable collection.
- 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.
- Continue to look for ways to make the collection process more efficient.

SWARM needs to:

- Identify areas of communication deficiencies and seek further clarification. For example, 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 web pages to distribute ideas, notify agencies of training opportunities, and solicit new ideas and concepts.
- Work with the agencies to develop accounts receivable training and best practices.

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 assist agencies when responding to questions from the media or the legislature. With a copy of the form provided to the agency's legislative coordinator and public relations contact, it could 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. It offers state agencies a series of informational points to explain and promote their agency's 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" ÷ 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:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Collection Rate	X%	X%	X%	X%	X%
Turnover Rate	X%	X%	X%	X%	X%
Average Days Out-standing	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 is used to inform state agencies about receivable and collection issues, training, presentations, meetings, etc. A copy of the LFO Liquidated and Delinquent Account Report for fiscal years 2000 and 2001 are available on this site.

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

The following link is to a presentation: ***Oregon's Receivables Management*** that has been updated with Fiscal Year 2000 data. 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_Slides2000.ppt

The SWARM website maintains a special web page to display and track the progress of **proposed additions to the Oregon Accounting Manual (OAM)** regarding account receivable and collections. This web page 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 and fiscal year 2001 reports, entitled ***Report on Delinquent and Liquidated Accounts Receivable***, offer a view of the states liquidated and delinquent accounts.

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

<http://scd.das.state.or.us/AR/LFO2001.pdf>

The **Collection Contract Firms website** 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 **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.collector.com/>

The **Skip Tracing website** is a new 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://scd.das.state.or.us/AR/skiptracepage.htm>

Appendix III

This table represents a comparison of all accounts reported by state agencies, even those being worked by the Department of Revenue and private collection firms. The table is presented “without” and “with” Judicial since Oregon Judicial Department was not required to report until passage of SB 70 in July 2001:

Delinquent and Liquidated Accounts

	June 30,2000	Without Judicial June 30,2001	With Judicial June 30,2001
	<u>Dollar Value</u>	<u>Dollar Value</u>	<u>Dollar Value</u>
Beginning Balance	\$ 748,785,885	\$795,171,805	\$1,085,854,277
Additions	358,809,511	327,394,574	432,052,941
Collections	(271,883,451)	(194,232,803)	(222,141,647)
Write-Offs	(33,753,706)	(43,396,666)	(50,206,466)
Adjustments	(20,828,252)	(48,745,617)	(98,629,819)
Reversals	(605,474)	(52,395,486)	(52,395,486)
Ending Balance	\$ 780,524,513	\$783,795,807	\$1,094,533,800
	<u>Number of Accounts</u>	<u>Number of Accounts</u>	<u>Number of Accounts</u>
Beginning Balance	295,994	310,118	925,048
Additions	207,933	133,165	382,820
Accounts Closed	(192,825)	(78,388)	(222,402)
Write-Offs	(20,687)	(25,294)	(39,835)
Reversals	(234)	(51,941)	(51,941)
Ending Balance	290,181	287,660	993,690
<i>Collection Rate:</i>	24.55%	17.30%	14.63%
<i>Account Turnover Rate:</i>	102.1%	107.8%	93.1%

Appendix IV

This table represents a comparison for collections performed by the Department of Revenue's Other Agency Accounts. The table is presented "without" and "with" Judicial since Oregon Judicial Department was not required to report until passage of SB 70 in July 2001:

	Department of Revenue Other Agency Accounts		
	June 30,2000	<i>Without Judicial</i> June 30,2001	<i>With Judicial</i> June 30,2001
	<u>Dollar Value</u>	<u>Dollar Value</u>	<u>Dollar Value</u>
Beginning Balance	\$20,517,950	\$26,185,853	\$162,243,677
Additions	3,188,395	9,676,889	37,918,048
Collections	(959,951)	(1,819,527)	(16,043,455)
Returned	<u>(2,441,316)</u>	<u>(10,453,155)</u>	<u>(10,453,155)</u>
Ending Balance	\$20,305,078	\$23,590,059	\$173,665,115
	<u>Number of Accounts</u>	<u>Number of Accounts</u>	<u>Number of Accounts</u>
Beginning Balance	2,691	6,125	6,125*
Ending Balance	1,934	6,940	6,940*
<i>Dollar Collection Rate:</i>	4.05%	5.07%	8.02%
<i>Account Turnover Rate:</i>	139.1%	88.3%	88.3%*

* Information for Oregon Judicial Department is not included in this data as system modifications were still underway. Programming has been completed and next year's report will include this information.

Appendix V

This table represents a comparison for collections performed by private collection firms. The table is presented “without” and “with” Judicial since Oregon Judicial Department was not required to report until passage of SB 70 in July 2001:

Private Collection Firms			
	June 30,2000	Without Judicial June 30,2001	With Judicial June 30,2001
	<u>Dollar Value</u>	<u>Dollar Value</u>	<u>Dollar Value</u>
Beginning Balance	\$50,437,258	\$87,397,802	\$122,113,363
Additions	44,818,940	47,520,608	68,879,522
Collections	(1,739,368)	(2,478,102)	(2,720,223)
Returned	<u>(12,850,052)</u>	<u>(42,687,463)</u>	<u>(79,797,652)</u>
Ending Balance	\$80,666,778	\$89,752,671	\$108,475,010
	<u>Number of Accounts</u>	<u>Number of Accounts</u>	<u>Number of Accounts</u>
Beginning Balance	24,584	32,066	32,066*
Ending Balance	29,015	38,470	38,470*
Dollar Collection Rate:	1.83%	1.84%	1.42%
Account Turnover Rate:	84.7%	83.4%	83.4%*

* Information for Oregon Judicial Department is not included in this data as system modifications were still underway. Programming has been completed and next year’s report will include this information.

Appendix VI

ACA International

An analysis and comparison of 1999 and 2000 published recovery rates

<u>1st Placements (Note 1)</u>	<u>For the Year 1999</u>		<u>For the Year 2000</u>	
Published Recovery Rate:		n/a		11%
Bad Debt Recoveries	\$ 30,400,000,000		n/a	
Bad Debt Placements	\$ 216,000,000,000		n/a	
Calculated Recovery Rate:		14.07%		n/a
<u>2nd Placements (Note 2)</u>	<u>For the Year 1999</u>		<u>For the Year 2000</u>	
Respondents	62		35	
Average Recovery Rate		8.12%		21.90%
Median Recovery Rate		4.08%		8.54%
Average New Business	\$ 26,899,000		\$ 60,046,949	
Median New Business	\$ 3,547,000		\$ 3,396,500	
Average Gross Collection	\$ 2,185,000		\$ 1,953,787	
Median Gross Collection	\$ 145,000		\$ 170,000	
Calculated Average Recovery Rate: (Note 3)		8.12%		3.25%
Calculated Median Recovery Rate: (Note 3)		4.09%		5.01%
<u>3rd Placements (Note 2)</u>	<u>For the Year 1999</u>		<u>For the Year 2000</u>	
Respondents	23		7	
Average Recovery Rate		5.03%		2.56%
Median Recovery Rate		5.25%		1.22%
Average New Business	\$ 22,150,000		\$ 52,705,449	
Median New Business	\$ 1,047,000		\$ 8,000,000	
Average Gross Collection	\$ 1,115,000		\$ 322,540	
Median Gross Collection	\$ 55,000		\$ 100,000	
Calculated Average Recovery Rate: (Note 3)		5.03%		0.61%
Calculated Median Recovery Rate: (Note 3)		5.25%		1.25%

Note 1: "1999" data is from ACA website (1/24/01) citing numbers from the "Commercial Law League."
"2000" data is from Omaha World-Herald - March 21, 2002."

Note 2: "1999" data is from ACA, Inc. "Detailed Statistics for 37 Markets" 1999 Top Collection Markets - Page 6.
"2000" data is from ACA International "Detailed Statistics for 40 Markets" (sic) 2000 Top Collection Markets Survey - Page 8.

Note 3: Rates actually calculated from published numbers do not agree with ACA published rates.

Observe that the calculated recovery rates (note 3) do not agree with ACA's published rates. ACA was contacted about the apparent discrepancies in the 2000 data. They indicate it had to do with the way data was collected and analyzed. Only firms that provide both numerator and denominator were used in the rate calculation, though the published dollar totals include amounts from all firms submitting an amount. This is extremely visible where the 2000 2nd placement recovery rate appears to be DOUBLE the 1st placement recovery rate. This methodology, coupled with the significant reduction in the survey population, greatly reduces our confidence in the use of these ratios as benchmarks. As a result, we reviewed the data and are using the calculated rates as our benchmarks.

Appendix VII

The method used to obtain "All State Agencies" data on page 9 was done by using Table III, IV, and V data.

Calculation for "Dollar Collection Rate" for state agencies only:

Table III all accounts - Collections	\$ 222,141,647
Table IV OAA – Collections	(16,043,455)
Table V Private Collection Firms – Collections	<u>(2,720,223)</u>
State Agency Collections	\$ 203,377,969
Table III all accounts - Beginning Balance	\$1,085,854,277
Table IV OAA – Beginning Balance	(162,243,677)
Table V Private Collection Firms – Beg Bal	<u>(122,113,363)</u>
State Agency Beginning Balance	\$ 801,497,237
Table III all accounts - Additions	\$ 432,052,941
Table IV OAA – Additions	(37,918,048)
Table V Private Collection Firms – Additions	<u>(68,879,522)</u>
State Agency Additions	\$ 325,255,371

Dollar Collection Rate:

$$\$203,377,969 \div (\$801,497,237 + \$325,255,371) = \mathbf{18.05\%}$$

Calculation for "Account Turnover Rate" for state agencies only:

Table III all accounts - Beginning Balance	925,048
Table IV OAA – Beginning Balance	(6,125)
Table V Private Collection Firms – Beginning Bal	<u>(32,066)</u>
State Agency Beginning Balance	886,857
Table III all accounts - Accounts Outstanding	993,690
Table IV OAA – Accounts Outstanding	(6,940)
Table V Private Collection Firms – Accts Outstanding	<u>(38,470)</u>
State Agency Accounts Outstanding	948,280

Account Turnover Rate:

$$886,857 \div 948,280 = \mathbf{93.5\%}$$