DAS
DEPARTMENT OF ADMINISTRATIVE SERVICES
CHIEF FINANCIAL OFFICE

STATEWIDE ACCOUNTS RECEIVABLE MANAGEMENT REPORT

FISCAL YEAR ENDING JUNE 30, 2017

STATE OF OREGON
THE UNION
1859

Oregon
Kate Brown, Governor

Department of Administrative Services
Chief Financial Office
155 Cottage Street NE
Salem, OR 97301
PHONE: 503-378-3106
FAX: 503-373-7643

Dec. 26, 2017

To the members of the Oregon Legislative Assembly,

Enclosed is the Statewide Accounts Receivable Management Report as required by Oregon Revised Statute 293.252(1)(e). The report identifies important issues and significant trends in state agency debt collection practices and describes efforts by state agencies to improve the collection of liquidated and delinquent debt.

The report references liquidated and delinquent account activity reported by state agencies to the Legislative Fiscal Office for the fiscal year ending June 30, 2017.

This is the second report issued under the statute mentioned above.

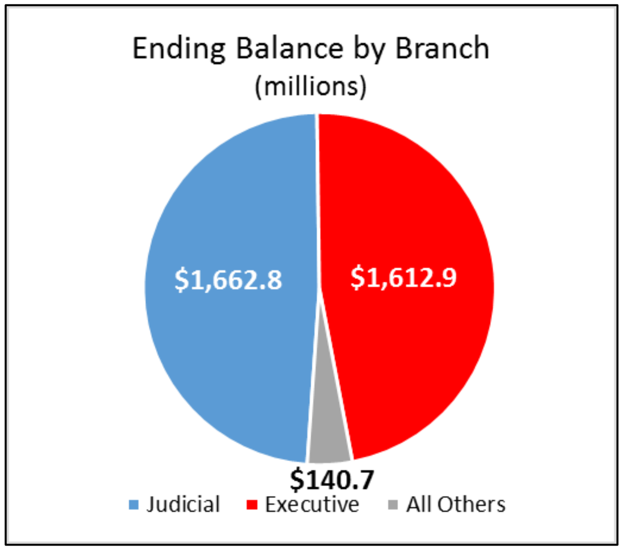
Sincerely,

George Naughton
Chief Financial Officer

Executive Summary

Liquidated and delinquent accounts, also referred to as bad debts, exist in any private or public organization. According to data reported in the 2016 Comprehensive Annual Financial Report net receivables represented 13.5% of overall state revenues; which is second lowest of the seven western states.

The ending balance of liquidated and delinquent accounts in fiscal year 2017 was $3.4 billion. The Judicial Branch represented 48.7% of the ending balance, Executive Branch represented 47.2% and all other reporting agencies represented 4.1%.



Of the $1.6 billion ending balance reported by the Executive Branch, 94.1% was associated with five agencies: Department of Revenue; Department of Justice; Oregon Employment Department; Department of Consumer and Business Services; and Public Employees Retirement System.

Thirty-four Executive Branch agencies increased liquidated and delinquent account collections by $40.3 million compared to fiscal year 2016; however, overall total collections decreased by $28.6 million (5.6%). Department of Revenue reported the largest decrease in collections due to fiscal year 2016 data reporting errors which substantially overstated collections for that year.

State agency receivables include a diverse representation of legally enforceable claims for payment ranging from benefit overpayments to court ordered restitution. In addition, state agency debtors range across the socio-economic spectrum and include both individuals and businesses, depending upon the type of the debt.

Several challenges impact the ability of state agencies to effectively collect liquidated and delinquent debts. Those challenges are data availability, standardized processes, resources and systems. A centralized model for state debt collection would reduce most of these challenges through the standardization of processes and the use of centralized resources and systems. The passage of Senate Bill 1067 (2017) will enable debt centralization to be implemented in Oregon. With guidance provided by the Statewide Accounts Receivable Management team, efforts continue to streamline agency collection processes and leverage external resources available to increase collections and reduce liquidated and delinquent account balances.

Beginning with fiscal year 2018, statewide efforts to improve liquidated and delinquent account collections will be boosted as a result of 2017 legislative actions to centralize debt collections, reduction of payments to vendors that owe state debts, and agency accounts receivable performance measures reporting to the Department of Administrative Services.

This report is organized in the following manner: the background of Oregon's collection processes (pages 1-11); an analysis of data trends and significant changes (pages 11-22); and highlights describing Executive Branch agency efforts to improve collections (pages 22-30).

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Background

As required by Oregon Revised Statute (ORS) 293.252, the Department of Administrative Services (DAS) hereby submits the annual Statewide Accounts Receivable Management report to the Legislative Assembly in conjunction with the Legislative Fiscal Office's (LFO) Report on Liquidated and Delinquent Accounts Receivable.[1] The Statewide Accounts Receivable Management Report identifies important issues and significant trends in Executive Branch agency debt collection practices and describes efforts by those agencies to improve the collection of delinquent debt.

The receivables data referenced in this report represents liquidated and delinquent accounts as of June 30, 2017, as reported by state agencies to LFO. The accounts include debts between state agencies and an individual or entity in which the debt was not paid by the due date and the debtor was notified of the debt and given an opportunity to dispute the debt.

For reference purposes, terms that are **bold** in this report are defined in the Glossary of Terms (Appendix A).

How the State Collects Debt

The statutory requirements pertaining to collecting **liquidated** and **delinquent** debt are documented in two chapters of the ORS based upon the applicable branch of **state government**. The collection and assignment provisions of ORS Chapter 1 apply to agencies within the Judicial Branch and the provisions of ORS Chapter 293 apply to agencies within the Administrative or Executive Branch.[2] Statewide policies and procedures pertaining to accounts receivable management are documented in Oregon Accounting Manual (OAM) Chapter 35 and are applicable to Administrative or Executive Branch agencies subject to report financial activity in the Comprehensive Annual Financial Report.[3]

Executive Branch Agencies

Agencies have an obligation to bill for goods provided, or services rendered, in a timely manner. When an account is not paid by the original date it becomes delinquent. The state agency is then responsible for conducting preliminary collection activities. These activities include contacting the debtor by phone or sending a series of escalating letters to notify the debtor of the amount of the debt and to request payment. The letters also serve to notify the debtor of: procedures and deadlines to dispute the debt; interest costs; possible account assignment to the Department of Revenue Other Agency Accounts (DOR-OAA) unit or a private collection firm (PCF); and the additional collection costs associated with assigning the account. Letters are a common method used to liquidate an account. However, accounts may also become liquidated as the result of: a court or administrative order; written agreement between the state agency and the debtor; or by the debtor acknowledging the debt.[4]

[1] ORS 293.252(1)(e)
[2] ORS 1.194-1.202 documents the collection of court account requirements; including, but not limited to, account assignment provisions. ORS 293.231 documents the account assignment requirements for administrative or Executive Branch agencies subject to ORS Chapter 293. Agencies required to report liquidated and delinquent accounts annually to LFO identified in ORS 293.229(4) are exempt from the assignment provisions of ORS 293.231.
[3] OAM 01.05.00 documents the scope and applicability of the OAM.
[4] OAM 35.30.30 documents the definition of liquidated and delinquent accounts.

Once accounts move into a collection phase, agencies must follow a complex process based on federal and state requirements for due process. State agencies' internal processes involve phone calls, sending letters and administrative proceedings when a debtor disputes a debt (Fig. 1).

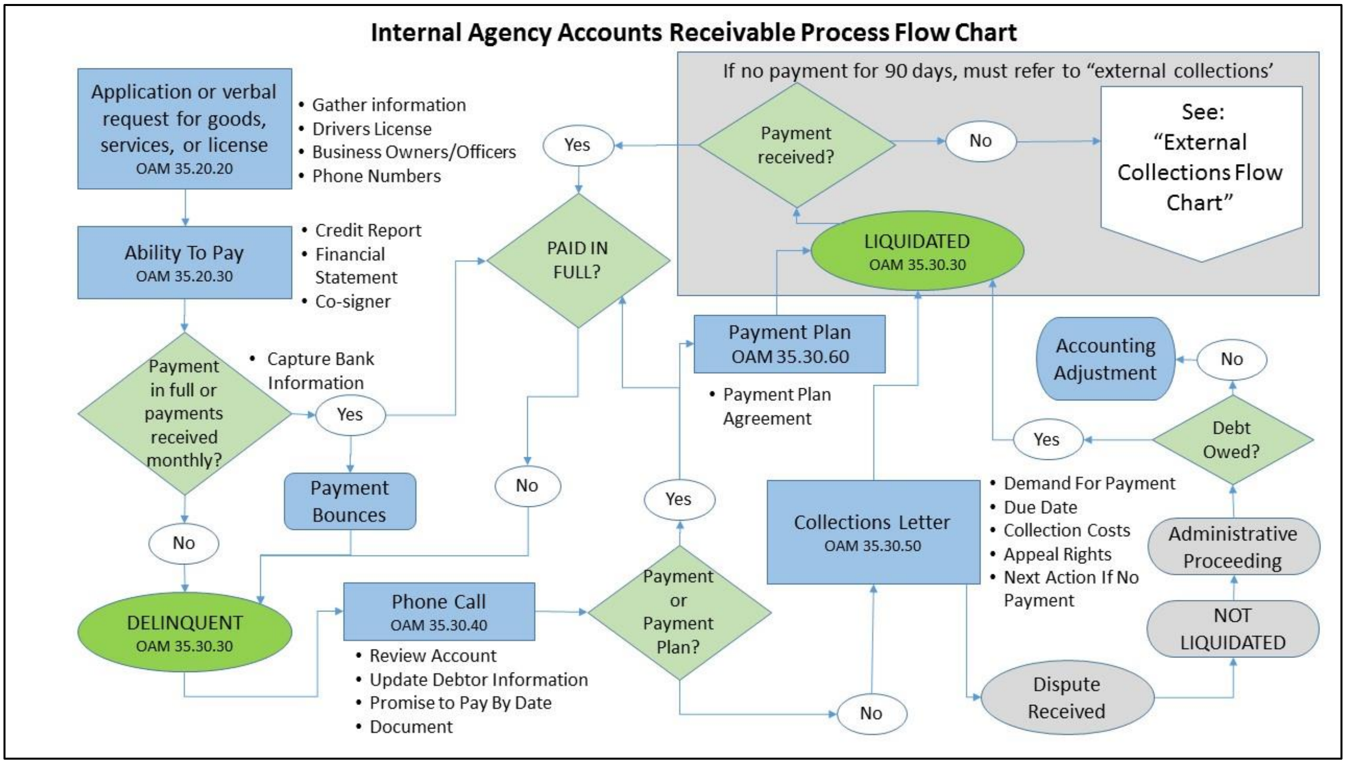


Figure 1.[5]

Once agencies have performed internal collection process and are unsuccessful in recovery, ORS 293.231 requires the agency to use external sources to assist with ongoing efforts to collect the debt. Once an account meets the definition of liquidated and delinquent, Administrative or Executive Branch agencies must assign it to DOR-OAA or a PCF not later than 90 days from the date the account was liquidated (if no payment was received on the account within the 90-day period) or 90 days from the date of receipt of the most recent payment on the account.[6]

Not all liquidated and delinquent accounts are subject to the assignment provisions outlined above; rather, ORS 293.231 and OAM 35.40.10 provide exemptions that may be applied at the discretion of the agency.[7] Examples of assignment exemptions include, but are not limited to, accounts that are: secured by a consensual security interest; valued at less than $100 including penalties; owed by an estate in which the agency received notice the estate closed; or owed by a debtor hospitalized in a state hospital.

The process of reviewing accounts and assigning to external collections is a process that involves many steps and can take multiple years before resulting in a collection or determination of un-collectability (Fig. 2).

[5] Refer to Appendix B for a full page view.
[6] ORS Chapter 293.231(1)
[7] ORS Chapter 293.231(9), OAM 35.40.10

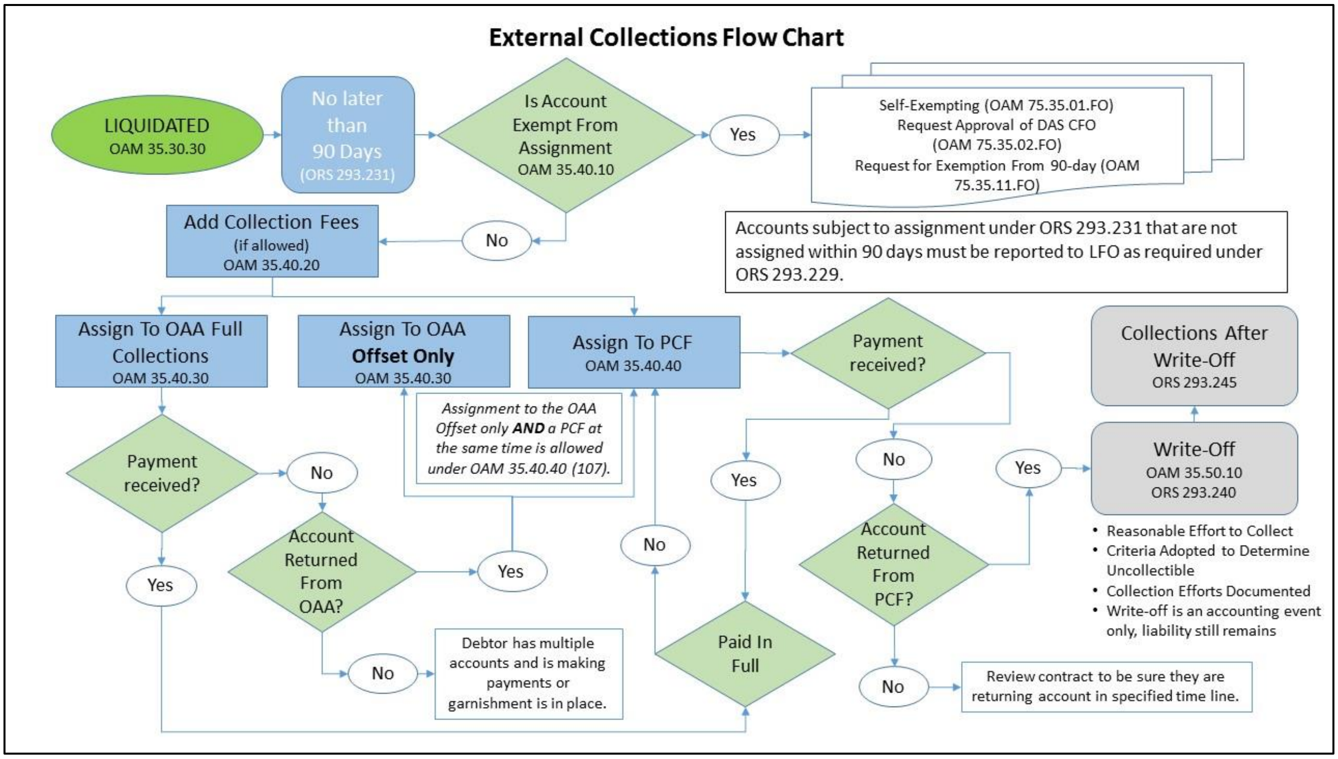


Figure 2.[8]

Liquidated and delinquent accounts assigned to DOR-OAA per ORS 293.231(1) may remain in full collection status for six months from the date of assignment or from the date of the last payment applied to the account.[9] Per statute, after six months have lapsed without a payment on the account, DOR-OAA must notify and return the account to the originating agency. Upon receipt of the returned account, the agency must immediately offer to assign the account to a PCF for additional collection services.[10] DAS maintains a statewide price agreement with multiple PCF vendors for state agencies to choose from.

Following the completion of collection activities at a PCF, the account is returned to the originating agency. The agency evaluates the account to determine if the account is uncollectible and eligible for **write-off** as per the Attorney General-approved criteria documented in OAM 35.50.10.[11] Though the account may be removed from the agency's accounting records, the liability of the debt remains and the agency may pursue collection activities at a later date should the account subsequently become collectible due to a change in the debtor's circumstances (e.g. debtor becomes employed).

Judicial Branch Agencies

Per ORS 1.197(1), agencies within the Judicial Branch of state government shall offer to assign liquidated and delinquent accounts not later than one year from the date the account was liquidated (if no payment was received on the account within that year) or one year from the date of receipt of the most recent payment on the account.[12]

[8] Refer to Appendix B for a full page view.
[9] ORS 293.231(4). DOR-OAA has a DAS-approved exemption to extend the collection time period from six months to one year.
[10] ORS 293.231(4)
[11] OAM 35.50.10
[12] ORS 1.197(1)

Furthermore, DOR-OAA has one year to collect on liquidated and delinquent accounts assigned by agencies of the Judicial Branch. If DOR-OAA does not collect a payment on the account within one year, or if one year has lapsed since the date of receipt of the most recent payment on the account, DOR-OAA must notify and return the account to the respective Judicial Branch agency who must then immediately offer to assign the account to a PCF.[13] The Oregon Judicial Department maintains an agreement with multiple vendors on behalf of Judicial Branch agencies.

Some Judicial Branch liquidated and delinquent accounts may be exempt from the one year assignment provisions referenced above. As provided in ORS 1.199, the State Court Administrator may establish policies and procedures for exempting accounts in addition to the exemptions referenced in ORS 1.198.[14] Agencies of the Judicial Branch of state government are not subject to the statewide policies and procedures referenced in the OAM.

Collection Issues and Challenges

State agencies face several challenges impacting collection processes. In an effort to better understand these challenges, and to identify solutions for overcoming these challenges, one must analyze the type of challenges that exist: data availability; systems; standardization; and resources.

Data Availability

Data availability is an integral component to achieving successful collections of liquidated and delinquent debt. Accurate, complete, and current data increases the collectability of any debt; however, the availability of the desired data varies depending upon the nature of the debt and the debtor. In the case of issuing a civil penalty to an individual for unlicensed practice, the individual may be operating under an alias or false identity; this impacts the ability of the agency to successfully collect the debt.

State agencies that provide goods or services are encouraged to obtain as much customer data as possible prior to providing the goods or services in the event the account becomes liquidated and delinquent. Since the process associated with obtaining additional data may create added resource burdens, state agencies must evaluate the cost associated with collecting more data on the front end compared to the likelihood of collection activity. State agencies that accept checks as a form of payment also accept the risk that the check may be returned for non-sufficient funds. In these cases, the state agency may only have data available from the face of the check; which could be stolen, fraudulent or outdated.

Systems

Systems, much like data, are an integral component to enable state agencies to successfully collect liquidated and delinquent debt through the efficient and effective tracking of debts. Over 70% of state agencies use a Microsoft Excel spreadsheet to track and report accounts receivable while the remaining agencies use legacy or mainframe applications or third party software applications. Due to the complex nature of collection activities, an Excel spreadsheet is not an ideal mechanism for effectively and efficiently managing accounts receivable transactions.

[13] ORS 1.197(5)
[14] ORS 1.198(2), ORS 1.199(1)

Even robust systems, such as the Statewide Financial Management Application (SFMA), have limitations which require state agencies to maintain subsidiary systems to track the details associated with liquidated and delinquent accounts. For example, to comply with the statutory assignment provisions, agencies must track the date an account became delinquent as well as the date the account became liquidated. State agencies may use an aging report generated with data entered into SFMA to establish account delinquency; however, data associated with the date of liquidation is not available in SFMA. As a result, agency accounts receivable professionals must track the data points separately.

GenTax, the system purchased by DOR for tax administration, has many benefits to assist DOR with collecting tax and non-tax debts; however, since the system's primary function is tax administration, the collection functionality needed for DOR-OAA to provide information to client agencies is limited. Though GenTax includes improved collection functionality not previously available, the reporting limitations create challenges for DOR-OAA client agencies by requiring them to rely upon other, more manual, processes to effectively manage and reconcile accounts assigned for collections to DOR-OAA. As the state considers options to further enhance debt collections, investments are necessary to either augment GenTax or acquire a portfolio management system.

Standardization

Standardizing processes is a challenge that some state agencies face when collecting liquidated and delinquent debt. Though agencies have the authority to establish internal processes to ensure compliance with applicable federal and state requirements, the diverse nature of business units limit the ability to create standardized processes within the agency. Diverse business units result in diverse types of debt with varying levels of requirements resulting in unique processes for each business unit or type of debt. This challenge makes it difficult for state agencies to efficiently standardize collection processes; an important factor when limited resources are available to conduct effective and efficient collection activities. Even though state agencies may have similar regulatory functions and authorities such as civil penalties, numerous issues within each agency may result in varying methods of implementing those same authorities.

Resources

Resource challenges affecting state agencies include not only the number of staff available to perform collection duties but also the training and expertise of the available staff. Often, collection work in state agencies is completed by accountants responsible for accounts receivable billing. Though this may seem like a natural fit, collection work and accounting work are different functions and require different skillsets. In addition, the primary purpose of an accounts receivable accountant is to bill for goods or services provided and to record the applicable accounting entries in the general ledger. A debt collector requires a specific set of skills that include: research methods to locate debtors and collectible assets; negotiation methods; and enforcement processes, such as garnishment and lien recording. The skills required for debt collection are not commonly listed in job requirements for accounting positions. Many state agencies indicated the priority is to bill for goods or services provided while collection activities are often conducted as time allows and as staff are available.

When an agency determines the percentage of accounts that become liquidated and delinquent are immaterial compared to the percentage of accounts that are paid timely, it is not surprising that agencies prioritize the work accordingly. Not only are resource challenges the result of limited staff, but so is staff expertise. Collection activities contain many complexities which make it difficult to effectively perform when only a portion of an employee's position is allocated to infrequently performing such tasks.

Collection staff need to be well versed in applicable federal and state regulations to ensure due process is available to the debtor and that the appropriate notifications are made prior to escalating collection efforts. The debtor must be notified of potential consequences for failing to pay, such as: penalties; interest; garnishment; assignment of the account to DOR-OAA or a PCF; and the affiliated collection costs. Due process also provides many opportunities for the debtor to dispute or appeal the debt. Failure to provide proper notification to the debtor could result in the agency being legally liable for damages or penalties.

Statewide Accounts Receivable Management

ORS 293.252 directs DAS to monitor state agency debt collection functions and assist state agencies in efforts to improve the collection of delinquent debts.[15] To meet the statutory requirements, DAS created the Statewide Accounts Receivable Management (SWARM) team to provide training on processing and managing accounts receivable; offer technical assistance in resolving accounts receivable challenges; and develop performance standards for state debt collection. In an effort to improve the collection of delinquent debts and foster improved agency communication, SWARM developed the Accounts Receivable Core Committee (ARCC).

Accounts Receivable Core Committee

The ARCC is comprised of accounts receivable representatives from state agencies who meet monthly to discuss current collection practices and assist SWARM in developing strategies to improve statewide accounts receivable management. The ARCC also serves as a forum for state agency accounts receivable professionals to collaborate with peers from other state agencies and to discuss successful collection strategies, lessons learned and best practices.

To assist in meeting the objectives of the ARCC, four subcommittees were established to address specific statewide accounts receivable management topics: communication; performance metrics; policy review and development; and tools and process improvements.

Communication Subcommittee

The role of the Communication Subcommittee is to improve communication between state agencies, debtors and debt collection stakeholders. The method and content of accounts receivable-related messages are evaluated for effectiveness and efficiency. Subcommittee members identify existing communication methods and assist SWARM in developing enhancements to communication methods to ensure collection expectations, requirements and regulations are clearly communicated to stakeholders.

Performance Metrics Subcommittee

The goal of the Performance Metrics Subcommittee is to assist SWARM in the identification of performance metrics to measure statewide accounts receivable management efforts. While some agencies have existing internal metrics for measuring accounts receivable management performance, other agencies have limited data available to measure performance.

[15] ORS 293.252

Subcommittee members provide SWARM with feedback regarding available data and resources to enable SWARM to successfully establish and implement effective statewide performance metrics.

Policy Development and Review Subcommittee

The objective of the Policy Development and Review Subcommittee is to review existing accounts receivable policies, reflected in OAM Chapter 35, and to assist SWARM in developing new statewide accounts receivable policies based on administrative or legislative changes. Subcommittee members provide feedback to SWARM regarding the language and application of the policies as reference for modifying and clarifying the policies.

Tools and Process Improvement Subcommittee

The purpose of the Tools and Process Improvement Subcommittee is to identify best practices and effective collection tools available to state agencies for accounts receivable management. Subcommittee members assist SWARM with evaluating available collection tools and collection processes for the purpose of sharing those resources with state agency accounts receivable professionals.

The ARCC and its subcommittees include a diverse membership from large agencies, small agencies, semi-independent agencies, the Oregon Judicial Department, PCFs, and DOR-OAA. The work of the ARCC and its subcommittees are valuable components to improving statewide debt collections and overall accounts receivable management practices through the collaboration, partnership and forward thinking of accounts receivable professionals.

Factors in Collecting Receivables

Key factors of the collectability of a receivable are: the type of the receivable; the socio-economic status of the debtor; and the debtor’s ability and willingness to pay.

Types of Receivables

State agency receivables include a diverse representation of legally enforceable claims for payment ranging from benefit overpayments to court ordered restitution (Table 1).

Table 1.

Types of State Agency Receivables[16]	
Administrative hearing orders	Loans
Benefit overpayments (unemployment or public assistance)	Medical services
Contract or service level agreements	Restitution
Court orders (civil or criminal judgment)	Support orders (child or spousal)
Employee overpayments (current or former employee)	Taxes
Fees, fines and penalties	Tuition
Licensing (application or renewal)	

Generally, some types of receivables are easier to collect than others. For example, a licensing agency can suspend or revoke a license if the debt is not paid; therefore, the debtor is more likely to voluntarily pay.

Types of Debtors

State agency debtors range across the socio-economic spectrum and can be either individuals, businesses, or organizations depending on the type of the debt (Table 2). However, state agencies often do not get to choose their customers or deny services based on ability to pay; therefore, a reactive approach to accounts receivable management is common.

Table 2.

Type of State Agency Debtors	
Corporations, partnerships, LLCs, etc.	Medical care recipients
Employed individuals	Not-for-profit organizations
Hospitalized individuals	Out-of-state individuals
Incarcerated individuals	Students
Individuals on state assistance	Unemployed individuals
Individuals with limited income	Unlicensed individuals or businesses
Licensed professionals	Veterans

Collectability of a debt expands beyond type of debtor and includes evaluation of the debtor's ability and willingness to pay. A common matrix used by PCFs assesses whether the debtor may be: able and willing to pay; able to pay but unwilling; unable to pay but willing; or unable and unwilling to pay (Fig. 3). Evaluating this probability of collection is valuable for determining the most cost effective and efficient method of pursuing the debt.

It is important to understand that over time a debtor's ability to pay is subject to change based on adjustments in their socio-economic status, while their willingness to pay typically does not change.

[16] The list in Table 1 represents the most common types of state agency receivables; it is not an all-inclusive list.

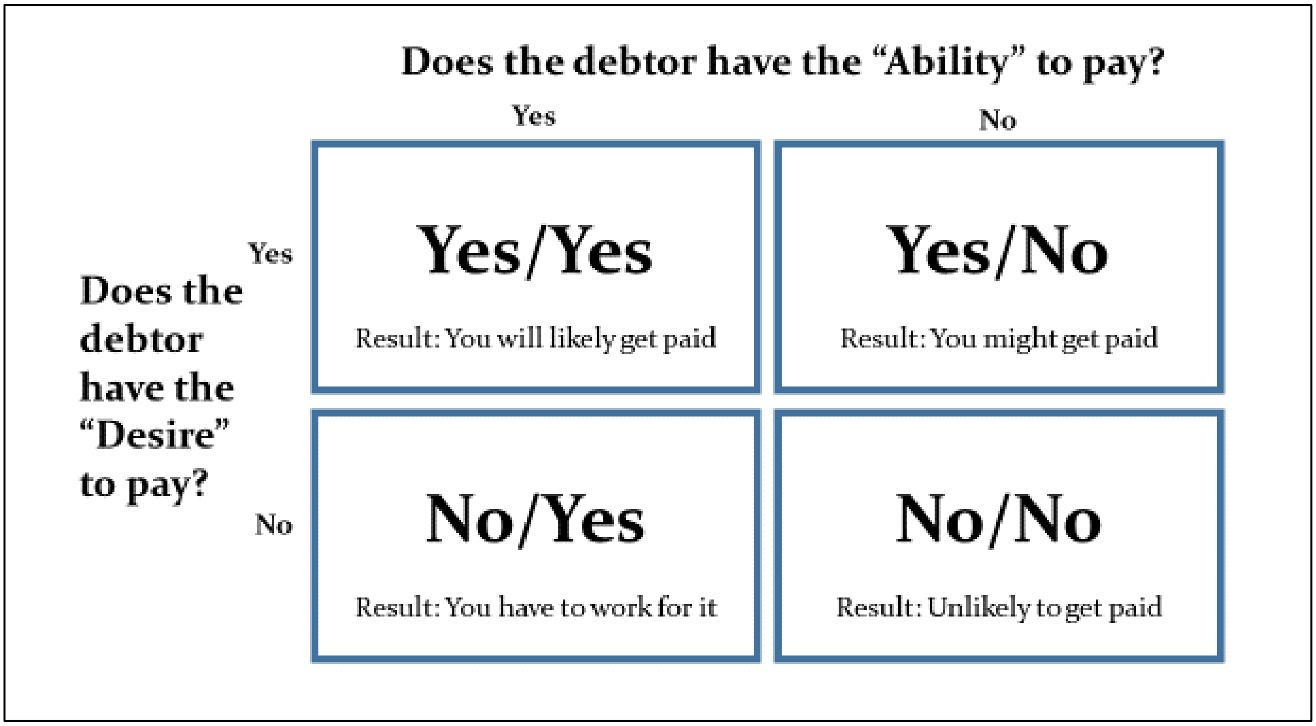


Figure 3.

For those debtors who are willing and unable to pay due to low-income or loss of employment, enforced collection of the debt through **garnishment** may prove difficult and could exacerbate their circumstances and create an unintentional hardship. In these situations, state agencies or PCF representatives may enter into repayment agreements that span a longer period of time. When a debtor is willing to pay but unable, monitoring the account and the debtor's socio-economic status becomes pivotal since their ability to pay may change over time.

Alternatively, debtors who are unwilling to pay despite their ability, create more of a challenge to debt collectors because, as noted above, the debtor's willingness to pay typically does not change over time. In these instances, more aggressive collection techniques should be exercised, such as issuing wage garnishments or placing a non-consensual **lien** against the debtor's real property. However, these collection tools are only effective when the debtor has assets.

Each factor referenced above impacts the ability of state agencies to effectively collect debts. By evaluating the nature of the debt, socio-economic status of the debtor and the debtor's ability and willingness to pay, debt collectors are able to maximize collection efforts by prioritizing and allocating account collection resources to maximize efficiency and recovery.

Notwithstanding these factors, state agency representatives also align collection techniques to be in balance with the mission of the agency. For example, an individual who receives public assistance may become a debtor as a result of a benefit overpayment. Aggressive attempts to recover the overpayment while the debtor is still facing economic challenges may be contrary to the mission of the agency to provide public assistance to its constituents.

Collection Tools

State agencies have several tools available for use in collecting debts (Table 3). Some tools are limited for use by agencies with unique statutory authority while other tools are available for use by all state agencies regardless of the nature of the receivable.

Table 3.

Collection Tools	
Collection letter, demand notice	Non-consensual real property lien
DOR-OAA (full service collections)	PCF (full service collections)
DOR-Refund Offset (restricted collections)	Phone call
Garnishment	Skip-tracing
Judgment	Unclaimed property claim

State agencies are responsible for performing preliminary collection activities which include: contacting the debtor by phone; sending collection letters or demand notices; and updating debtor contact information. When the debt becomes liquidated and delinquent, state agencies subject to statutory assignment provisions must assign the account to either DOR-OAA or a PCF. Once accounts are assigned to DOR-OAA or a PCF, full service collection activities commence.

Full service collection activities include the preliminary collection activities referenced previously, as well as: locating a debtor or debtor assets; recording real property liens; offsetting tax refunds; submitting a claim with the Department of State Lands against a debtor's unclaimed property; obtaining **judgments**; and issuing garnishments. State agencies with internal collection units perform full service collection activities prior to assigning a liquidated and delinquent account to DOR-OAA or a PCF.

Many licensing and regulatory agencies have statutory authority to issue civil penalties against individuals or businesses that operate without a license or violate a statutory or administrative regulation. These agencies have additional tools available to collect debts. More specifically, upon issuance of a final civil penalty order, the agency may record the order in a county lien register thus enabling the agency to issue garnishments or record a lien against real property owned by the debtor.

The Department of Revenue, Oregon Employment Department, Department of Human Services, Oregon Health Authority, Department of Transportation and Department of Consumer and Business Services have **distraint warrant** authority which, similar to civil penalty authority, allows the agency to docket the warrant in a county lien register thus enabling the agency to issue garnishments or record a lien against real property owned by the debtor. Though a limited number of state agencies have distraint warrant authority, liquidated and delinquent accounts assigned to DOR-OAA have the ability for a distraint warrant to be issued using DOR-OAA's statutory authority. However, if DOR-OAA is unable to collect the liquidated and delinquent account within the statutory or administrative timelines, the distraint warrant will be cancelled and the account will be returned to the originating agency for subsequent assignment to a PCF.

Five state agencies have authority granted by the federal government to participate in the Treasury Offset Program (TOP), a program which intercepts federal tax refunds to offset delinquent tax debts, public assistance debts, and unemployment insurance debts. Access to the TOP program is limited for use by the Oregon Employment Department, Department of Human Services, Oregon Health Authority, Department of Justice and the Department of Revenue. Additionally, Oregon law allows the Department of Justice, the Department of Human Services and the Oregon Health Authority to intercept lottery proceeds awarded to debtors with outstanding moneys owed to these state agencies. These two tools (TOP and lottery offset) were excluded from the above table since they are available to a limited number of state agencies per federal or state law.

Data Analysis

Overall Receivable Analysis from Comprehensive Annual Financial Report

It is important to understand the context of the LFO data in comparison to the overall activities of state government.[17] To do this, we can use data from the Comprehensive Annual Financial Report (CAFR) that looks at the outstanding receivables compared to the overall state revenues. Since the audited fiscal year 2017 CAFR is not available at the time of this report, fiscal year 2016 data is used.[18]

Total revenue in fiscal year 2016 was $27 billion and the net receivables (gross receivables less an **allowance for doubtful accounts**) was $3.6 billion. Therefore, as of June 30, 2016, net receivables were 13.5% of the total fiscal year revenue. It is important to note that the receivable balance is at a point in time and represents accounts from multiple fiscal years; whereas, the revenue is only for that fiscal year. It should not be assumed that the state was unable to collection 13.5% of fiscal year 2016 revenue.

To better understand how Oregon relates to its geographic peers, the data for net accounts receivable as a percentage of revenue was compared to six other western states (Table 4).

Table 4.

Net Accounts Receivable as a Percentage of Revenue (Fiscal Year 2016)

	Arizona	Oregon	California	Nevada	Idaho	Utah	Washington
Revenue *(billions)*	$35.5	**$27.0**	$283.3	$11.3	$8.6	$12.7	$51.4
Net accounts receivable *(billions)*	$2.3	**$3.6**	$47.8	$2.1	$1.7	$2.6	$11.4
Net accounts receivable as a percent of revenue	6.6%	**13.5%**	16.9%	19.0%	19.7%	20.4%	22.2%
Days outstanding[19]	24	**49**	62	69	72	74	81

[17] LFO Report on Liquidated and Delinquent Accounts Receivable June 30, 2016
[18] Oregon Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2016
[19] Days outstanding is calculated by dividing total revenue by 365 to determine the revenue per day; dividing the net receivables by the revenue per day determines the average days of revenue that is outstanding.

The number of days outstanding indicates the average amount of time revenues are paid. Net accounts receivable as a percentage of revenue represent the portion of total revenue outstanding at the end of a fiscal year. A low number of days outstanding and a low percentage of net accounts receivable are indicators of strong collection processes. This data shows that Oregon is very comparable to other western states when using CAFR data that is subject to rigorous accounting standards and annual audit examination.

The $3.6 billion in net accounts receivable as of June 30, 2016, includes all outstanding receivables (less an allowance for doubtful accounts) regardless of the due date or collection status, while the LFO-reported data only represents those accounts which are both liquidated and delinquent.[20] For example, accounts that are being appealed through a court or agency administrative process are recorded in the accounting system and reported in the CAFR, but do not meet the definition of liquidated so they are not included in the LFO report. The LFO report also contains gross receivable balances and does not distinguish balances that are doubtful to be collected.

Liquidated and Delinquent Account Analysis by Branch

All agencies within state government, as well as some **special government bodies**, are required to report liquidated and delinquent account activity to LFO annually.[21] State agencies report liquidated and delinquent account activity to LFO in four sections: total liquidated and delinquent accounts; accounts assigned to DOR-OAA; accounts assigned to a PCF; and accounts exempt from assignment (Table 5). The fiscal year 2017 data reported to LFO was separated by branch in order to characterize where the balance of liquidated and delinquent debt resides.[22]

The total fiscal year 2017 ending balance of $3.4 billion resides predominantly in the Judicial and Executive Branches. DAS is responsible for the administration and coordination of accounting policy for state government; however, not all branches of government are subject to the accounting policies established by DAS.[23] Though SWARM collaborates and provides accounts receivable management assistance to all agencies subject to the annual LFO reporting requirement, only Executive Branch agencies are subject to the accounting requirements set forth by DAS. For this reason, the remainder of this report focuses on analyzing account activity and evaluating efforts associated with agencies of the Executive Branch.

The information provided below separates account balances reported to LFO for fiscal year 2017 by branch of government. Agencies within the Legislative Branch as well as the special government bodies are listed as “All Others”. The ending balance of $3.4 billion for all branches corresponds to the ending balance as reported in the LFO Report on Liquidated and Delinquent Accounts Receivable June 30, 2017 (Table 5).

[20] The $3.6 billion in net accounts receivable from the 2016 Comprehensive Annual Financial Report does not include contracts, notes or loans receivable since those types of accounts generally do not require collection efforts by agency receivable staff.
[21] ORS 293.229 and ORS 1.195 define the annual LFO reporting requirement.
[22] Refer to Appendix C for a listing of agencies by branch of government.
[23] The Judicial Branch, Legislative Branch and special government bodies are not subject to accounting policies established by DAS.

Table 5.

Total Liquidated and Delinquent Accounts Receivable
For the Year Ended June 30, 2017

	Judicial	Executive	All Others	Total
Beginning Balance	$1,626,050,392	$1,413,132,095	$256,183,508	$3,295,365,995
Additions	192,912,841	969,095,998	64,151,313	1,226,160,152
Collections	(55,369,644)	(481,327,739)	(30,784,205)	(567,481,588)
Write-Offs	(43,729,207)	(28,398,801)	(10,410,165)	(82,538,173)
Adjustments	27,129,306	(76,695,289)	(7,530,106)	(57,096,089)
Reversals	(84,183,923	(182,882,622)	(130,910,763)	(397,977,308)
Ending Balance	**$1,662,809,765**	**$1,612,923,642**	**$140,699,582**	**$3,416,432,989**
Assigned to the Department of Revenue- Other Agency Accounts				
Beginning Balance	$250,562,684	$32,299,348	$50,792,697	$333,654,729
Additions	119,193,266	57,232,848	26,875,694	203,301,804
Collections	(21,114,196)	(1,967,748)	(5,302,911)	(28,384,855)
Returns	(124,508,309)	(22,571,420)	(20,734,774)	(167,814,503)
Ending Balance	**$224,133,445**	**$64,993,024**	**$51,630,706**	**$340,757,175**
Assigned to Private Collection Firms				
Beginning Balance	$781,562,684	$183,871,504	$173,031,495	$1,137,958,413
Additions	249,902,994	150,492,809	30,592,574	430,988,377
Collections	(7,653,344)	(8,429,516)	(5,463,125)	(21,545,985)
Returns	(226,379,349)	(54,693,762)	(140,025,013)	(421,098,124)
Ending Balance	**$796,925,715**	**$271,241,035**	**$58,135,931**	**$1,126,302,681**
Accounts Exempt from Assignment				
Administrative Exemption	$0	$318,826,460	$0	$318,826,460
Statutory Exemption	0	253,036,047	1,373,495	254,409,542
Total Exemptions	**$0**	**$571,862,507**	**$1,373,495**	**$573,236,002**

Executive Branch Liquidated and Delinquent Accounts

Of the $3.4 billion ending balance for fiscal year 2017, Executive Branch agencies reported balances of liquidated and delinquent accounts totaling $1.6 billion (47.2%). The Department of Revenue (DOR), Department of Justice (DOJ), Oregon Employment Department (OED), Department of Consumer and Business Services (DCBS) and the Public Employees Retirement System (PERS) have the highest ending balances of liquidated and delinquent accounts receivable reported by Executive Branch agencies (Table 6). Those five agencies account for 94.1% of the total ending balance reported by Executive Branch agencies.

Table 6.

Executive Branch Agency Ending Balances
For the Year Ended June 30, 2017

	Ending Balance	Percent of Ending Balance
Department of Revenue	$801,186,203	49.7%
Department of Justice	367,671,128	22.8%
Oregon Employment Department	161,669,557	10.0%
Department of Consumer and Business Services	134,356,274	8.3%
Public Employees Retirement System	53,054,752	3.3%
Remaining agencies	94,985,728	5.9%
Total	**$1,612,923,642**	**100%**

Department of Revenue **– 49.7% of total branch debt**
Debt balances reported by DOR include taxes, fees, penalties and interest owed to the state by individuals and businesses. The debts are primarily payable to the General Fund. The majority of the debt balances reported by DOR are related to personal income tax. Accounts collected by DOR-OAA are not included in this amount as they are reported by the agency that assigned the account.

Department of Justice **– 22.8% of total branch debt**
Debt balances reported by DOJ are comprised primarily of: child support recoveries which are passed to the custodial parent when collected; punitive damages awarded to the Crime Victims Services Division; and court judgments from the Financial Fraud, Consumer Protection and Charities programs. The debts are largely payable to Federal Funds, Other Funds and Other Funds-Pass Through.

Oregon Employment Department **– 10% of total branch debt**
Debt balances reported by OED include unemployment insurance (UI) benefit overpayments and UI employer-paid taxes. UI benefit overpayments result from administrative decisions that a claimant was not eligible to receive benefits. UI benefit overpayments arise from claimant error, non-claimant error, or fraud. Both types of UI debts include amounts that have accumulated over many years and may have been subject to additional penalties and interest. The debts are payable to Other Funds.

Oregon Department of Consumer and Business Services **– 8.3% of total branch debt**
Debt balances reported by DCBS include a variety of programs ranging from workers compensation and occupational safety to financial regulation and building codes. Outstanding balances are fines or penalties related to regulatory enforcement. The debts are primarily payable to Other Funds.

Public Employees Retirement System **– 3.3% of total branch debt**
Debt balances reported by PERS include retiree overpayments which occur as a result of retiree death, legislative changes to retirement calculations and administrative errors. The debts are payable to Other Funds.

Changes in Liquidated and Delinquent Account Balances

Between fiscal year 2016 and fiscal year 2017, Executive Branch agencies reported an increase in additions, adjustments, reversals and ending balances, while collections and write-offs decreased (Table 7). The increases were primarily the result of inaccurate fiscal year 2016 data reported by several agencies. Since the creation of SWARM in 2016, it has spent a significant portion of its time improving the data quality across state agencies.

Table 7.

Executive Branch Liquidated and Delinquent Accounts Receivable Fiscal Year Comparison

	2016	2017	Net Increase/ (Decrease)[24]
Beginning Balance	$1,471,658,491	$1,413,132,095	$(58,526,396)
Additions	673,621,964	969,095,998	295,474,034
Collections	(509,906,619)	(481,327,739)	(28,578,880)
Write-Offs	(39,333,312)	(28,398,801)	(10,934,511)
Adjustments	(171,499,833)	(76,695,289)	94,804,544
Reversals	(11,408,596)	(182,882,622)	171,474,026
Ending Balance	$1,413,132,095	$1,612,923,642	$199,791,547
Assigned to Department of Revenue-Other Agency Accounts			
Beginning Balance	$13,853,810	$32,299,348	$18,445,538
Additions	26,646,122	57,232,844	30,586,722
Collections	(1,492,677)	(1,967,748)	475,071
Returns	(6,707,907)	(22,571,420)	15,863,513
Ending Balance	$32,299,348	$64,993,028	$32,693,676
Assigned to Private Collection Firms			
Beginning Balance	$164,009,516	$183,871,504	$19,861,988
Additions	57,577,201	150,492,809	92,915,608
Collections	(1,005,163)	(8,429,516)	7,424,353
Returns	(36,710,050)	(54,693,762)	17,983,712
Ending Balance	$183,871,504	$271,241,035	$87,369,531
Accounts Exempt from Assignment			
Administrative Exemption	$323,024,823	$318,826,460	$(4,198,363)
Statutory Exemption	240,019,446	253,036,047	13,016,601
Total Exemptions	$563,044,269	$571,862,507	$8,818,238

Overall, **additions**, which include accounts that became liquidated and delinquent during the fiscal year, increased by $295.5 million (43.9%) over fiscal year 2016. Three agencies reported

[24] The net increase/(decrease) reflects the difference between each row and is not intended to total.

$281.3 million of the overall increase: DOR ($188.3 million), DCBS ($64.5 million), and PERS ($28.5 million). The increases were attributed to the automation of failure-to-file assessments for estimated tax returns (DOR); accumulated interest not previously included in LFO reports as well as the identification of accounts from program areas that were not previously sent to the agency collection unit (DCBS); and recalculating retirement benefits after the Supreme Court overturned Senate Bill (SB) 822 and SB 861 from 2013, which resulted in some retirees receiving additional sums while others were invoiced for the amounts the retiree was overpaid (PERS).

Collections decreased by $28.6 million from fiscal year 2016. Most notably, DOR collections decreased by $47.7 million as a result of fiscal year 2016 data reporting errors which resulted in an overstatement of the collections for that year.[25] DAS collections increased by $21.4 million as a result of better identification and reporting of liquidated and delinquent account activity. Previously DAS reported a portion of the annual collections as adjustments due to the accounting entries made to correct misapplied payments. In working with SWARM, the agency altered its processes to more accurately report account activity.

Overall, **write-offs** decreased by $10.9 million compared to fiscal year 2016. The largest decreases in write-offs were reported by DOR and the Board of Tax Practitioners (BTP). DOR write-offs decreased by $13.9 million due to fiscal year 2016 reporting errors. The decrease in write-offs reported by BTP ($3.5 million) was the result of a large number of accounts written-off during fiscal year 2016 because the agency had not been writing off accounts regularly. Of those agencies that reported an increase in write-off, OED reported an increase in the value of accounts but a decrease in the number of accounts; the value of accounts was $5.1 million greater than fiscal year 2016. Since OED account values vary, the amount of write-offs cannot be accurately compared dollar for dollar between fiscal years. Write-offs tend to fluctuate as accounts complete the collection lifecycle and are evaluated for collectability. Additionally, as agencies become more familiar accounts receivable management best practices, evaluation of these accounts should occur more frequently which may minimize large shifts between fiscal years as the result of historical clean-up.

Adjustments, which reflect entries to increase or decrease a *portion* of a debt as identified during the collection process, increased by $94.8 million over fiscal year 2016. DOR increased by $102.6 million due to fiscal year 2016 reporting errors. Twenty-one agencies reported decreases in the amount of $15 million. Changes to the adjustments category are a byproduct of agency collection and billing processes. Adjustments to accounts vary based on the type of debtor and the nature of the debt; there is no direct correlation to explain changes on an annual basis.

Reversals report the removal of the *entire* debt which may be the result of setting up an account in error, re-opening an account for appeal, or in rare circumstances correcting the fund type associated with the account. In fiscal year 2017 agencies reported a $171.5 million increase in reversals compared to fiscal year 2016. Of the total increase, DOR reported $163.2 million (95.2%); in prior years these balances were reported by DOR as adjustments. DOJ increased by $9.6 million due to the expiration of child support judgments. Due to the unique circumstances which result in reversals, comparing values from year-to-year does not accurately reflect trends in agency collection effectiveness. However, over time consistent reporting of reversal balances

[25] Refer to Appendix D for more information regarding DOR data changes between fiscal years 2016 and 2017.

may indicate a need for the agency to re-evaluate its accounts receivable management processes.

Overall, Executive Branch agencies reported an increase in the liquidated and delinquent account ending balance of $199.8 million for fiscal year 2017. The increase was primarily attributed to inaccurate fiscal year 2016 data reported by DOR and DCBS. Data integrity continues to be an issue affecting agencies' ability to accurately report annual liquidated and delinquent account activity. Since the creation of SWARM in spring 2016, marked improvements have been made to improve data quality; however, work remains as agencies continue to improve processes to refine the assembly and reporting of liquidated and delinquent account data.

Reviewing the DOR-OAA and PCF activity validates that Executive Branch agencies have continued to perform assignment requirements (Table 7). Efforts made by DCBS during fiscal year 2017 contributed to an overall increase in assignments to DOR-OAA. As a result of additional accounts available to collect, DOR-OAA collections increased by 31.8% over fiscal year 2016. DCBS continues to make efforts to comply with statewide accounts receivable management policies and change internal processes.[26] The PCF ending balance increase of $87.4 million was due to an improved understanding by agencies of the requirements to assign accounts returned by DOR-OAA to a PCF as well as agency process improvements. For example, the GenTax automation allows DOR to identify accounts as liquidated and delinquent earlier than the legacy system; this in turn results in the agency assigning accounts to PCFs sooner in the process. Collections made by PCFs during fiscal year 2017 were $7.4 million more than fiscal year 2016. It should be noted, in fiscal year 2016, DOR recalled and reassigned accounts to PCFs due to the GenTax system conversion, which significantly reduced the overall PCF collections during that fiscal year; however, fiscal year 2017 PCF collections are greater than collections reported two years ago as a result of agencies assigning accounts to PCFs sooner.

Accounts exempt from assignment due to an administrative or statutory exemption increased by $8.8 million over fiscal year 2016. The increase in exemptions is relatively proportional to the increase in ending balance of all Executive Branch liquidated and delinquent accounts.

Current State of Debt Collections

In fiscal year 2016, Executive Branch agencies reported $233.5 million in unassigned, non-exempt accounts receivable that were over 90 days delinquent. In fiscal year 2017 that amount dropped by 59% to $95.3 million (Table 8).

[26] DCBS thought they had a DAS-approved exemption to the 90-day assignment period; however, neither agency had record of a current exemption. As a result, DCBS has been making efforts over the past two years to evaluate accounts and assign them to DOR-OAA or a PCF within the statutory timeframes.

Table 8.

Account Activity Summary For the Year Ended June 30, 2017	Value
Total liquidated and delinquent account balance	**$1,612,923,642**
Less: receivables assigned to DOR	64,993,028
Less: receivables assigned to PCFs	271,241,035
Less: receivables exempt from assignment	571,862,507
Unassigned, non-exempt receivables outstanding	**704,827,072**
Less: receivables less than 90 days outstanding	609,514,039
Receivables greater than 90 days outstanding	**$95,313,033**

In total, 31 agencies reported unassigned, non-exempt accounts that were over 90 days outstanding. An additional eight agencies reported balances in fiscal year 2016 that were reduced to zero in fiscal year 2017. Of those 39 agencies, 21 reported a decrease in unassigned, non-exempt accounts from fiscal year 2016, 16 reported an increase, and two reported no change (Fig. 4).

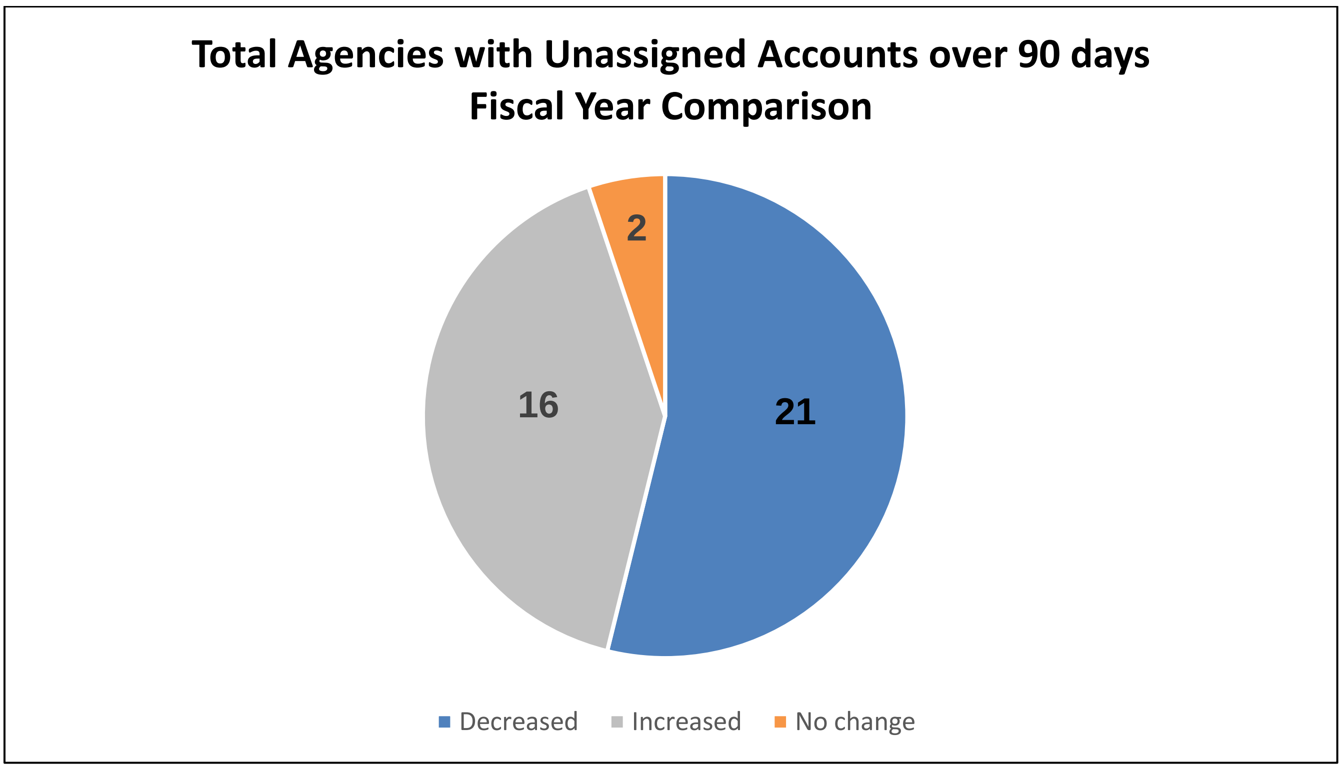


Figure 4.

Overall agencies made steady improvements in the area of assigning accounts as required by ORS 293.231 as evidenced by the large portion of agencies with reduced balances of unassigned, non-exempt accounts. As agencies better understand the assignment requirements and the identification of accounts that are subject to assignment under ORS 293.231 some agencies are reporting better data than in prior years which has increased liquidated and delinquent amounts reported.

Agencies with balances of unassigned, non-exempt accounts subject to assignment were asked to provide an explanation regarding why the accounts were not assigned (Fig.5).

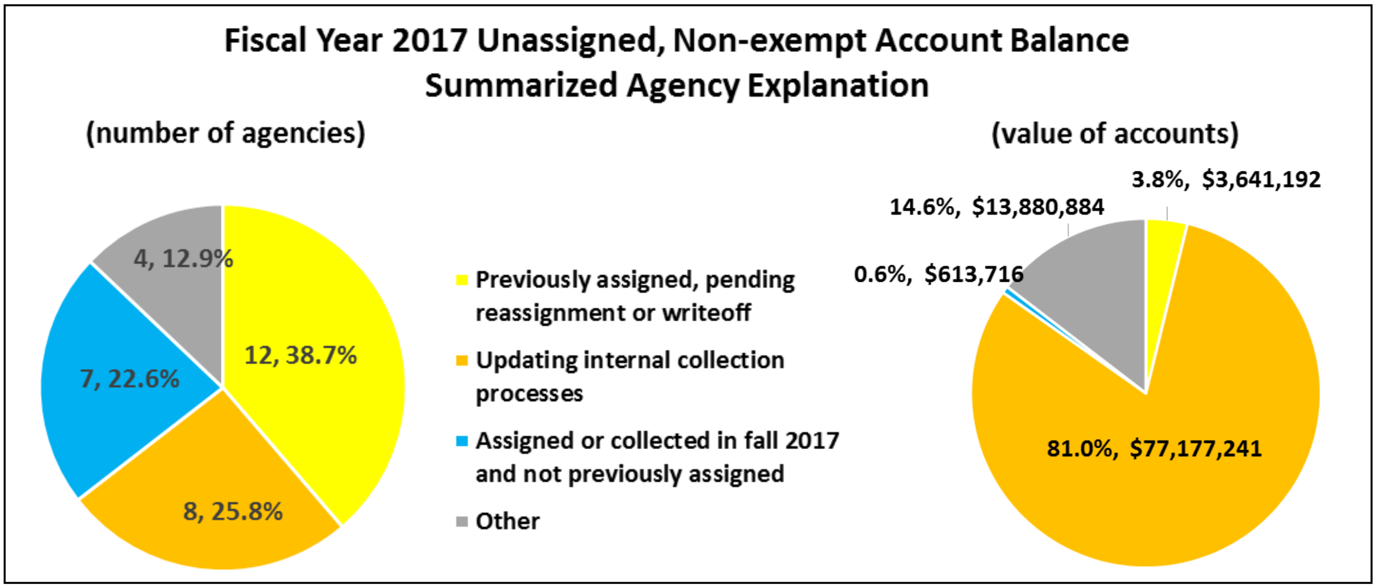


Figure 5.

The 12 agencies (38.7%) that reported previously assigned accounts pending reassignment or write-off followed the statutory requirements; however, as of June 30, 2017 the accounts had been returned and were pending the next step in the collection lifecycle. Eight agencies (25.8%) reported updating internal collection processes to ensure compliance with the statutory assignment timelines. Seven agencies (22.6%) reported that the account assignment or collection occurred after July 1, 2017. Four agencies (12.9%) provided other responses unique to the respective agency. SWARM will continue to work with agencies to provide education and assistance with policy compliance to continue reducing the amount of unassigned, non-exempt accounts over 90 days.

Collection Trends

In addition to a debtor's socio-economic status, broader economic indicators also impact the collectability of debts owed to the state such as bankruptcy filings and unemployment rates. By examining these factors, accounts receivable professionals can begin to evaluate the potential impact on debt collection and identify trends.

Bankruptcy Filings

Bankruptcy filings may be used as an indicator of the challenges government agencies face when collecting delinquent debts (Fig. 6).

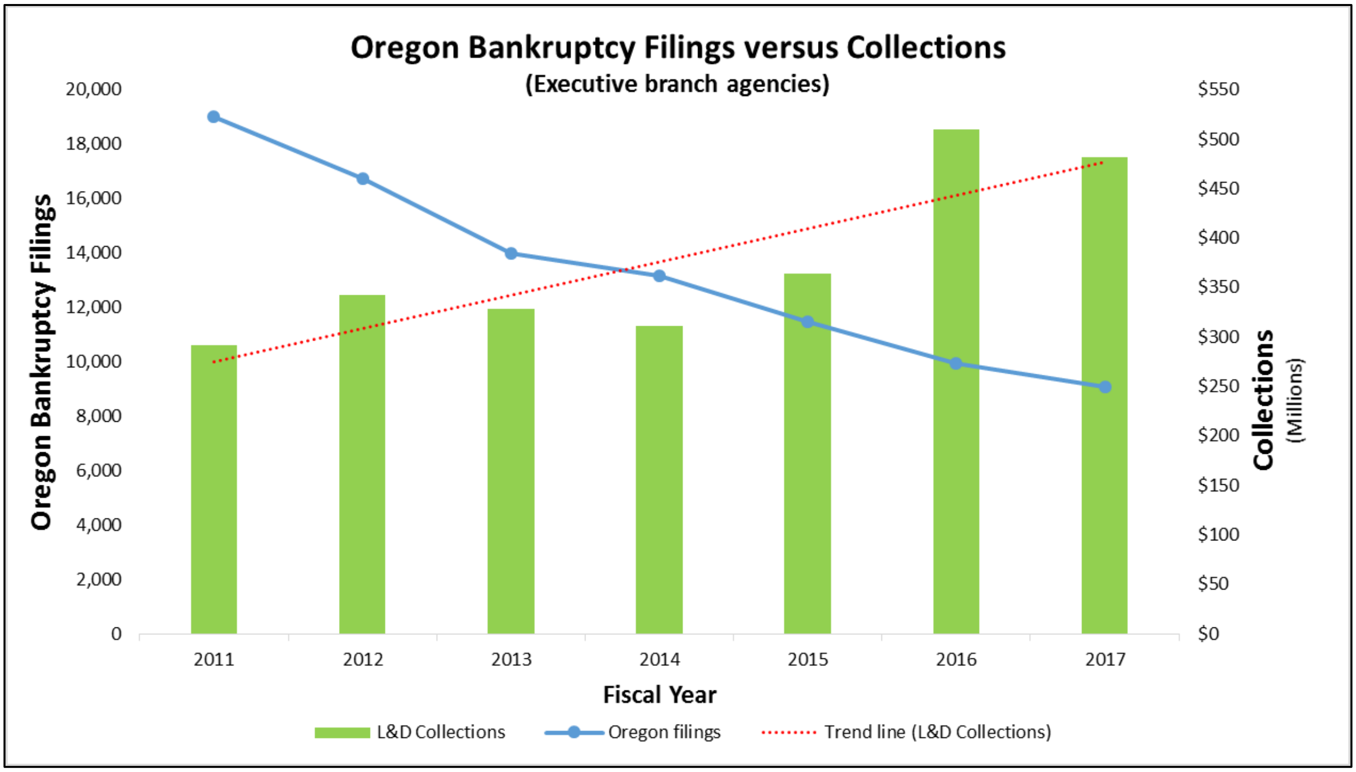


Figure 6.

A decrease in bankruptcy filings may be an indicator of better economic health; thus, a greater potential for the collectability of debts. Even though many debts owed to government entities are not dischargeable in a bankruptcy, a debtor who files bankruptcy generally has limited available resources from which to make voluntary payments; this also limits the agency's use of enforcement tools to initiate non-voluntary collections.

As bankruptcy filings in Oregon have steadily declined, Executive Branch agency collections have generally increased.[27]

Unemployment

Unemployment is another indicator of overall economic health. As the unemployment rate drops, debts generally become more collectable as debtors have more available income to use towards repayment. Since 2011, the unemployment rate dropped from 9.9% to 4.3% and collections increased from $291.7 million to $481.3 million (Fig. 7).

[27] Even though bankruptcy declined between fiscal year 2016 and fiscal year 2017, collections decreased in fiscal year 2017 as a result of overstated collection data reported by DOR in fiscal year 2016 as well as increased offsets due to the tax year 2015 "kicker" refund. Collection data reported by DOR in fiscal year 2017 includes more accurate information related to payments received and then later reversed because of non-sufficient funds; these collections were previously reported as "adjustments" instead of "collections".

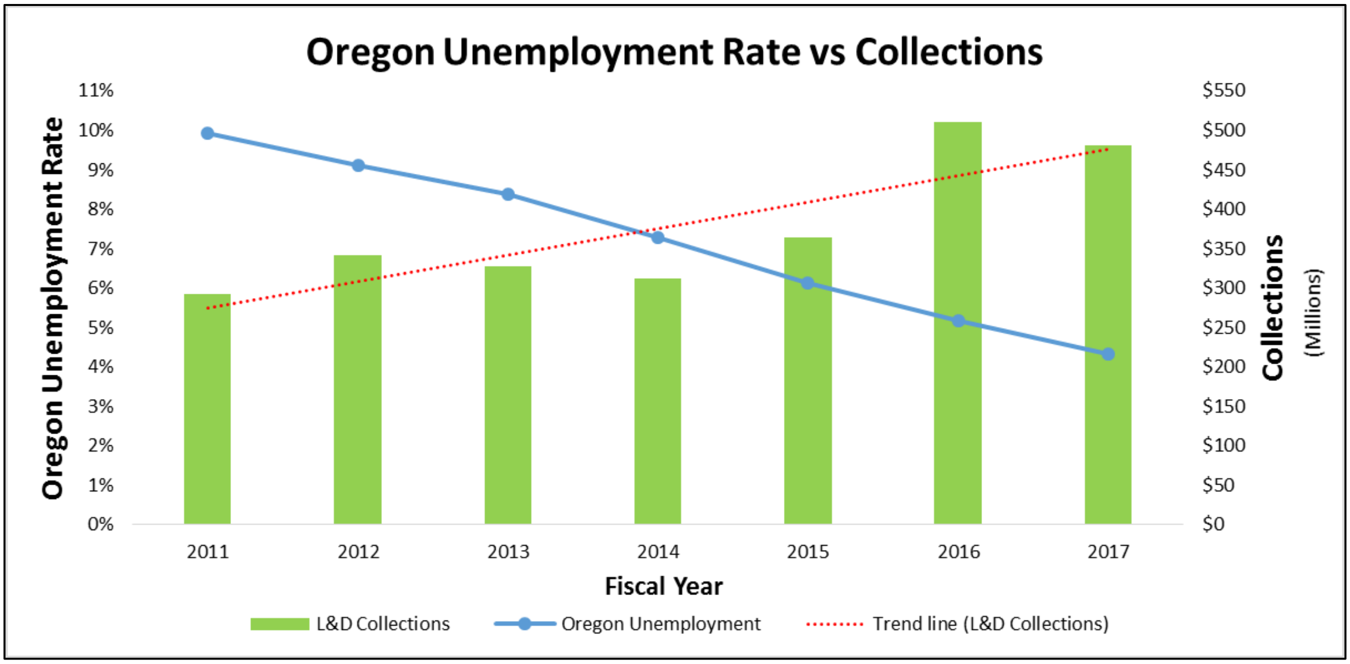


Figure 7.

Liquidated and Delinquent Collection Trends

Fiscal year 2016 collections were impacted by the increase in offsets due to tax year 2015 “kicker” refunds. Since the “kicker” is applied to the subsequent tax filing, more citizens receive refunds that are then offset against debts owed to the state. Fiscal year 2018 will also have a “kicker” refund and it is expected that collections will improve from fiscal year 2017 as a result.

Generally, debts become harder to collect the older they become. So measuring collections against additions (new accounts that became liquidated and delinquent during the fiscal year) can provide a more timely measurement of agencies’ overall collection activities (Fig. 8).

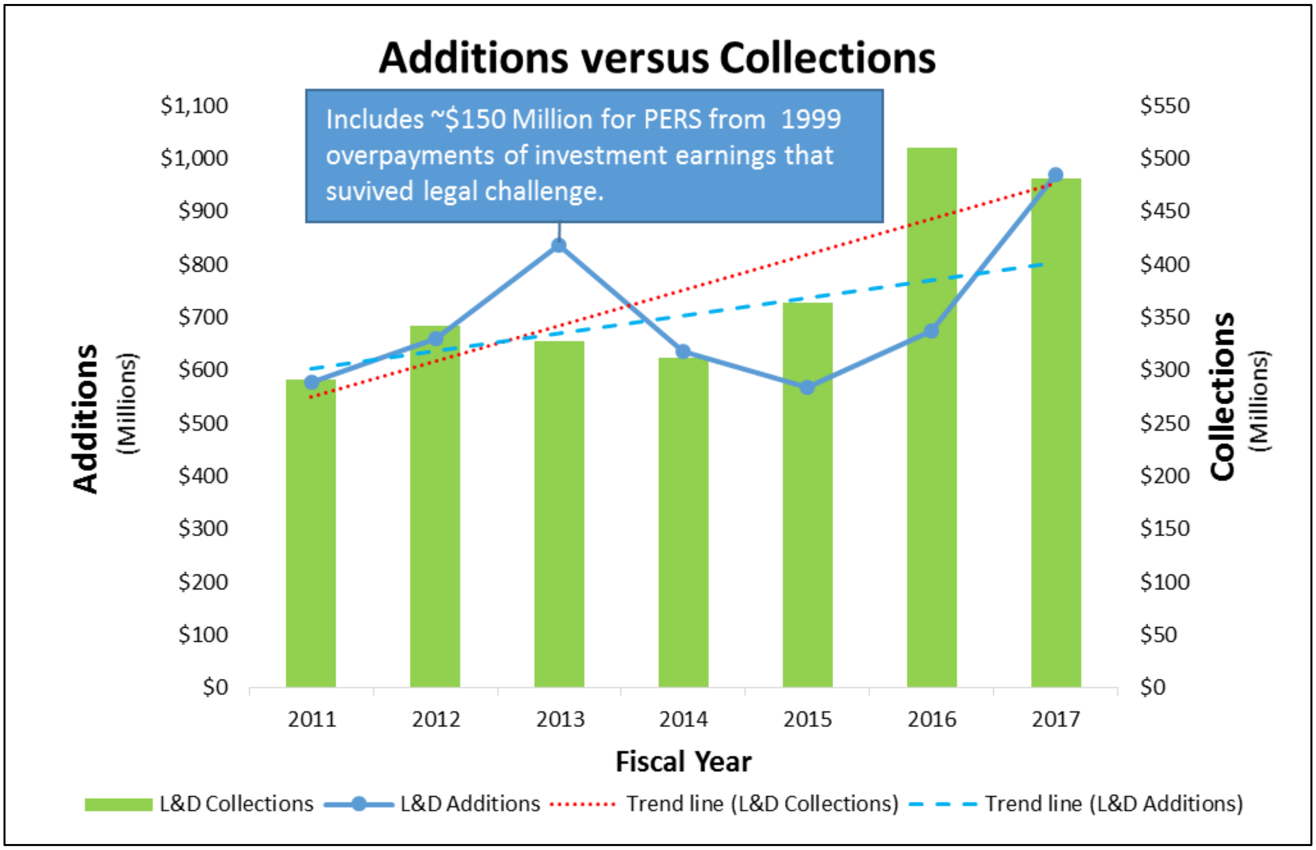


Figure 8.

When comparing the average additions versus the average collections between fiscal year 2011 and fiscal year 2017, collections have increased at a higher rate than additions. Based on the decrease in bankruptcy filings and reduction in the Oregon unemployment rate during this period of time, more people had the ability to pay which increased collections and reduced the number of new liquidated and delinquent accounts.

Statewide Efforts to Improve Collections

SWARM Efforts

Over the past year, SWARM continued its focused efforts on improving accounts receivable management and collection activities statewide through:

- Establishing accounts receivable performance measures to be reported by agencies quarterly and annually
- Leading the vendor coordination pilot project between DOR and ODOT to collect liquidated and delinquent accounts by intercepting payments from vendors who owe debts to the state
- Collaborating with the Chief Procurement Office to discuss potential contract amendments to facilitate the recovery of liquidated and delinquent debt
- Partnering with DOR to expand the use of electronic garnishments
- Providing online and classroom training to state government accounts receivable representatives

SWARM also leads the monthly ARCC meeting and the ARCC subcommittee meetings. Through December 2017 these meetings resulted in the following deliverables:

- Generated five editions of the SWARM quarterly newsletter dedicated to providing resources to state agency accounts receivable professionals, partners and stakeholders
- Developed a statewide policy for accounts receivable performance tracking and reporting
- Modified four OAM Chapter 35 policies and created a new policy on offers in compromise
- Established a toolkit to provide accounts receivable professionals with resources to improve accounts receivable management processes

Executive Order 17-09

In May 2017, Governor Brown issued Executive Order (EO) 17-09 entitled *Promoting Fiscal Responsibility by Recovering Monies Owed to the State*.[28] EO 17-09 identified several components which required Executive Branch agencies, excluding those led by elected officials, to make efforts to improve debt collections such as assigning liquidated and delinquent accounts to DOR-OAA no later than 60 days after the debt was declared liquidated and delinquent; reporting debt collection activities quarterly to DAS; modifying procurement and contracting practices to facilitate debt collection; and recovering liquidated and delinquent debts from entities to which state agencies are issuing significant payments. The EO also directed DOR to assess the feasibility of creating a website listing entities and individuals that owe the state liquidated and delinquent debt as well as make efforts to recover liquidated and delinquent debt by issuing electronic garnishments.

By June 30, 2017, agencies were directed to report to DAS the amount of fiscal year 2016 liquidated and delinquent debt that was potentially recoverable over time with reasonable effort and using collection tools available to the state. Overall, Executive Branch agencies reported $1.1 billion was potentially recoverable over time.[29]

Vendor coordination

Shortly following the issuance of the order, SWARM convened a group of state agency representatives to discuss a process for implementing the vendor coordination component of EO 17-09. Representatives from DAS, DOR, and the Department of Transportation (ODOT) partnered to develop processes to identify vendors who owe debts to the state and notify DOR of vendors with pending payments. The pilot project consists of DOR sending a daily list of tax debtors to ODOT to perform a match against vendors with payments pending issuance. When matches occur, ODOT will notify DOR through the secured Revenue Online portal. Upon receipt of the notification, DOR will evaluate the debt and issue a garnishment to ODOT if necessary. With the garnishment, ODOT may intercept the pending vendor payment and issue the payment to DOR to apply towards the debt owed by the vendor. Following completion of the pilot project, SWARM will partner with other state agencies to evaluate implementing the vendor coordination project enterprise-wide.

Contract amendments

A team led by the Chief Procurement Officer began meeting in June 2017 to discuss potential amendments to procurement procedures to facilitate the recovery of liquidated and delinquent debt. Discussions included how to revise procurement instructions to enable state agencies to

[28] Executive Order 17-09
[29] Some accounts can take several years to receive payments or balances may become uncollectible in the future.

consider liquidated and delinquent debt owed to the state when evaluating vendors on state price agreements; when issuing purchase orders or similar ordering documents; or when entering into new contracts with vendors when the contract value exceeds $150,000. The team includes representatives from DAS, DOR, SWARM, DOJ, and Department of Corrections (DOC). Updated procurement guidance and templates will be available for distribution to agencies in early 2018.

Electronic garnishment
In August 2017, DOR submitted a report to the Chief Operating Officer describing efforts to recover liquidated and delinquent debt by issuing electronic garnishments. Those efforts included plans to implement the use of electronic garnishments in three phases. Phase 1 includes the issuance of electronic garnishments to other state agencies. This implementation is under way as part of the vendor coordination pilot project; DOR will issue an electronic garnishment to ODOT when a vendor and debtor match is identified. Phase 2 includes the issuance of electronic garnishments to financial institutions. Implementation of this phase will begin summer 2018 as part of financial institution data match (FIDM) implementation. DOR intends to include the issuance of electronic garnishments in agreements with financial institutions required to participate in FIDM. Phase 3 implementation includes the issuance of electronic garnishments to employers operating in Oregon. Implementation of this third and final phase will be determined following the evaluation of a pilot project. DOR identified 15 Oregon employers to participate in a pilot project to receive electronic garnishments. The pilot project is expected to run between 2018 and 2019. Subsequently, DOR will evaluate the outcome of the pilot project to determine whether to submit a legislative concept to require Oregon employers to participate in electronic garnishment processes.

Accounts receivable performance measures
SWARM, in collaboration with the ARCC Performance Measurement Subcommittee, developed OAM 35.60.20 which establishes accounts receivable performance measures (ARPM) and provides guidance to agencies for monitoring and reporting ARPM data and targets.[30] The policy includes the quarterly collection activity reporting requirement referenced in EO 17-09. In November 2017, agencies reported total receivable collections and receivables over 90 days past due as a percentage of total A/R for the first quarter of fiscal year 2018 (July 1 – September 30). As reported, Executive Branch agencies collected $1 billion in total accounts receivable, of which $106.8 million (10.3%) was associated with liquidated and delinquent accounts. Some agencies have seasonal fluctuations to the amount of receivables established and collected; as additional data is collected those seasonal influences will be more readily identified. The early data identifies that the largest portion of agency accounts receivable work is related to collections of accounts that have not yet become liquidated and delinquent. Agencies will continue to report these two ARPMs quarterly through June 30, 2019.

The quarterly tracking section of the EO indicated the Governor would set a debt collection benchmark to measure performance of state agencies by January 1, 2018. After reviewing a variety of options the Governor determined the debt collection benchmark will be to increase collections of liquidated and delinquent debts $50 million by June 30, 2019.

By December 31, 2017, state agencies are required to develop plans to assign liquidated and delinquent accounts to DOR-OAA within 60 days of being declared liquidated and delinquent.

[30] OAM 35.60.20

SWARM continues to work with agencies to recommend process changes to ensure the 60-day assignment provision is followed.

DOR is required to report the feasibility of creating a website listing entities and individuals that owe the state liquidated and delinquent debt to the Chief Operating Officer by December 31, 2017.

Through June 30, 2019, SWARM will continue efforts to partner with Executive Branch agencies to implement the components referenced in EO 17-09.

Legislative Changes

The 2017 Legislative Assembly approved several bills related to statewide debt collections. SB 1067 contained several cost containment measures including the debt collection practices originally referenced in SB 89; the debt collection centralization bill proposed by SWARM.[31] In addition to approving state debt collection centralization, the Legislative Assembly approved additional debt collection provisions as highlighted below.

House Bill 2947[32]

Requires DAS to report to the Legislative Assembly the amounts of liquidated and delinquent debt that, in the previous fiscal year, were written off by a state agency per ORS 293.240; abated by a state agency; and canceled by DOR per ORS 305.155. Requires each state agency to certify to DAS that the debts were written off, abated or canceled in accordance with applicable statutes and rules. [Effective date January 1, 2018]

SB 254[33]

Requires financial institutions to participate in a data match system established by DOR to compare a list of delinquent debtors against a list of persons who hold accounts at the financial institution to enable DOR to identify which delinquent debtors hold accounts at the financial institution. [Operative July 1, 2018]

Authorizes DOR and DOJ to enter into agreements to allow DOR access to information reported by an employer regarding hiring or rehiring of individuals in Oregon. The information may be used by DOR for debt collection purposes. [Effective October 6, 2017]

SB 844[34]

Authorizes DOC to collect eligible moneys from an inmate trust account if the inmate owes court-ordered financial obligations such as a compensatory fine, an award of restitution, or any other fines, fees or court-appointed attorney fees imposed in a criminal action; a child support obligation; or a civil judgment including a money award for a crime victim or a DOC or Oregon Corrections Enterprises employee. [Operative June 30, 2018]

SB 1067[35]

Authorizes all state agencies to request that a person voluntarily supply the person's social security number for use in collecting debts owed to the state of Oregon. [Operative July 1, 2018]

[31] Oregon Laws 2017, Chapter 746, Section 15-24
[32] Oregon Laws 2017, Chapter 713
[33] Oregon Laws 2017, Chapter 644
[34] Oregon Laws 2017, Chapter 692
[35] Oregon Laws 2017, Chapter 746, Section 15-24

Requires state agencies with an ending balance of liquidated and delinquent accounts receivable at fiscal year-end of $50 million or greater to submit an additional report to the Legislative Assembly describing: major categories of liquidated and delinquent accounts held by the state agency; circumstances which the state agency writes off or adjusts liquidated and delinquent amounts or removes an account from liquidated and delinquent status; actions taken by the state agency to reduce the amount of liquidated and delinquent debt owed to it at the end of each fiscal year; and a plan for future actions that will reduce the amount of liquidated and delinquent debt owed to the state agency and includes any additional resources necessary to carry out the plan. [Operative July 1, 2018]

Throughout the next year, SWARM will coordinate with agencies to implement the new statutory provisions previously described.

Centralization Planning Efforts

Following the passage of SB 1067, SWARM began working with representatives from DOR-OAA to develop a plan for implementing the centralized debt collection provisions of the bill. The team spent several months flowcharting the new process; identifying systematic and process changes; and determining resource needs associated with implementing the required elements of the bill by the operative date of July 1, 2018.

As part of the evaluation process, the team identified systematic and process changes required to be implemented by the operative date as well as those elements not required within the context of the bill but that are essential to establish effective centralization of state debt collections. For example, the systematic and process changes required in the bill include state agencies assigning all non-exempt liquidated and delinquent accounts to DOR-OAA and authorizing DOR-OAA to sub-assign those accounts to PCFs. This body of work includes establishing agreements between DOR-OAA and PCFs; programming interfaces between DOR-OAA and PCFs to exchange account data; revising existing agreements between DOR-OAA and state agencies to include additional services and revised rates; and defining a triage matrix to assist DOR-OAA in determining whether the assigned accounts are most collectable by DOR-OAA or a PCF. Elements associated with an effective centralization model that are not required to be implemented by the operative date include enhancements to the DOR-OAA customer portal (Revenue Online); DOR-OAA monthly report data requirements; PCF performance monitoring; and assigning DOR-OAA accounts to the TOP State Reciprocal Program.[36]

In addition to the DOR-OAA/SWARM implementation team, SWARM established a Centralization Workgroup which includes 32 representatives from state agencies impacted by the legislative changes affecting the assignment provisions referenced in ORS Chapter 293. Similar to the ARCC, the workgroup includes a diverse membership from large agencies, small agencies, semi-independent agencies, the Oregon Judicial Department, PCFs, and DOR-OAA.[37]

[36] Debts assigned to the TOP State Reciprocal Program are available for offset by federal tax and non-tax payments.

[37] The Oregon Judicial Department and semi-independent agencies are not subject to the legislative changes associated with the Debt Collection Practices sections of SB 1067; however, representatives from those agencies requested to participate.

Training

Training is one of the statutory requirements to be performed by SWARM. Each year, SWARM evaluates the needs of state accounts receivable professionals to determine the most effective training to develop.

Understanding that state accounts receivable professionals have limited time available to attend classroom training, SWARM developed an online course through iLearn entitled Accounts Receivable 101. The course provides an overview of the accounts receivable lifecycle including agency accounts receivable management requirements. By establishing an online course, agency representatives have the ability to complete the training as their schedules allow. SWARM recommends the training to managers and accounting professionals responsible for overseeing or processing accounts receivable transactions.

In August, SWARM presented the annual Liquidated and Delinquent Account Reporting classroom training. As with most trainings presented by SWARM, the event was recorded and posted to the SWARM website to allow state agency representatives outside of the Salem area access to the training. One hundred state agency representatives attended this year's training event.

In response to requests for more information about how to handle liquidated and delinquent accounts associated with debtors who filed bankruptcy, SWARM partnered with DOJ to present Bankruptcy 101 training to Executive Branch agencies. Sixty-seven Executive Branch agency representatives attended the classroom training; the recorded training is also available on the SWARM website for viewing by agency representatives unable to attend in person.

Future of State Debt Collections

The passage of SB 1067 represents a stepping stone into the future of state debt collections. The statutory changes require the centralization framework to be established yet provide flexibility for ongoing statewide debt collection process enhancements and improvements.

Through the implementation of centralized state debt collections, Oregon's potential for leveraging nationally recommended debt collection strategies increases significantly. For example, by having Executive Branch debts in one location, DOR-OAA will be able to effectively manage the performance of PCFs and assign accounts based on performance, which SWARM expects will result in higher returns for state debt collections. Centralization also allows DOR-OAA the ability to expand the use of its distraint warrant authority to include recording liens against real property, a process which cannot be done today since warrants are canceled when the account is returned to the originating agency within a year.

Over the past 20 years, the Secretary of State Audits Division published three audit reports associated with improving delinquent debt collection.[38] In each of the audit reports, auditors recommended the use of a vendor payment offset program. The historical decentralized debt collection model, combined with multiple state accounts payable systems, prevented agencies from identifying when a debt owed to one agency could be offset by a payment due from another

[38] Secretary of State audit reports associated with debt collections: 1) October 1997, *Opportunities to Improve Delinquent Debt Collection by State Agencies*; 2) August 2004, *Debt Collections: Progress Made But Opportunities for Improvement Still Exist*; and 3) September 2015, *Oregon Needs Stronger Leadership, Sustained Focus to Improve Delinquent Debt Collection*

agency. Even in a centralized environment, a true vendor payment offset program cannot be fully automated without investments in information technology for each agency with a unique accounts payable system. However, through collaboration with state agencies, SWARM identified an alternative to an automated vendor payment offset program. Using the lottery offset process as a guide, SWARM recommended an administrative hold and garnishment process to intercept vendor payments associated with entities or individuals that owe the state debt. A key component to the successful implementation of this project, previously described as the Vendor Coordination Project, includes a central repository of state agency liquidated and delinquent debts. Legislative changes to ORS Chapter 293 approved by the 2017 Legislative Assembly as well as direction provided by Governor Brown in EO 17-09 provide Executive Branch agencies the tools necessary to begin collecting liquidated and delinquent debts by means of intercepting moneys due to vendors.

Beginning July 1, 2018, state agencies subject to ORS 293 will assign liquidated and delinquent accounts to DOR-OAA for full collection services and to subsequently manage the collection lifecycle of the debt. Though the initial implementation of SB 1067 is focused on Executive Branch agencies, excluding semi-independent state agencies, the changes allow DOR-OAA to design an expandable foundation to include other branches of government in the future. SWARM believes successful implementation will encourage other branches of government to voluntarily assign accounts to DOR-OAA for debt management in order to obtain the benefits that centralization has to offer.

In the centralized debt collection model, state agencies will continue to perform internal accounts receivable management responsibilities as required by OAM Chapter 35. It is important to highlight the changes to agency requirements in order to demonstrate the resource challenges agencies will continue to face even with centralized debt collections (Table 9).

Table 9.

Agency Requirements (current-decentralized)	Agency Requirements (future-centralized)
Bill for goods provided or services performed	No change from current model
Track accounts receivable (A/R) balances	No change from current model
Liquidate delinquent A/R	No change from current model
Make phone calls to collect the debt	No change from current model
Send letters to notify debtors of potential consequences for not paying the debt	No change from current model
Report liquidated and delinquent account activity to LFO annually	No change from current model
Assign liquidated and delinquent A/R to DOR-OAA or a PCF	Agency process modified; agencies will assign liquidated and delinquent A/R to DOR-OAA
Assign liquidated and delinquent A/R returned by DOR-OAA to a PCF	Agency process eliminated; DOR-OAA will manage the subsequent assignment to a PCF
Assign liquidated and delinquent A/R assigned to PCF to DOR-OAA for offset	Agency process eliminated; DOR-OAA will flag accounts assigned to a PCF for offset
Reconcile DOR-OAA and PCF monthly reports	Agency process modified; DOR-OAA will provide consolidated monthly reports to include assignment data from PCFs

State agencies will benefit from centralization by reducing the workload associated with previously required functions such as re-assigning accounts returned by DOR-OAA to a PCF and back to DOR-OAA for tax refund offset. However, the statewide impact of collecting debts centrally is where the majority of the benefit resides (Table 10).

Table 10.

Collection efforts in a decentralized model	Collection efforts in a centralized model
Same debtor with multiple accounts assigned to multiple DOR Revenue Agents	Same debtor with multiple accounts assigned to one DOR Revenue Agent
Same debtor with multiple accounts assigned to multiple PCFs	Same debtor with multiple accounts assigned to one PCF
Contracted PCFs work with 98 different agencies[39]	Contracted PCFs work with one agency (DOR) on behalf of 98 agencies
One PCF agreement per agency; does not allow for statewide assignment based on PCF performance	One agreement with DOR per PCF will allow for performance based assignment of accounts
State agency debts assigned to different PCFs with no central repository of accounts	State agency debts assigned to a central repository of accounts at DOR-OAA
Unable to effectively participate in a statewide or federal vendor payment interception process; no central repository of accounts	Able to effectively participate in a statewide or federal vendor payment interception process; central repository of accounts
DOR-OAA resources limited to those approved by the legislature; accounts may not be processed due to limited resources	DOR-OAA has flexibility to assign accounts to PCFs immediately based on collectability or when internal resources are unable to process accounts
Incomplete payment plans; do not include all debts owed to a single debtor	Complete payment plans; include all debts owed to a single debtor

Throughout the upcoming year, SWARM will continue to partner with DOR-OAA and Executive Branch agencies to implement the centralization requirements referenced in SB 1067 as well as identify areas within the centralized framework to potentially reduce agency requirements in the future.

Conclusion

During fiscal year 2017, Executive Branch agencies continued to refine collection processes and increased assignment of liquidated and delinquent accounts to DOR-OAA and PCFs. SWARM expects to see continued improvement in collections as agencies revise processes to comply with OAM Chapter 35 as per EO 17-09.

Data integrity continues to be a challenge which makes it difficult to identify trends between reporting periods (e.g. inconsistent reporting by category). SWARM meets with agencies one-on-one and provides classroom training to discuss in detail how data should be reported to LFO

[39] Ninety-eight of the Executive Branch agencies are subject to ORS 293 and assign accounts to the PCFs on state price agreement. The remaining 36 government entities (e.g. legislative, judicial, semi-independent, special) enter into individual contracts with firms to provide private collection services.

by category. These efforts assisted with improved reporting; however, additional work is necessary to refine the accuracy of liquidated and delinquent account data reported annually.

Although challenges remain, SWARM is encouraged by the progress of the past year and is committed to continuing its partnership with agencies to overcome those challenges and finding solutions to improve accounts receivable management and debt collections statewide.

Acknowledgments

SWARM appreciates the access to agency liquidated and delinquent accounts receivable data from LFO; this report would not be possible without LFOs support. DAS also extends thanks to state agencies for staff’s professionalism and dedication to improving accounts receivable data and collection processes.

Appendix A – Glossary of Terms

Additions – The number and value of accounts that became liquidated and delinquent after July 1 of the reporting fiscal year.

Adjustments – Entries to increase or decrease a portion of the debt. Adjustments may be the result of an administrative error or a compromise for settlement.

Allowance for doubtful accounts – An estimated amount of uncollectible amounts that may be subtracted from a balance sheet's gross accounts receivable.

Delinquent – A receivable account for which payment has not been received by the due date (OAM 35.30.30).

Distraint warrant – a legal document that establishes an agency's right to collect state debts from a debtor.

Garnishment – Legal proceeding that authorizes a third party to directly attach the debtor's funds, such as wages or a bank deposit, to satisfy a creditor's claim.

Judgment – A court order ruling that the debtor is indebted to and must make payments to the creditor of a specific amount.

Lien – A claim (which can include a judgment) or charge upon real or personal property for the satisfaction of some debt.

Liquidated – An amount owing to a state agency that meets all of the following criteria: 1) an agency has determined an exact past due amount owing; 2) an agency has made a reasonable attempt to notify the debtor in writing of the amount owing, the nature of the debt, and has requested payment; and 3) the debt meets one of the following conditions: (a) a judgment has been entered, (b) is a tax debt for which a distraint warrant has been issued or the prerequisites of issuance have been met, (c) liability for and the amount have been established through an administrative proceeding, (d) is for a non-complying employer's debt for claim and administrative costs eligible for referral under criteria identified by the Department of Justice, (e) arises from a promissory note, (f) is due to a pre-existing agreement and the debtor has not objected within a reasonable time, (g) has been unconditionally acknowledged by the debtor, both as to liability and amount, (h) derived by a calculation of fees, collection costs, charges, penalties, or the like from a report or an application for a permit or license submitted by the debtor in accordance with regulations and has not been disputed as to liability and amount, (i) has been established by Administrative or Judicial proceeding as to liability (but not amount, the amount is based on an arithmetical calculation), has been delivered to the debtor and the debtor has not objected within a reasonable time. Refer to OAM 35.30.10.PO paragraph .104 for further explanation.

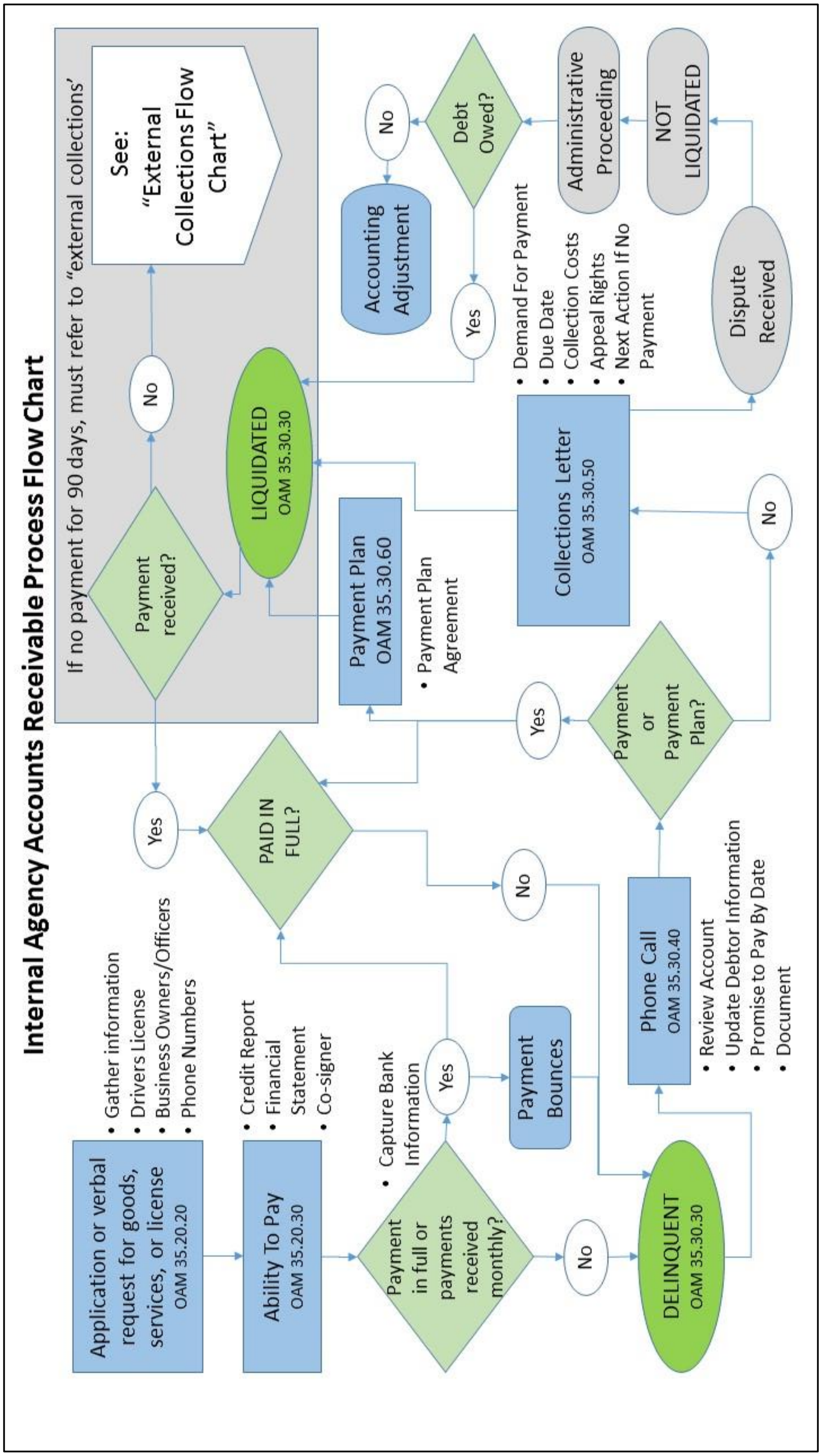
Reversals – Entries to remove the entire debt. Reversals may be the result of setting up an account in error, re-opening an account for appeal, or correcting the fund type associated with the account.

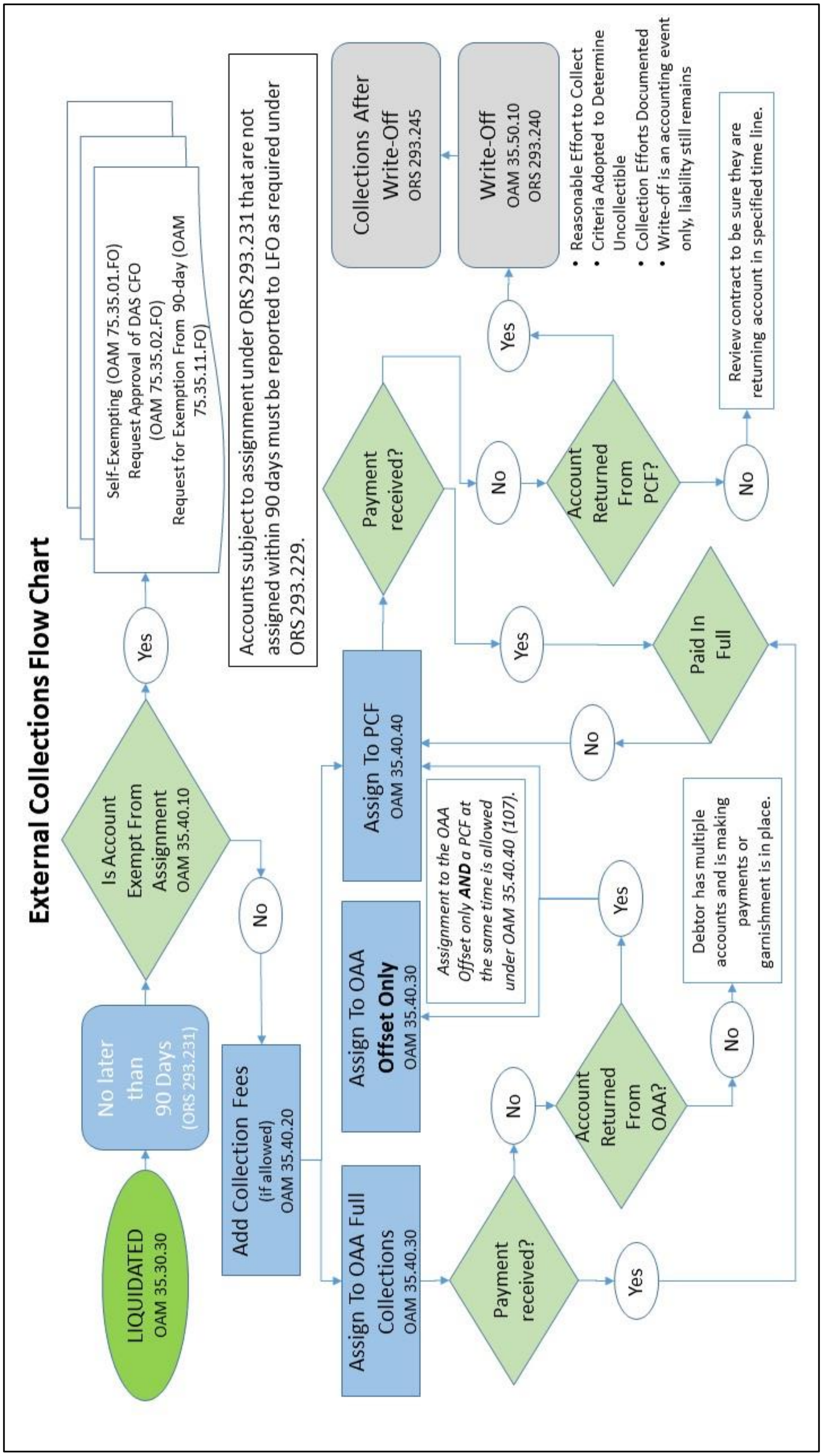
Special government body – As defined in ORS 174.117, “special government body” includes a public corporation created under a statute of this state and specifically designated as a public corporation; any entity that is created by statute, ordinance or resolution that is not part of state government or local government; any entity that is identified as a governmental entity by the statute, ordinance or resolution authorizing the creation of the entity, without regard to the specific terms used by the statute, ordinance or resolution; a public university listed in ORS 352.002.

State government – As defined in ORS 174.111, “state government” means the executive department, the Judicial department and the legislative department.

Write-Offs – Receivables that are determined to be uncollectible by management and have been removed from the agency's accounting records. If an agency has made all reasonable efforts to collect the money owed to it, including money owed on a liquidated and delinquent account that has been relinquished by a private collection agency under 293.231, and has determined that the money and any interest and penalties on the money are uncollectible, the agency may write off the debt on its accounts. Before determining that money is uncollectible, a state agency must adopt criteria for determining when money is uncollectible. The criteria must include the right of offset and must be approved by the Attorney General.

Appendix B – Collection Workflows




External Collections Flow Chart
LIQUIDATED
OAM 35.30.30
No later than 90 Days
(ORS 293.231)
Is Account Exempt From Assignment
OAM 35.40.10
Yes
No
Self-Exempting (OAM 75.35.01.FO)
Request Approval of DAS CFO (OAM 75.35.02.FO)
Request for Exemption From 90-day (OAM 75.35.11.FO)
Accounts subject to assignment under ORS 293.231 that are not assigned within 90 days must be reported to LFO as required under ORS 293.229.
Add Collection Fees
(if allowed)
OAM 35.40.20
Assign To OAA Full Collections
OAM 35.40.30
Assign To OAA Offset Only
OAM 35.40.30
Assign To PCF
OAM 35.40.40
Assignment to the OAA Offset only AND a PCF at the same time is allowed under OAM 35.40.40 (107).
Payment received?
Yes
No
Account Returned From OAA?
Yes
No
Debtor has multiple accounts and is making payments or garnishment is in place.
Payment received?
Yes
No
Paid In Full
No
Account Returned From PCF?
Yes
No
Review contract to be sure they are returning account in specified time line.
Collections After Write-Off
ORS 293.245
Write-Off
OAM 35.50.10
ORS 293.240
Reasonable Effort to Collect
Criteria Adopted to Determine Uncollectible
Collection Efforts Documented
Write-off is an accounting event only, liability still remains

Appendix C – Agency List by Branch of Government

Judicial Branch

Judicial Department
Judicial Fitness and Disability, Commission on
District Attorneys and their Deputies
Public Defense Services Commission

Executive Branch

Accountancy, Board of
Administrative Services, Department of
Advocacy Commissions Office, Oregon
Agriculture, Department of
Albacore Commission, Oregon
Alfalfa Seed Commission, Oregon
Appraiser Certification and Licensure Board
Architect Examiners, State Board of
Aviation, Department of
Beef Council, Oregon
Blind, Commission for the
Blueberry Commission, Oregon
Business Oregon
Chief Education Office
Chiropractic Examiners, Board of
Citizens' Initiative Review Commission
Clover Commission, Oregon
Columbia River Gorge Commission
Construction Contractors Board
Consumer and Business Services, Department of
Corrections, Department of
Criminal Justice Commission, Oregon
Dairy Products Commission, Oregon
Dentistry, Oregon Board of
Dungeness Crab Commission, Oregon
Education, Department of
Employment Department
Employment Relations Board
Energy, Department of
Environmental Quality, Department of
Exam. for Engin & Land Survey, State Board of
Facilities Authority, Oregon
Fine Fescue Commission
Fish and Wildlife, Oregon Department of
Forest Resources Institute, Oregon
Forestry, Oregon Department of
Geologist Examiners, State Board of
Geology and Mineral Industries, Department of
Government Ethics Commission, Oregon
Hazelnut Commission, Oregon
Health Authority, Oregon
Higher Education Coordinating Commission
Hop Commission, Oregon
Housing and Community Services Department
Human Services, Department of
Justice, Department of
Labor and Industries, Bureau of
Land Conservation and Development, Department of
Land Use Board of Appeals
Lands, Department of State
Landscape Architects Board, State
Landscape Contractors Board, State
Legislative Administration Committee
Legislative Assembly
Legislative Commission on Indian Services
Legislative Counsel Committee
Legislative Fiscal Office
Legislative Revenue Office
Library, Oregon State
Licensed Social Workers, Board of
Liquor Control Commission, Oregon
Long Term Care Ombudsman, Office of
Lottery Commission, Oregon
Marine Board, Oregon State
Massage Therapists, Board of
Medical Board, Oregon
Medical Imaging, Board of
Military Department, Oregon
Mint Commission, Oregon
Mortuary and Cemetery Board
Nursing, Oregon State Board of
Occupational Therapy Licensing Board
Office of the Governor
Optometry, Oregon Board of
Orchardgrass Seed Producers Commission
Oregon Naturopathic Medicine, Board of
Oregon Youth Authority
Parks & Recreation Department, Oregon
Parole and Post-Prison Supervision, Board of
Patient Safety Commission, Oregon
Pharmacy, Board of
Physical Therapists Licensing Board
Police, Department of State
Potato Commission, Oregon
Processed Vegetable Commission, Oregon
Professional Counselors & Therapists, Board of
Psychiatric Security Review Board

Executive Branch (cont.)

Psychologist Examiners, Board of
Public Employees Retirement System
Public Safety Standards and Training
Public Utility Commission
Racing Commission, Oregon
Raspberry & Blackberry Commission, Oregon
Real Estate Agency
Revenue, Department of
Ryegrass Growers Seed Commission, Oregon
Salmon Commission, Oregon
Secretary of State, Office of the
Sheep Commission, Oregon
Speech Lang. Path. And Audiology,
Strawberry Commission, Oregon
Sweet Cherry Commission, Oregon
Tall Fescue Commission, Oregon
Tax Practitioners, Board of
Teacher Standards & Practices Commission
Transportation, Department of
Travel Information Council
Trawl Commission, Oregon
Treasurer, Office of the State
Veterans' Affairs, Department of
Veterinary Med. Examiners, Board of
Water Resources Department
Watershed Enhancement Board, Oregon
Wheat Commission, Oregon
Wine Board, Oregon

All Others- (includes Legislative Branch and Special Government Body)

Affordable Housing Assistance Corporation
Eastern Oregon University
Film and Video Office, Oregon
Oregon Corrections Enterprises
Oregon Health & Science University
Oregon Institute of Technology
Oregon State University
Portland State University
SAIF Corporation
Southern Oregon University
State Fair Council
Tourism Commission, Oregon
University of Oregon
Utility Notification Center, Oregon
Western Oregon University

Appendix D – Department of Revenue LFO Narrative

The below information was provided by DOR.

The Department of Revenue's report to the Legislative Fiscal Office on Liquid and Delinquent (L&D) debt has changed significantly as the agency has identified differences in the way data is reported between our legacy system and GenTax, our new core system. We have undertaken an ongoing, in depth analysis of the L&D reporting process, and our data reporting to ensure the accuracy of the reported data. This document is meant to explain our findings, and share the reasons for any changes.

The agency's analysis included a review of transactions assigned to each category within the L&D reporting structure to ensure that transactions are reported in the appropriate category. In the FY 2016, the agency reported a significant increase over the prior year in the "collections" and "adjustments" categories. During the recent analysis, the agency identified some converted transactions were erroneously reported resulting in noticeably inflated totals for each category. This has been corrected and will not continue in future reporting periods. Additionally, Rollout 4 programs have a far smaller number and value of transactions to report in FY 2018 which limits the number of converted transactions at issue.

To correct this for the FY 2017 report, all converted transaction codes have been removed from each category resulting in more accurate, lower totals for "collections" and "adjustments." Further analysis of the report led to several changes for the FY 2017 including moving accounting reversals back to the originating category. Meaning, for example, if a payment was received and then later reversed because of non-sufficient funds, an accounting offset would be added to the "collections" category instead of the "adjustments" category leading to lower totals for both identified categories. In prior reports, the reversal was reported in the "adjustments" category of the report. Also, state refund, Treasury Offset Program, and State Reciprocal Program offset transactions were moved from "adjustments" to the "collections" category. These are payments applied towards debt, so they should be reported as "collections" rather than "adjustments."

Additional changes also include moving accounting reversals associated with debt that should have never existed (i.e. abatements, estimated return reversals, amended return reversals) to the "reversals" category from the "adjustments" category while leaving cancellations (i.e. cost-to-collect too high, non-collectible, settlement offer, bankruptcy, etc.) and penalty waivers in "adjustments." This report has a $20M net adjustment in the "adjustments" category to balance those converted transactions from FY 2016 report. The remaining balance in the "adjustments" category is properly stated transactions as discussed above.

Additionally, the department would like to have conversations over the next few months with LFO and DAS-CFO to discuss removing "estimated" debt from the L&D report. This particular type of debt does not meet the definition of "Liquidated and Delinquent" debt, however it has been and continues to be reported in the L&D balances, including this FY 2017 report. This continuing analysis of the L&D reporting process will help ensure the correctness of the data we report in FY 2018 and later reports.