

STATE CONTROLLER'S DIVISION
Statewide Accounts Receivable Management

STRATEGIC PLAN

Liquidated and Delinquent Accounts 2008–2009

Analysis of the Legislative Fiscal Office
Report on Liquidated and Delinquent Accounts for FY 2007

*A discussion of the areas state agencies should monitor
and recommended actions to improve collection efficiencies.*

Accounts Receivable Core Committee (ARCC)
February 2008

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ACKNOWLEDGEMENTS

DEFINITIONS

Strategic Plan

*Statewide Accounts Receivable Management (SWARM)
Based on the Legislative Fiscal Office Liquidated and
Delinquent Accounts Receivable Report FY 2007*

Executive
Summary

Summary of Findings

- For Fiscal Year (FY) 2007, the combined efforts of state agencies, the Other Agency Accounts (OAA) unit at the Department of Revenue and Private Collection Firms (PCF), collected \$330,790,218. The statewide collection rate of 15.77% for liquidated and delinquent accounts in FY 2007 reflects a slight increase over the rate for FY 2006 which was 15.49%.
- The current Account Turnover Rate (ATR) of 97.2% means that there were more accounts in the system at the end of the year than in the beginning. Agencies with the biggest increase of ending accounts were: Department of Corrections, Employment, Human Services, and Judicial.
- Of the approximately \$795 million in interagency receivables shown in the 2007 Comprehensive Annual Financial Report (CAFR), only \$1,412,795 (or 0.18%) is reflected in the Legislative Fiscal Office (LFO) Report as delinquent. Interagency receivables are only 0.09% of the total liquidated and delinquent debts reported to the LFO. This illustrates that, overall, agencies continue to effectively manage the process of paying interagency receivables on a timely basis.
- State agencies involved in collection activity exchange information and ideas at monthly ARCC meetings, vendor fairs, training sessions and meetings involving the PCFs. In addition, the Statewide Accounts Receivable Management Coordinator (SWARM) is a resource to facilitate the exchange of ideas and process improvement.

Plan Purpose

- Provide analysis of the data for executive branch agencies presented in the LFO Report on Liquidated and Delinquent Accounts Receivable.
- Discuss areas to be monitored and recommend actions that may be taken to improve collection efficiencies.
- Based on data from the 2007 LFO report, the plan addresses **four areas of observation**:
 - ✓ Collection Effectiveness
 - ✓ Account Assignment Pipeline
 - ✓ Interagency Receivables
 - ✓ Communication Effectiveness

Background

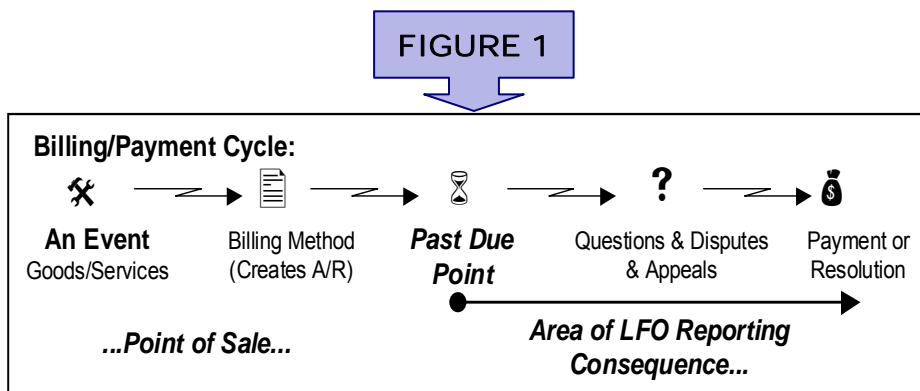
On December 21, 2007, the LFO released their *Report on Liquidated and Delinquent Accounts Receivable* for the fiscal year ending June 30, 2007. The 2007 LFO report, required by ORS 293.229, is the eighth compilation of data supplied by state agencies under the law.

The Accounts Receivable Core Committee (ARCC) is comprised of representatives from state agencies who meet monthly to discuss current collection practices and develop strategies in improving statewide accounts receivable management. Within the ARCC is a sub-committee called the Strategic Planning Committee which is comprised of ARCC members. This committee meets annually to analyze the data submitted to LFO and to prepare this Strategic Plan. The ARCC makes recommendations for improvements that state agencies and the SWARM Coordinator can take to maximize the return on state resources and further improve debt collection practices. This Strategic Plan contains information on liquidated and delinquent receivables as submitted by state agencies to the LFO. Reporting requirements imposed by law require state agencies to track the character of their receivables based on several considerations:

- Is the debt delinquent?
- Is the debt liquidated and was a hearing requested?
- Is there cause for the account to be placed in exempt status?
- Is the exempt status temporary or permanent?
- How long has the account been liquidated and delinquent?
- What is the date of the last payment?
- Has the account been submitted to an OAA unit or a PCF?
- Is account activity at a status that would suggest it should be written off?

Agencies should periodically review accounts and answer each of the above questions to ensure the account will continue moving through the assignment pipeline and ensure proper reporting to the LFO each year by October 1.

Billing/Payment Cycle – Figure 1 illustrates the process when an agency's receivables are created from providing a good or service to the customer.

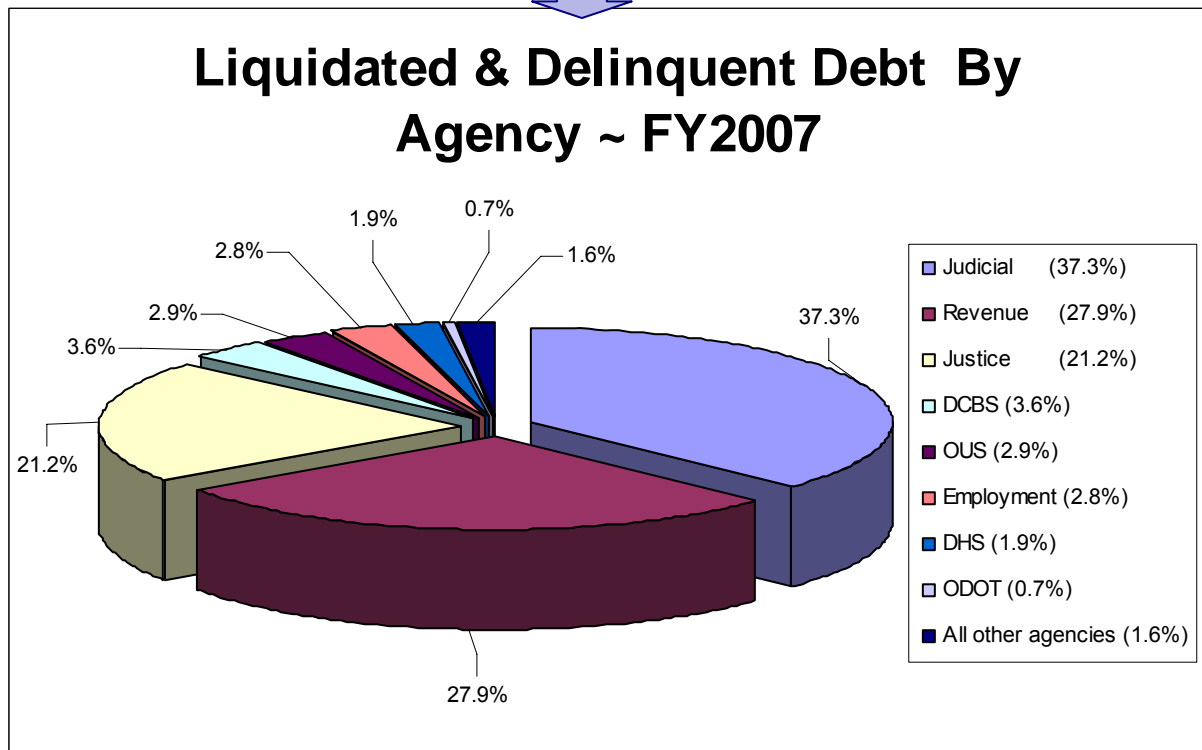


To reduce the number and amount of accounts receivable owed to the state, it is important to look at the way the state does business and when payment for services or goods is required. To improve the collection process, the state must consider what options are offered to pay for a service. If the customer is given options regarding payment for services such as cash, credit card, check, ACH, or online, it enhances the agency's ability to obtain a payment. Delinquent debt issues would not exist if funds were collected at the point of sale. It is also important to note that most often, state agencies do not have the option to deny services or to perform pre-debt credit checks on customers.

Agency Summary

To better understand the nature of the debt being collected, it is important to understand which agencies have the largest delinquencies. Figure 2 shows that eight agencies comprise 98.4% of the total debts reported.

FIGURE 2



Three agencies comprise 86.4% of the total debts reported, Oregon Judicial Department, Department of Revenue and the Department of Justice. Below, each agency has provided a brief description of the debts that they are collecting.

Judicial – Oregon Judicial Department – 37.3% of total debt

Judicial Department liquidated and delinquent debt includes fines, fees, assessments, restitution and recovery of court-appointed counsel amounts ordered by the court as part of the judgment. Amounts due are sanctions imposed pursuant to law. Ability to pay is not a primary consideration. Outstanding amounts due are owed by individuals who are unable to pay in full at the time the final judgment is issued. Debtors may be incarcerated, transient or unemployed. The ability to take collection actions for amounts ordered in criminal cases can be as long as 50 years after entry of judgment. Recipients of amounts collected are primarily state and local governments and crime victims.

Revenue – Department of Revenue – 27.9% of total debt

Debt balances managed by the Department of Revenue (DOR) are comprised of taxes or fees, along with any accompanying penalties and/or interest, owed the State by individuals or businesses. This debt is primarily general fund money. The majority of the debt managed by DOR is Personal Income tax owed by residents and nonresidents who earn income in Oregon. The Personal Income tax debt is comprised of taxes owed as reported by taxpayers and compliance assessments initiated by the department.

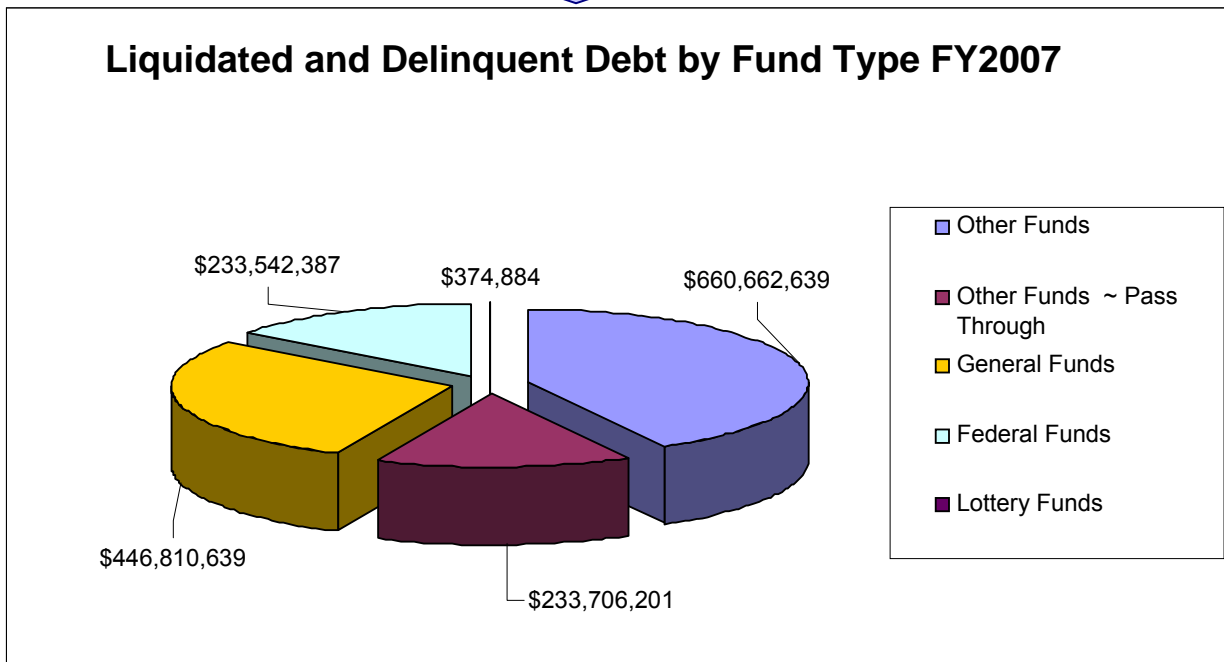
Justice – Department of Justice 21.2% of total debt

Department of Justice (DOJ) debt is comprised primarily of child support recoveries, the portion of punitive damages awarded to the Crime Victims Assistance Section and court judgments from the Financial Fraud/Consumer Protection and Charities programs.

TYPE OF DEBT

In addition to knowing which agencies comprise the debt, it is also important to understand what types of funds are being collected. Figure 3 shows the allocation of the FY2007 liquidated and delinquent debt by fund type. Less than 30% of the debt is owed to the General Fund.

FIGURE 3



EIGHT YEAR HISTORY

Over the last five years state agency inventory percentages have remained constant at 61% with a slight decline in 2006 to 56%. Over the same time OAA inventory has dropped from 15% to 11% while the PCF inventory grew from 24% to 34% and then dropped to 29% in 2007. Figure 4 displays the eight year history of percentage of ending inventory by location.

FIGURE 4

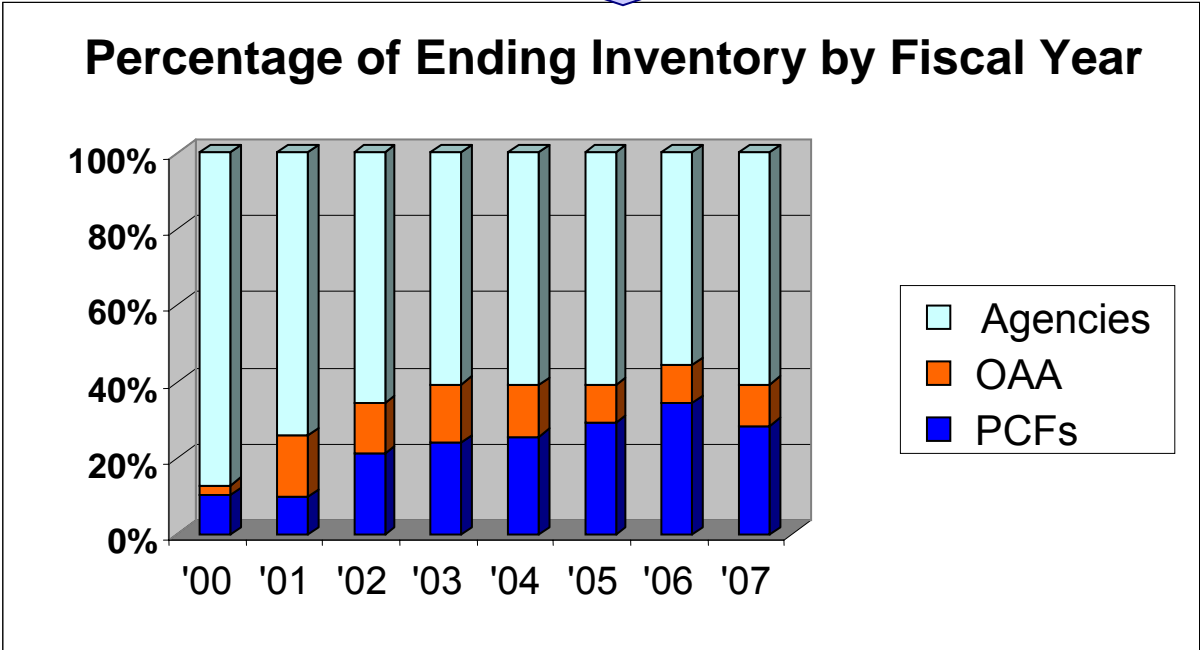
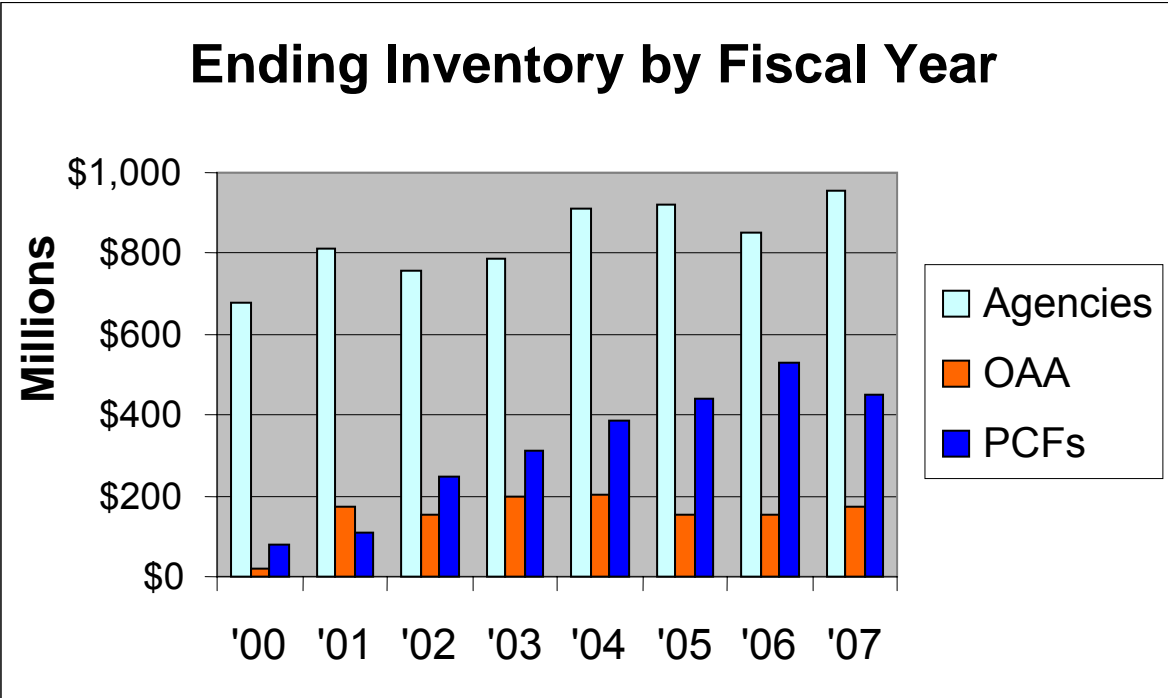


Figure 5 displays the eight year history of inventory in dollars.

FIGURE 5



Over the last seven years, the status of the economy has impacted the total collections by state agencies. The rapid decline in 2001 and 2002 has been followed by a steady increase in the collections made by state agencies. OAA collections have risen from \$16 million in 2001 to \$25.2 million in 2007. PCFs have also seen an increase in collections from \$2.7 million in 2001 to a high of \$17.4 million in 2006.

FIGURE 6

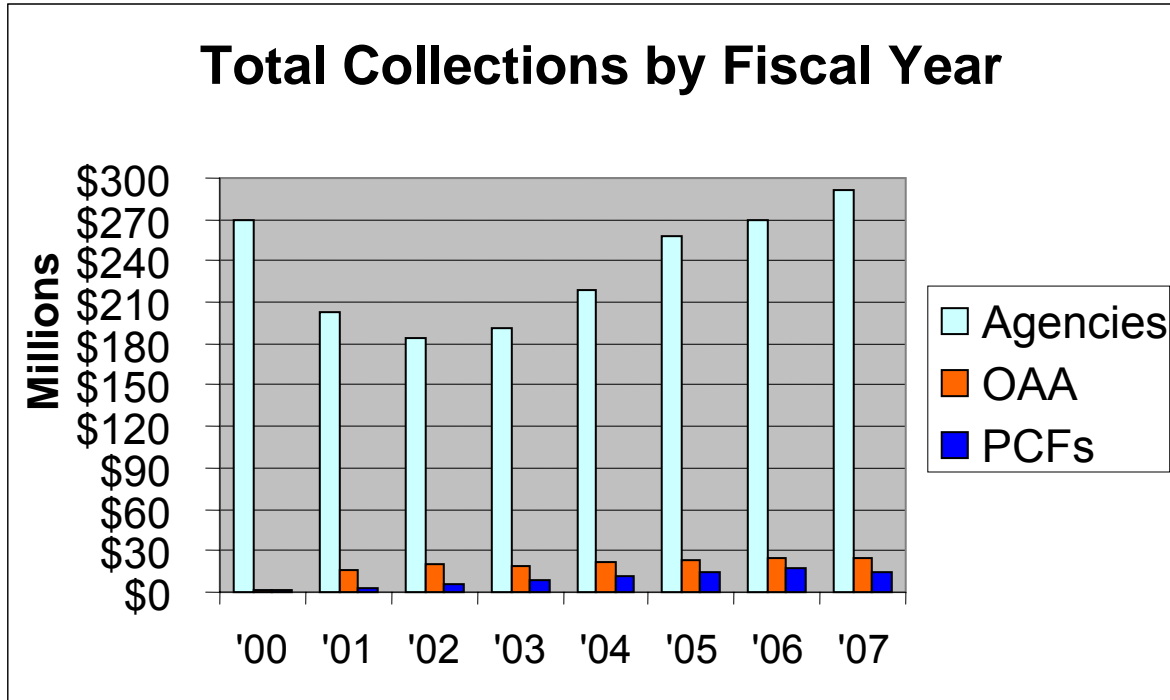
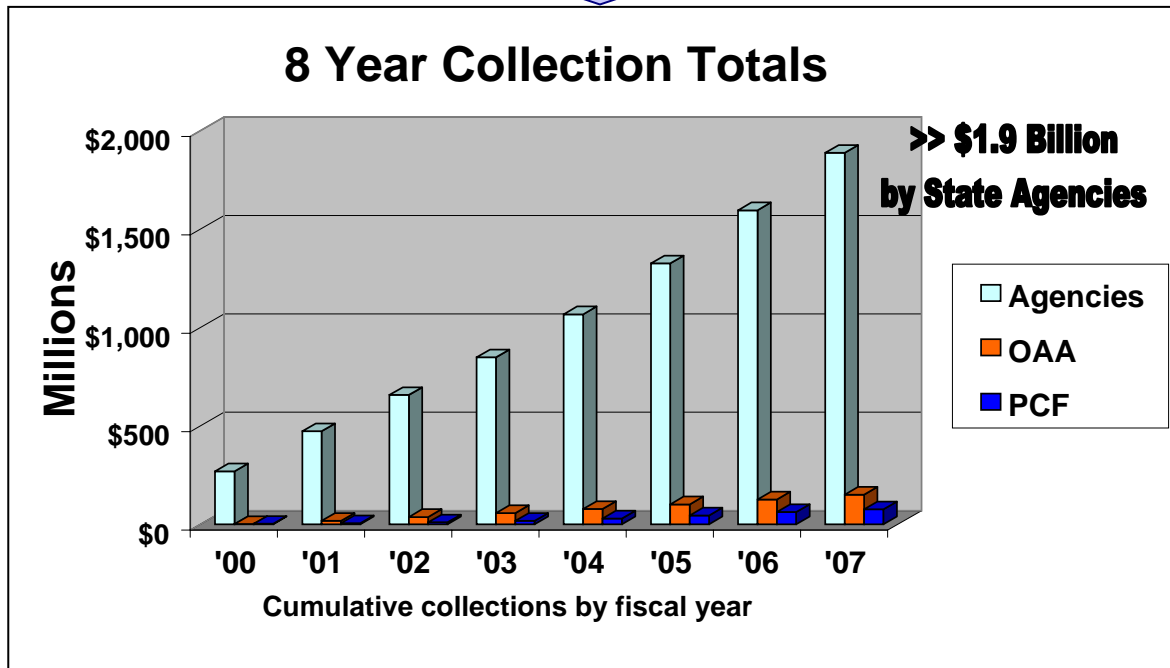


FIGURE 7



Collection Effectiveness

OVERVIEW

Table I represents all liquidated and delinquent accounts reported by Executive branch agencies, including those being worked by OAA and PCFs.

TABLE I

State of Oregon Liquidated and Delinquent Accounts		
June 30, 2007		
	<u>Number of Accounts</u>	<u>Dollar Value of Accounts</u>
1. Beginning Balance	1,506,855	\$1,555,382,877
2. Additions	497,346	\$541,861,265
3. Collections		(\$330,790,218)
4. Accounts Closed	(383,492)	
5. Write-Offs	(52,126)	(\$43,163,914)
6. Adjustments		(\$94,611,392)
7. Reversals	<u>(17,551)</u>	<u>(\$53,581,868)</u>
8. Ending Balance	<u>1,551,032</u>	<u>\$ 1,575,096,750</u>

(Further break down of data from prior year to current year's information is provided in Appendices III, IV, V, and VI)

Statewide Dollar
Collection Rate

$$\frac{\$330,790,218}{(\$1,555,382,877 + \$541,861,265)} = 15.77\%$$

The *Dollar Collection Rate* is calculated by using collections divided by the beginning balance plus additions. This represents the relative ability to collect the maturing liquidated and delinquent accounts. It also measures how much of the balance of accounts worked by state agencies is being converted into dollars.

Table II data represents liquidated and delinquent accounts being pursued by OAA. OAA has extensive access to information which assists in locating debtors assets. OAA also has the ability to apply state tax refunds to delinquent debt owed to the state.

TABLE II

Other Agency Accounts Unit June 30, 2007		
	<u><i>Number of Accounts</i></u>	<u><i>Dollar Value of Accounts</i></u>
1. Beginning Balance	195,534	\$153,328,078
2. Additions		\$138,284,438
3. Collections		(\$25,209,086)
4. Returned		<u>(\$95,503,215)</u>
5. Ending Balance	<u>197,264</u>	<u>\$170,900,215</u>

OAA Dollar
Collection Rate

$$\frac{\$25,209,086}{(\$153,328,078 + \$138,284,438)} = 8.64\%$$

Table III data represents liquidated and delinquent accounts being pursued by PCFs for Executive branch agencies:

TABLE III

Private Collection Firms June 30, 2007		
	<u><i>Number of Accounts</i></u>	<u><i>Dollar Value of Accounts</i></u>
1. Beginning Balance	682,550	\$530,357,479
2. Additions		\$126,785,297
3. Collections		(\$13,923,831)
4. Returned		<u>(\$194,082,490)</u>
5. Ending Balance	<u>665,488</u>	<u>\$449,136,455</u>

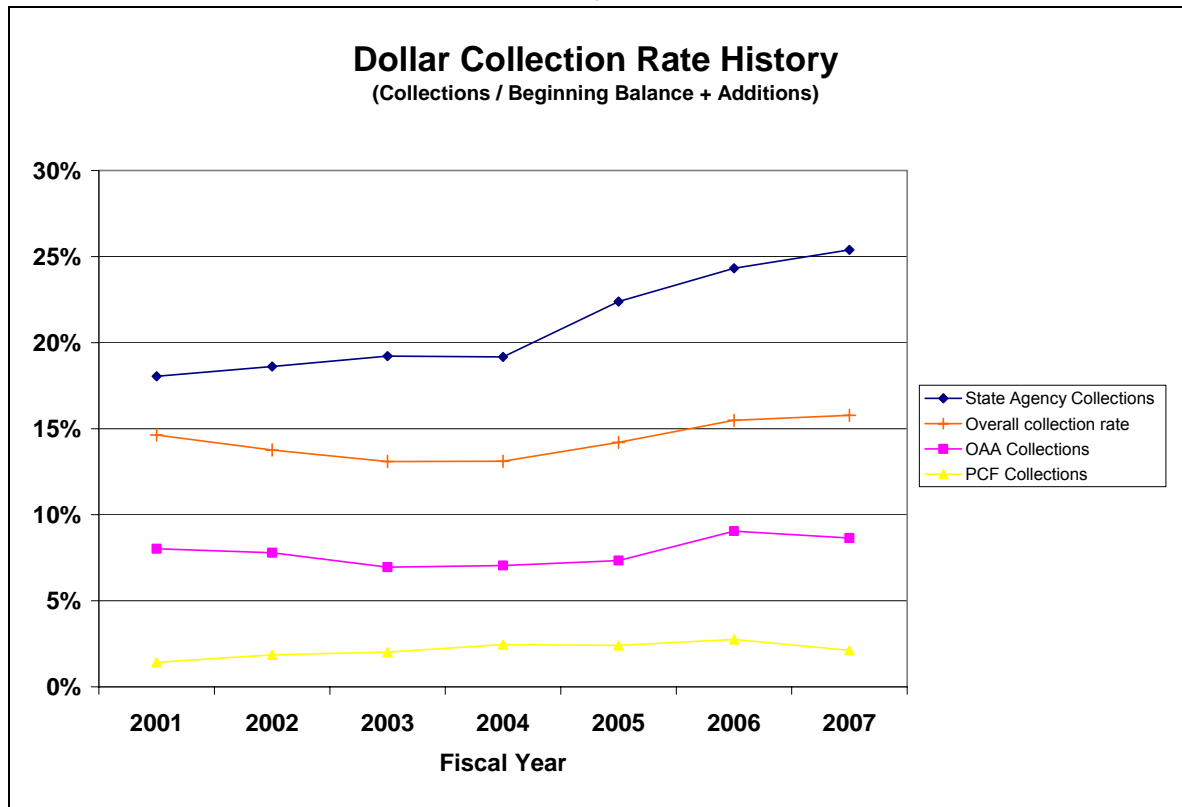
PCF Dollar
Collection Rate

$$\frac{\$13,923,831}{(\$530,357,479 + \$126,785,297)} = 2.12\%$$

DISCUSSION

Based on the data in Appendix VI, dollar collection rates have remained stable, however economic impacts identified on page 18 indicate that collection rates could start to decline based on bankruptcy rates, mortgage foreclosures and unemployment rates. Figure 8 shows the dollar collection rate for executive branch agencies over the last seven years.

FIGURE 8



PLAN OBJECTIVES

State Agencies

- Coordinate with DAS and ARCC to develop standardized calculations for determining an agencies cost to collect delinquent accounts. Develop agency standards for costs of collection and regularly monitor such costs for the purpose of adjusting collection policies to optimize collection effectiveness.

Other Agency Accounts Unit

- Maximize collection effectiveness by the acquisition of new skip tracing tools and streamlined use of current training tools and processes. Skip tracing tools are measured by the total number of accounts sent to the skip tracing vendors versus the number of accounts with good information received back from the vendor and the dollar amount collected due to the information received from skip tracing vendors. Training is measured by the increase in dollars collected.

Private Collection Firms

- Collaborate with client agencies to identify and recommend improvements in collections (small claims, garnishments, etc.) through regular meetings (by phone or in person). Provide SWARM with regular (quarterly) updates regarding the results of such meetings and the progress of agreed upon improvements.

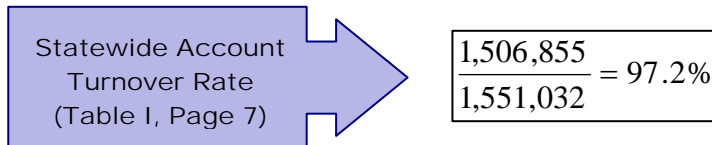
SWARM

- Provide assistance and guidance to agencies through leadership of the ARCC regarding the development of a standard methodology for calculating the costs of collection, and recommendations for agency standards.

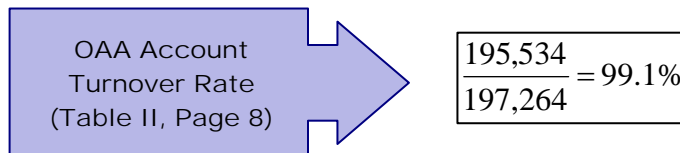
Account Assignment Pipeline

OVERVIEW

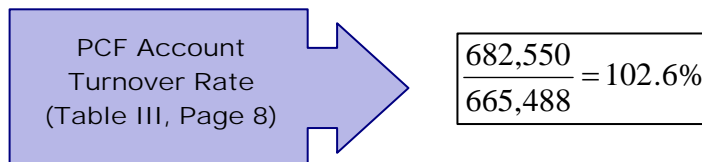
The account assignment pipeline includes collection efforts at state agencies, referrals to OAA, and referral to PCFs. The Account Turnover Rate (ATR) is a calculation that indicates how well accounts are moving through the account assignment pipeline. The ATR is calculated by dividing the beginning number of accounts by the ending number of accounts. An ATR of over 100% means that there are fewer accounts at the end of the year than at the beginning.



The current ATR of 97.2% means that there were more accounts in the system at the end of the year than in the beginning. Agencies with the biggest increase of ending accounts were: Judicial, Department of Corrections, Employment and Human Services. All of these agencies accounts receivables are a direct result of external factors including an increase in court judgments, prison populations, unemployment rates and the number of citizens receiving state assistance.



While OAA makes every attempt to keep accounts moving through the collections process, it does not control when the accounts are assigned by the referring agencies. If a large volume of new accounts were added at the end of a fiscal year, the result would be more accounts in inventory at the end of the year and the turnover rate would fall under 100%. The increase in ending inventory could also be the result of some agencies assigning accounts towards the end of the year in preparation for the 2007 kicker offset season.



The decrease in PCF inventory is likely caused by two factors: First, in July 2006 a new statewide collection contract allowed agencies to define the maximum length of time a private collection firm could work an account before returning the account as uncollectible. Most agencies have defined this maximum time as 12 months. As a result, by the end of FY 2007 many accounts were returned by the private collection firms according to the terms of the current contract. The second factor was the return of several thousand NSF checks that were less than \$100 each, these accounts were not collected and returned to the assigning agency.

DISCUSSION

ORS 293.231 requires state agencies to assign accounts to either OAA or a private collection firm 90 days from the date the account was liquidated or 90 days from the date of receipt of the most recent payment.

OAA continues to partner with state agencies to streamline the collections process and return accounts where assets are not readily available. This streamlining allows more accounts to flow through the assignment pipeline and allows OAA to focus collection resources where they are most effective.

Beginning July 1, 2006, all state agencies were required to identify the time at which the PCF must return an account if they are unable to receive a payment. The biggest impact of this contract provision was realized during FY 2007 as most agencies allow a maximum of 12 months without a payment. PCF inventory was reduced during FY 2007 as older accounts are being moved through the assignment pipeline. State agencies and DAS continue to work closely with the PCFs to ensure adequate collection actions are taken on assigned accounts.

Once an account has moved through the pipeline from agency to DOR and onto the PCF, if the account is still unpaid then the agency will review the account to see if it meets the Secretary of State criteria for uncollectibility as identified in OAM 35.50.10.PO. Accounts that meet the criteria may be written off with proper authorization.

PLAN OBJECTIVES

State Agencies

- Actively seek and implement opportunities for improvement in agency collection practices to improve automation throughout the collection life cycle.

Other Agency Accounts Unit

- Improve the process for identifying collectable accounts, enhance the exchange of data, and maintain an account turnover rate of 95% or higher. Identification of collectable accounts is measured by the increase in dollars collected. Enhancement of the exchange of data is measured by the number of client agencies utilizing the File Transfer System. The turnover rate is measured by the number of accounts that are returned to client agencies.

Private Collection Firms

- Perform monthly reviews of State Agency inventories and return accounts that are determined to be uncollectible according to the criteria identified in the Purchase Order and Contract. Provide state agencies with effective and efficient methods of assigning accounts and monitoring of collection process.

SWARM

- Coordinate ARCC recommendations for improvements in collection practices through use of the Oregon Accounting Manual. Provide consultation with agencies regarding collection policies and implementation of changes to agency procedures.

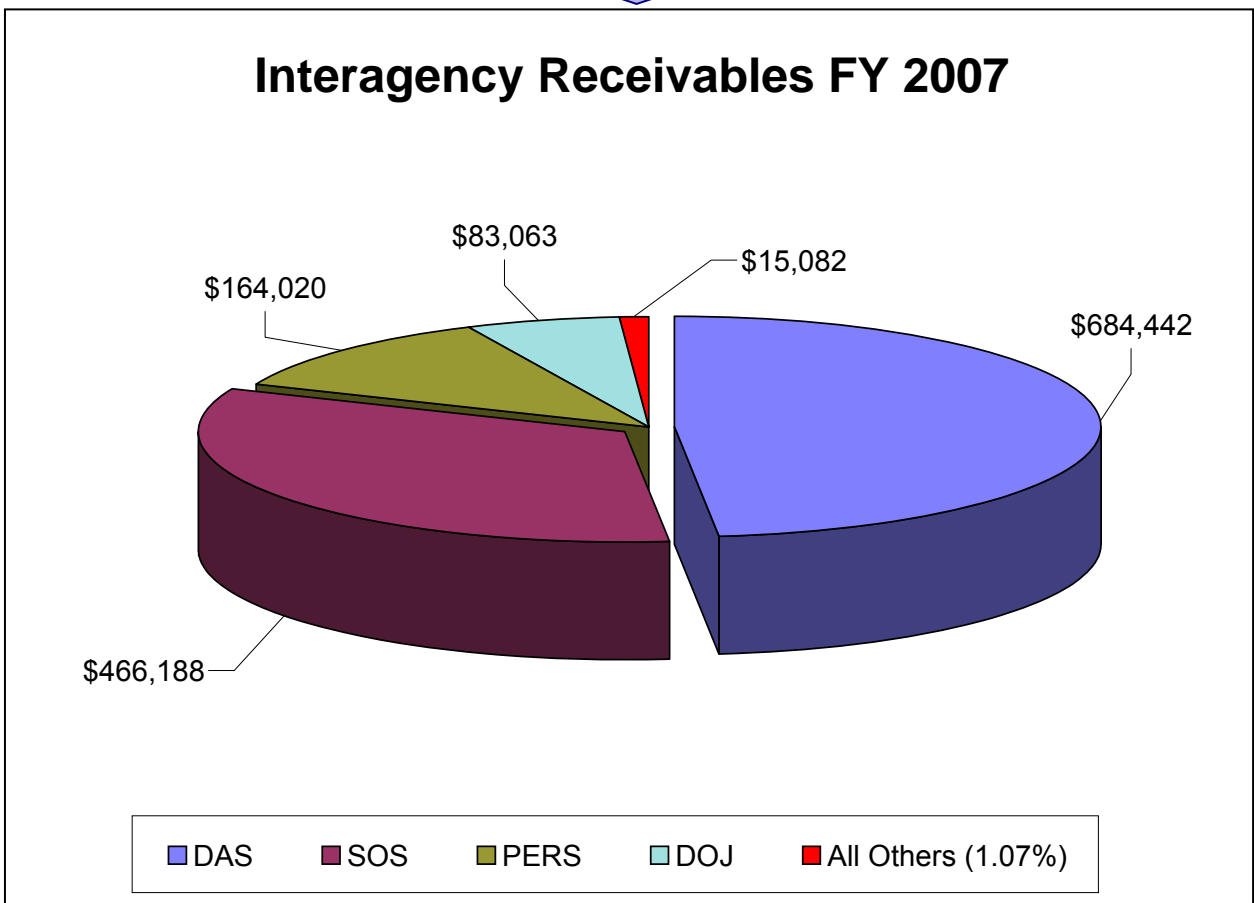
Interagency Receivables

OVERVIEW

The FY2007 LFO Report shows lower interagency delinquencies than FY2006. Of the approximately \$795 million in interagency receivables shown in the 2007 CAFR, only \$1,412,795 (or 0.18%) is reflected in the LFO report as delinquent. Interagency receivables are only 0.09% of the total liquidated and delinquent debts reported to the LFO. This illustrates that, overall, agencies continue to effectively manage the process of paying interagency receivables on a timely basis.

Figure 9 shows the breakdown of those agencies with the highest delinquent interagency receivables for FY 2007.

FIGURE 9



DISCUSSION

There is an expectation that interagency receivables will occur throughout the year, however, if agencies comply with the provisions established in OAM 15.45.10 and 35.70.10 those receivables would be paid timely and therefore not become delinquent. However, due to funding issues, not all agencies are able to consistently pay their receivables due to other government agencies within the timeframes identified by the OAMs.

OAM policies applicable to Interagency Receivables include:

- [OAM 35.70.10](#) describes state agency responsibilities when issuing and paying invoices between agencies.
- [OAM 35.70.20](#) process for state agencies to implement progressive actions to effect prompt payment on interagency receivables.
- [OAM 35.70.30](#) dispute resolution for interagency billings.

PLAN OBJECTIVES

State Agencies

- Collaborate with SWARM regarding agency procedures for collection of interagency receivables to ensure compliance with the provisions of OAM 35.70.10-35.70.30. Provide information regarding current interagency receivables at the request of SWARM for the purpose of increasing awareness among agencies.

SWARM

- Consult with agencies reporting high interagency receivable balances and recommend changes in billing policies to facilitate prompt payment. Regularly survey such agencies regarding progress in their efforts to reduce interagency receivables and facilitate ARCC discussions regarding process improvements.

Communication Effectiveness

OVERVIEW

The Accounts Receivable Core Committee (ARCC) is chaired by the SWARM coordinator, and its membership is made up of state agencies involved in collection activity. Through this committee SWARM has developed a communication pipeline for its members. In addition, SWARM is a resource to facilitate the exchange of ideas and process improvements. ARCC and SWARM have jointly expanded communications as follows:

- ARCC meetings – Monthly meetings provide a forum for agency staff to discuss and share their concerns and ideas and to develop action plans to improve the receivable and collection practices of the state. Information about upcoming ARCC meetings can be found at: <http://egov.oregon.gov/DAS/SCD/SRS/training.shtml>
- Legislative coordination – ARCC solicits input from agency staff on legislative concepts that could improve collection and receivable practices. Concepts that are approved by ARCC are developed and then proposed and managed by DAS.
- SWARM website – Information is available on collections and receivables with links to the statewide collection master contract, information on the contracted PCFs, OAMs being reviewed and/or updated, the annual LFO reporting process manual, liquidated and delinquent accounts receivable information, and much more. The SWARM website is located at: http://www.oregon.gov/DAS/SCD/SRS/SWARM_main.shtml
- Training – SWARM provides training sessions for agency staff in the area of receivables and collection practices. Information about upcoming training sessions can be found at: <http://egov.oregon.gov/DAS/SCD/SRS/training.shtml>
- Collection RFP – A subcommittee was formed to review and draft language for a new collection contract. Revisions were shared with ARCC at the monthly meetings. The final collection contract and other private collection firm information is available at: <http://egov.oregon.gov/DAS/SCD/SRS/newpcf.shtml>
- Skip Tracing RFP- A subcommittee was formed to review and draft language for a new statewide skip tracing contract. Vendor selection is expected to take place by April 2008.

SWARM has provided or arranged for the following training sessions this year:

- Oregon State Fiscal Association- A/R 101
- Annual LFO Reporting Process
- Payment options
- Collecting Tough Accounts Audio Conference
- Building the business case

DISCUSSION

State agencies exchange information and ideas at monthly ARCC meetings, vendor fairs, training sessions, and meetings involving the PCFs. SWARM compiles and monitors feedback on the PCF performance evaluation assessment process that is used by the participating agencies. This performance data is shared with the state agencies and shows year-to-year and PCF-to-PCF comparability.

Each state agency should have a Single Overriding Communication Objective (SOCO) in place for their collections efforts. A suggested format is provided in Appendix I. When a SOCO is jointly prepared by collection staff, accounting staff, and management, it can serve as an instrument for agency discussion, planning, and decision-making and should be used by state agencies in an effort to communicate their collection recovery success.

PLAN OBJECTIVES

State Agencies

- Develop, publish, and train agency staff on the Single Overriding Communication Objective (SOCO) (Appendix I) for agency collection efforts. Agencies shall present their SOCO at an ARCC meeting prior to January 2009.

Other Agency Accounts Unit

- Visit client agencies to present training on current or new processes and conduct annual survey with client agencies to ensure customer service levels are met or exceeded.

Private Collection Firms

- Respond to state agency inquiries within 24 hours. Communicate to state agencies regarding information that is available through the contractor's client access website.

SWARM

- Facilitate ARCC meetings to provide a forum for open discussion and sharing of ideas and agency best practices. Expand use of the SWARM website to distribute information, notify agencies of training opportunities, and solicit new ideas and concepts.

Summary of Plan Objectives

State Agencies

1. Coordinate with DAS and ARCC to develop standardized calculations for determining an agencies cost to collect delinquent accounts. Develop agency standards for costs of collection for the purpose of adjusting collection policies to optimize collection effectiveness.
2. Actively seek and implement opportunities for improvement in agency collection practices to improve automation throughout the collection life cycle.
3. Collaborate with SWARM regarding agency procedures for collection of interagency receivables to ensure compliance with the provisions of OAM 35.70.10-35.70.30.
4. Develop, publish, and train agency staff on the Single Overriding Communication Objective (SOCO) (Appendix I) for agency collection efforts.

Other Agency Accounts Unit

1. Maximize collection effectiveness by the acquisition of new skip tracing tools and streamlined use of current training tools and processes.
2. Improve the process for identifying collectable accounts, enhance the exchange of data, and maintain an account turnover rate of 95% or higher.
3. Visit client agencies to present training on current or new processes and conduct annual survey with client agencies to ensure customer service levels are met or exceeded.

PCFs

1. Collaborate with client agencies to identify and recommend improvements in collections (small claims, garnishments, etc.) through regular meetings (by phone or in person).
2. Perform monthly reviews of State Agency inventories and return accounts that are determined to be uncollectible according to the criteria identified in the Purchase Order and Contract. Provide state agencies with effective and efficient methods of assigning accounts and monitoring of collection process.
3. Respond to state agency inquiries within 24 hours. Communicate to state agencies regarding information that is available through the contractor's client access website.

SWARM

1. Provide assistance and guidance to agencies through leadership of the ARCC regarding the development of a standard methodology for calculating the costs of collection, and recommendations for agency standards.
2. Coordinate ARCC recommendations for improvements in collection practices through use of the Oregon Accounting Manual. Provide consultation with agencies regarding collection policies and implementation of changes to agency procedures.
3. Consult with agencies reporting high interagency receivable balances and recommend changes in billing policies to facilitate prompt payment. Regularly survey such agencies regarding progress in their efforts to reduce interagency receivables and facilitate ARCC discussions regarding process improvements.
4. Facilitate ARCC meetings to provide a forum for open discussion and sharing of ideas and agency best practices. Expand use of the SWARM website to distribute information, notify agencies of training opportunities, and solicit new ideas and concepts.

Factors in Collecting Delinquent Debt

Oregon's collection rates have continued to improve; however, several economic factors will impact the collection of liquidated and delinquent accounts in the near future. Those factors include:

- Mortgage foreclosures
- Unemployment rates
- Bankruptcy rates

MORTGAGE FORECLOSURES

Mortgage foreclosures have become an increasing economic issue over the last several months. The Federal government has even taken steps to negotiate a rate freeze on certain subprime loans for a period of five years. As of February 2008, the six largest financial institutions in the nation which service 50% of the total mortgages agreed to a program called "Project Lifeline." The program will offer people who are over 90 days overdue on their mortgage, regardless of the type of loan, an opportunity to stop the foreclosure process for a period of 30 days to allow lenders an opportunity to work out a way to make the mortgage more affordable.

Figure 10 shows the number of foreclosure filings between 2005 and 2007 for both Oregon and the United States.

FIGURE 10

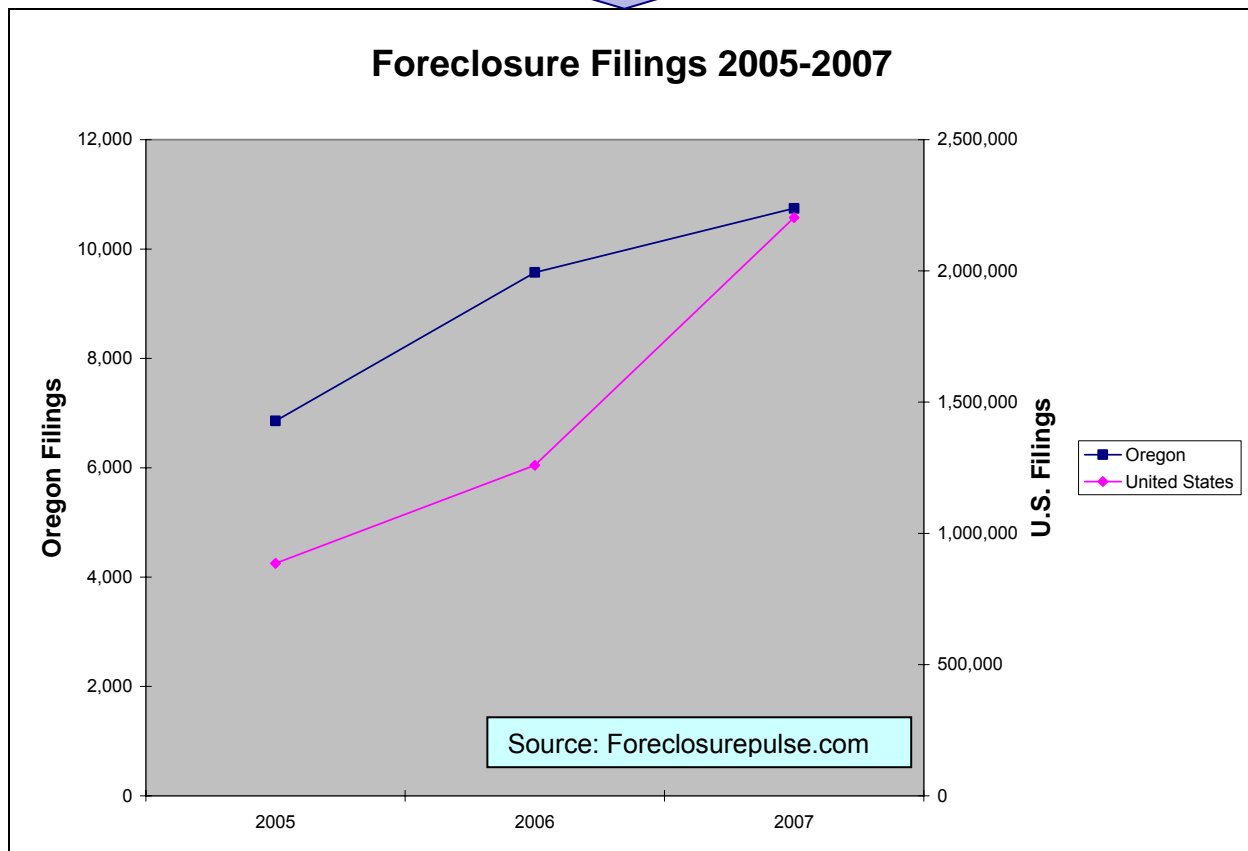
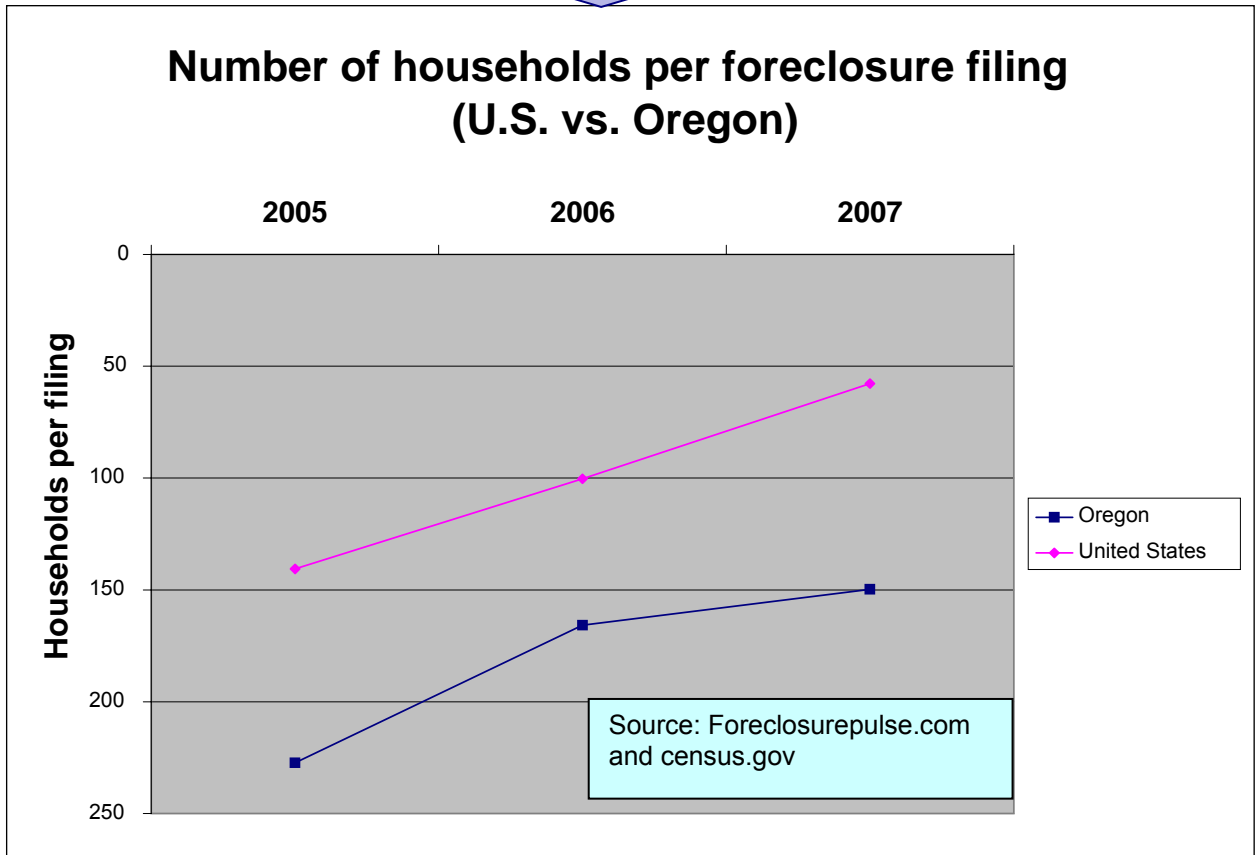


Figure 11 shows the number of foreclosure filings per household between 2005 and 2007 for both Oregon and the United States. While Oregon is considerably behind the U.S. trend, we have seen a 52% jump over the last two years.

FIGURE 11



Increasing mortgage foreclosures indicate that the collection of state debts will become more difficult. As an increasing number of people find themselves unable to pay their mortgage, they will have fewer resources available to pay other debts. There is also likely to be a corresponding increase in bankruptcy filings as taxpayers look for relief from their mortgage debts.

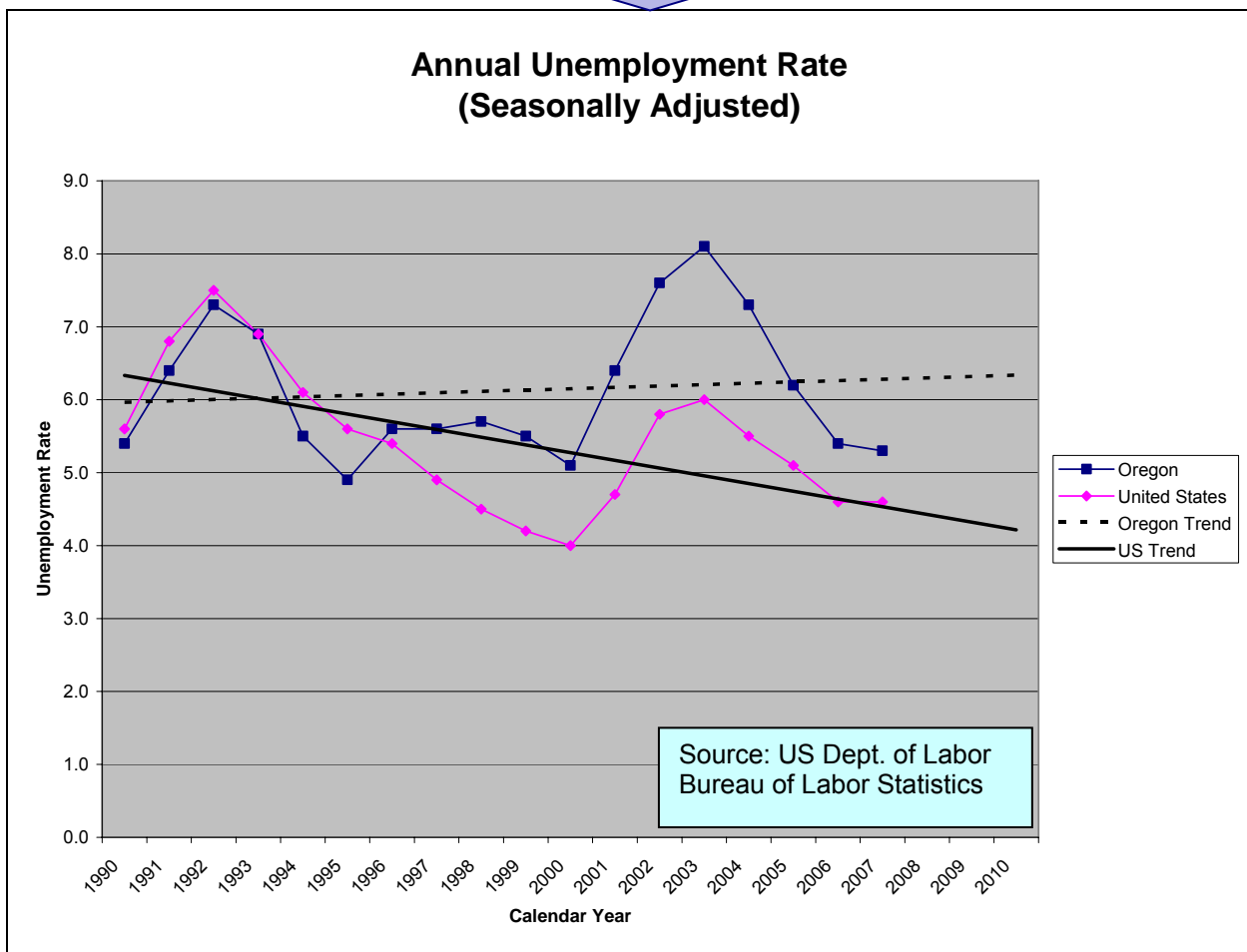
UNEMPLOYMENT RATE

Between 2000 and 2003 Oregon's unemployment rate rose from 5.1% to 8.1% while the U.S. rate rose from 4.0% to 6.0%.

Based on statistics from the U.S. Department of Labor, Figure 12 shows that between 1990 and 2007 Oregon's average unemployment rate has risen from ~6% to ~6.5% while during the same time the average U.S. rate dropped from ~6.5% to ~4.2%.

As more Oregonians find themselves unemployed, collecting delinquent state debts will become more difficult as households find themselves struggling to provide basic necessities with less income each month.

FIGURE 12



BANKRUPTCY RATES

In April 2005, the Bankruptcy Abuse Prevention and Consumer Protection Act was signed into law by President Bush. The provisions of the Act made filing for a Chapter 7 bankruptcy more difficult. In response to the October 2005 effective date of the new law, a massive increase in bankruptcy filings occurred prior to the October effective date of the Act.

Bankruptcy filings immediately after October 2005 dropped to 1/3 of the pre-Act rate, however, they have been consistently increasing ever since. As more people are affected by mortgage foreclosures it is expected that bankruptcy filings will continue to rise. Figure 13 compares the number of bankruptcy filings in Oregon and the United States between 1997 and 2007.

FIGURE 13

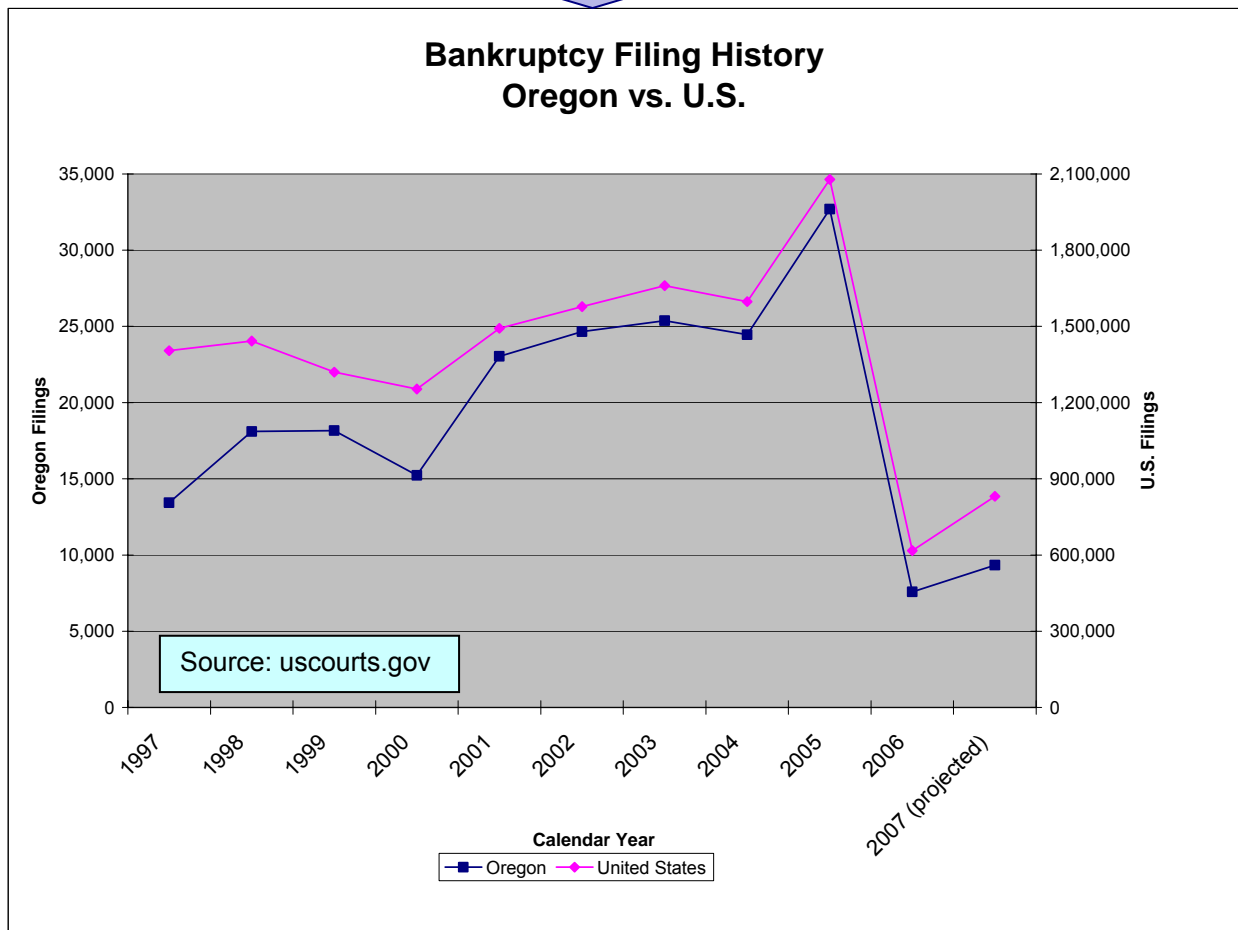
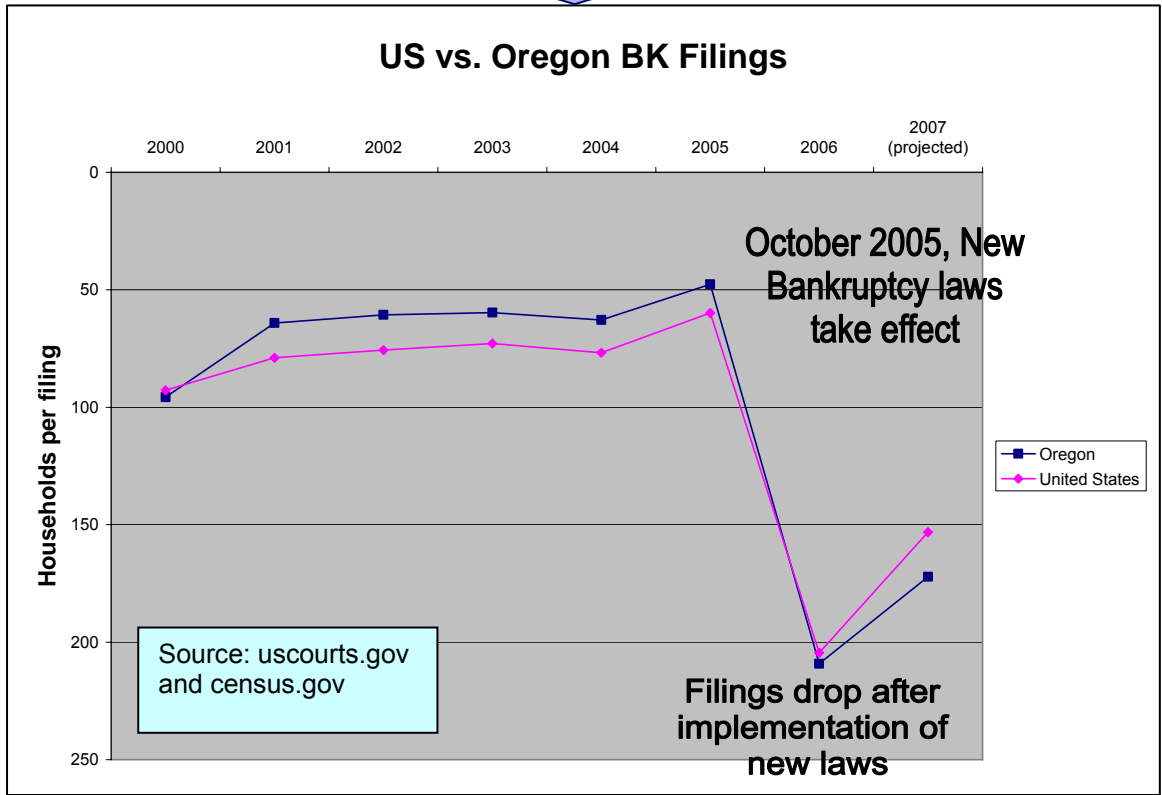


Figure 14 shows the number of households per bankruptcy filing for both Oregon and the U.S. between 2000 and 2007.

FIGURE 14



Higher bankruptcy rates will result in an environment that significantly slows or in some cases completely stops an agencies ability to collect a liquidated and delinquent account. Even if the debt is not discharged in the bankruptcy, the very fact the debtor has filed for bankruptcy indicates the debtor's lack of ability to pay a debt.

SINGLE OVERRIDING COMMUNICATION OBJECTIVE (SOCO)
FOR LIQUIDATED AND DELINQUENT ACCOUNT COLLECTION EFFORTS

As stated in the Plan Objectives for Communication Effectiveness, each state agency should have a Single Overriding Communication Objective (SOCO) in place for their collections efforts. This appendix provides a suggested format for agencies to use in developing a SOCO. When jointly prepared by collection staff, accounting staff and management, the SOCO form can serve as an instrument for agency discussion, planning, and decision-making. It can assist agencies when responding to questions from the media or the legislature. When a copy of the form is provided to the agency's legislative coordinator and public relations contact, it could serve as an educational tool and as a reference document for future inquiries.

The form should be used by state agencies in an effort to communicate their collection recovery success. It offers state agencies a series of informational points to explain and promote their agency's collection performance. To remain effective, it must be kept current through the annual collection and evaluation of data.

The following points make up the form:

SOCO (Single Overriding Communication Objective)

Sum up the agency's collection objective with regard to customer service.

Agency Mission

What is the agency's mission in regard to collections?

Revenue/Fund/Activity Perspective

Are the recovered funds general fund, other fund, etc.? What activities are supported by the funds collected?

Clients, Customers, Constituency

Describe the agency's clients and debtors.

Collection Rates

Choose the rate or rates that permit the best comparability. Consider year-to-year comparability and comparisons to other agencies, even comparable agencies in other states.

Staffing Perspective

Provide an overview of staffing characteristics and include information like dollars collected per FTE, calls handled per year, etc.

Benchmarks/Performance Measures

What are the agency's benchmarks and performance measures for their collection efforts?

5-Year History

Collection Rates, Turnover Rates, Average Days Outstanding.

Trends

What trends is the agency seeing as a result of their collection efforts?

[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 Rate: $\text{Collections} \div (\text{Beg. Balance} + \text{Additions})$
- Paid Timely Rate: ???
- Avg. Days A/R Outstanding: $\text{AR} \div (\text{Revenue} \div 365)$
- Delinquency Rate: ???
- Turnover Rate: $(\text{Beginning Account Balance} \div \text{Ending Account Balance})$
- Cost of Collection: ??? (Total Direct Costs + Total Indirect Costs = Total Cost of Collection.)

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

	2001	2002	2003	2004	2005
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%

Trends

Overall trends indicate...

LIST OF REFERENCES ON WEB

- The **SWARM** (Statewide Accounts Receivable Management) website is used to inform state agencies about receivable and collection issues, LFO reporting, training, presentations, meetings, etc.
<http://www.oregon.gov/DAS/SCD/SRS/arcc.shtml>
- The SWARM website maintains a special web page to display and track the progress of **proposed additions to the Oregon Accounting Manual (OAM)** regarding accounts receivable and collections. This web page displays the formally adopted OAM policies and procedures.
<http://www.oregon.gov/DAS/SCD/SRS/policies.shtml>
- ORS 293.229 requires the Legislative Fiscal Office to produce an annual report by December 31 of each year for the legislature. These reports, entitled **Report on Delinquent and Liquidated Accounts Receivable**, offer a view of the state's liquidated and delinquent accounts.
<http://www.oregon.gov/DAS/SCD/SRS/lfo.shtml>
- The **Collection Contract Firms** website provides specific information about the statewide collection master contract. It includes a complete copy of the master contract along with the name, biography, address, email address, phone number and an individual link to each of the eleven collection firms who were awarded a master contract as of July 1, 2006.
<http://www.oregon.gov/DAS/SCD/SRS/pcf.shtml>
- Referred to as the **Unlawful Debt Collection Practices Act**, ORS 646.639 et. seq. provides Oregon with laws regarding unlawful debt collection practices. This law, coupled with the guidelines provided in the OAMs, furnishes state agencies the boundaries for lawful collection policies.
<http://www.leg.state.or.us/ors/646.html>
- The **Federal Trade Commission administers the Fair Debt Collection Practices Act**. For information on this and other consumer and business issues.
<http://www.ftc.gov/os/statutes/fdcpajump.htm>
- The **ACA International** website is a resource guide built to educate consumers, business professionals and the media about the credit and collection industry. The ACA International is an international trade organization of credit and collection professionals that provide a variety of accounts receivable management services to over one million credit grantors. It was formerly known as the American Collectors Association.
<http://www.collector.com/>
- The **Skip Tracing website** is a new resource added to assist agencies in searching for debtors who have left without leaving a forwarding address. It is a reference guide but is not intended to be the only source for online search resources available to agencies.
<http://www.oregon.gov/DAS/SCD/SRS/skiptrace.shtml>

Table IV represents a year-by-year comparison of all accounts reported, even those being worked by the OAA unit and private collection firms:

Appendix III

TABLE IV

OVERALL COLLECTION RESULTS - THREE YEAR HISTORY				
		June 30, 2005	June 30, 2006	June 30, 2007
Total Dollar Value of Liquidated and Delinquent Accounts	Beginning	\$1,496,469,584	\$1,512,015,096	\$1,555,382,877
	Additions	589,725,346	502,226,251	541,861,265
	Collections	(296,354,117)	(311,947,925)	(330,790,218)
	Write-Offs	(42,501,572)	(64,203,956)	(43,163,914)
	Adjustments	(87,841,313)	(61,875,110)	(94,611,392)
	Reversals	<u>*(148,928,128)</u>	<u>(42,040,824)</u>	<u>(53,581,868)</u>
	Ending Balance	<u>\$1,510,569,800</u>	<u>\$1,534,173,532</u>	<u>\$1,575,096,750</u>
Total Number of Liquidated and Delinquent Accounts	Beginning	1,212,253	1,463,918	1,506,855
	Additions	695,688	474,322	497,346
	Accounts Closed	(357,641)	(365,580)	(383,492)
	Write-Offs	(43,230)	(35,028)	(52,126)
	Reversals	<u>(40,217)</u>	<u>(28,385)</u>	<u>(17,551)</u>
	Ending Balance	<u>1,466,853</u>	<u>1,509,247</u>	<u>1,551,032</u>
Overall Collection Rate		14.21%	15.49%	15.77%
Overall Account Turnover Rate		82.6%	97.0%	97.2%

* Includes reversals of \$103.8 million from Student Assistance Commission after agency dissolved.

Table V represents a year-by-year comparison for accounts assigned to OAA:

Appendix IV

TABLE V

OTHER AGENCY ACCOUNTS UNIT COLLECTION RESULTS – THREE YEAR HISTORY				
		June 30, 2005	June 30, 2006	June 30, 2007
<i>Dollar Value of Liquidated and Delinquent Debt at OAA</i>	Beginning Balance	\$200,339,328	\$150,171,156	\$153,328,078
	Additions	114,206,807	122,434,400	138,284,438
	Collections	(23,060,202)	(24,673,284)	(25,209,086)
	Returned	<u>*(140,292,283)</u>	<u>(95,258,731)</u>	<u>(95,503,215)</u>
	Ending Balance	<u>\$151,193,650</u>	<u>\$152,673,541</u>	<u>\$170,900,215</u>
<i>Number of Accounts</i>	Beginning Balance	296,281	213,433	195,534
	Ending Balance	<u>214,573</u>	<u>195,644</u>	<u>197,264</u>
<i>OAA Dollar Collection Rate</i>		7.33%	9.05%	8.64%
<i>OAA Account Turnover Rate</i>		138.1%	109.1%	99.1%

* In August 2004, OAA initiated a pilot program with OJD to return accounts that do not meet the collectibility standards within 120 days after assignment. Refer to the increased assignments to PCFs in Appendix V.

Table VI represents a year-by-year comparison for accounts assigned to PCFs:

TABLE VI

PRIVATE COLLECTION FIRM COLLECTION RESULTS –THREE YEAR HISTORY				
		June 30, 2005	June 30, 2006	June 30, 2007
Dollar Value of Liquidated and Delinquent Debt at Private Collection Firms	Beginning Balance	\$362,323,785	\$439,794,986	\$530,357,479
	Additions	*254,918,308	192,091,580	126,785,297
	Collections	(14,877,523)	(17,422,531)	(13,923,831)
	Returned	** <u>(161,877,043)</u>	<u>(86,582,374)</u>	<u>***<u>(194,082,490)</u></u>
	Ending Balance	<u>\$440,487,527</u>	<u>\$527,881,661</u>	<u>\$449,136,455</u>
Number of Accounts	Beginning Balance	506,420	591,320	682,550
	Ending Balance	<u>591,119</u>	<u>682,221</u>	<u>665,488</u>
PCF Dollar Collection Rate		2.41%	2.76%	2.12%
PCF Account Turnover Rate		85.7%	86.7%	102.6%

* New assignments increased as a result of accounts moving from OAA faster than they did in FY 2004 and increased assignments from the DOR Tax unit.

** The increase in returned accounts over 2004 includes a \$64 million increase by OJD and \$14 million increase by the Student Assistance Commission which was dissolved during FY 2005.

*** The increase in returned accounts for FY 2007 includes \$92.8 million for the Dept. of Revenue, \$51 million for the Oregon Judicial Department and \$15.7 million for the Department of Consumer and Business Services (granted an agency exemption under ORS 293.231(6)) .

Collection of Agency Liquidated and Delinquent Accounts

		2005*	2006	2007
Totals for All Collection Efforts	Beginning Inventory	(a) \$1,496,469,584	\$1,512,015,096	\$1,555,382,877
	Additions	(a) 589,725,346	502,226,251	541,861,265
	Total Available for Collection	\$2,086,194,930	\$2,014,241,347	\$2,097,244,142
	Total Ending Inventory	\$1,510,569,800	\$1,534,173,532	\$1,575,096,750
	Total Collected (All Sources)	(a) \$296,354,117	\$311,947,925	\$330,790,218
	% Total Available Collected	(b) 14.21%	15.49%	15.77%
Total for State Agencies (X)	Net Ending State Agency Inventory	\$918,888,623	\$853,618,330	\$955,060,080
	Total Collected	\$258,416,574	\$269,852,110	\$291,657,301
	% Total Available Collected	22.39%	24.32%	25.39%
Totals for Other Agency Accounts	Beginning Inventory	(a) \$200,339,328	\$150,171,156	\$153,328,078
	Additions	(a) 114,206,807	122,434,400	138,284,438
	Total Available for Collection	\$314,546,135	\$272,605,556	\$291,612,516
	Ending Inventory	\$151,193,650	\$152,673,541	\$170,900,215
	Collections for the State	(a) \$23,060,020	\$24,673,284	\$25,209,086
	% Total Available Collected	(b) 7.33%	9.05%	8.64%
Totals for Private Collection Firms	Beginning Inventory	(a) \$362,323,785	\$439,794,986	\$530,357,479
	Additions	(a) 254,918,308	192,091,580	126,785,297
	Total Available for Collection	\$617,242,093	\$631,886,566	\$657,142,776
	Ending Inventory	\$440,487,527	\$527,881,661	\$449,136,455
	Collections for the State	(a) \$14,877,523	\$17,422,531	\$13,923,831
	Avg Historical Cost of Collections	(c) \$2,975,505	\$3,484,506	\$2,784,766
% Total Available Collected	(b) 2.41%	2.76%	2.12%	

(x) State agency totals are calculated [total LFO - (OAA + PCF)] for the purpose of benchmarking collection and inventory percentages.

* LFO Data adjusted to reflect reporting error of \$124.35 million in additions and collections; the account was not liquidated.

(a) This information is from the LFO Liquidated and Delinquent Account Reports.

(b) Based on LFO data [Collection Amount / (Beginning Inventory + Additions)]

(c) Based on prior and current contracted average collection rates.

CHRONOLOGY OF SWARM IMPLEMENTATION

▶	HB3509 becomes law. (Oregon Laws 1999, Chapter 1092)	10/23/99
▶	Assignment law becomes operative. (ORS 293.231 – See Section 6 under note.)	01/01/00
▶	First reporting period ends. (ORS 293.229(3) permits an agency a 1-year report exclusion.)	06/30/00
▶	First Statewide Collection Master contract in place. (Eight private collection firms were awarded a contract.)	08/01/00
▶	First L&D reporting to LFO is due. (Turnover of mature accounts – pre-stabilization period)	10/01/00
▶	First private collection master contracts in place.	11/27/00
▶	First LFO report to the legislature is due.	12/31/00
▶	Second reporting period ends. (Judicial included in the report per ORS 1.195)	06/30/01
▶	DOR assignment law becomes operative. (This time frame, combined with law changes, produced an increased transfer of mature accounts.)	07/01/01
▶	SB 70 becomes law. (Oregon Laws 2001, Chapter 823)	07/20/01
▶	Second LFO report to Legislature. (This report allowed for comparison to the first year's report, however, it was not a true year-to-year comparison.)	12/31/01
▶	New statewide collection master contract. (There were 11 private collection firms awarded a master contract.)	11/15/02
▶	Third LFO report to Legislature is published.	12/23/02
▶	House Bill 2055 becomes law. (Oregon Law 2003 Ch. 66. allows agencies to add collection costs to debts.)	05/07/03
▶	House Bill 3023 approved by the Governor. (Oregon Law 2003 Ch. 805, requires agencies to turnover L&D accounts in 90-days rather than 1 year.)	09/24/03
▶	Fourth LFO report to Legislature is published.	12/15/03
▶	House Bill 3023 becomes law. (Oregon Law 2003 Ch. 805)	01/01/04
▶	Fifth LFO report to Legislature is published.	12/15/04
▶	Amendment to collection contract allowing contractors to file Small Claims and Garnishments with proper approvals.	07/01/05
▶	Sixth LFO report to Legislature is published.	12/15/05
▶	New statewide collection master contract. (There were 10 private collection firms awarded a master contract.)	07/01/06
▶	Seventh LFO report to Legislature is published.	12/15/06
▶	Eighth LFO report to Legislature is published.	12/28/07

Acknowledgements

The ARCC Strategic Planning subcommittee's participation with data analysis and the development and deliberation of the ARCC Strategic Plan was much appreciated. This committee included:

- Jan Jackman – Department of Revenue
- Chris Gasperini – Department of Revenue
- Beth Buck – Department of Revenue
- Bonnie Savage – Oregon Judicial Department
- Sue Nunley – Department of Justice
- Linda Wells – Department of Human Services
- Karen Collette – Department of Human Services
- Arlen Stewart – Department of Consumer and Business Services
- Gerold Floyd – Department of Administrative Services

We would also like to acknowledge and thank:

- The Legislative Fiscal Office (LFO) and Dallas Weyand III for sharing the raw agency data collected through the LFO data collection website to permit further evaluation.
- The Oregon Collectors Association for their assistance in making the collection process work for the benefit of the state.
- The Statewide Accounting and Reporting Section which each year compiles and presents the state's Comprehensive Annual Financial Report (CAFR) and their sharing of the receivable data, thereby permitting a more detailed analysis.
- The State Controller, John Radford, and Statewide Financial Services Manager, Jon DuFrene, for their valuable advice and counsel.

Accounts Receivable (A/R) – In governmental activities an A/R is usually created by regulations based on taxes, licensing, fees, fines, restitution, penalties, etc. This governmental type of A/R does not allow state agencies to select their customer or perform credit checks. In the private sector, an A/R is generally created when credit is extended for the transfer of a good or a service. Also, private industry organizations typically screen those customers to whom they choose to extend credit.

Accounts Receivable Core Committee (ARCC) – The ARCC provides the opportunity for state agency representatives to meet and share ideas to help improve business practices and enhance state receivable and collection policies and results.

Automatic Clearing House (ACH) – A nationwide electronic funds transfer network which enables participating financial institutions to distribute electronic credit and debit entries to bank accounts and to settle such entries.

Comprehensive Annual Financial Report (CAFR) – This annual report provides an accounting of the state’s financial and budgetary operation as of June 30th of each year. The report is prepared under Generally Accepted Accounting Principles and is audited by the Secretary of State’s Division of Audits.

Department of Administrative Services (DAS) – DAS works to effectively implement policy and financial decisions made by the Governor and the Oregon Legislature. This agency also sets and monitors high standards of accountability, ensuring that tax dollars are used productively.

Legislative Fiscal Office (LFO) – Is a permanent, non-partisan legislative service agency. It provides research, analysis, and evaluation of state expenditures, financial affairs, program administration, and agency organization. The LFO also provides fiscal impact statements on legislative measures.

Liquidated and Delinquent (L&D) – [OAM 35.30.10](#) defines L&D debts as accounts that have proceeded past the status of a regular account receivable. Delinquent implies the account was not paid by the due date. Liquidated implies the amount owed is known by the debtor, the debtor has been notified of the debt, and that the debtor has been given an opportunity to go through a due process proceeding. Within this report, we refer to these accounts collectively as “liquidated and delinquent” accounts.

Oregon Accounting Manual (OAM) Policies – Is intended to provide a comprehensive set of policies and procedures to assist state fiscal managers with analyzing, processing, and reporting financial transactions in accordance with Generally Accepted Accounting Principles (GAAP).

Other Agency Accounts unit (OAA) – Located at the Department of Revenue, is the “in-house” collection agency for State of Oregon agencies. OAA was established in 1975 under ORS 293.250 (amended 2001) to collect debts owed to any agency of the State of Oregon. The program is self-supporting based on the retention of a percentage of dollars collected for other state agencies.

Private Collection Firm (PCF) – Private sector debt collection organizations contracted by the State to assist in state agency debt collection.

Single Overriding Communication Objective (SOCO) – A document that is designed to sum up the agency’s collection objective with regard to customer service and communicate the agencies recovery success. See Appendix I

State Controller’s Division (SCD) – The State Controller's Division exists to support and ensure accuracy and accountability in state government financial systems by providing services and controls in the management of statewide accounting, receivables, financial reporting, and payroll functions.

Statewide Accounts Receivable Management (SWARM) – A unit of the Statewide Financial Services section, State Controller’s Division.