ACCOUNTS RECEIVABLE PERFORMANCE MEASURES

Using the data to manage accounts receivable processes

DAS
DEPARTMENT OF ADMINISTRATIVE SERVICES
CHIEF FINANCIAL OFFICE

AGENDA

- The performance measure cycle
- Reviewing the data
- Identifying opportunities to improve
- ARPM data examples

A/R Collections	A/R 90 days past due
Days to Assign	Days to Collect
Write-offs as a % of Available A/R	Collection ROI
Recovery Rate	Turnover Rate

- Deciding on a course of action
- What comes next?

THE PERFORMANCE MEASURE CYCLE

- Establish a set of measurements
- Establish a target or goal to strive towards
- Monitoring and reporting performance against the targets
- Adjusting business practices when performance falls short of expectations
- Evaluate the targets, adjust based on assumption
- Monitoring and reporting performance against the targets

REVIEWING THE DATA

- The ARPMs provide agency management with data about the A/R process, and it is the responsibility of management to use that information to make decisions.
- When evaluating the A/R performance measure data, managers should ask some basic questions.
  - What assumptions were made when the targets were established?
  - What is the trend, and why?
- The data provides the outcomes of the process but management needs to also understand the how and why of the process that led to the outcomes in order to make decisions.

WHAT WERE THE ASSUMPTIONS MADE

- What factors were considered when establishing the target?
  - Legislative changes
  - Policy changes
  - Operational changes
  - Seasonal impacts
- Targets are set based on expected outcomes, does the business practice match those expectations?

WHAT IS THE TREND, AND WHY?

- Consider what factors might have impacted the data
  - Were business practices modified and how did that impact outcomes?
  - Were there economic impacts to customers ability to pay?
  - Was there a change in agency staffing (extended absence, retirement, vacant positions, newly hired employees, etc.)

IDENTIFYING OPPORTUNITIES TO IMPROVE

- What are the problem areas in the agencies processes?
  - What changes can be made to correct the problems?
- Even with positive trends, is there room for even more improvement or efficiency?
- Management should always ask the question of what more can we do to be better, faster, cheaper, smarter.
- The following examples are provided as a sample only for the purposes of showing how agency management might evaluate such information to identify whether or not to make changes to agency processes.

A/R COLLECTIONS

- For the measurement of agency collections, in this example the agency exceeded the targets in quarters 1 and 4 but was below target in quarter 2 and 3.

	A	B	C	D	E	F	G
1	**Agency:**	**107**	**Department of Administrative Services**				
2							
3	**Accounts Receivable Performance Measures (ARPM)**					**Fiscal Year:**	**2022**
4	**Required Quarterly ARPM:**					**Quarter ending:**	**June 30**
5	**105. Total receivable collections**						
6							
7	*Agencies are to complete the gray boxes, information entered will populate the summary tab.*						
8	**Description:** Agencies shall measure their total A/R collected during the quarter and the amount of those collections that are applied to L&D accounts. ***Record agency target percentages for the next quarter, once recorded do not change the percentage when submitting the next quarter report.***						
9							
10	**Measurement components**	Current	Q1 (Jul-Sep)	Q2 (Oct-Dec)	Q3 (Jan-Mar)	Q4 (Apr-Jun)	Total
11	Total agency accounts receivable (A/R) collections	$ 3,250,750	$ 3,125,000	$ 3,055,000	$ 3,450,500	$ 3,250,750	$ 12,881,250
12	Total liquidated and delinquent (L&D) collections	$ 515,750	$ 475,500	$ 450,000	$ 410,300	$ 515,750	$ 1,851,550
13	L&D collections as a % of total collections	15.9%	15.2%	14.7%	11.9%	15.9%	14.4%
14							
15	Agency target for current quarter - total A/R collections	$ 3,218,961	$ 2,910,900	$ 3,202,366	$ 3,767,738	$ 3,218,961	$ 13,099,964
16	Agency target for current quarter - total L&D collections	$ 482,844	$ 465,744	$ 512,378	$ 602,838	$ 482,844	$ 2,063,805
17							
18	*Actual A/R collections is higher (lower) than target*	*$ 31,789*	*$ 214,100*	*$ (147,366)*	*$ (317,238)*	*$ 31,789*	*$ (218,714)*
19	*Actual L&D collections is higher (lower) than target*	*$ 32,906*	*$ 9,756*	*$ (62,378)*	*$ (192,538)*	*$ 32,906*	*$ (212,255)*
20							
21	**Agency Targets for Receivable Collections**	**Q1 (Jul-Sept)**	**Q2 (Oct-Dec)**	**Q3 (Jan-Mar)**	**Q4 (Apr-Jun)**	**Next FY - Q1 (Jul-Sep)**	
22							
23	Agency target Collection % - total A/R collections	62.6%	62.6%	62.6%	60.0%		
24	Agency target Collection % - total L&D collections	16.0%	16.0%	16.0%	15.0%		
25							

A/R COLLECTIONS

- Some questions that might be asked are:
- Did the established overstate the seasonal impact by expecting more collections during the period of Oct-Mar and should these quarters in the next fiscal year target be slightly adjusted?
- Are there resource constraints during the period of higher activity that impacted the expected activity?

5	**105. Total receivable collections**						
6							
7	*Agencies are to complete the gray boxes, information entered will populate the summary tab.*						
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25							

A/R 90 DAYS PAST DUE

- The period of Oct-Mar had the highest A/R outstanding, however the number of accounts 90 days past due went up at a faster rate (as seen by the higher % of A/R over 90 days). This might be an indication of a possible resource issue during the peak season where staff are not able to follow up on past due accounts, causing more to become over 90 days past due.

5	**106. Receivables over 90 days past due as a % of total accounts receivable (A/R)**							
6	*Agencies are to complete the gray boxes, information entered will populate the summary tab.*							
7	**Description:** At the end of each calendar quarter, agencies shall determine the number and dollar value of accounts outstanding and the number and dollar value of those which are delinquent more than 90 days. ***Record agency targets for the next quarter, once recorded do not change the percentage when submitting the next quarter report.***							
8								
9	**Measurement components**	Current		Q1 (Jul-Sep)	Q2 (Oct-Dec)	Q3 (Jan-Mar)	Q4 (Apr-Jun)	
10	$ Value of new A/R established during the quarter	$ 2,500,000	[redacted]	$ 2,650,000	$ 3,000,000	$ 2,750,000	$ 2,500,000	
11								
12	**End of Quarter Accounts Outstanding:**							
13	***Quantity of accounts***							
14	Total number of A/R accounts outstanding	1,985	[redacted]	1,876	2,463	2,168	1,985	
15	Total number of A/R accounts over 90 days past due	268		178	414	368	268	
16	A/R over 90 days past due as a % of total A/R	13.5%		9.5%	16.8%	17.0%	13.5%	
17								
18	*Actual % of A/R over 90 days past due is lower (higher) than target:*	*0.5%*		*4.5%*	*-2.8%*	*-3.0%*	*0.5%*	
19								
20	***Value of accounts***		**Prior FY Q4**					
21	Total $ value of A/R outstanding	$ 2,435,915	2,000,000	2,115,600	$ 3,268,750	$ 2,864,935	$ 2,435,915	
22	Total $ value of A/R over 90 days past due	$ 317,245	$ 500,000	$ 265,000	$ 512,563	$ 459,732	$ 317,245	
23	A/R over 90 days past due as a % of total A/R	13.0%	25.0%	12.5%	15.7%	16.0%	13.0%	
24								
25	*Actual % of A/R over 90 days past due is lower (higher) than target:*	*1.0%*	[redacted]	*1.5%*	*-1.7%*	*-2.0%*	*1.0%*	
26								
27	**Agency Targets for 90 Days Past Due**	**Current**	**Q1 (Jul-Sept)**	**Q2 (Oct-Dec)**	**Q3 (Jan-Mar)**	**Q4 (Apr-Jun)**	**Next FY - Q1 (Jul-Sep)**	
28	Agency target: % of A/R over 90 days past due (quantity of accounts)	14.0%	14.0%	14.0%	14.0%	14.0%		
29	Agency target: % of A/R over 90 days past due (value of accounts)	14.0%	14.0%	14.0%	14.0%	14.0%		

A/R 90 DAYS PAST DUE

- When this measure is evaluated in combination with the agency collections, it is identified that collections occurring below expected amounts happened at the same time that a higher percentage of outstanding accounts were more than 90 days past due.
- How might a shift in resources allow for staff to maintain the billing for the peak activity while still performing follow up on accounts that become past due? Or, if a business practice was established to use technology to send automatic “statements” or past due notices without requiring staff time, how might that reduce the accounts over 90 days past due without requiring staffing changes during the peak season and improve collections throughout the year?
- Would either of these changes result in an outcome that supports the goal to increase collection of accounts receivable?

DAYS TO ASSIGN

- In this example, the agency should evaluate why some accounts are assigned later than others and the causes of the delay. If the delay is due to staff resources (vacations, medical leave, vacancies), is there an opportunity to cross train additional staff to ensure timely assignment and account follow up is performed even if specific staff are out on leave?

5	**107. Days to assign**							
6	*Agencies are to complete the gray boxes, information entered will populate the summary tab.*							
7	**Description:** Agencies shall measure the number of days from the Mandatory Collection Agency Transfer (MCAT) eligibility date, as defined in OAM 35.40.10, to the date of assignment to the Department of Revenue Other Agency Accounts (DOR-OAA) or to a private collection firm (PCF). Agencies shall report the number of accounts that were assigned in less than 30 days, 31-60 days, 61-90 days, 91-180 days, 181-365 days, and over 1 year. The assignment requirements of ORS 293.231 and OAM 35.40.10 dictate the mandatory timeline for when an account is subject to assignment.							
8								
9	**Measurement components**	**0-30 days**	**31-60 days**	**61-90 days**	**91-180 days**	**181-365 days**	**Over 1 year**	**Total**
10	Number of accounts assigned	12	49	54	23	11	3	152
11	% of accounts assigned	7.9%	32.2%	35.5%	15.1%	7.2%	2.0%	100.0%
12								
13	Agency target current fiscal year - % of accounts assigned	15.0%	30.0%	40.0%	10.0%	5.0%	0.0%	100.0%
14								
15	Difference between actual and target	-7.1%	2.2%	-4.5%	5.1%	2.2%	2.0%	0.0%
16								
17	Agency target for next fiscal year - % of accounts assigned							0.0%
18								

DAYS TO COLLECT

- In this example, almost 46% of all invoices are paid before the due date (assuming a due date of 30 days), and an additional 20% is paid within 30 days after the due date. While this appears to be a reasonably good indication that most customers pay on time or shortly after, almost 1/3 of all accounts are paid in full after the due date.

108. Days to collect

Agencies are to complete the gray boxes, information entered will populate the summary tab.

Description: Agencies shall measure the total number of days required to collect an A/R in full. Agencies shall report the number and percentage of accounts paid in full in less than 30 days, 31-60 days, 61-90 days, 91-180 days, 181-365 days, 1-3 years and over 3 years.

Measurement components	0-30 days	31-60 days	61-90 days	91-180 days	181-365 days	1 year - 3 years	Over 3 years	Total
Number of accounts paid in full	1,386	620	531	287	126	52	18	3,020
% of accounts paid in full	45.9%	20.5%	17.6%	9.5%	4.2%	1.7%	0.6%	100.0%
Agency target for current fiscal year - % of accounts paid in full	65.0%	20.0%	9.0%	3.0%	1.5%	1.0%	0.5%	100.0%
Difference between actual and target	-19.1%	0.5%	8.6%	6.5%	2.7%	0.7%	0.1%	0.0%
Agency target for next fiscal year - % of accounts paid in full								0.0%

DAYS TO COLLECT

- Agency management should evaluate the agency practices for collecting when invoices are not paid by the due date.
- If no follow up is occurring within 30 days of the due date, how might a statement mailed within a few days of the due date provide a reminder to customers of their outstanding amount due and increase the accounts paid within the 31-60 category?

WRITE-OFF AS A % OF AVAILABLE A/R

- Management should consider the historical trend of agency write-offs
  - Is there a general increase or decrease or does it appear to be more random?
  - If the amount of write-offs is increasing every year, using the % of available A/R helps identify if the increase is truly proportional to the increased volume of accounts.
- While most agencies will typically have some percentage of accounts that are just unable to be collected for a variety of reasons, this measure should prompt management to ask questions about the types of accounts being written-off and how the agency can minimize them through better billing practices, changing to a cash transaction business model if allowed, or investigating other tools which might provide the agency with a more effective collection mechanism, such as a bond, or a consensual lien or a personal guaranty if available and applicable to the circumstances of the debt.

WRITE-OFF AS A % OF AVAILABLE A/R

	A	B	C	D	E	F
1	**Agency:**	**107**	**Department of Administrative Services**			
2						
3	**Accounts Receivable Performance Measures (ARPM)**			**Fiscal Year:**		**2022**
4	**Required Annual ARPM:**					
5	**109. Write-offs as a % of available accounts receivable (A/R)**					
6	*Agencies are to complete the gray boxes, information entered will populate the summary tab.*					
7	**Description:** Agencies shall measure the percentage of available accounts that were written off during a period of time against the total available A/R (beginning balance plus new A/R established) during the same period. Agencies should only include write-offs where the debt is still legally enforceable. Do not include accounts that were discharged in bankruptcy, abated (compromised, settled or otherwise determined not to be owed), or that were cancelled under specific agency authority to cancel debts.					
8						
9	**Measurement components**					**Current**
10	Total $ value of write-offs during fiscal year					$ 176,528
11	Total $ value of A/R at the beginning of fiscal year (beginning balance)					$ 2,000,000
12	Total $ value of A/R established during fiscal year (additions)					$ 10,900,000
13	Write-offs as a % of total available A/R					1.4%
14						
15	Agency target for current fiscal year - write-offs as a % of total available A/R					0.50%
16						
17	Difference between actual and target:					0.9%
18						
19	Agency target for next fiscal year - write-offs as a % of total available A/R					
20						

COLLECTION RETURN ON INVESTMENT (ROI)

- This measurement provides total A/R collections compared to the overall costs of the accounts receivable function. The closer the expenses are to the revenue collected from A/R, the less efficient the process is.
- To better understand why, management might consider:
  - The number of staff dedicated to A/R activities compared to the volume of receivables generated.
  - If the A/R process if extremely manual or the amount of receivables generated is small balances per transaction, how might the agency process receivables more efficiently?
  - If there is high volume of transactions, could a technology solution provide a more efficient way to generate the receivables? Instead of invoicing for low dollars, can the agency collect cash at the time of the transaction?
- The expenses identified in this measure should also be a consideration when reviewing the measure for accounts over 90 days past due. The more accounts require follow up because they pay late, will increase the cost of collecting those accounts.
  - Agency management might consider what is a reason for why customers are not paying on time and how to implement changes that will reduce the volume of accounts that require the follow up work to reduce costs.

COLLECTION RETURN ON INVESTMENT (ROI)

111. Agency Collection Return on Investment (ROI)

Agencies are to complete the gray boxes, information entered will populate the summary tab.

Description: Agencies shall measure the amount of revenue received compared to the costs of their collection efforts to determine the collections ROI. The measurement is required for agencies that receive a DAS exemption from the assignment requirements of OAM 35.40.10; however, the measurement is recommended for all agencies.

Total agency collections				$	12,881,250
Department Costs:					
	Wages			$	205,364
	Other Payroll Expenses			$	85,463
	Training			$	3,000
	Facilities costs				
	Total department costs			$	293,827
Facilities Description:					
DOR-OAA/PCF Fees				$	90,348
Legal Fees				$	1,200
Legal Fees Description:					

Collection ROI formula = total A/R collections / (department costs + collection fees + legal fees)

Collection ROI=			$ 12,881,250			
	$ 293,827	+	$ 90,348	+	$ 1,200	
	Department Costs		*Collection Fees*		*Legal Fees*	
Collection ROI=			$ 33.43			
Agency target for <u>current</u> fiscal year - collection ROI			$ 30.00			
Difference between actual and target:			$3.43			
Agency target for <u>next</u> fiscal year - collection ROI			$ 35.00			

RECOVERY RATE

- The recovery rate shows what percentage of all receivables available to be collected over the reporting period were actually collected.
- While the goal is to collect ALL amounts due to an agency, reality usually means that won't be possible all the time. Management should try to understand what caused the recovery rate to increase or decrease from prior years and why the rate was above or below the target expected.
- If the rate is higher than expected, was it because we collected more than what we anticipated? (look at the collections measurement).
- If we collected what we anticipated was the amount of receivables established during the year higher or lower than expected and why? If fewer receivables were established the recovery rate would be higher than the target, and conversely if more receivables were generated but collections stayed the same then the rate would be lower than the target.
- What was the impact on agency resources based on an increase in receivables established? Did staff have less time to follow up on delinquent accounts because of the additional volume?

RECOVERY RATE

	A	B	C	D	E
1	**Agency:**	**107**	**Department of Administrative Services**		
2					
3	**Accounts Receivable Performance Measures (ARPM)**		**Fiscal Year:**	**2022**	
4	**Recommended Annual ARPM:**				
5	**113. Recovery Rate**				
6	*Agencies are to complete the gray boxes, information entered will populate the summary tab.*				
7	**Description:** A collection recovery rate measures the amount collected over a period of time divided by the total receivables worked for a period of time.				
8					
9	**Measurement components**	**All agency receivables**		**Liquidated and delinquent accounts**	
10	Total collections during fiscal year	$ 12,881,250		$ 1,851,550	
11	Total receivable balance at beginning of fiscal year	$ 2,015,365		$ 259,436	
12	Total receivables established during fiscal year	$ 13,250,000		$ 3,058,495	
13	Recovery rate	84.38%		55.80%	
14					
15	Agency target for <u>current</u> fiscal year - recovery rate (%)	85.00%		50.00%	
16					
17	Difference between actual and target:	-0.62%		5.80%	
18					
19	Agency target for <u>next</u> fiscal year - recovery rate (%)				
20					

TURNOVER RATE

- The turnover rate provides a very high-level indication if there are more or less accounts at the end of a fiscal year than at the beginning. This measurement should be evaluated in combination with the measurement for 90 days past due.
- There are considerations of why there could be more accounts at the end of the year, one reason might be that invoices were sent later in June this year which resulted in less time for customers to pay before the end of the month (fiscal year).
- However, if the accounts over 90 days has significantly increased over time AND the turnover rate shows more accounts at the end of the year should prompt management to look for additional impacts on the process such as a new legislative mandate on the agency that has altered the expected outcomes.

TURNOVER RATE

Agency: 107 Department of Administrative Services

Accounts Receivable Performance Measures (ARPM)

Recommended Annual ARPM:

114. Account Turnover Rate (ATR) — **Fiscal Year: 2022**

Description: The ATR is a calculation that indicates how well accounts are moving through the account assignment pipeline. An ATR of over 100% means that there are fewer accounts at the end of the year than at the beginning. The ATR should be evaluated for all agency accounts as well as accounts placed with Department of Revenue Other Agency Accounts or a private collection firm.

Measurement components	Number of accounts
Agency Total	
Total number of accounts at the beginning of the fiscal year	1,920
Total number of accounts at the end of the fiscal year	1,985
Account turnover rate	96.73%
Agency target for current fiscal year - account turnover rate (%)	98.00%
Difference between actual and target:	-1.27%
Agency target for next fiscal year - account turnover rate (%)	
Assigned to Department of Revenue	
Total number of accounts assigned at the beginning of the fiscal year	112
Total number of accounts at the end of the fiscal year	169
Account turnover rate	66.27%
Agency target for current fiscal year - account turnover rate (%)	75.00%
Difference between actual and target:	-8.73%

DECIDING ON A COURSE OF ACTION

- Evaluate all of the ARPM data to determine if a change should be made to agency processes.
  - What are the costs of implementing the change compared to the anticipated increase in collections or compliance?
  - Can a change make staff more efficient?
  - Does a change provide customers better service (timely billing, choices in how to pay, prompt follow up)
- Based on all the information gathered, management may determine to make a process change to improve process efficiency or customer service or may decide to continue with existing processes but strive for improvements through the established targets for future reporting periods.

WHAT COMES NEXT?

- Continued monitoring and reporting of ARPM data will provide agencies information to show if any changes implemented resulted in the desired outcome.
- The cycle continues with the evaluation of future ARPM reports and analyzing to see if any changes implemented resulted in the desired outcome. This ongoing effort provides for continual process improvement.
- Agency managers may determine a need to track additional measurements or compare the outcomes of other agency measures in combination with the ARPMs to institute improvements over the entire lifecycle of an agency's activities.

QUESTIONS?

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