ISSUE REVIEW

Iowa Legislative Fiscal Bureau

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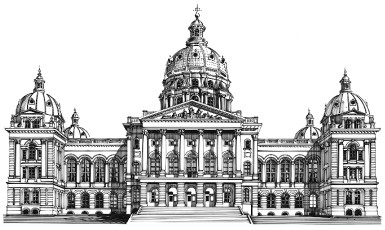

State Capitol
Des Moines, IA 50319
December 16, 1993

Centralized Collections - Update

ISSUE

An update on the progress of implementing the Centralized Collections system, and a summary of the accounts receivable management report submitted by Deloitte & Touche, July 1993.

AFFECTED AGENCIES

Currently, the Department of Revenue and Finance (DRF)

CODE AUTHORITY

Section 421.17 (34), Code of Iowa

BACKGROUND

The Collections Task Force, a subcommittee of the Governor's Spending Reform Committee, was given the responsibility of identifying opportunities for improvements in accounts receivable management. The Collections Task Force identified a number of areas for improvement and recommended additional review and analysis of potential opportunities. House File 2459 (Administration Appropriations Bill), passed during the 1992 Legislative Session, enabled the DRF to establish, administer, and make a centralized debt collection capability available. House File 2459 also included funding for a consultant and equipment for a Centralized Collections system in the Department of Revenue and Finance Financial Management appropriation. After completing the statutory bid process, the consulting firm of Deloitte & Touche was selected to conduct a comprehensive review of accounts receivable and collections operations. The study began in January 1993, and the report was presented in July 1993.

STUDY RESULTS

The report was based on FY 1992 activities. The consultants identified strengths and weaknesses of the State's management of accounts receivable and collections. The strengths identified include:

- Legislation in the State appears to be very supportive of accounts receivable management and collections.

- An overall emphasis is placed on accounts receivable and collections management. The DRF is developing a centralized lien index to facilitate the application of liens on delinquent accounts. The Investigations Division of the Department of Inspections and Appeals may issue distress warrants (liens against personal assets except homestead assets to solicit overpayments of Human Service benefits without civil action). The Division of Labor of the Department of Employment Services is automating much of its accounts receivable management.
- "Offsets" which match delinquent debts owed to the State with the State's refunds, lottery awards, and accounts payable are utilized extensively as a collection tool.
- Computer systems are generally adequate.
- In general, individuals interviewed by the consultant who perform duties in the collections and accounts receivable functions in the various departments were motivated and qualified to perform their respective functions.

Opportunities for improvement identified by Deloitte & Touche include:

- The lack of a Statewide methodology for dealing with accounts receivable. Due to the lack of a uniform statewide accounts receivable program, there is no consistency in the following areas:
  - Priority for accounts receivable management. Receivable management is considered "outside the mission" of many departments.
  - Reporting of a single State accounts receivable position.
  - Effective performance standards for monitoring collections activities and management reporting.
- Staffing reductions have been made without cost/benefit analysis. According to the consultant, some resource reductions have resulted in a lower level of collections and, in some instances, the lost collections exceed the cost savings. An example given in the report stated that resources in the Audits Division of the Department of Inspections and Appeals were reduced although annual collections were approximately $55,000 per auditor.
- Agencies are not provided incentives to aggressively pursue collections and some disincentives exist.

The report includes a chapter detailing receivable management and revenue enhancement opportunities in each department studied.

Attachment A is a summary of current agency accounts receivable management measures by department. Attachment B indicates the use of specific collection tools by the various departments. Attachment C provides a suggested organizational chart. Each functional area must be staffed to handle the volume of collections expected to be processed. Initially, Centralized Collections will only serve the DRF. According to the consultant and the DRF, the Centralized Collection system will result in increased productivity. The system is staffed with current personnel. The work flow suggested by the consultant is illustrated by Attachment D.

The new system provides the following functions:

- Categorizes accounts based on certain criteria (age, amount, receivable type, etc.) for various types of collection actions (e.g. letter only, letter and phone call). The system will also prioritize the accounts in each category. This allows management to set the criteria and change it as needed.

- A predictive dialer places outgoing calls and skip tracing will be automated. As the dialer is successful in reaching a live voice, the call is automatically given to a member of the phone bank. As contact is established, information about the account appears on a computer monitor. Information includes all past contacts with the account. Skip tracing reports calls where no contact is made, and indicates from history the most successful time to reach the account and retries at that time. It also provides the ability to send an account's name and social security number to an outside service that traces the account's location through a data information base.
- Correspondence capabilities (e.g., it will generate letters based on codes input by users).
- All information regarding accounts is available to field personnel including all phone and correspondence contacts.
- The system generates standard as well as customized accounts receivable reports.

CENTRALIZED COLLECTIONS SYSTEM STATUS

According to the DRF, as of November 1, all tax accounts were migrated from the old system to the new. The phone bank is operational. Field personnel are able to receive on-line information about accounts assigned to them. The staff have been trained and are mastering the system and becoming accustomed to the modified functions. According to the Department, it is too early to predict staff adequacy as it relates to the system.

The DRF is communicating with other departments for plans to include their collection functions in the system. However, the DRF wants to have the system fully in place prior to extending the system to other departments.

BUDGET IMPACT

The original start-up cost estimate by the Collections Task Force for a Centralized Collections function in the DRF included: $150,000 for a consultant study; $700,000 for hardware and software acquisition; and $60,000 for maintenance costs over a 2-year period. Based on the Task Force estimates, the FY 1993 DRF appropriation included $150,000 for consultant services and $300,000 for hardware and software to be acquired through a 2-year lease purchase agreement. Funding of $300,000 was budgeted for FY 1994 to satisfy the remainder of the equipment lease purchase agreement. The Department actually expended $195,000 for the consultant fee and $436,175 on the hardware and software acquisition in FY 1993.

The DRF is estimating increased revenues of $3.5 - $4.0 million for FY 1994 due to the implementation of the Centralized Collections system.

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State of Iowa
Review of Accounts Receivable Management
Exhibit I-2 Summary of Agency A/R Management Measures

Agency	Performance Standards	Financial Reporting	Management Reporting	Policies/ Procedures	Level of Automation	Agency Focus on A/R
Revenue	○	○	○	◒	◒	●
Employment Services						
• Job Service-Tax	◒	●	◒	●	●	●
• Job Service-Overpayments	●	●	●	●	●	●
• Division of Labor	○	●	○	○	○	●
Inspections and Appeals						
• Investigations Division	◒	●	◒	●	◒	●
• Audits Division	●	●	●	●	●	●
Judicial						
• Traffic	○	○	○	◒	○	◒
• Criminal	○	○	○	○	○	○
College Aid/Default Accounts	○	◒	○	◒	●	◒
Human Services						
• Medicaid	○	◒	◒	◒	◒	◒
• Child Support Recovery	●	●	◒	◒	◒	●
• Mental Health/ Mental Retardation	○	◒	○	◒	○	○

Key: ● Adequate ◒ Partial Opportunity for Improvement ○ Significant Opportunity for Improvement N/A Not Applicable

ATTACHMENT A

Deloitte & Touche

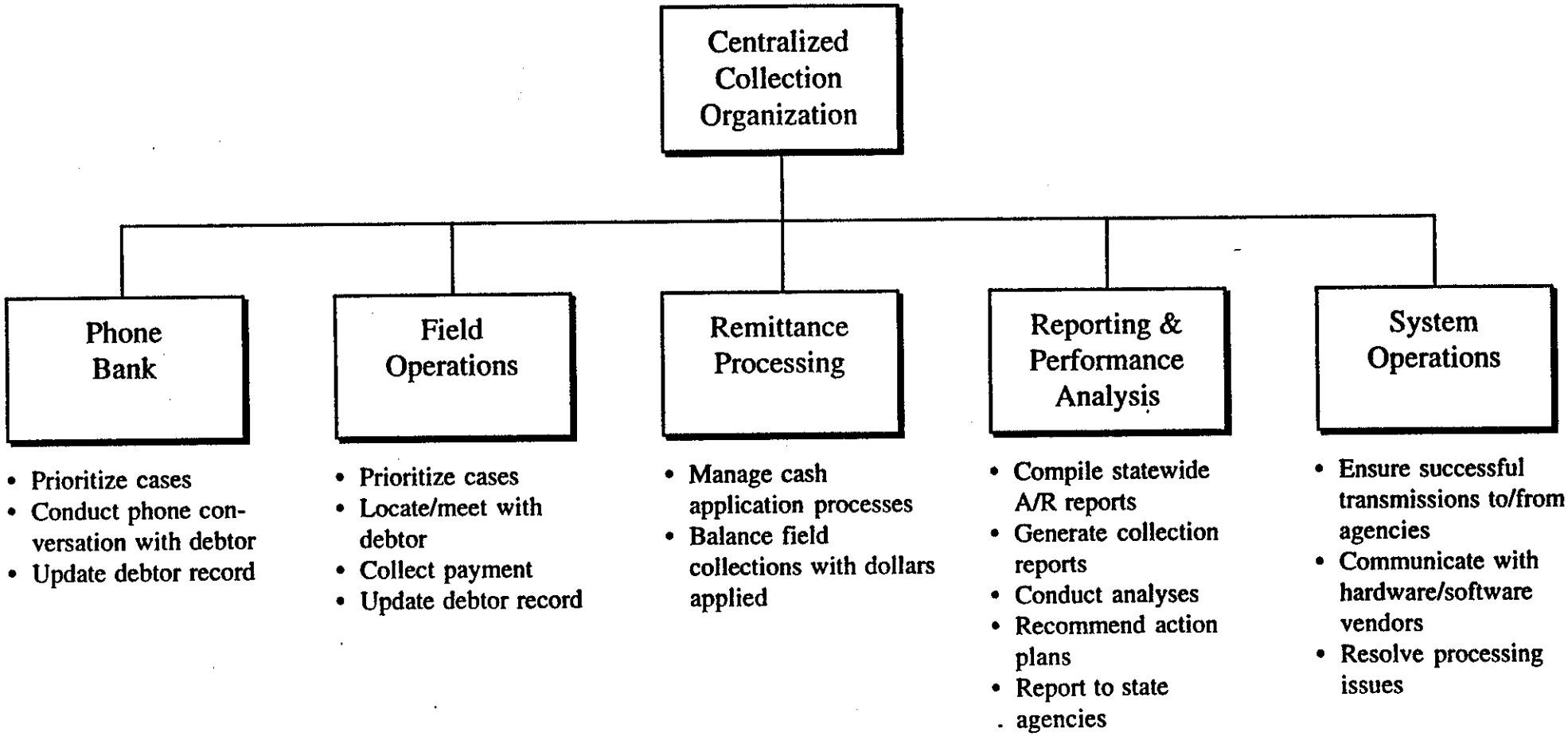
State of Iowa
Review of Accounts Receivable Management
Exhibit I-3 Use of Collection Tools

Agency	Interest & Penalties	Offsets	Liens	Wage Garnishment	Collection Agencies	License Clearance	Payment Plans	Cooperation with other Agencies, States and the Federal Government
Revenue	●	●	●	●	●	○	◒	◒
Employment Services								
• Job Service-Tax	●	●	●	●	○	○	●	◒
• Job Service-Overpayments	◒	●	●	●	○	○	●	◒
• Division of Labor	○	◒	●	●	○	●	●	◒
Inspections and Appeals								
• Investigations Division	○	●	●	●	○	○	●	◒
• Audits Division	○	●	●	N/A	◒	◒	●	◒
Judicial								
• Traffic	○	○	N/A	○	N/A	○	○	◒
• Criminal	○	○	◒	○	N/A	○	○	○
College Aid/Default Accounts	◒	●	◒	○	◒	○	◒	◒
Human Services								
• Medicaid	◒	◒	◒	N/A	◒	N/A	N/A	◒
• Child Support Recovery	○	●	◒	●	●	○	●	●
• Mental Health/ Mental Retardation	◒	◒	◒	N/A	◒	N/A	N/A	◒

Key: ● Adequate ◒ Partial Opportunity for Improvement ○ Significant Opportunity for Improvement N/A Not Applicable

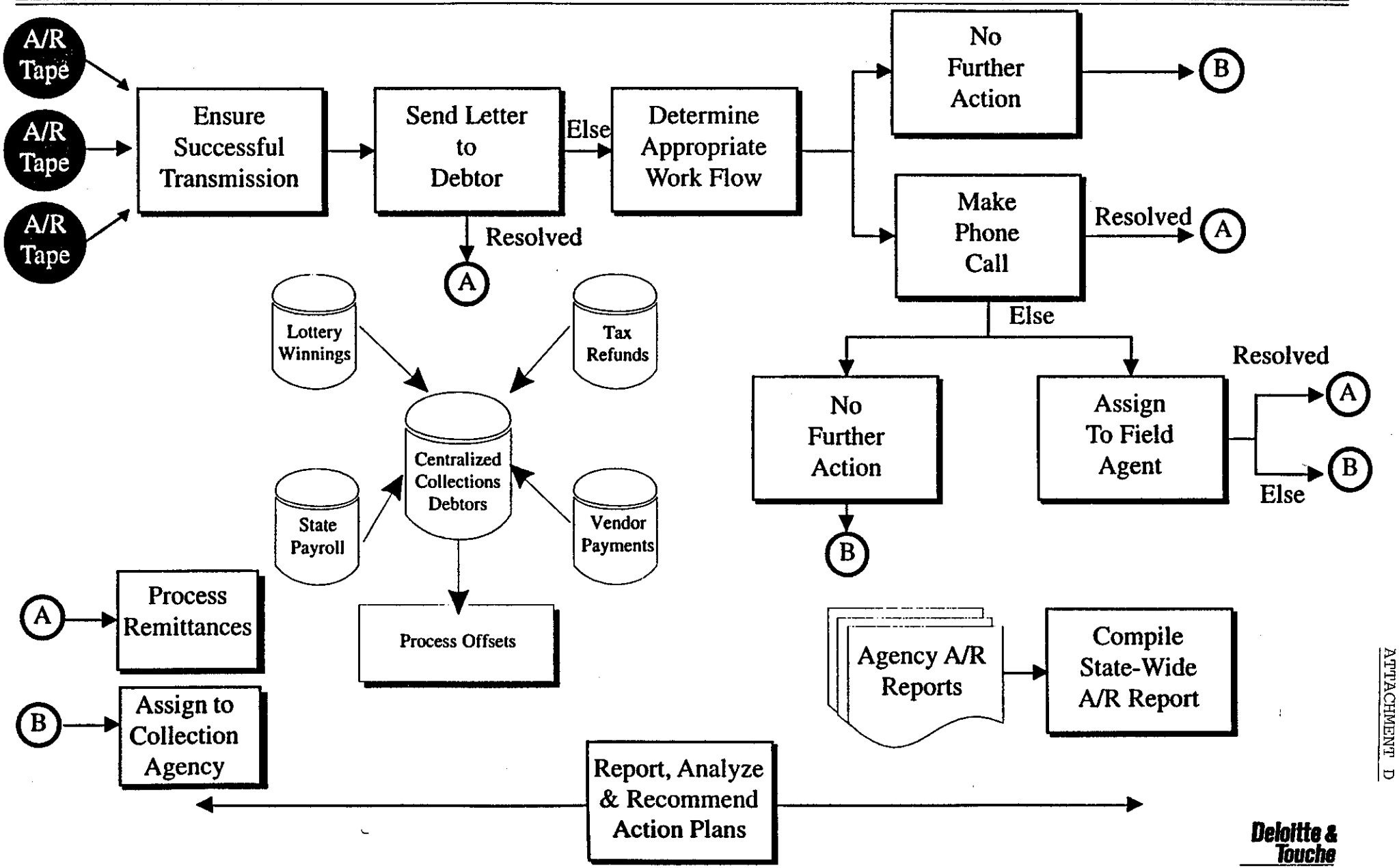
Deloitte & Touche

ATTACHMENT B



ATTACHMENT C

State of Iowa
Review of Accounts Receivable Management
Exhibit X-2-4 Overview of Proposed Centralized Collection Work Flow



ATTACHMENT D

Deloitte & Touche