



Improve Your Delinquent Accounts Receivable

Essential Insights from Government and Collection Industry Leaders (Part 1 of 3)



Improve Your Delinquent Accounts Receivable

Part 1

The State of Delinquent A/R: An Inside Look

Improve Your Delinquent Accounts Receivable

With Special Thanks To:



Presenting Today:
Jon DuFrene
IMG Board of Directors

A golden statue of a figure, likely representing justice or governance, holding a scale and a sword, set against a blue sky background.

Institute for Modern Government
CENTER FOR GOVERNANCE

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Improve Your Delinquent Accounts Receivable

■ *Let's Get Busy . . .*

■ Think about this -

- You need to purchase an annuity - how much would you pay – **TODAY** - for an annuity of \$1 million dollars?
- What questions do you need to ask?
- We will analyze and discuss this at the end of today's session

■ My SOCO – (Single Overriding Communication Objective)

- ***Oregon's Collectors are GREAT Collectors – Because they are SO GREAT at Math!***

- Lets examine the State's Debt History through –
the Past – the Present – & the Future . . .

**Don't Embarrass
My SOCO!**



A Brief History Of Time

Addressing Oregon's A/R Collection Perception

The Early Times . . .

- NASC Presentation: March 15, 2001
 - 1997
 - Secretary of State Audit #97-77 - Nine Recommended Actions...
 - Senate Interim Budget Comm. Report...
 - \$1.8 Billion in ***Delinquent Debt*** @ 6/30/97
 - 1999
 - HB3509 – Oregon Laws 1999, Chapter 1092
 - Two Significant New Requirements...
 - Inter-Agency Receivables Concerns
 - “The Oregonian” explains debt collection
 - 2001 - - Are More Laws Coming?

**I'm a lobbyist,
I'm here to help!**

The Early Times . . .

■ SoS Audit #97-77 - Nine Recommended Actions...

- 1) Statewide Collection Committee – (A/R Core Committee – ARCC)
- 2) Statewide Vendor Offset Program – (*Hmmmmmmmm. . .*)
- 3) Statewide Master Collection Contract – (w/ 300 local governments)
- 4) Pilot Tests for Account Assignment - (petition for more automation)
- 5) Legislative Authority: Sharing Agency Information –
- 6) Legislative Authority: Administrative Garnishment –
- 7) On-Line DMV Access –

>> Now available by PC-modem, by phone, & by fax.

- 8) Improve Automation –

>> Explore new technologies and collection software...

- 9) Autodialer Systems – Studied Autodialer technology...

>> Developed comprehensive report on system use.

**Loads of
Wins!**

The Early Times . . .

- Senate Interim Budget Comm. Report...
 - Circa 1998 - 1999
 - Developed by the Oregon Collector's Assn.
 - Surveyed most state agencies and found \$1.8 Billion in "Delinquent Debt"
 - Partial Debt Detail:
 - **\$933 Million in Child Support (3rd-party)**
 - **\$317 Million in (Income) Taxes**
 - **\$200 Million at State Courts (Restitution)**
 - **\$189 Million in student loans, tuition, etc. (OSAC)**
 -
 - **\$1.639 Billion (91% of the \$1.8 Billion amount.)**



The Early Times . . .

- HB3509 - Or. Law 1999, Chapter 1092
 - Two Significant New Requirements...***
 - Assignment of Liquidated and Delinquent Accounts:
 - Assignment to Department of Revenue
 - Assignment to Private Collection Firm
 - Some Accounts can be Exempted
 - DAS providing policy / procedures
 - Reporting of Liquidated and Delinquent Accounts
 - Each State Agency Annually Reports their Previous Fiscal Year Liquidated and Delinquent Accounts by October 1st.
 - Agency notifies LFO if it cannot comply
 - LFO to Collect Data and Annually Report to the Legislature by December 31st

The Early Times . . .

- The Oregonian says the State should:
 - Centralize collection efforts,
 - Add collection costs to the bill like WA & UT,
 - Turnover debts to private firms in 90-days.



So, lets look into this advise . . .

The Early Times . . .

Oregon's Assets ~ Comparisons

Oregon Versus Other Western States "Net" Receivable Ratios

\$ In Billions

	ID	AZ	CA	OR	WA	UT	NV
Revenue	\$4.10	\$13.8	\$116.	\$13.2	\$24.6	\$6.61	\$4.35
Net A/R	\$0.24	\$1.55	\$13.2	\$2.22	\$4.32	\$1.31	\$0.87
A/R % of Revenue	5.9%	11.3%	11.4%	16.8%	17.6%	19.7%	20.1%
Avg. Days Outstanding	22	41	42	61	64	72	73

The Early Times . . .

Oregon's Assets ~ Comparisons State versus Private ~ "Net" Receivables Ratio

\$ In Billions

	Intel	Micro -soft	Oregon (w/ taxes)	Gannet	Nike
Revenue	\$29.39	\$22.96	\$13.21	\$5.26	\$9.00
Receivables	\$ 3.70	\$ 3.25	\$2.22	\$.88	\$1.57
A/R as a % of Revenue	12.6%	14.2%	16.8%	16.8%	17.4%
Avg. Days Outstanding	46	52	61	61	64

Make Good Comparisons

Apple ~ in a Tree



Orangutan
~ in a Tree



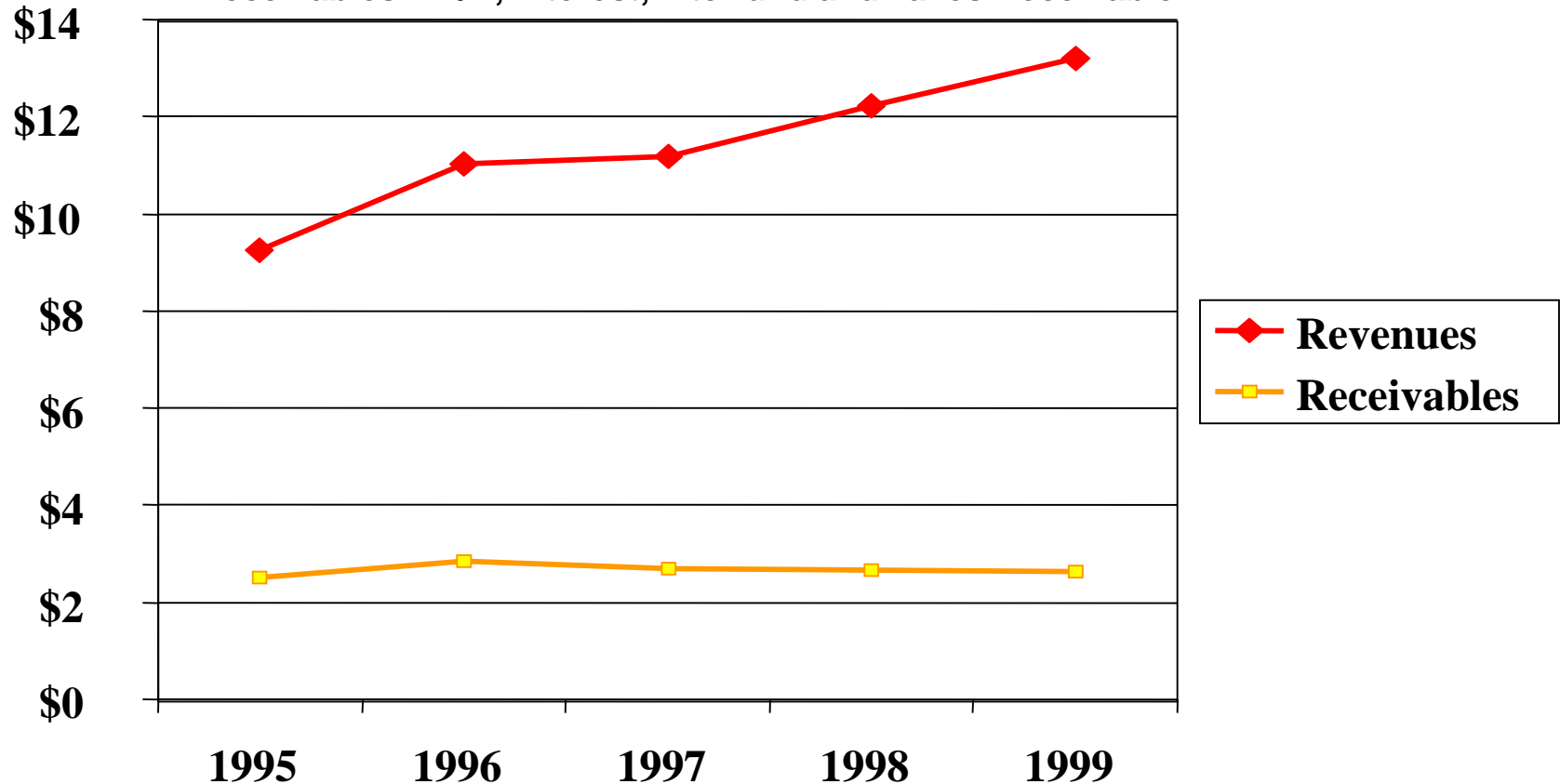
The Early Times . . .

Oregon's Assets ~ Comparisons

Growth of Revenues Versus "Net" Receivables

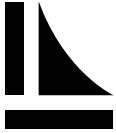
Receivables = A/R, Interest, Interfund and Taxes Receivable

Billions:



Source: Oregon's Comprehensive Annual Financial Report

3/15/2001 NASC Presentation



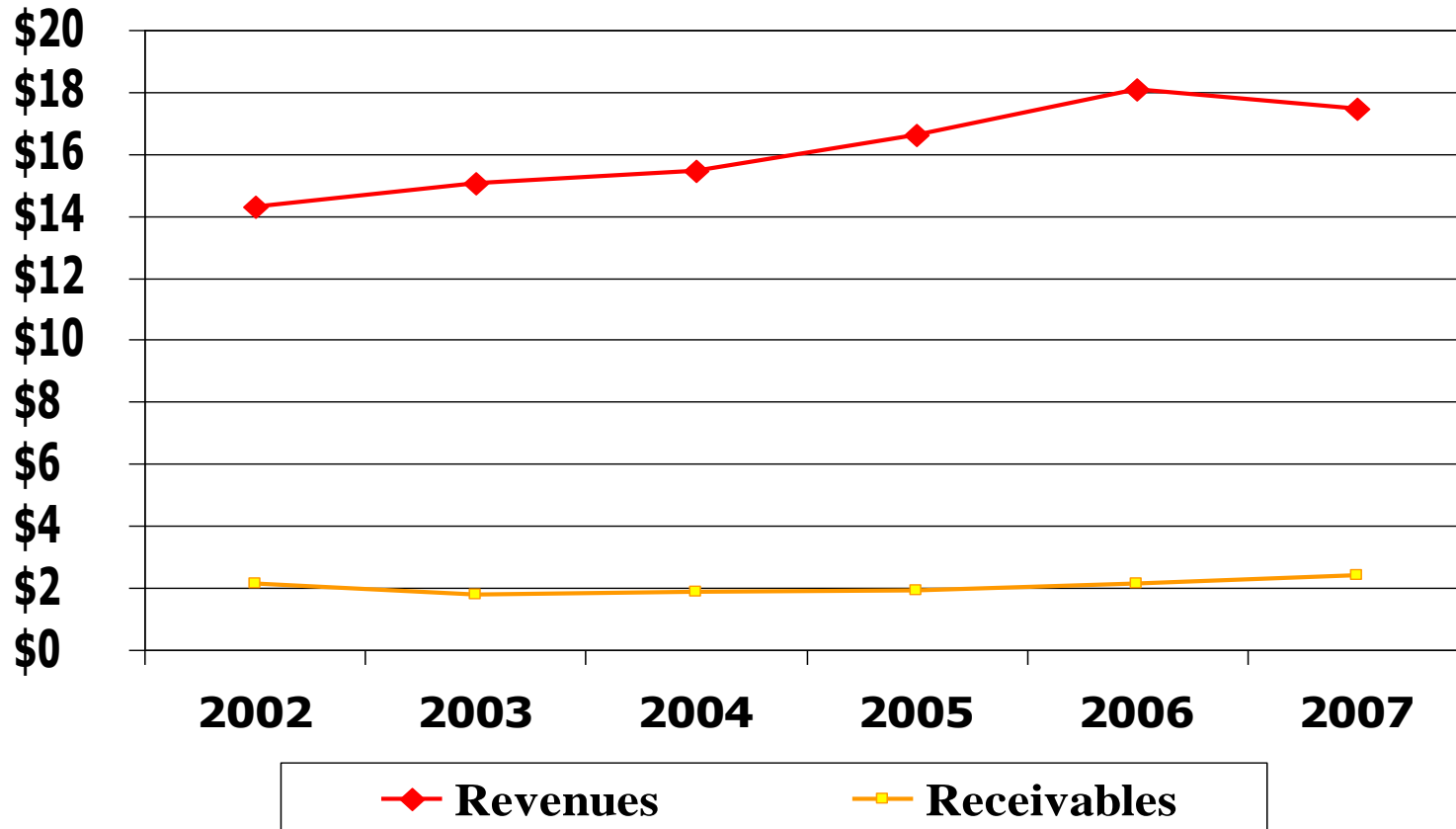
The Early Times . . .

Oregon's Assets ~Comparisons

Growth of Revenues Versus "Net" Receivables

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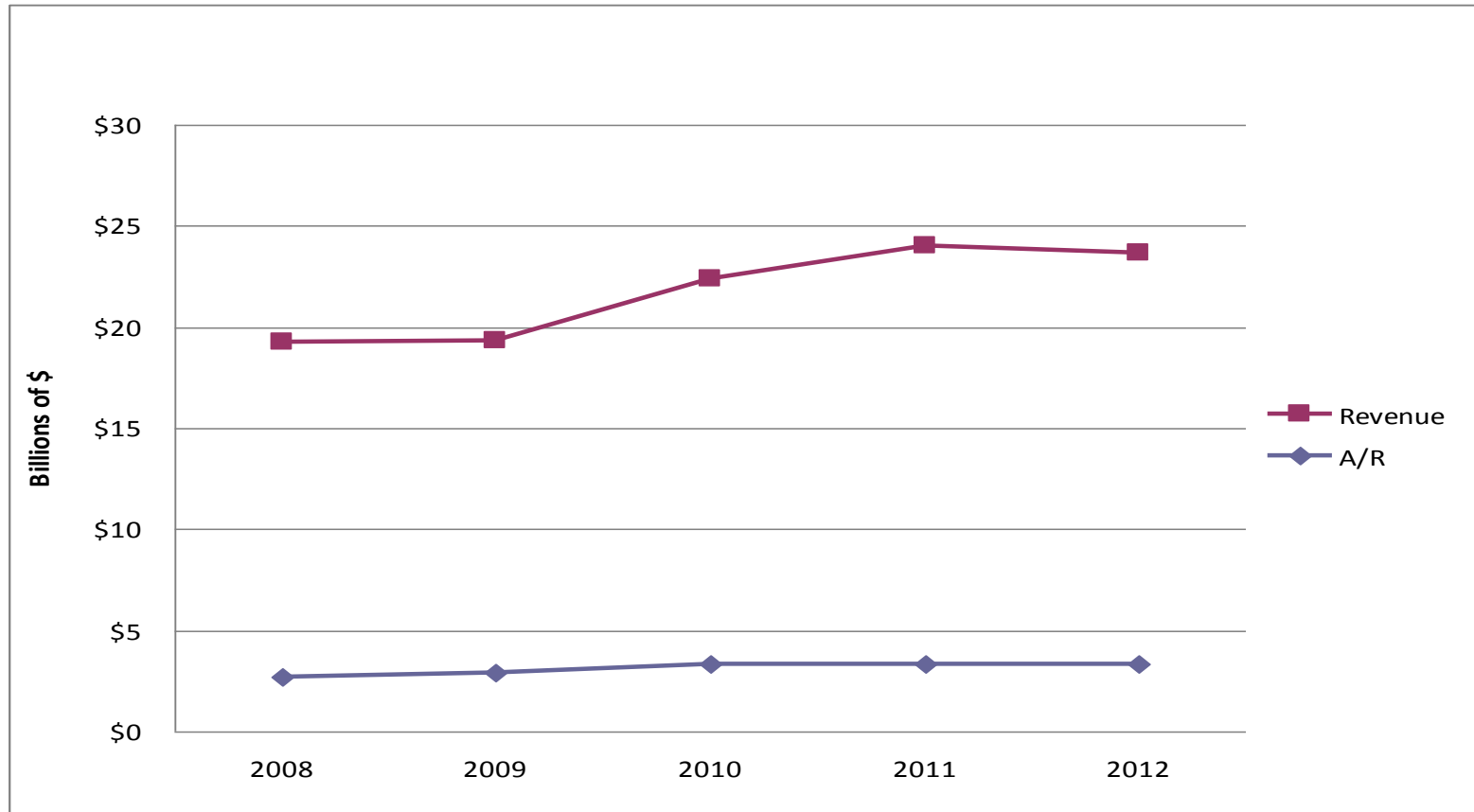


Source: Oregon's Comprehensive Annual Financial Report

2009 Legislative Presentation

The Early Times . . .

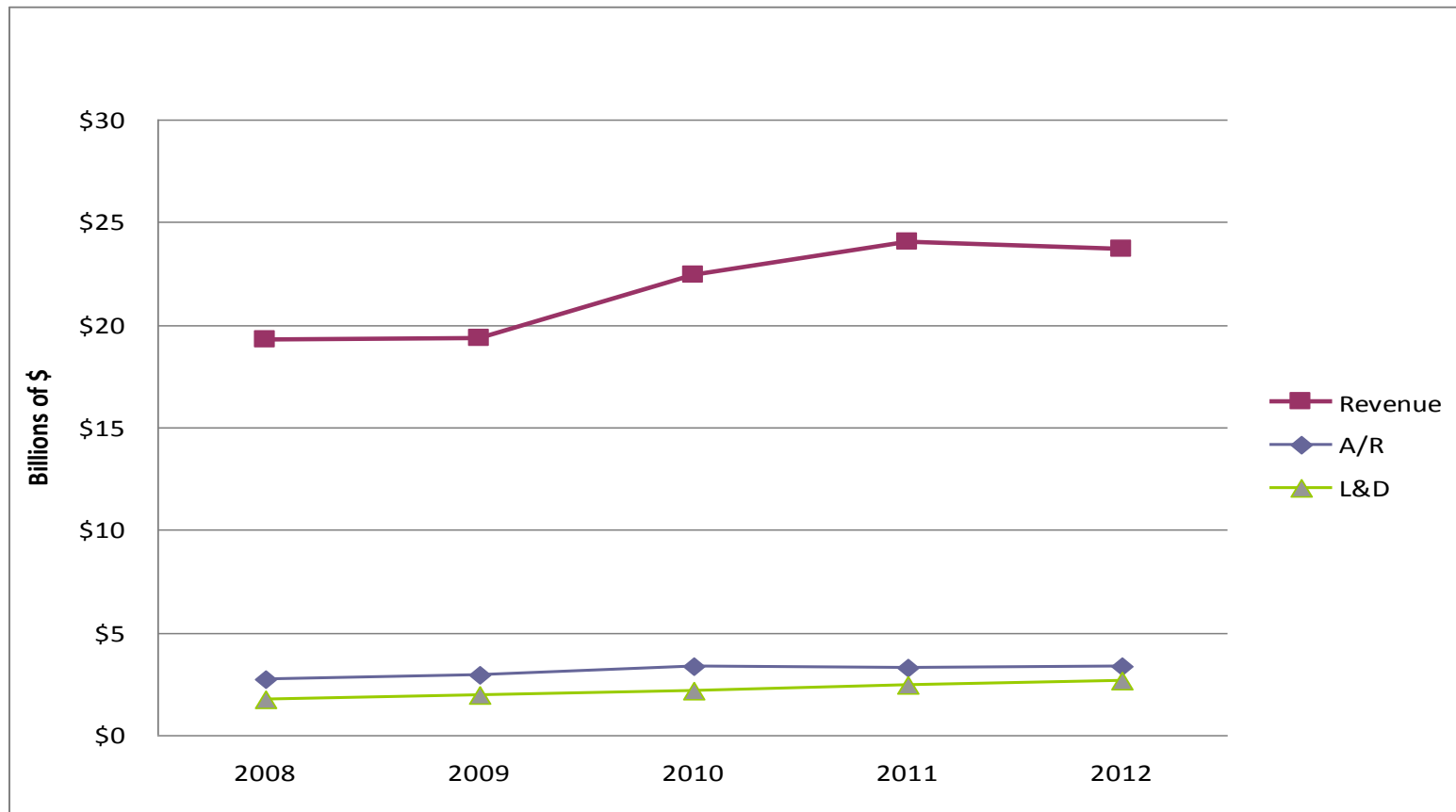
Oregon's Assets ~ Comparisons Growth of Revenues Versus "Net" Receivables



Source: Oregon's Comprehensive Annual Financial Reports

The Early Times . . .

Oregon's Assets ~Comparisons Growth of Revenues Versus "Net" Receivables With Liquidated and Delinquent Debt Included

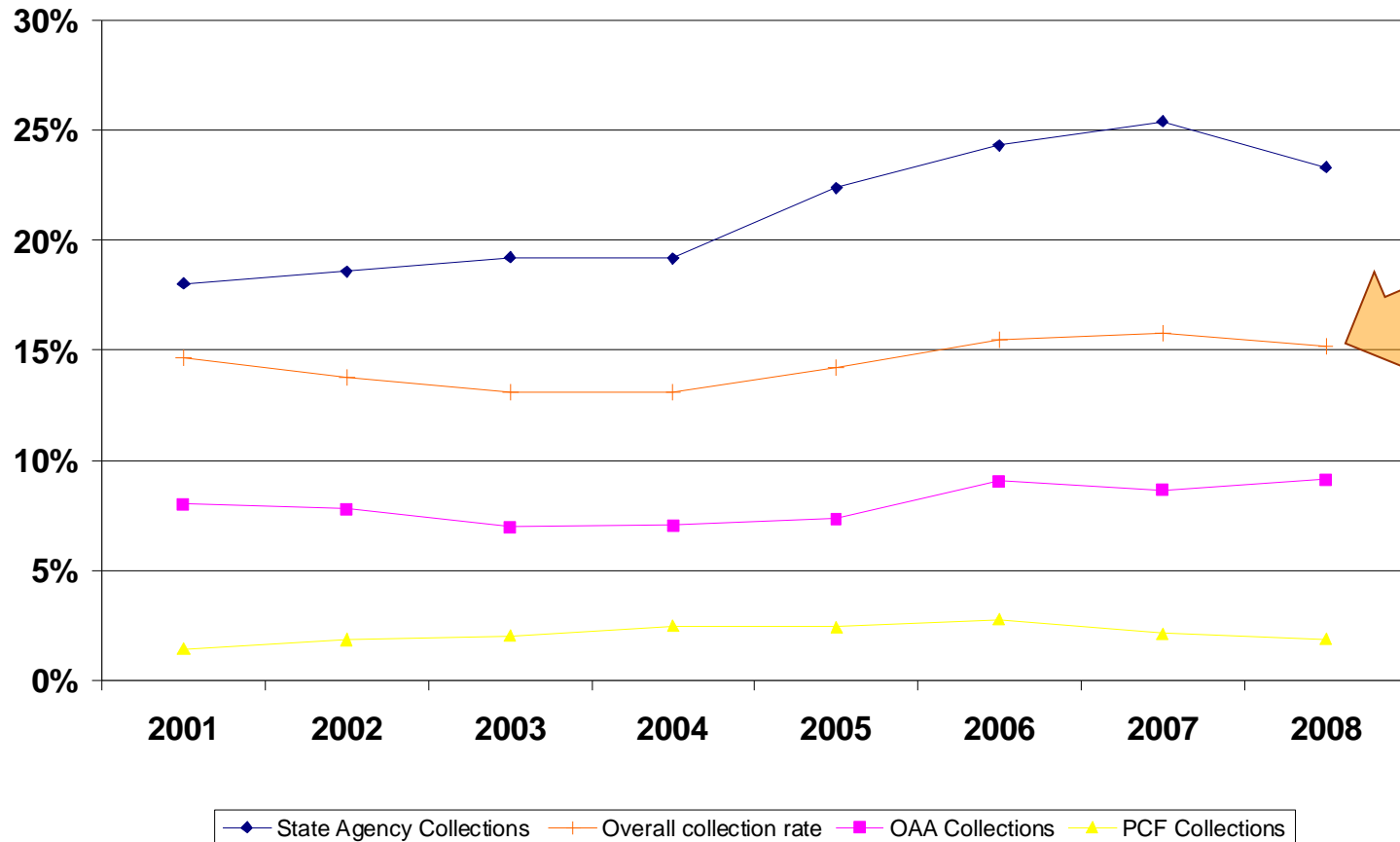


Source: Oregon's Comprehensive Annual Financial Report / LFO Reports

The Early Times . . .

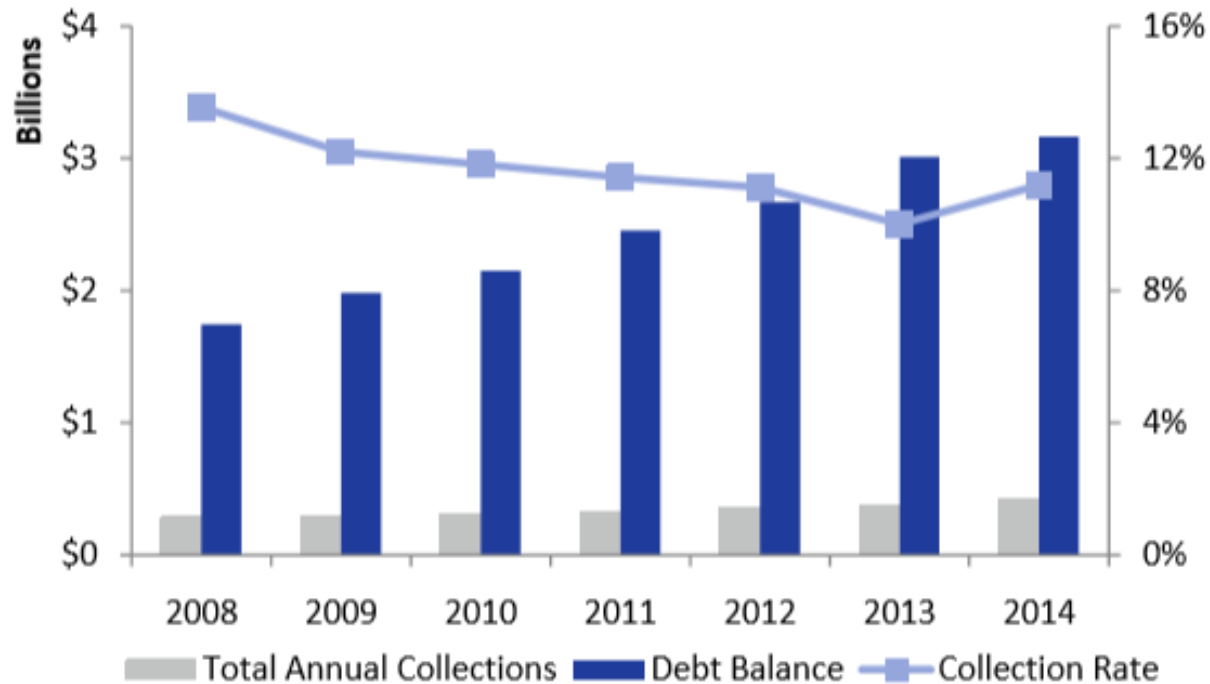
Dollar Collection Rate History

Collections ÷ (Beginning Balance + Additions)



The Early Times . . .

Liquidated and Delinquent Receivables



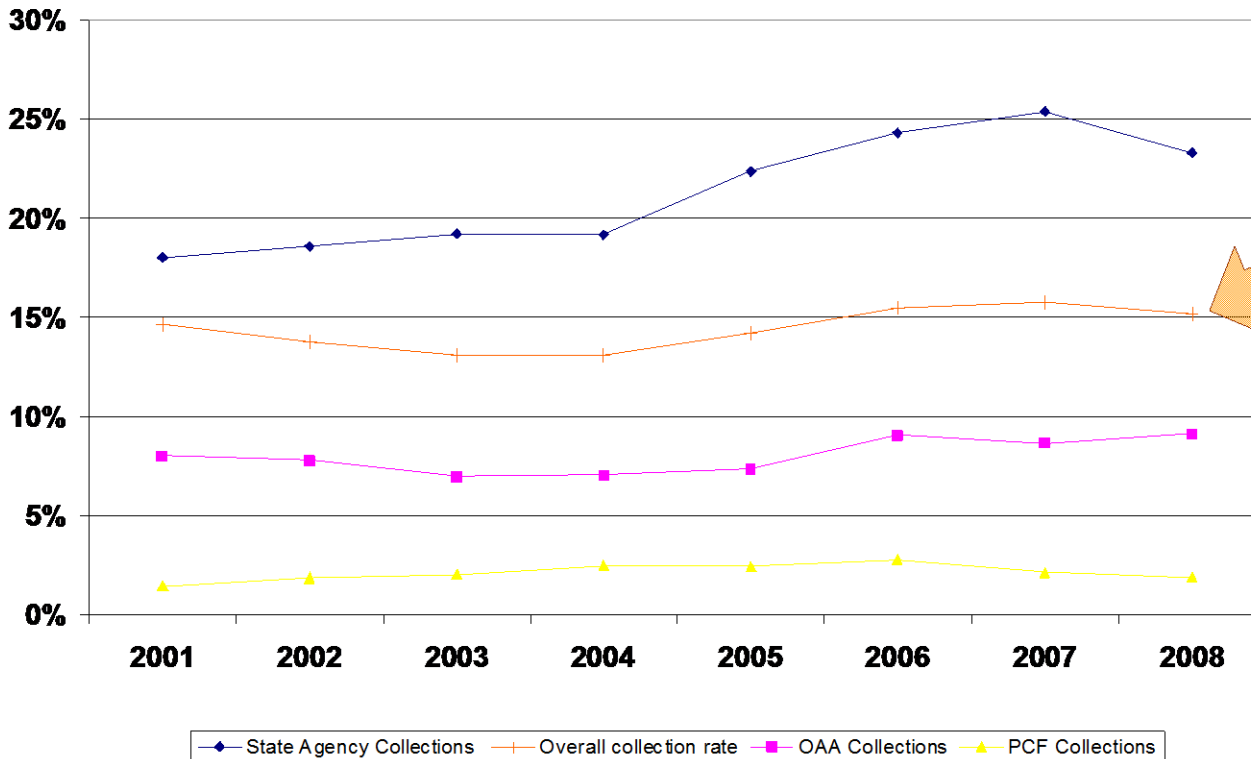
Source: Legislative Fiscal Office. Adjusted for PERS errors. Excludes Department of Administrative Services interagency debt.

A Brief History Of Time

What are we comparing here?

Dollar Collection Rate History

Collections ÷ (Beginning Balance + Additions)



Circa 2005, the ACA published their collection firm surveyed Presentation Rates:

1st Presentations: ~ 11-18%,

2nd Presentations: ~ 5 - 8%,

3rd Presentations: ~ .5 - 2.5%





A Brief History Of Time

What are we comparing here?

State:	ID	AZ	CA	WA	OR	UT	NV	Oregon Versus Other Western States
Property Tax	No	Yes	Yes	Yes	No <small>No "State" Property Tax</small>	No	Yes	~
Income Tax	Yes 1.6-7.8%	Yes 2.9-5.0%	Yes 1.0-9.3%	No	Yes 5.0-9.0%	Yes 2.3-7.0%	No	All State Tax Collection Sources
Sales Tax	Yes 5.0%	Yes 5.6%	Yes 6.0%	Yes 6.5%	No	Yes 4.75%	Yes 6.5%	Compare Apples to Orangutans
Population	1.3m	5.3m	34.5m	6.0m	3.5m	2.3m	2.1m	

Source: Federation of Tax Administrators/US Census

AGA Winter Conference
February 2004

A Brief History Of Time

Please ~ Please ~ Please ~ ~ ~

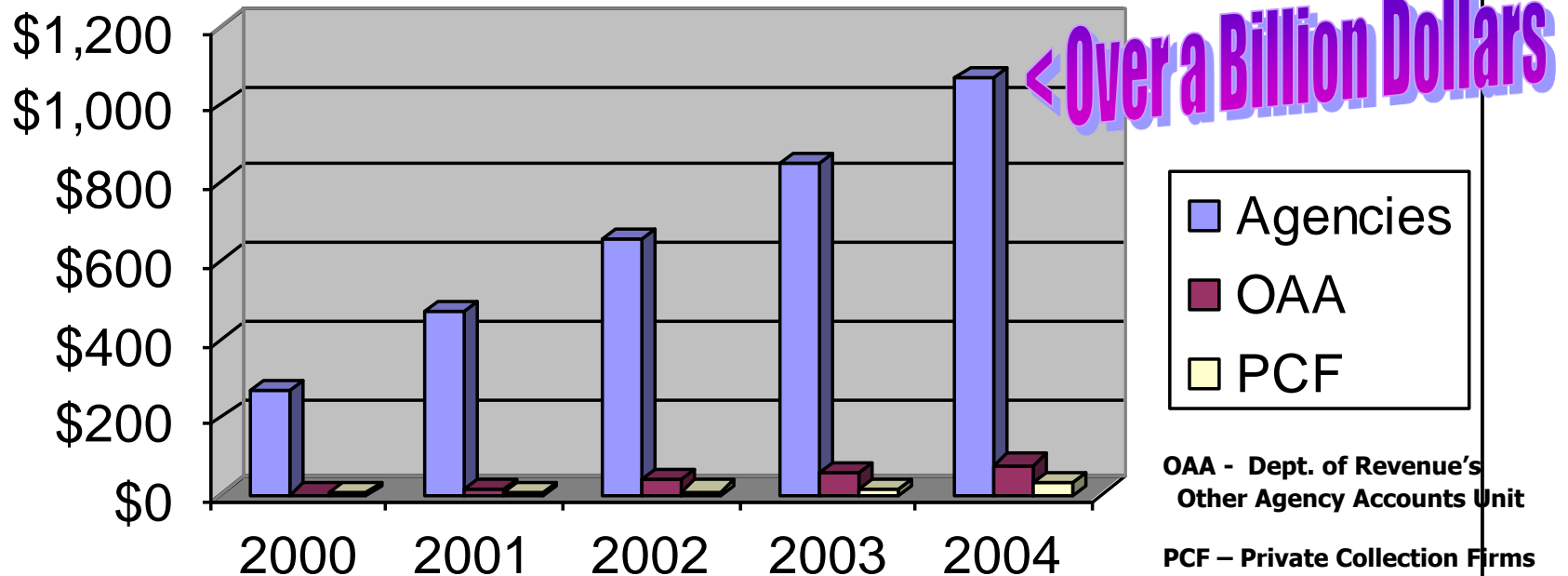
**Compare
Apples to
Orangutans**

*Don't make a monkey
of yourself!*

Statewide Financial Services SWARM Analysis

5 Year Cumulative Collection Summary

In Thousands

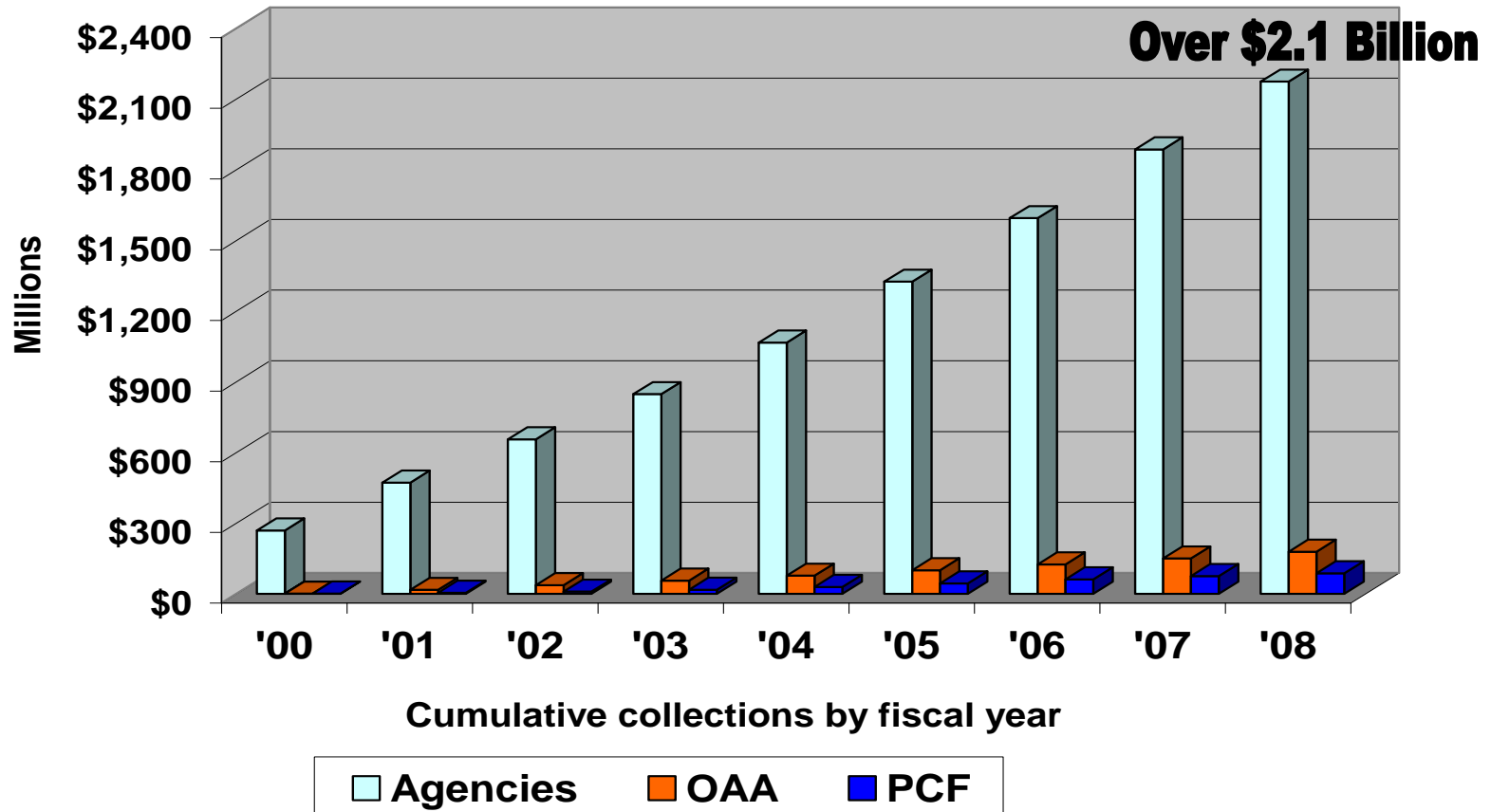


Source: LFO Reports

BAM Presentation
January 2006

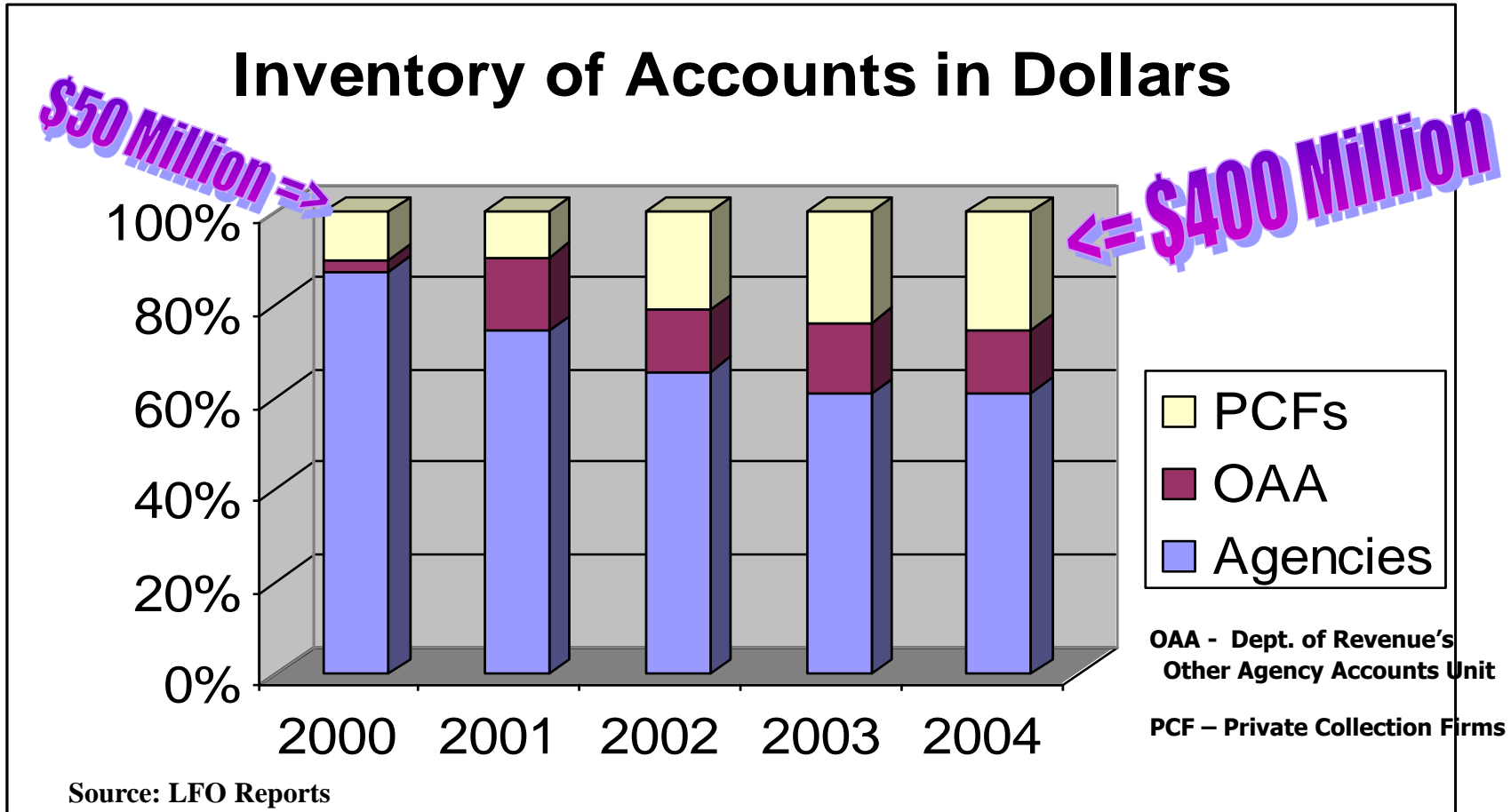
Statewide Financial Services SWARM Analysis

9 Year Collection Summary



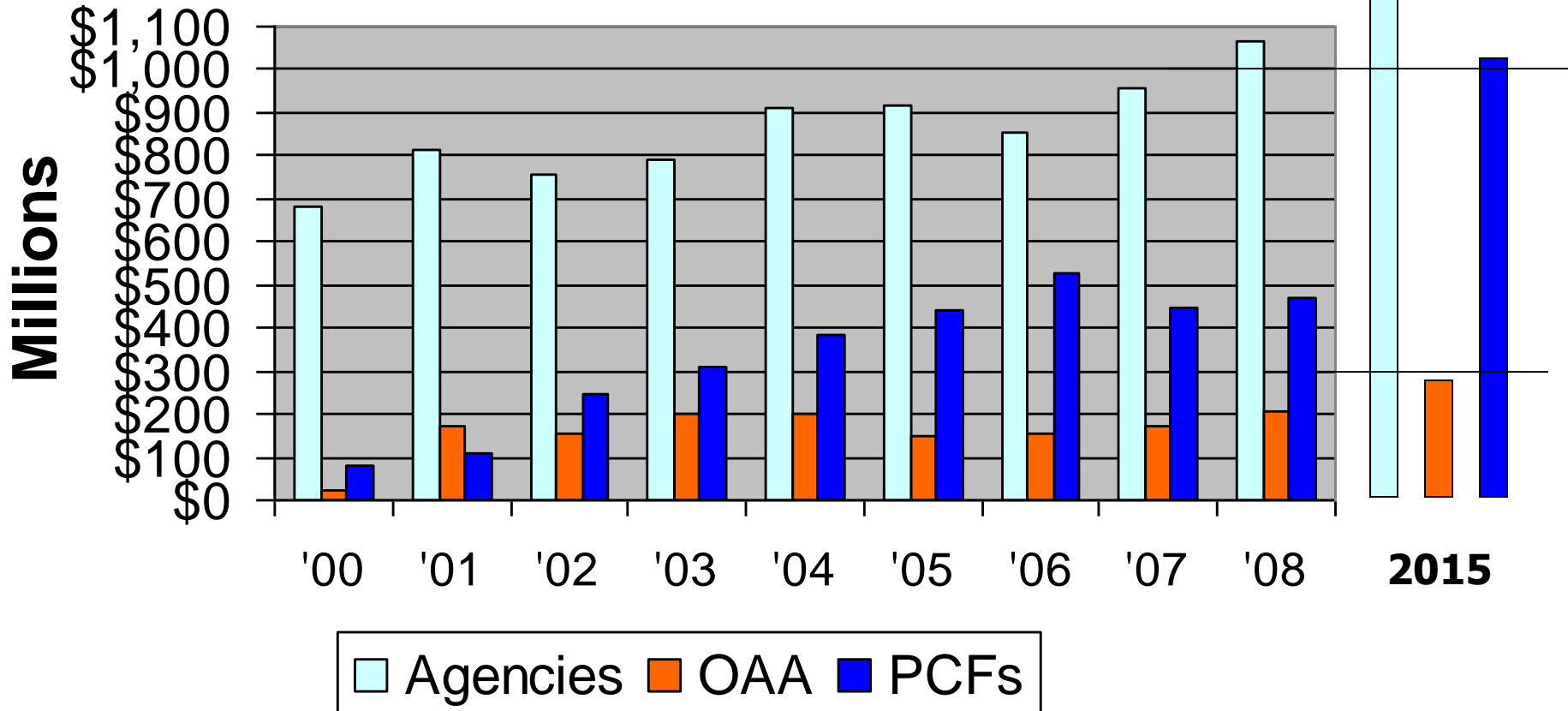
Source: Annual LFO Report on Liquidated and Delinquent Accounts Receivable

Statewide Financial Services SWARM Analysis



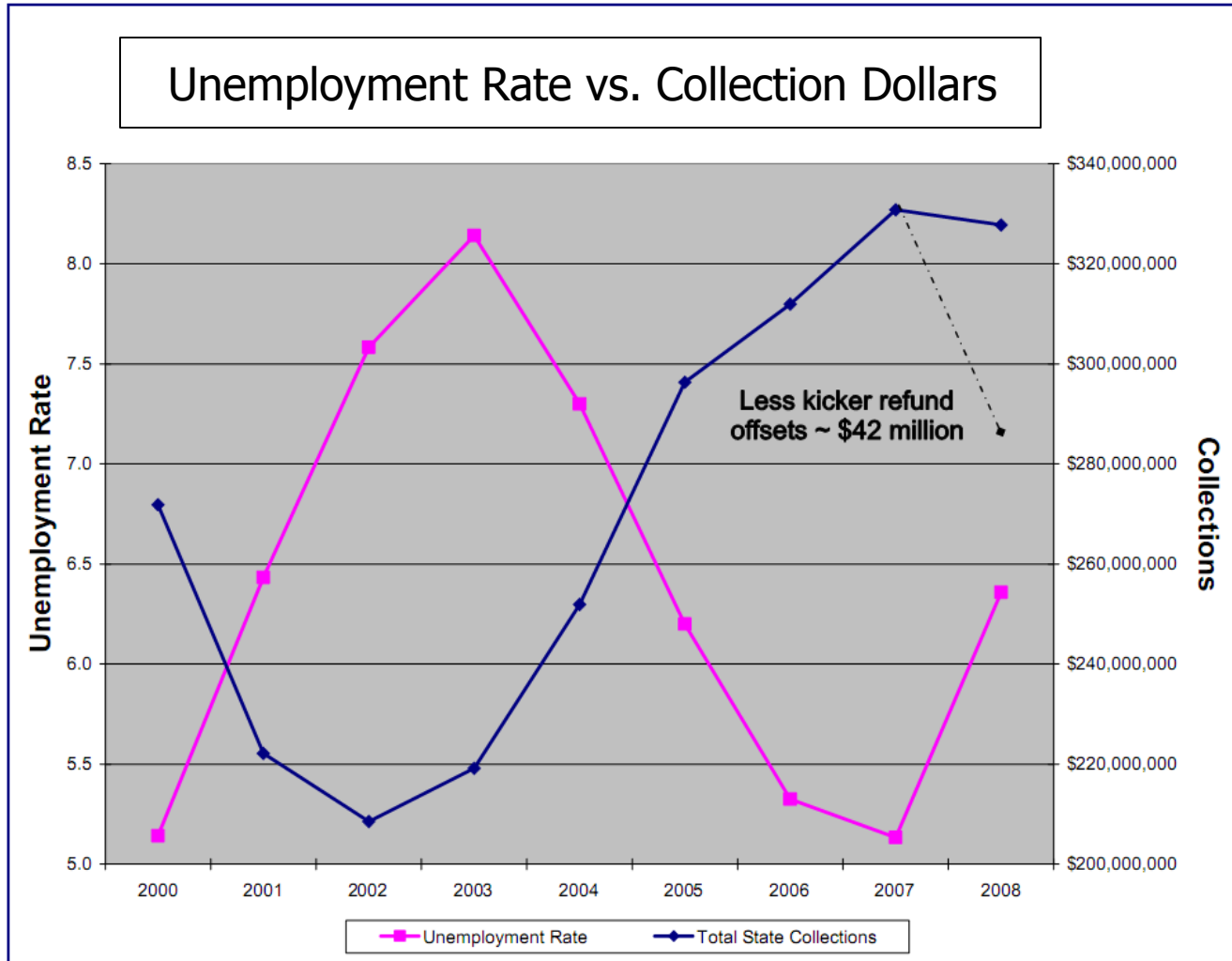
Statewide Financial Services SWARM Analysis

Ending Inventory by Fiscal Year



Source: Annual LFO Report on Liquidated and Delinquent Accounts Receivable

Statewide Financial Services SWARM Analysis



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

This is what OAA can do for you – how about the Federal offset?

Statewide Financial Services

Oregon in the Headlines . . .

StatesmanJournal.com SALEM • OREGON

Debtors owe state \$1.3 billion



Oregon sits on \$1.3 billion

in bad debts (AP)

**Collect those
Bad Debts!!!?**



**Oregon Drowning in
\$1.3 billion in Overdue Debt**

Headlines resulting from the
February 2004 Measure 30 (HB2152)
balanced budget / tax referendum.



The Present Times . . .

Collection Processes - Then & Now.

Collection Processes

Following All The Laws

- Exploring Liquidated and Delinquent Accounts –
 - Before we talk about Liquidated,
...lets talk about “Delinquent.”
 - But, Before we talk about “Delinquent,”
...lets talk about Billings & Interest.
- When you send a billing – what is the due date?
 - Does your agency charge interest for payment that are late – payments that come in after the due date?

Collection Processes

Following All The Laws

- What is interest?
- Do agencies charge interest now? **(Yes!)**
- Do I have the authority to charge interest?
 - **How do I know?**
 - **How do I check?**
- Is there any secret to calculating interest?
- Do I have to charge interest?

Collection Processes

Following All The Laws

- What is interest?
 - **“Interest is the compensation allowed by law, or fixed by the parties, for the use, detention, or forbearance of money or its equivalent.” ~ 45 Am Jur 2d page 24**
 - **It is established by statute or contract, where the contract does not violate state usury laws. ~ Ibid. pages 41, 43**

Collection Processes

Following All The Laws

- Do I have the authority to charge interest?
 - Specific Statutory Authority...
 - "Agencies are creatures of statute..."
 - What is in your "authorizing statute."
 - What does it say?
- Specific authority versus General authority
 - See ORS 174.020(2) ~ (Statutory Construction)
 - "When a general and particular provision are inconsistent, the latter is paramount to the former so that a particular intent controls a general intent that is inconsistent with the particular intent."

Please pass the
acronyms!!!

LegCncl
vs. AG'S

OSFA Conference
April 2005

Collection Processes

Following All The Laws

- Do I have the authority to charge interest?
 - General Statutory Authority > Anybody!
 - 82.010 Legal rate of interest; effect of violation. (1) The rate of interest for the following transactions, if the parties have not otherwise agreed to a rate of interest, is **nine percent per annum** and is payable on:
 - (a) All moneys **after they become due**; but open accounts bear interest from the date of the last item thereof.
 - (b) Money received to the use of another and retained beyond a reasonable time without the owner's express or implied consent.
 - (c) Money due or to become due where there is a contract to pay interest and no rate specified.
 - (2) Except as provided in this subsection, the rate of interest on judgments for the payment of money is **nine percent per annum**.

Collection Processes

Following All The Laws

- Do I have the authority to charge interest?
 - General Statutory Authority > Anybody!
 - How do we know anybody?
 - **Case law...**
 - Thomas v. Senior and Disabled Services Div.* 319 Or 520 (1994)
 - Important that your process is clear as to when the debt is "**due**" ~ I.e. when it becomes **delinquent!**
 - Are **due dates** identified in your authorizing statutes?
 - Do your invoices (billings) declare a **due date** or **delinquency date?** **(THEY SHOULD!)**

Collection Processes

Following All The Laws

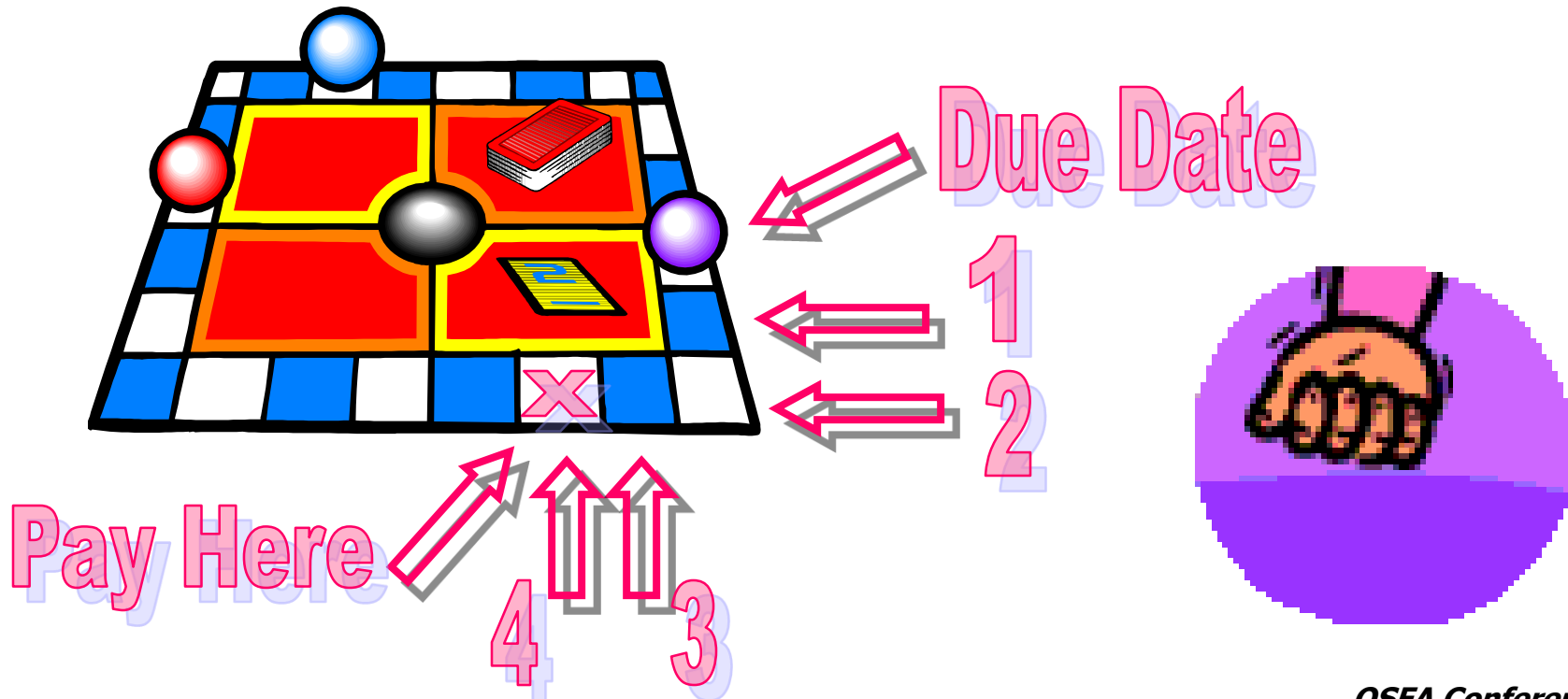
- Specific Authority > Example 1 [OSAC]...
 - ORS 348.117 Repayment of loans for nursing program; ... (1) Student borrowers under ORS 348.115 shall be required to pay at least ***seven percent interest per annum*** on the unpaid balance from the date of the loan as provided in subsection (5) of this section.
 - **How much is 7% computed at a daily rate?**
 - $7\% / 365 \text{ days} = .00019178 = .019178\% \text{ daily}$
 - Carrying out the decimal to ***8 digits*** promotes accuracy to the penny on \$1,000,000.
 - $\$1,000,000 @ .00019178 = \191.78 per day
 - $10 \text{ days} = \$1,917.80$

360
or
365
?

Collection Processes

Following All The Laws

- Interest Days > How do you count the days?
 - Count the days like playing a board game...



Collection Processes

Following All The Laws

- Specific Authority > Example 2 [PERS]...
 - ORS 238.705 State departments to remit contributions and furnish reports... (2) Any public employer delinquent in remitting contributions ***shall be charged interest*** on the total amount of contributions due from it ***at the rate of one percent per month or fraction thereof*** during which the public employer is ***delinquent*** ...
 - **1% per month = 12% per annum**
 - Billing date: April 4th – Amount \$1,000 ~ Due Date: May 7th
 - **May 4th - One months interest = \$10** (\$1,000 x 1% x 1 month)
 - **May 7th - Two months interest = \$20** (\$1,000 x 1% x 2 months)
 - ***Any fraction of a month!***

Collection Processes

Following All The Laws

- Does my Agency have to charge interest?
 - Why wouldn't you?
 - **Too much hassle**
 - **System can't handle it**
 - **Not going to collect the debt anyway**
 - **Overstates the agency's receivables**
 - Why should you?
 - **May promote payment**
 - **Prevent the wasting of public assets**
 - Need more info? > See OAM 35.30.20

Collection Processes

Following All The Laws

- Exploring Liquidated and Delinquent Accounts –
 - We now understand the importance of establishing and conveying Due Dates to our customers – along with establishing an account as Delinquent, it provides the legal foundation for charging interest – or taking other actions.
 - So now - What is the ***Definition of Delinquent:***
 - A delinquent account is a receivable for which payment has not been received by the due date.
 - ***Funk & Wagnall's*** explains it like this:
 - (1) Neglectful of or failing in duty or obligation,
 - (2) Due and unpaid, as taxes.
 - **What is your Agency Policy?**

That was...



Collection Processes

Following All The Laws

- US Constitutional Due Process Clause:
 - 5th Amendment ~ Directed at Federal Agencies
 - 14th Amendment ~ Directed at State Agencies
 - No one shall be . . . “deprived of life, liberty, or property without due process of law.”
 - Same eleven words in both Constitutional Amendments.
- Oregon Constitutional Citations:
 - Article I, § 10:
 - “Every man shall have remedy by due course of law for injury done him in his person, property, or reputation.”
 - Article I, § 19:
 - “There shall be no imprisonment for debt, . . . ”



Collection Processes

Following All The Laws

- Due Process Means:
 - Notification ~
 - Notice properly contemplated to effect the attention of the person(s) affected as to the nature and gravity of the case . . .
 - Opportunity to be heard ~
 - Remedy by due course of law – one’s day in court.
 - Purpose ~
 - “...to prevent the arbitrary use of government power” - AmJur
- Upon achieving due process,
...the account becomes **“liquidated.”**
- Add procedurals statutes and Due Process / Liquidation can look like this . . .

Civil Penalties

Numerous state agencies have Civil Penalty authority. Their particular authorizing statutes offers limitations on penalty amounts and methods of imposition.

This statute provides basic procedures. It addresses when the penalty would be due, hearings, final orders, legally recording orders, etc.

These statutes address the notification and hearing process. The hearing is conducted as a contested case hearing. Without application within the time frame, no hearing is required.

Observe ORS 183.413 for Contested Case hearings and see the note at ORS 183.470 - Hearings Officer Panel. Also note ORS 183.502, the Alternative Dispute Resolution process.

This statute indicates that the finding of the contested case hearing may be appealed to the state's Court of Appeals, and provides time limitations.

This statute indicates that the finding of the state's Court of Appeals may be appealed to Oregon's Supreme Court.

An order becomes **final** when the appeal process is exhausted or the period for filing appeals has elapsed.

These statute show the operation of recording the **final order** in the County Clerk Lien Record. This has the "attributes and effects" of a judgment.

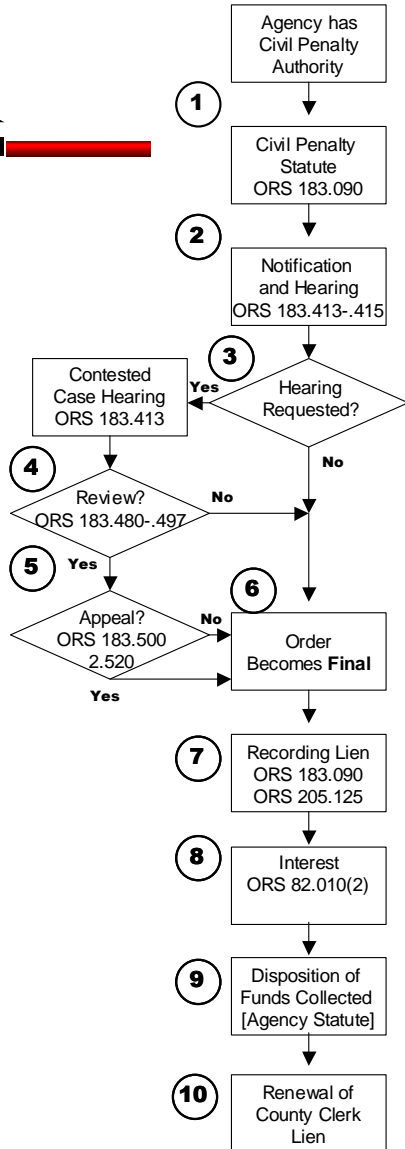
Interest may be collected on the judgment at the statutory rate of 9 percent.

Some agency statutes that authorize civil penalties also require the amounts collected to be deposited into the state's general fund.

Within 10 years of a recording in the County Clerk Lien Record, an agency has a one-time renewal of the lien. This keeps the lien valid for another 10 years.

"Procedural due process is not intended to promote efficiency or accommodate all possible interests; instead, it is intended to protect the particular interests of the person whose possessions are about to be taken."

Fuentes v. Shevin
407 U.S. 67, 92 S.Ct. 1983





Collection Processes

Following All The Laws

The Oregon Accounting Manual

OAM Policy 35.30.50

101. Agency management must ensure that agency personnel employ appropriate and lawful practices in the collection of accounts receivable.

102. State agencies must comply with the **Oregon Unlawful Debt Collection Practices statute, ORS 646.639**, related to consumer debt. Agency staff undertaking letter collections must read, understand, and comply with the provisions of ORS 646.639.

103. State employees who collect debt during the performance of their official duties are specifically exempt from coverage under the **Federal Debt Collections Practices law (15 U.S.C. §§1692a (6)(C))**. This law does not bind state employees whose specific job entails collecting debt; however, the State of Oregon sees the value of the Federal Debt Collections Practices law and recommends that all agencies voluntarily comply. Many provisions of the state and federal laws overlap.

Collection Processes Obstacles & Opportunities

- **Cost of Due Process Collections - Examples**
 - **Staffing – having the knowledge, skills, & abilities to follow the law and deal with debtors in a sometimes hostile environment**
 - **Credit & Collection Manager Salary: \$68,250 - \$99,000 (PEMF – R35)***
 - **Credit & Collection Clerk Salary: \$34,250 – \$45,750 (RA2 – R19)***
 - **Processing – IT systems that track debtor transactions, account balances, contact information, interactions, monitors payment plans, generates letters, etc.**
 - **Administrative – consider the costs of overhead. Collect penalties and interest when imposed as opposed to manually adjusting them away to promote a concession for payment.**
 - **Cost of hearings – in some cases, the costs associated with the due process hearings born by the agency can exceed the civil penalty action that generated the hearing.**
 - **Establishing and enforcing adequate internal controls to protect the payment pathway from the payer to the bank.**

**Source : Robert Half
2013 Salary Guide*

Collection Processes

Do The Math!

Assessing the Likelihood of Payment Via A Truth Table ~

Try Some Boolean Algebra!

Identify the "Ability" to Pay

Identify the "Desire" to Pay

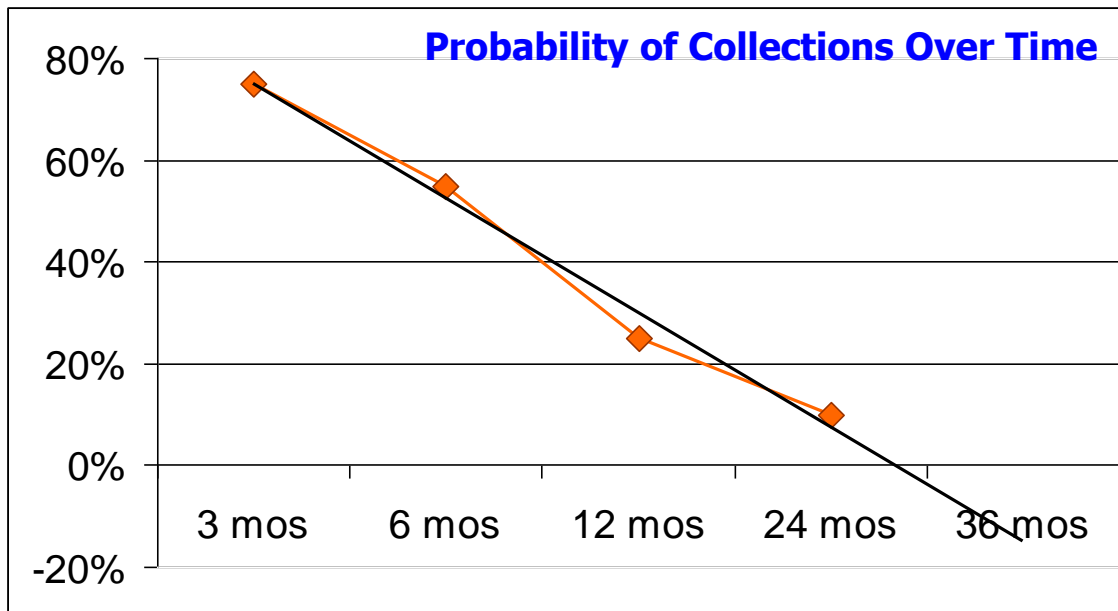
T / T Result: You Get Paid	T / F Result: Maybe Get Paid?
F / T Result: You Work For It!	F / F Result: For-Get-About-It!

Collection Processes

Do The Math!

Probability of Collection figures were taken from numbers attributed to The Commercial Law League of America. These numbers offer benchmarks on the collection of debt based on the passage of time. It is not known how accurate these numbers are for state debts, however, they offer the best information readily available and are often cited in collection industry information. [Circa 2003]

Assuming you assert the probability of collection as the "value" of an account, the account would be worthless at about 30 months.



Editor's Note ~
While encouraging math, statistics, and probability in analyzing the value of an account, we also need to ask the question – WHY?

Why does this curve do this? What are the conditions of the debt, the debtor, the economy, etc.?

Take a look at the old SoS Write-off guidelines. Are those the conditions that are influencing the declination of these numbers?

**Try some
Probability
& Statistics!**

Collection Processes

Following All The Laws & Definitions

- Dealing with the Debts - Terminology;
 - Adjustments – resolution of an improper billing –
 - I.e. you billed the wrong amount, **adjust** the dollar amount.
 - Compromise / Settlement –
 - I.e. resolution of a liability through an amicable agreement.
 - Cancel, Release, Discharge –
 - I.e. the extinguishments / removal of all legal liability.
 - Bankruptcy –
 - When concluded by the court, “[s]uch debts are not ‘uncollectible;’ rather, such debts are nonexistent.”
 - Write-Off –
 - A bookkeeping removal of debt, not a removal of legal liability.

Collection Processes

Following All The Laws & Definitions

Action	Accounting	Legal
<i>Write-Off</i>	Yes Remove from books.	No Remains a legal liability
<i>Adjust-Off</i>	Yes Books are adjusted.	Yes Liability is adjusted.
<i>Cancel</i>	Yes Remove from books.	Yes* Liability is extinguished.
<i>Compromise</i>	Yes Books are adjusted.	Yes Liability is adjusted.

* The cancellation or forgiveness of debt can have tax consequences.

Collection Processes

Following All The Laws & Definitions

■ What is a “Receivable”

- Amounts owing to the State including accounts receivable, loans, notes receivable, and interest. Receivables can be due from private persons, firms, corporations, other agencies, employees, and the federal government.

■ What is an “Allowance for Doubtful Accounts”

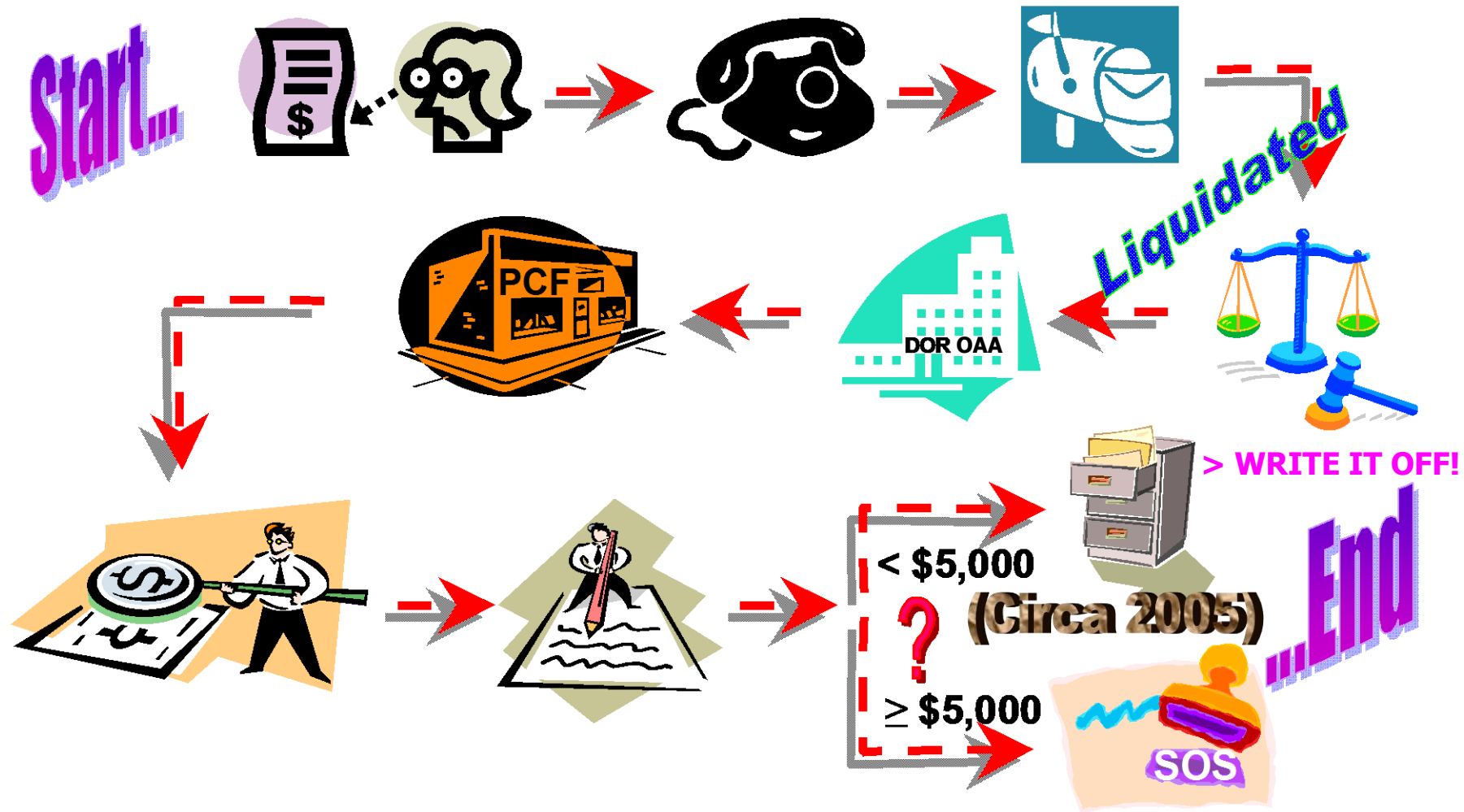
- Allowance for Doubtful Accounts is a contra current asset account associated with Accounts Receivable. This amount represents an estimate of the level of Bad Debts contained with the Accounts Receivable. The amount in this entry may be a percentage of sales/revenues or it might be based on an aging analysis of the accounts receivables (also referred to as a percentage of receivables).

■ What is a “Net Receivables”

- This is the Accounts Receivable “netted” by the Allowance for Doubtful Accounts. This adjustment presumes that the receivable is now stated on the books at the Fair Market Value of the asset.

Collection Processes

Following All The Laws & Steps



Sanity (Math) Check

- Reality Versus Perception (Simulation)
 - How do we reconcile CAFR debt versus LFO debt?
 - What is the “projected” collections of the LFO numbers?

Agency	CAFR Gross A/R	AFDA Per cent	LFO L&D Accounts	Projected Collections
Judicial	\$ 1,468,179,899	76.95%	\$ 1,391,981,298	\$ 320,820,113
Dept. of Revenue	\$ 1,144,089,910	9.63%	\$738,268,631	\$ 667,209,461
Dept. of Justice	\$ 394,801,975	97.75%	\$391,087,970	\$ 8,813,332
Totals	\$ 3,007,071,784		\$ 2,521,337,899	
Projected Collectable Amount >			39.54%	\$ 996,842,906

AFDA = Allowance For Doubtful Accounts

Its Write-Off Time . . .

- SOS Write-Off Guidelines ~ (Circa 2005)
 - Any debt, including interest and/or penalties, or any portion of the debt, may be considered uncollectible when the debtor has no money or other thing of value owing or held by any other state agency that has not been credited to the debt, and it is reasonable to conclude, after all reasonable efforts to collect the debt have been made, that one or more of the following is true:
 - The debtor does not and will not for the foreseeable future own or have the right to own assets from which the state agency could collect the debt; [Indigent, Destitute...]

Its Write-Off Time . . .

- SOS Write-Off Guidelines ~ (Circa 2005)
 - Continued...
 - It is reasonably estimated that the cost of collecting the debt would equal or exceed the amount of the debt;
[Cost to Collect > Revenue]
 - The debtor is deceased and there are no assets in the debtor's estate from which the state agency could collect the debt;
[Deceased with no assets in estate...]
 - The debtor is a corporation that is not and for the foreseeable future will not be engaged in any income producing activity, and there are no assets from which the agency could collect the debt; [Defunct corporations...]

Tomco!



Its Write-Off Time . . .

- SOS Write-Off Guidelines ~ (Circa 2005)
 - Continued...
 - The debtor's estate is subject to a pending bankruptcy proceeding in which it is reasonable to conclude that the debt will be discharged and that the state agency will receive none or an insubstantial share of the assets of the bankruptcy estate; [Bankruptcy...]
 - The agency is and will be for the foreseeable future unable to collect the debt from the debtor or from anyone owing the debtor money or holding assets of or from the debtor. [Indigent, Destitute...]

Its Write-Off Time . . .

- A “Write-Off” is an accounting event?
 - YES!
- So how does the law define it?

The act of removing an uncollectible debt from the accounts of a state agency is an accounting or bookkeeping procedure. The act of removal carries no special legal significance and is not to be confused with such legal terms as “compromise,” “settle,” “release” and “discharge.” No substantive legal rights are created, adjusted or destroyed by writing off a bad debt.

- 32 AGO 423 (#6131 ~ May 13, 1966)

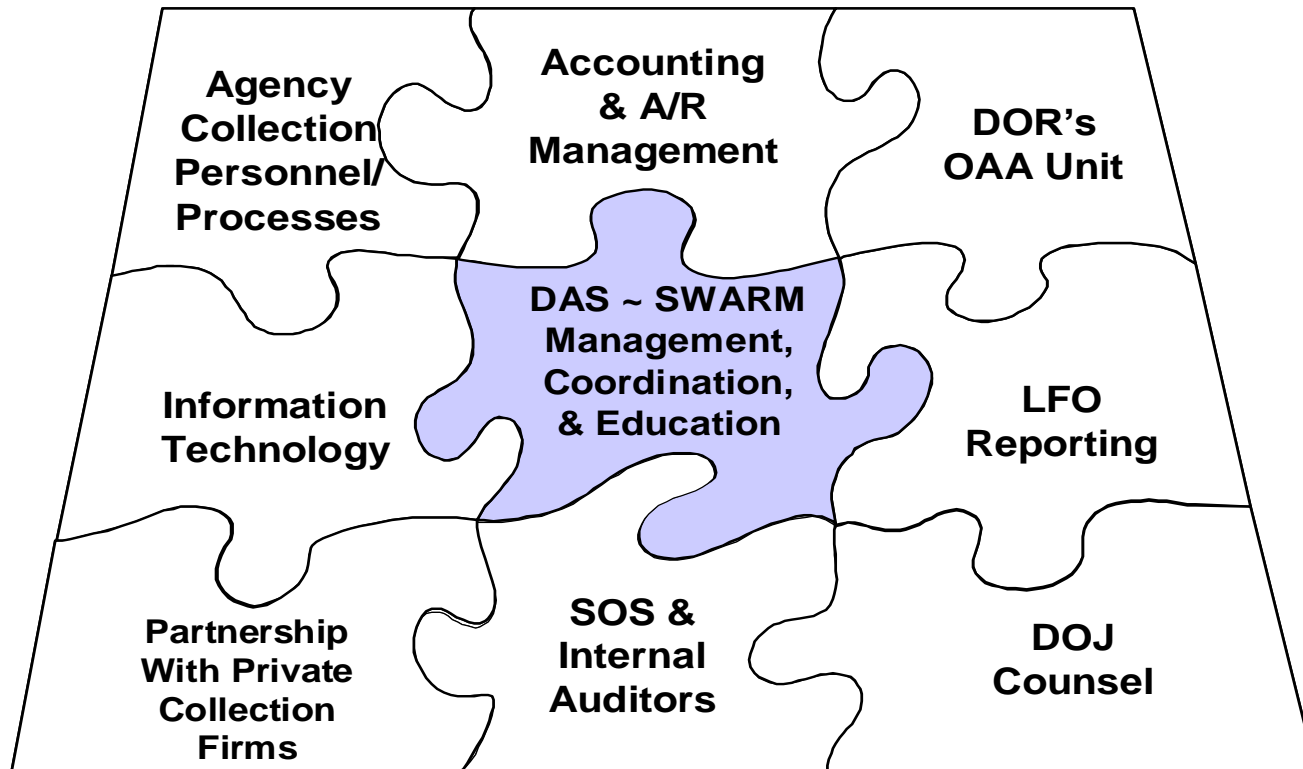
The Present (Audit) Times

■ SoS Audit 2015-25

- The audit found four key improvements that could help Oregon increase collections:
 - Improved oversight of collections;
 - Enhanced performance measurement and reporting;
 - Increased expectations for private collection firms and the state's central collection agency;
 - Better use of proven collection tools.
- ***Lets look at each of these more closely . . .***

The Present (Audit) Times

- SoS Audit 2015-25 > Four key improvements . . .
 - #1 Improved oversight of collections;



**PERS
CURVES?**

The Present (Audit) Times

- SoS Audit 2015-25 > Four key improvements . . .
 - #2 Enhanced performance measurement and reporting;
 - Performance Measures?
 - Benchmarking (See #3 . . .)
 - Metrics
 - **DO NOT** compare Apples to Orangutans
 - Accuracy and consistency in reporting
 - Apples to Apples & Orangutans to Orangutans



There are four kinds of lies:

lies, damned lies, statistics, and performance measures. ~ jed

(With all due respects to Mark Twain!)

The Present (Audit) Times

- SoS Audit 2015-25 > Four key improvements . . .
 - #3 Increased expectations for private collection firms and the state's central collection agency;
 - Really? What is the Expectation? Do you have a number?
 - If agencies persist at just letting the accounts sit out there,
 - If agencies persist at having their accounts recirculate over and over through the various PCFs,
 - **THEN** – the recovery rates and the size of the debt portfolio will just continue to grow – look at the numbers!
 - Expectations? > Start with the ACA's Presentations Rates*:
 - 1st presentation rate ~ **11 - 18%**
 - 2nd presentation rate ~ **5 - 8%**
 - 3rd presentation rate ~ **.5 - 2.5%**

The longer it sits,
the bigger it gets!

The Present (Audit) Times

- SoS Audit 2015-25 > Four key improvements . . .
 - #4 Better use of proven collection tools.
 - YES – But, SoS focus on tools was blind to costs!
 - Lets do a Business Case – lets calculate an **ROI**.
 - Among the most promising:
 - State vendor offset
 - Bank account levies
 - Internet posting of large debtors
 - State Lien Registry
 - Other Potential Collection Tools:
 - Lottery offset, Incarceration listings, Unclaimed property, Warning letters.



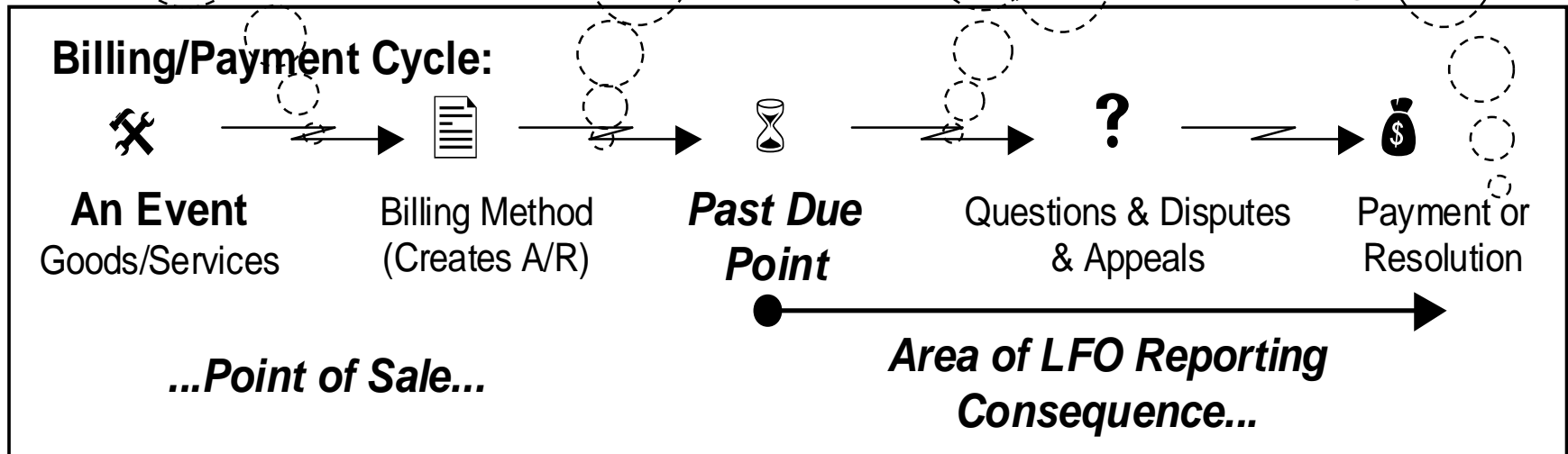
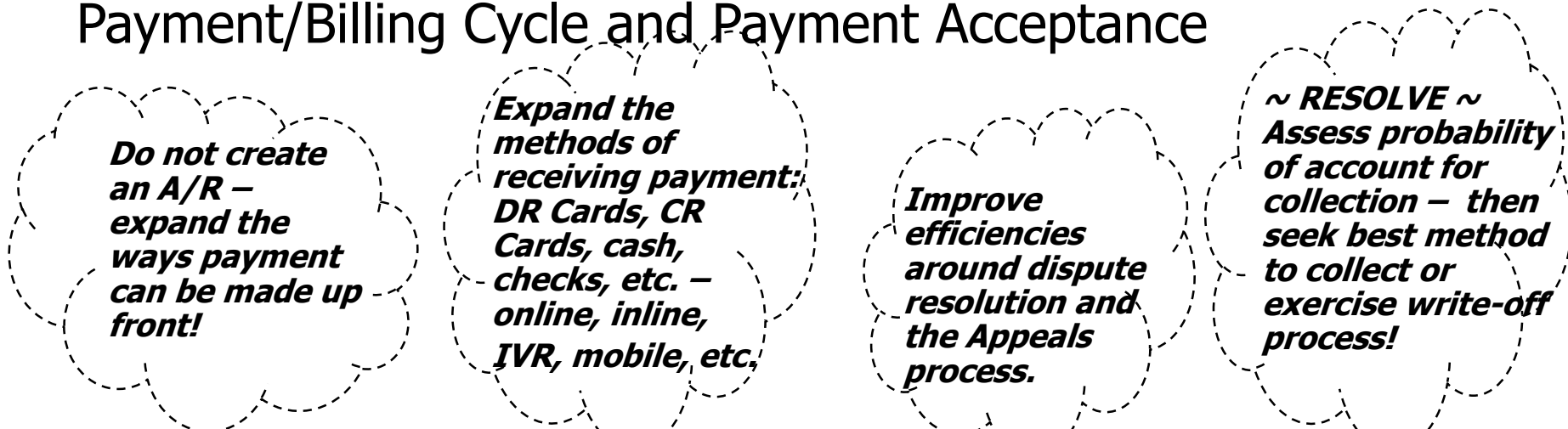
What SSN Issues?

Where CyberShame meets CyberDefame!

Now you're talking !!!

Sanity (Reality) Check

Payment/Billing Cycle and Payment Acceptance



Sanity (21st Century) Check

Deciding on appropriate Collection Tool(s)

\$500,000

Collection via
Credit Cards
@ 2-3% Cost

Cost @ 2.5%
= <\$12,500>

Net _____
Sales: **\$487,500**

Sales of \$1 Million

12% @ 20% = \$12,000
08% @ 30% = \$12,000
05% @ 45% = \$11,250

\$500,000

Cash > Counterfeit
Checks > NSF
ACH, DR > Fraud
Est. 12% Bad

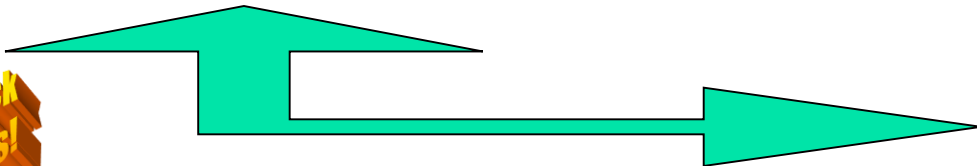
Exposure > \$60,000

Collection Commissions
Oregon Contract ~ 20%
(Cost 30-45% Nationally)

Collection Cost <\$12,000>

Net Sales: **\$488,000**

**Avg Check
6 Times!**



The ORS 293.231 Times

ORS 293.231 Collection of liquidated and delinquent accounts by private collection agency or Department of Revenue; rules; fee added to debt. (1) Except as provided in subsections (4) to (9) of this section, **a state agency**, unless otherwise prohibited by law, shall offer for assignment every liquidated and delinquent account to a private collection agency or to the Department of Revenue as provided in ORS 293.250 not later than:

(a) Ninety days from the date the account was liquidated if no payment has been received on the account within the 90-day period; or

(b) Ninety days from the date of receipt of the most recent payment on the account.

Timeframes should be monitored by systems & people.

(4) If **a state agency** assigns a liquidated and delinquent account to the **Department of Revenue** as provided in ORS 293.250, **the department shall have six months** from the **date of assignment** to collect a payment. If the department does not collect a payment within that six-month period or **if six months have elapsed since the date of receipt of the most recent payment** on the account, the department shall notify the state agency. The state agency **shall then immediately offer for assignment the debt to a private collection agency.**

The ORS 293.231 Times

293.231 (Continued)

(3) If, after a **reasonable time**, the **private collection agency** is unable to collect the account, the private collection agency shall notify the state agency that assigned the account that it has been unable to collect the account and shall relinquish the account to the state agency. A private collection agency that collects an account under this section shall be held to the same standard of confidentiality, service and courtesy imposed on the state agency that assigned the account.

Placement timeframes should be articulated within contract documents. Timeframes should be monitored by systems & people.

ORS 293.240 Writing off uncollectible debts due state agency. (1) If a state agency has made all reasonable efforts to collect money owed to it, including money owed on a liquidated and delinquent **account that has been relinquished by a private collection agency under ORS 293.231**, and has determined that the money and any interest or penalties on the money are **uncollectible**, the agency may **write off the debt** on its accounts.

(2) Before determining that money is uncollectible under subsection (1) of this section, 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.

(3) This section does not apply to debts owed to a state agency for which a procedure for compromise, release, discharge, waiver, cancellation or other form of settlement for the debt for reasons other than uncollectibility is by law made specially applicable to the state agency.



The ORS 293.231 Times

293.231 (Continued)

>> Exemptions

(6) The Oregon Department of Administrative Services may adopt rules exempting specified kinds of liquidated and delinquent accounts from the time periods established in subsections (1), (2) and (4) of this section.

(7) The Oregon Department of Administrative Services shall adopt rules exempting liquidated and delinquent accounts that originate in the Department of Revenue or the Employment Department from the time periods established in subsections (1), (2) and (4) of this section.

collects an account under this section shall be held to the same standard of confidentiality, service and courtesy imposed on the state agency that assigned the account.

ORS 293.233 Exemption of accounts from assignment to private collection agency;

rules. (1) A state agency may use rules adopted by the Oregon Department of Administrative Services for exempting liquidated and delinquent accounts from assignment to a private collection agency. The state agency shall provide documentation and justification for exempting liquidated and delinquent accounts from assignment.

(2) The Oregon Department of Administrative Services shall adopt rules governing the procedure that a state agency may follow in exempting a liquidated and delinquent account from assignment, including but not limited to adequacy of the documentation and justification that a state agency is required to provide under this section. [1999 c.1092 §4]

The Present (SB55) Times

- Oregon Laws 2015, Chapter 766 (SB55)
 - § 1
 - Develop and use an SSN Notice
[The Privacy Act of 1974 (5 USC §552a)]
 - Share SSNs amongst Agencies [AGO #8226, Aug. 4, 1993]
 - § 2
 - New LFO Statement / Declaration required:
 - Exempt / non-exempt accounts over 90 days without payment
 - § 3
 - Subsection (12)(a) Adding a collection fee for OAA presentations
 - § 4
 - Subsection (3)(a) Compromise and settlement
 - More on this to follow...

SOS?
Nail Co?

Now Your
Talkin'!!!

The Present (SB55) Times

■ *Compromise & Settlement Time* ~

■ Compromise...

- A process to negotiate a liability
- The liability equals the debt – adjust the A/R
- Resolves both **Legal and Accounting issue**

Legal issues = AG

Accounting issues² = DAS SARS

■ Settlement...

- The conclusive fix or resolution of a matter
- A settlement may occur without a dispute
- A settlement agreement

The Present (SB55) Times

- Oregon Laws 2015, Chapter 766 (SB55)
 - § 5
 - Allows OAA to “...prescribe criteria for the kinds of accounts that may be assigned ... including minimum dollar amounts owed.”
 - § 6
 - Basically recreates, statutorily, the old DAS SWARM program
 - To provide training, technical assistance, develop performance standards, improve the quality and value of data going to LFO, effective and efficient assignment of accounts, performance measures, setting exemptions, improved communications, describe conditions under which a state agency may request and collect social security numbers, along with the AG – set criteria to propose and accept offers of compromise
 - Submit an annual management report to the legislature by December 31st of each year.

The Present (SB55) Times

- Oregon Laws 2015, Chapter 766 (SB55)
 - § 7
 - Establish rules for the setoff of accounts between state agencies of debtors with refunds or sums due.
 - § 8 & § 9
 - Sets out the funding model for SWARM
 - § 10 & § 11
 - Housekeeping
 - § 12, 13, 14
 - Effective dates and funding limitations



Vendor Offset Times . . .

- SOS Audit #1997 – 77
 - Suggested a “statewide vendor payment offset system.”
- 1998 Vendor Offset Study / Proposal
 - Startup cost @ \$1.1 Million
 - Operational costs @ \$700K per year
- SFMS Follow-up Report ~ October 2001
 - Explains barriers and potential costs
 - Startup costs @ \$.8 Million
 - **Design & Development Costs**
 - **Operation cost @ ???**
 - **Report suggests operating cost may erase revenues**

Vendor Offset Times . . .

- SOS Audit #2004 – 24
 - Suggests DAS study Vendor Offset systems of three states identified
 - What does the demographic data look like?

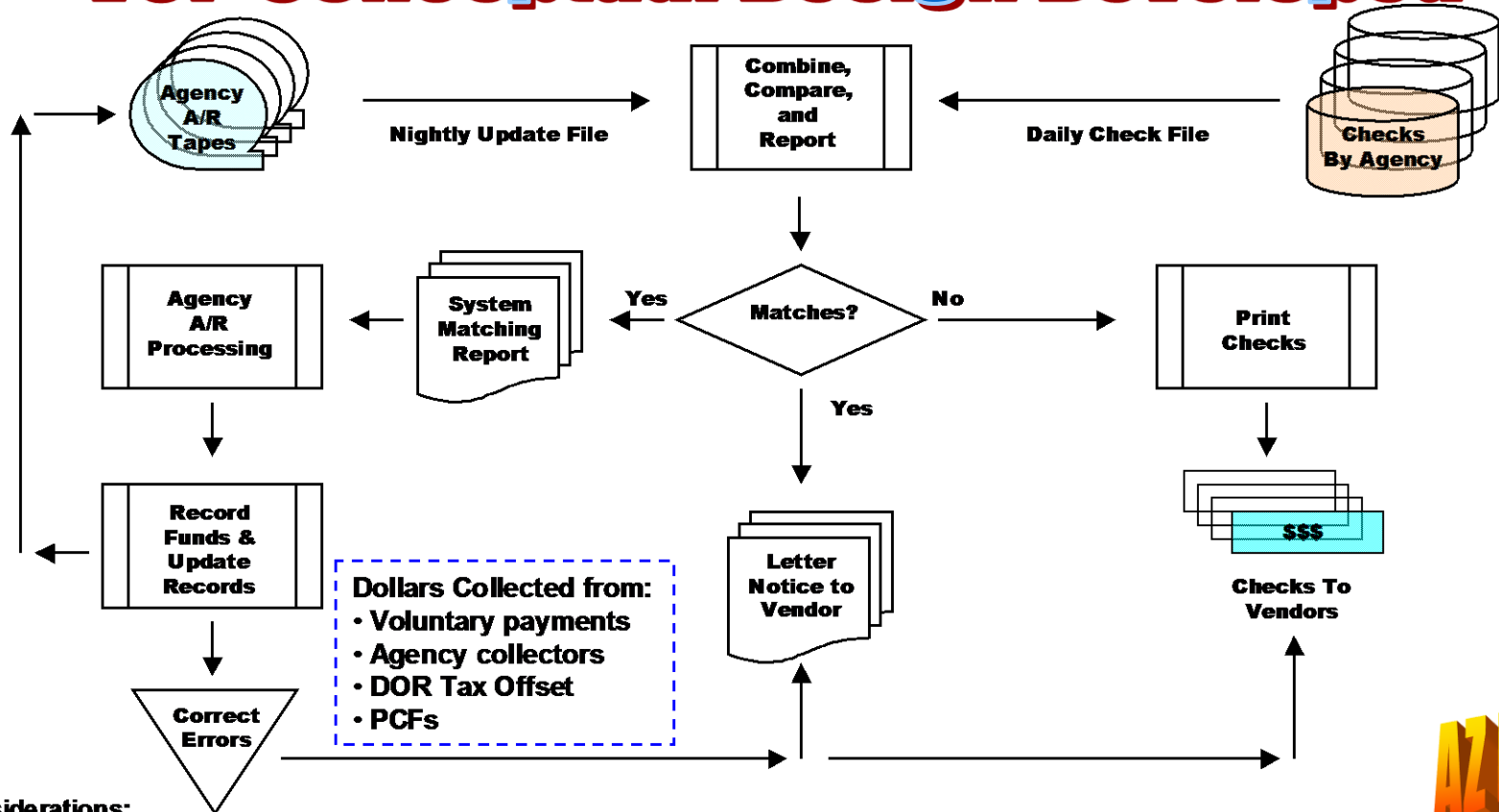
Demographics

	Oregon	Utah	Kansas	Massachusetts	Comparing Oregon to Mass.	
Population 2003	3,559,596	2,351,467	2,723,507	6,433,422	55.3%	180.7%
Median Household Income 1999	\$40,916	\$45,726	\$40,624	\$50,502	81.0%	123.4%
Below Poverty 1999	11.6%	9.4%	9.9%	9.3%	124.7%	80.2%



Vendor Offset Times . . .

VOP Conceptual Design Developed



Considerations:

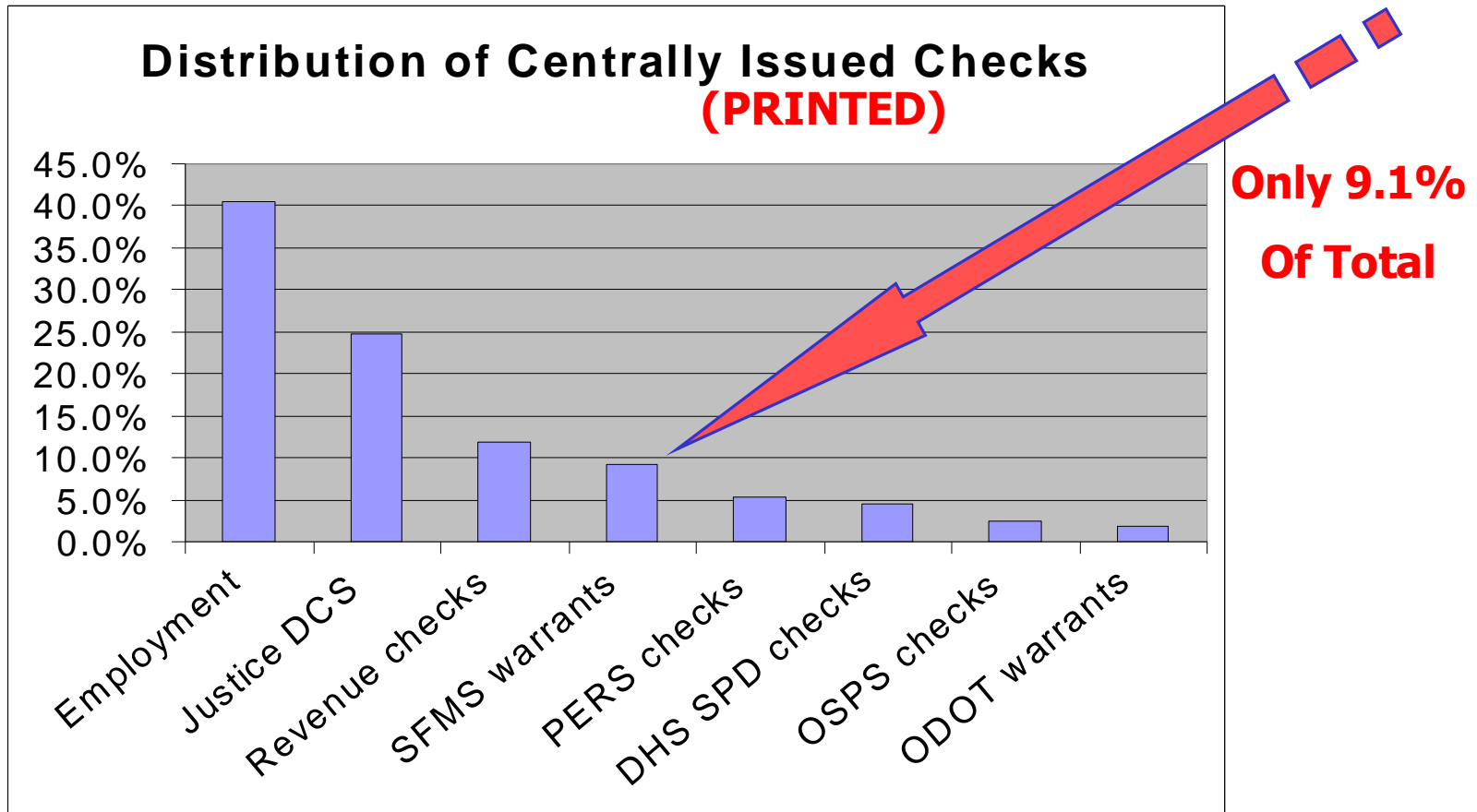
- | | | | |
|--------------------------------|----------------------------|---------------------------|---------------------|
| 1) Who gets paid first? FIFO? | 4) Process for double-hits | 7) System security (SSN) | 10) New legislation |
| 2) Keeping A/R records current | 5) Cash processing | 8) AG Opinion on SSN | 11) |
| 3) Meeting Due Process Reqs. | 6) Interface issues | 9) Potential check delays | |

AZ Model

Vendor_Offset
2/9/05 JED

Vendor Offset Times . . .

SFMS Payable Output Less than 10%





Vendor Offset Times . . .

- Infrastructure & Architecture Issues
 - Security (SSNs & financial data)
 - Legality ~ Use of SSN - Informed Consent
 - The Privacy Act of 1974 (5 USC §552a)
 - AGO #8226, Aug. 4, 1993
 - Timing and synchronization of interfaces
 - Vendor/Agency notification process
 - Fund transfer process
 - Automated transfers?
 - Automated reconciliation?
 - Design issues suggest a highly manual process.



Vendor Offset Times . . .

- Potential Legal Barriers:
 - SSN as a lookup key
 - Violation of Privacy Act of 1974?
 - Violation of Computer Matching Act of 1988?
 - AG Opinion #8226, Aug. 4, 1993
 - Opines on a proposed combined Agency database project that violates the Privacy Act of 1974.



The Present Times . . .

- Establishing Benchmarks...
 - Do agencies **comparable** to yours keep statistics? Performance Metrics / Measures?
 - Do they compile the statistics in a manner **comparable** to you?
 - **Comparable** Agencies / Programs / Accounts in other states, counties, cities, etc.
 - You can always **compare** to yourself.
 - Track and publish your successes year-to-year.
 - A process of identifying and establishing trends...

The Present Times . . .

***Build your SOCO
– what message
do you need to
convey to your
Agency
Leadership, the
media, to the
legislature...
about your
agency's focus
on debt
collection, your
obstacles, and
your success?***

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

SOCO (Single Overriding Communication Objective)

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

Agency Mission

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

Revenue/Fund/Activity Perspective

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

Clients, Customers, Constituency

Our agency works with everyday Oregonians that...

Collection Rates (Choose one or more)

- L&D Dollar Collection Rate: $\text{Collections} \div (\text{Beg. Balance} + \text{Additions})$
- Delinquency Rate: Percentage of accounts that pay late.
- Turnover Rate: $(\text{Beginning Account Balance} \div \text{Ending Account Balance})$
- Cost of Collection: $(\text{Total Direct Costs} + \text{Total Indirect Costs} = \text{Total Cost of Collection.})$

The Present Times . . .

Tell your story through clear, accurate, and "reproducible" metrics, benchmark comparisons, performance measures.

Be able to show a history of improvement – or be able to explain why you are deficient – AND if deficient – what you are fixing to improve your numbers!

Staffing Perspective

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

Benchmarks/Performance Measures

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

5-Year History

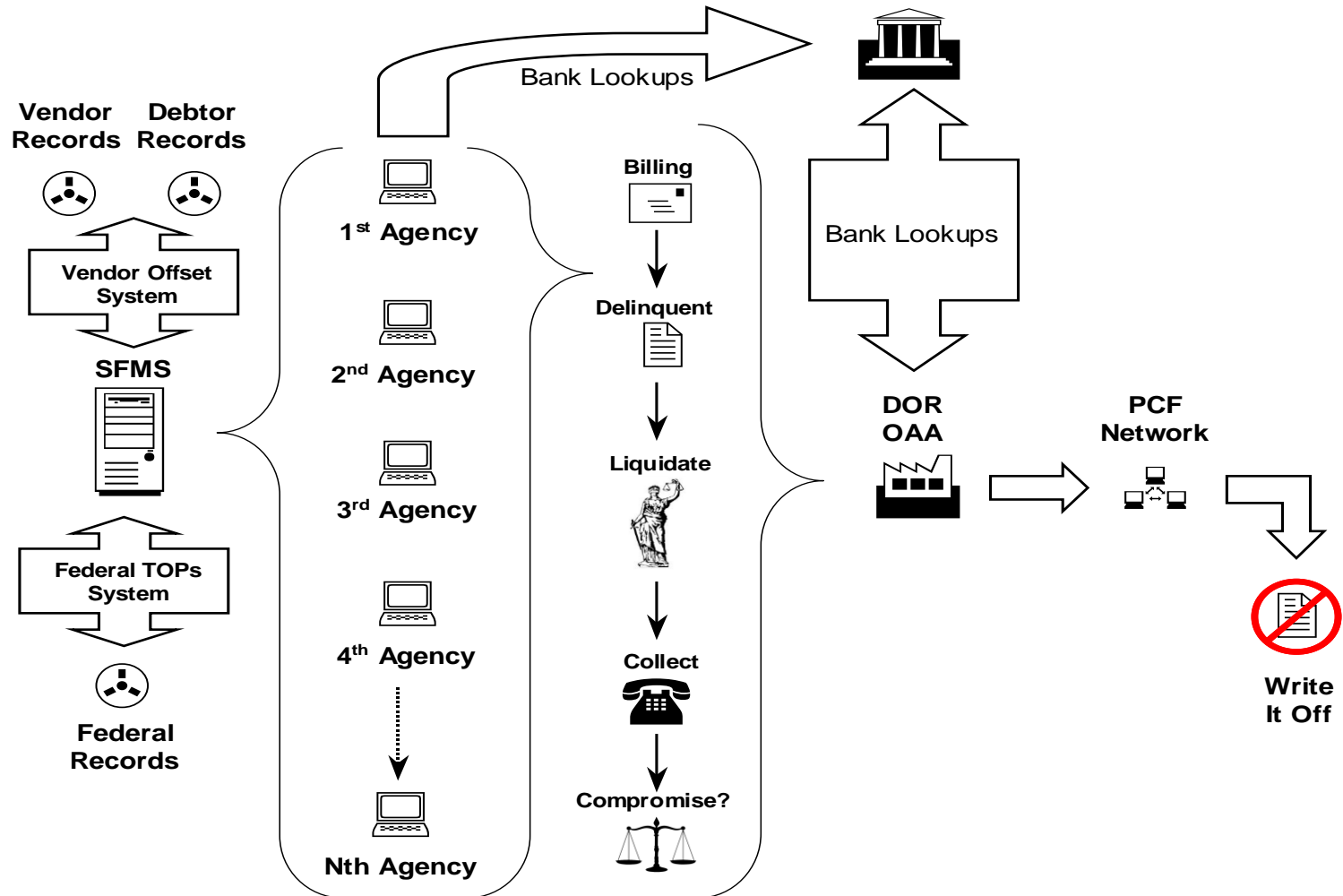
	2005	2006	2007	2008	2009
Collection Rate	X%	X%	X%	X%	X%
Turnover Rate	X%	X%	X%	X%	X%
Average Days	X%	X%	X%	X%	X%
Outstanding	X%	X%	X%	X%	X%

<< Look, benchmark ideas!

Trends

Overall trends indicate...

The Future Times ???



Million \$ Math Check

■ *The Million Dollar Question . . .*

- Do you know the answer?
 - You need to purchase an annuity - how much would you pay – **TODAY** - for an annuity of \$1 million dollars?
 - What questions do you need to ask?
 - What are the periodic payment?
 - What is the number of periods?
 - We will analyze and discuss this at the end of today's session

Principle: \$12.50 Rate: 8.0%

Years >	1	2	3	4	5	6	7	8	Nth	
	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00 = \$1 Million

Principle: \$25.00 Rate: 4.0%

Years >	1	2	3	4	5	6	7	8	Nth	
	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00 = \$1 Million

It works the other way too - -

What is the Net Present Value (NPV) of an annuity of \$1 per year for a million years?

Might this relate to how one develops and calculates a compromise & settlement offer?



Thanks for Playing!

Questions?

Jon DuFrene



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