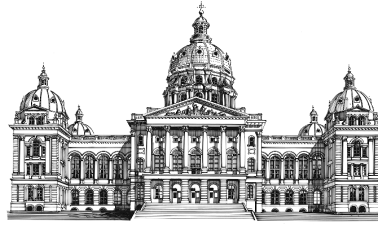

Iowa Legislative Fiscal Bureau

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Centralized Collections

ISSUE

Update on progress towards completion of a Centralized Collections Agency in the Department of Revenue and Finance (DRF).

AFFECTED AGENCIES

All agencies with outstanding accounts receivable.

CODE AUTHORITY

Chapter 421 Code of Iowa, Chapter 421.17 Code Supplement 1991

BACKGROUND

House File 2459 appropriated \$450,000 to the DRF for the establishment of a Centralized Collections Agency. Of the total of \$450,000 appropriated, \$150,000 was for consultant services and \$300,000 was for the first year of a 2-year lease-purchase of computer hardware and software (a total of \$600,000). The FY 1993 appropriation was contained in the \$6.9 million appropriation to the Financial Management Division of the DRF. Language was added to the Code of Iowa authorizing the establishment of the Centralized Collections Agency and providing specific powers and protections (see Attachment 1).

The request for proposal (RFP) was issued on April 20, 1992 and was for the declared purpose of "purchasing consultant services to conduct a comprehensive review of accounts receivable and collection operations and make recommendations for their improvement." The RFP requires the consultant to conduct a comprehensive review of all accounts receivables and collection methods. The review is required to include the following (not a comprehensive list, please see Attachment 2 for complete RFP criteria):

- Identification of unrecognized accounts receivable
- A collections policy and standards for implementation during the first quarter of FY 1993
- An assessment of accounts receivable management
- Establishment of data formats and accounting processes

- Confidentiality protections
- Collection tools
- Collection performance measures
- Staff training materials on collections issues

Further, the consultant is required to identify the most efficient methods of collecting funds, a determination of whether incentives should be used to increase payment rates, and the preferable methods of payment. The consultant is also encouraged to recommend alternatives to current approaches including full privatization or a joint State/private sector approach

CURRENT SITUATION

The DRF has determined that the firm of Deloitte-Touche best meets the RFP criteria, although final contract details have not yet been agreed to by both parties. The DRF hopes to have a contract signed in the near future. Deloitte-Touche's proposal specifies a cost of \$195,000, which is \$45,000 more than the General Assembly intended for this purpose. According to the DRF, the \$45,000 will come from \$450,000 appropriated for

Centralized Collections and not from other operating funds in the Financial Management Division's appropriation.

ALTERNATIVES

No current action is required on the part of the General Assembly. Further updates on the progress of the Department will be provided to the General Assembly.

BUDGET IMPACT

Funding for FY 1993 is \$450,000. The Governor's Committee on Spending Reform identified several million dollars of uncollected receivables owed to the State (see Attachment 3 for a breakdown of the amounts owed to the State).

STAFF CONTACT: Larry Sigel (Ext. 16764)

20 5 Sec. 31. Section 421.17, Code Supplement 1991, is amended
 20 6 by adding the following new subsection:
 20 7 NEW SUBSECTION. 34. a. To establish, administer and make
 20 8 available a centralized debt collection capability and
 20 9 procedure for the use by any state agency as defined in
 20 10 subsection 29 to collect delinquent accounts, charges, fees,
 20 11 loans, or other indebtedness due the state. The department's
 20 12 collection facilities shall only be available for use by other
 20 13 state agencies for their discretionary use when resources are
 20 14 available to the director and subject to the director's
 20 15 determination that use of the procedure is feasible. The
 20 16 director shall prescribe the appropriate form and manner in
 20 17 which this information is to be submitted to the office of the
 20 18 department. The obligations or indebtedness must be
 20 19 delinquent and not subject to litigation, claim, appeal, or
 20 20 review pursuant to the appropriate remedies of each state
 20 21 agency.
 20 22 b. The director shall establish, as provided in this
 20 23 section, a centralized computer data bank to compile the
 20 24 information provided and shall establish in the centralized
 20 25 data bank all information provided from all sources within the
 20 26 state concerning addresses, financial records, and other
 20 27 information useful in assisting the department in collection
 20 28 services.
 20 29 c. The director shall establish a formal debt collection
 20 30 policy for use by state agencies which have not established
 20 31 their own policy. Other state agencies may use the collection
 20 32 facilities of the department pursuant to formal agreement with
 20 33 the department. The agreement shall provide that the
 20 34 information provided to the department shall be sufficient to
 20 35 establish the obligation in a court of law and to render it as
 21 1 a legal judgment on behalf of the state. After transferring
 21 2 the file to the department for collection, an individual state
 21 3 agency shall terminate all collection procedures and be
 21 4 available to provide assistance to the department. Upon
 21 5 receipt of the file, the department shall assume all liability

CODE: Formalizes a centralized collections function in the DRF. The centralized collections function has the following features:

1. Makes the collection facilities available for use by other agencies at the agencies' discretion.
2. Requires obligations be delinquent and not in dispute before they are turned over to the DRF.
3. Requires the DRF to establish a computer database to compile information provided by the departments.
4. Requires the Director of the DRF to establish a formal debt collection policy for use by State agencies who do not currently have a policy.
5. Terminates agency collection actions once the obligation is turned over to the DRF.
6. Allows agencies to deny licenses to an individual if an outstanding obligation is owed to the State.
7. Allows the DRF to accept payments by credit card for debts, interest, and fees.
8. Requires the Director of the DRF to adopt administrative rules to implement this section.
9. Requires the Director of the DRF to report quarterly to the Legislative Fiscal Committee, the LFB, and the chairpersons and ranking members of the Administration Appropriations Subcommittee on the following items:
 - a. The number of departmental collection programs initiated.
 - b. The amount of debt collected.
 - c. An estimate of future costs and benefits associated with the collections program.

21 6 for its actions without recourse to the agency, and shall
21 7 comply with all applicable state and federal laws governing
21 8 collection of the debt. The department has the powers granted
21 9 in section 421.17 regarding setoff from income tax refunds or
21 10 other accounts payable by the state for any of the obligations
21 11 transferred by state agencies.

21 12 d. The department's existing right to credit against tax
21 13 due shall not be impaired by any right granted to, or duty
21 14 imposed upon, the department or other state agency by this
21 15 section.

21 16 e. All state agencies shall be given access, at the
21 17 discretion of the director, to the centralized computer data
21 18 bank and may deny any license or renewal authorized by the
21 19 laws of this state to any person who has defaulted on an
21 20 obligation owing to the state. The confidentiality provisions
21 21 of sections 422.20 and 422.72 do not apply to tax information
21 22 contained in the centralized computer data bank. State
21 23 agencies shall endeavor to obtain the applicant's social
21 24 security or federal tax identification number, or state
21 25 driver's license number from all applicants.

21 26 f. At the director's discretion, the department may accept
21 27 payment of debts, interest, and fees, or any portion by credit
21 28 card. The director may adjust the payable amount to reflect
21 29 the costs of processing the payment as determined by the
21 30 treasurer of state and the payment by credit card shall
21 31 include, in addition to all other charges, any discount charge
21 32 by the credit card issuer.

21 33 g. The director shall adopt administrative rules to
21 34 implement this section, including, but not limited to, rules
21 35 necessary to prevent conflict with federal laws and
22 1 regulations or the loss of federal funds, to establish
22 2 procedures necessary to guarantee due process of law, and to
22 3 provide for reimbursement of the department by other state
22 4 agencies for the department's costs related to debt
22 5 collection.

22 6 h. The director shall report quarterly to the legislative
22 7 fiscal committee, the legislative fiscal bureau, and the

22 8 chairpersons and ranking members of the joint administration
22 9 appropriations subcommittee concerning the implementation of
22 10 the centralized debt collection program, the number of
22 11 departmental collection programs initiated, the amount of
22 12 debts collected, and an estimate of future costs and benefits
22 13 which may be associated with the collection program. It is
22 14 the intent of the general assembly that the centralized debt
22 15 collection program will result in the collection of at least
22 16 two dollars of indebtedness for every dollar expended in
22 17 administering the collection program during a fiscal year. It
22 18 is also the intent of the general assembly that the
22 19 centralized debt collection program be administered without
22 20 the anticipation of future additional commitments of computer
22 21 equipment and personnel.

3.0 SCOPE OF WORK

3.1 INTRODUCTION

In July 1991, Iowa Governor Terry E. Branstad formed the Governor's Committee on Government Spending Reform, a statewide committee to study and recommend permanent reforms in State government spending. Members of the committee, chosen from the public and private sectors, selected seven major areas of spending reform opportunity and formed seven Task Forces to study each of the areas and make recommendations. One of those Task Forces, Collections, recommended a central collection activity be established in the Iowa Department of Revenue and Finance. It also recommended that a consultant be hired to establish collection standards, establish confidentiality measures, electronic data processing rules, data formats, collection performance measures and to provide training on collection issues and techniques. Emphasis of the project is to provide a pronounced improvement in the management of State government accounts receivables and thereby effecting a significant reduction in those outstanding receivables. It is expected that the new collection system would continue to rely on private collection firms for those receivable collections, determined through new policies and standards, to be more cost effectively handled by private firms. The beginning of the fulfillment of the Collections Task Force recommendation is the intent of this RFP process.

3.2 DIMENSIONS OF PROJECT

State of Iowa receivables and collections, amounting to hundreds of millions of dollars, are spread though many State agencies, including:

- Department of Revenue and Finance
- Department of Employment Services
- Department of Human Services
- Department of Inspections & Appeals
- College Aid Commission
- Department of Justice - Courts
- Board of Regents

3.3 DESCRIPTION OF PROJECT

- A. The consultant shall conduct a comprehensive review of all governmental accounts receivables and collection methods. The review will include, but not be limited to the following:
1. Identification of unrecognized accounts receivable-i.e., identification of monies owed to the State that may not currently be recognized, or may be under-recognized, as being owed to the State (e.g., payments from the federal government);

2. Collections Standards

The Collections Task Force's review of state's accounts receivable indicates there is a lack of a consistent format for the recording of data. Within each department, collections analysis and performance standards have been developed to fit the individual needs of the agency. From department to department, different levels of expertise are found for the collection of accounts receivable.

Interviews with agencies and surveys of other states indicate that the establishment of collections policies and standards are an essential need. In the State of Virginia for example, collections standardization has resulted in a significant reduction in the amount of time it takes to collect accounts receivable, which increases availability of cash and the collectibility of the accounts.

The consultant shall recommend collections policy and standards for implementation in the first quarter of Fiscal Year 1993 (July 1, 1992 through September 30, 1992). This will provide a mechanism for evaluating the Centralized Collections Agency performance beginning the first quarter of Fiscal Year 1994.

A diagnostic assessment of accounts receivable management, at both statewide level as well as selected agencies, should be made and should provide: a review of current policies concerning budgeting, recognition and booking of receivables; a review of current policies affecting collection practices; a review of executive management reporting on receivable balances and collection operations; current performance and productivity standards for receivable management-related functions and actual performance relative to such standards; an evaluation of the extent to which various sources of information available to other agencies of the State are used to support efforts; and identification of high profile potential opportunities for collection.

3. Establish electronic data formats, confidentiality protocols, due diligence requirements, accounting processes, and other data processing rules.

- a. Agencies have data on a variety of computerized systems. It is essential to establish an agreement for a data format and mechanisms required to process data.

- b. Several agencies have federal and state regulations which would allow processing of claims through a centralized collections agency, but which do not allow sharing of client information with other agencies. It is important that appropriate rules and systems be set up to prevent sharing of protected information with other databases in the Centralized Collections Agency, so program audit exceptions do not occur.
 - c. Each agency has due diligence requirements for their accounts receivable which should be identified and programmed into the system.
 - d. Efficient accounting systems must be developed into the system so funds are transferred from the Central Collections Agency electronically to program area to meet state and federal requirements. Audit exceptions and penalties can occur if not properly developed. For example, non-public assistance child support must be deposited and processed to recipient within three days. Some development work on this issue has been performed by the Court system (in development of ICIS) and Human Services.
4. Establish collections tools and, if necessary, establish legislative proposals.

The Collections Task Force review of the state's collections practices has resulted in some suggested statutory changes to enhance state agencies' ability to collect accounts receivable. A consultant should be able to provide additional suggestions in this area.

5. Collections performance measures

Each type of debt is different and should have performance standards developed based on the debts' characteristics.

6. Provide training on collections issues.

- a. Department level - Training on collections methods and techniques at the Department level to improve the days-to-collect and reduce the number and amount of accounts receivable which are deemed delinquent.
- b. Central Collections Agency management - Training of Central collections management on different issues they will encounter. Training should provide information on management evaluation that should be performed on the accounts to ensure the highest return from the largest number of accounts--performed at the least amount of effort and cost.

Supervisory staff should be trained on the selection and training of collections agency staff. Since the Central Collections Agency will operate similar to a private collection agency, management staff will have to be trained in the supervision of incentive-based employees.

7. Establishing of priorities; i.e., identifying the largest opportunities for successful collections and the opportunities for short-term revenues.
8. Examination of the degree of sophistication of present collection efforts by the State agencies, including an assessment of receivable policies, practices, systems, and operations.

Identify areas for longer term improvements in the overall management of statewide and agency accounts receivable.

9. Identify the most efficient methods to collect money.
 10. Determine whether incentives for debtors should be built into the collection systems to encourage collections.
 11. Where ongoing collections can be expected, examine preventative measures to be adopted to avoid buildups of receivables.
 12. Methods available to the State to input its data concerning accounts receivable debtors into credit bureau reporting organizations.
 13. Methods of payments of accounts (e.g., automatic clearing house) that enhance collections by the State.
 14. The providing of incentives to State agencies to collect accounts receivable and consider opportunities to share risks.
 15. Surveys of other states' methods to collect accounts receivable and the availability of information sharing with such other states;
- B. From on-site visits to State agencies and from their analyses, the consultant will provide the following:
1. A review of operations and processes.
 2. Recommendations from the review.
 3. Implement recommendations.
 4. Recommendations to reduce accounts receivable and to facilitate State employees in that endeavor.

- C. Recommendations prepared by the consultant shall address future trends, identify potential for recouping unrecognized accounts receivables, and take into consideration economic and political implications as well as programmatical feasibility. Recommendations to improve systems and procedures are an important part of this project.
- D. While the Collections Task Force recommended a centralization of agency accounts receivables in the Department of Revenue and Finance, the consultant is encouraged to recommend alternative approaches such as full privatization or a joint State/private approach to accomplishing the collection goals. Such recommendation must indicate advantages over a centralized State system and must provide a cost/benefit analysis.

3.4 VENDOR QUALIFICATION QUESTIONS

A. General Information About your Firm:

1. Give reason for your firm's interest in the project and how it fits in with your firm's experience and goals.
2. Provide an overview of your company and its capabilities.
3. Describe your firm's overall staff size, and principal officers.
4. List location of your offices and size of staff at each location that will support this project.
5. Provide evidence of fiscal capability.

B. Experience with Similar Studies:

1. List other states for which you have recently (past two years) conducted statewide accounts receivable recovery studies.
2. Provide details of experience in conducting statewide State government accounts receivable recovery projects.
3. Describe and detail your firm's experience with State human service agency revenue recovery and maximization projects.
4. Describe experience of proposed project staff in the State government public sector accounts receivable/collection field.
5. Describe recommendations made in other relevant State government studies completed by your firm and how they were implemented.

6. Describe your firm's experience in representing states in negotiations with federal authorities with respect to accounts receivable recovery and revenue recovery projects. Indicate which project team members have such experience. *
7. List the names, positions and credentials of the primary consultants in your firm which you would expect to use. (Note: These persons will be required to take an active, on-site role, not simply in an advisory capacity.)
8. Furnish copies of at least one completed State government study of a similar nature.
9. Submit a list of all relevant public sector studies and contact persons who we may interview regarding your performance.
10. Describe those relevant service models that you feel have provided the most benefits related to cost in a State government public sector environment.

C. How Would You Conduct this Study:

1. Describe in detail the work plan your firm proposes for this project.
2. Indicate the amount of time you expect to spend on site.
3. Describe how your accounts receivable collection methodology and standards would facilitate revenue maximization initiatives for future or existing State activities.
4. Indicate whether the State will own the methodologies, and analytic tools after project is completed.

3.5 PAYMENT CONDITIONS

Since funds for this project must compete with other important State needs, Vendors are expected to consider providing their services on a performance basis. Other payment options include fee based arrangement and combination of fee and performance based work. Details of the Vendor's payment plan must be clearly outlined in your proposal.

COLLECTIONS TASK FORCE
Past Due Accounts Receivable as of June 30, 1991

| DEPARTMENT | STATE FUNDS | | OTHER FUNDS ³ | TOTAL |
|---------------------------------|--------------------------|----------------------------------|--------------------------|----------------------|
| | Collectible ¹ | Other ² | | |
| College Aid Commission: | \$0 | \$0 | \$85,160,333 | \$85,160,333 |
| Courts: | | | | |
| Fines | \$7,058,263 | \$0 | \$0 | \$7,058,263 |
| Court Costs | \$3,348,263 | \$0 | \$0 | \$3,348,263 |
| Surcharges | \$1,306,803 | \$0 | \$0 | \$1,306,803 |
| Attorney Fees | \$3,229,018 | \$0 | \$0 | \$3,229,018 |
| Victim Restitution | \$2,941,985 | \$0 | \$0 | \$2,941,985 |
| Other | \$329,555 | \$0 | \$0 | \$329,555 |
| Total | \$18,213,887 | \$0 | \$0 | \$18,213,887 |
| Employment Services: | | | | |
| Unemploy. Ins. Contrib. | \$0 | \$0 | \$2,548,759 | \$2,548,759 |
| OSHA Penalties | \$0 | \$0 | \$458,812 | \$458,812 |
| Inspections - Misc | \$0 | \$0 | \$60,733 | \$60,733 |
| Total | \$0 | \$0 | \$3,068,304 | \$3,068,304 |
| Human Services: | | | | |
| Child Support Recovery | | | | |
| ADC | \$27,121,357 | \$95,176,043 | \$211,939,824 | \$334,237,224 |
| State Foster Care | \$2,240,994 | \$6,722,981 | \$0 | \$8,963,975 |
| Foster Care IV-E | \$106,617 | \$319,851 | \$739,065 | \$1,165,533 |
| Owed to Families | \$0 | \$0 | \$178,645,399 | \$178,645,399 |
| Other Units | \$0 | \$0 | \$1,118,796 | \$1,118,796 |
| Total | \$29,468,968 | \$102,218,875 | \$412,443,084 | \$544,130,927 |
| Inspections and Appeals: | \$622,354 | \$19,370,743 | \$1,568,700 | \$21,561,797 |
| Regents: | \$10,146,898 | \$101,805,019 | \$57,007,338 | \$168,959,255 |
| Revenue and Finance: | | | | |
| Personal Income Tax | \$24,118,301 | \$39,516,807 | \$0 | \$63,635,108 |
| Corporate Income Tax | \$1,581,318 | \$52,940,035 | \$0 | \$54,521,353 |
| Sales and Use Tax | \$7,702,439 | \$36,939,612 | \$0 | \$44,642,051 |
| Motor Fuel Tax | \$0 | \$0 | \$5,749,641 | \$5,749,641 |
| Miscellaneous Taxes | \$269,000 | \$1,462,929 | \$0 | \$1,731,929 |
| Total | \$33,671,058 | \$130,859,383⁴ | \$5,749,641 | \$170,280,082 |
| Other | \$0 | \$1,874,276 | \$0 | \$1,874,276 |
| GRAND TOTAL | \$92,123,165 | \$356,128,296 | \$544,997,400 | \$993,248,861 |

¹State funds accounts receivable which are likely to be collected by agency using existing methods.

²Includes debt determined to be uncollectible, in dispute and cannot be collectible until dispute is resolved and can contain some current collections (less than 2 months old).

³All or a portion of the receivable would go to families or other state governments, or to the federal government.

⁴Includes \$74,318,514 in dispute, \$33,704,819 considered to be uncollectible and remainder is current collections.

Source: Collections Task Force, GSRC

COLLECTIONS TASK FORCE
Aging of Past Due Accounts Receivable as of June 30, 1991

| DEPARTMENT | Less than 6 Months | 6 - 12 Months | Over 12 Months | TOTAL |
|-------------------------------------|----------------------|----------------------|----------------------|----------------------|
| College Aid Commission: | \$9,844,350 | \$10,045,725 | \$65,270,258 | \$85,160,333 |
| Courts: ¹ | | | | |
| Fines | \$0 | \$7,058,263 | \$0 | \$7,058,263 |
| Court Costs | \$0 | \$3,348,263 | \$0 | \$3,348,263 |
| Surcharges | \$0 | \$1,306,803 | \$0 | \$1,306,803 |
| Attorney Fees | \$0 | \$3,229,018 | \$0 | \$3,229,018 |
| Victim Restitution | \$0 | \$2,941,985 | \$0 | \$2,941,985 |
| Other | \$0 | \$329,555 | \$0 | \$329,555 |
| Total | \$0 | \$18,213,887 | \$0 | \$18,213,887 |
| Employment Services: | | | | |
| Unemploy. Ins. Contrib. | \$910,394 | \$521,100 | \$1,117,265 | \$2,548,759 |
| OSHA Penalties | \$396,034 | \$0 | \$62,778 | \$458,812 |
| Inspections - Misc | \$41,293 | \$19,417 | \$23 | \$60,733 |
| Total | \$1,347,721 | \$540,517 | \$1,180,066 | \$3,068,304 |
| Human Services: | | | | |
| Child Support Recovery ² | | | | |
| ADC | \$0 | \$35,249,033 | \$298,988,191 | \$334,237,224 |
| State Foster Care | \$0 | \$728,364 | \$8,236,610 | \$8,963,974 |
| Foster Care IV-E | \$0 | \$187,203 | \$978,331 | \$1,165,534 |
| Owed to Families | \$0 | \$31,414,017 | \$147,231,382 | \$178,645,399 |
| Other Units | \$517,223 | \$73,208 | \$528,365 | \$1,118,796 |
| Total | \$517,223 | \$67,651,825 | \$475,961,879 | \$544,130,927 |
| Inspections and Appeals: | \$0 | \$9,700 | \$21,552,097 | \$21,561,797 |
| Regents: | \$97,842,318 | \$11,751,342 | \$59,365,595 | \$168,959,255 |
| Revenue and Finance: | | | | |
| Personal Income Tax | \$17,391,482 | \$8,173,009 | \$38,070,617 | \$63,635,108 |
| Corporate Income Tax | \$12,602,275 | \$559,947 | \$41,359,131 | \$54,521,353 |
| Sales and Use Tax | \$8,618,877 | \$9,063,018 | \$26,960,156 | \$44,642,051 |
| Motor Fuel Tax | \$555,458 | \$274,786 | \$4,919,397 | \$5,749,641 |
| Miscellaneous Taxes | \$1,182,045 | \$298,800 | \$251,084 | \$1,731,929 |
| Total | \$40,350,137 | \$18,369,560 | \$111,560,385 | \$170,280,082 |
| Other | \$1,622,983 | \$64,964 | \$186,329 | \$1,874,276 |
| GRAND TOTAL | \$151,524,732 | \$126,647,520 | \$715,076,609 | \$993,248,861 |

Source - 9/91 Collections Task Force Survey

¹Includes receivables only under 1 year old.

²Reported as under 1 year, 1-5 years, 5 to 20 years, and 20+ years.