

Secretary of State Audit Report

Jeanne P. Atkins, Secretary of State
Gary Blackmer, Director, Audits Division



Oregon Needs Stronger Leadership, Sustained Focus to Improve Delinquent Debt Collection

Executive Summary

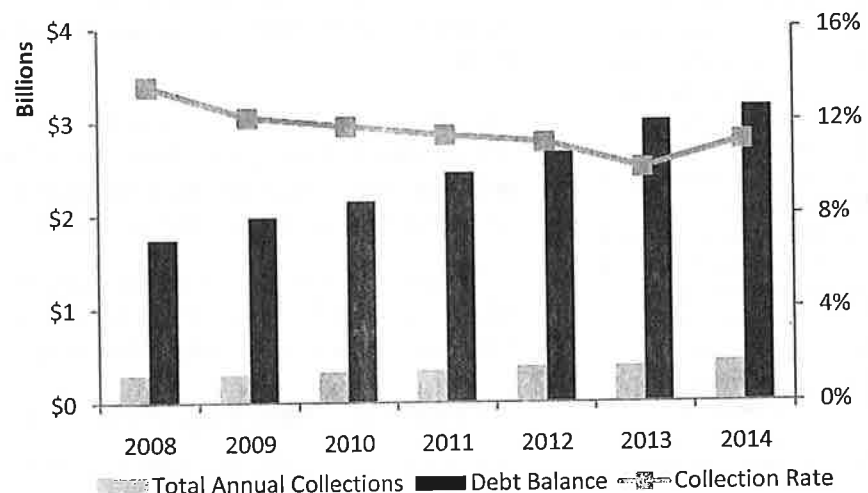
Liquidated and delinquent receivables owed to the state of Oregon have almost doubled since 2008, to nearly \$3.2 billion, while collection rates on the debt have dropped. The state's debt collection system needs more leadership, sustained focus and accountability to improve performance over time.

Past due receivables are growing

Delinquent: Not paid by due date.
Liquidated: Debtor notified of debt, given chance to contest it.

Oregon's liquidated and delinquent debt rose from \$1.7 billion at the end of fiscal year 2008 to nearly \$3.2 billion by 2014, while statewide collection rates on that debt dropped from 13.5% to 11.2%. Nearly \$800 million of the debt is tied to the state's general fund.

Liquidated and Delinquent Receivables



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

The recession contributed to the increased debt. Evidence indicates many of the debtors are low-income, and more than half the debt may be uncollectible.

However, bumping up Oregon’s collection rates could still make a substantial difference over time. At 2014 debt levels, every percentage point increase in the statewide collection rate would improve collections by about \$38 million. If Oregon had collected delinquent debt at a 13.5% rate in 2014 – last achieved in 2008 – the state would have brought in nearly \$90 million more in collections.

Our 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.

Oregon has not focused on improving collections

Our audit found Oregon’s highly decentralized approach to collections has contributed to a lack of sustained focus on improvement.

This is our sixth collections-related audit since 1997. Significant improvements identified in those audits have not been implemented, some dating back 18 years.

Oregon has not implemented productive collection tools used by other states, has not resolved lingering legal issues that hinder collections, and has allowed inadequate performance measurement to persist.

Individual agencies have made some improvements. Statewide, however, no one has been tracking collection improvement efforts or encouraging them.

Our discussions with leading states on debt collection highlighted the importance of having a system “expert” responsible for identifying potential improvements, looking outside the state system for new opportunities, and reporting to decision makers.

In Oregon, the statutory authority and history of the Department of Administrative Services (DAS) indicate it is the best agency to serve as a statewide strategist on debt collection.

Performance reporting, measurement are flawed

State agencies routinely collect receivables, or bills for charges and services. Statewide performance reporting focuses on receivables that become “liquidated and delinquent” – past due debt that debtors have had a chance to contest.

The Legislative Fiscal Office prepares an annual report on liquidated and delinquent debt collection, designed 16 years ago by the Legislature to help drive collection improvements.

Debt Collection Milestones

1997	◆	First statewide collections audit.
1999	◆	Legislature requires LFO report; debt assignment.
2001	◆	Statewide committee on debt collection established.
2004	◆	Second statewide audit finds high OAA caseload and minimal oversight of private collection.
2010	◆	Statewide debt collection committee eliminated.
2013	◆	Institute for Modern Government begins collections work.
2014	◆	Third statewide collections audit begins. ◆ DAS starts committee to evaluate collection issues.
2015	◆	Institute for Modern Government drafts collection bills. ◆ Audits Division recommends additions. ◆ Legislature passes SB 55 to improve collections.

However, the report includes few large-debtor agency details – not even their collection rates – contains noteworthy inaccuracies, and does little to hold agencies accountable for collections performance. It also does not identify potential collections improvements or detail the status of agency improvement efforts, key to encouraging advances.

In addition to reporting, we also focused on “assignment” of debt, accounts sent by agencies to private collection firms or the Other Agency Accounts unit (OAA) at the Department of Revenue, the state’s collectors of last resort.

Private collection firms carried nearly \$1 billion of the state’s debt as of 2014 – more than double the 2008 balance – with a collection rate just over 1%.

Other Agency Accounts, the state’s central collection agency, had a better rate, roughly 7%, according to Legislative Fiscal Office data. Assignment to OAA has stayed relatively flat, however, hitting \$259 million in 2014.

We found the Department of Administrative Services is not evaluating the performance of OAA or private collection firms. We also found some large-debtor agencies are not using performance information to strategically assign debt.

Oregon is not using some proven collection tools

Our research, discussions with other states and interviews with Oregon officials suggested eight tools Oregon could pursue to increase collections, including some the state has considered for years but not implemented.

Among the most promising:

Other Promising Tools

- State Lien Registry
- Lottery winnings offset
- Incarceration listings
- Unclaimed property offset
- Timely warning letters

State vendor offset: Forty states are intercepting state payments to debtors who are also state vendors, including corporations and consultants. Our work indicates vendor offset in Oregon would collect at least \$750,000 a year.

Bank levies: Other states have systems that allow for automated matching of a wide variety of debtors to bank account records, a process that yielded \$30 million for Wisconsin in 2014.

Internet posting of debtors: Twenty-three states maintain public online lists of debtors, some focused only on large debtors, to increase collections. Many of the debtors pay after they receive a warning letter but before the information is posted.

2015 legislative changes should help

The Institute for Modern Government at Willamette University drafted Senate Bill 55 in the 2015 legislative session to improve debt collection. We issued an interim report to the Legislature to suggest further legislative

Senate Bill 55, passed by the 2015 Legislature, included changes we recommended.

changes. Our recommendations were incorporated in the bill, which the Legislature passed and the governor signed in July.

At our recommendation, Senate Bill 55 charged the Department of Administrative Services with monitoring and improving debt collection. DAS's duties, detailed in the bill, include improving performance reporting and assignment of debt for collection. DAS started a committee last year to address statewide collections, and contributed to Senate Bill 55.

Even with stronger oversight, improving collection of Oregon's rising debt will not happen overnight. During our audit, we found that improving collections requires meticulous work with agencies.

DAS officials – and policy makers – will also have to be persistent to ensure improvements are made.

Recommendations

Beyond the changes implemented in Senate Bill 55, we found improvements OAA could focus on. We also found other steps DAS could take, including:

- Preparing meaningful annual reports on debt collection, relevant to the public and policy makers.
- Helping agencies adopt successful collection tools.
- Developing short- and long-term plans for a sustained focus on debt collection.

Agency Responses

Both the Department of Administrative Services and the Department of Revenue generally agreed with our recommendations, with DAS noting that it recognizes its oversight role.

DAS said it would focus efforts on current receivables as well as liquidated and delinquent debt. The response also included concerns about the difficulty of adopting a fully integrated vendor offset program.

The Department of Revenue said agency officials will continue to discuss many of the collection improvements noted in our audit with policymakers and stakeholders. A computer system upgrade now underway will help the agency make further improvements, the response said.

The full agency responses can be found at the end of the report.

DAS's elimination of receivables training during the recession likely contributed to these problems. The agency resumed training in March 2015.

Oregon is not using some proven collection tools

In some cases, Oregon's large-debtor agencies are actively pursuing new collection tools. The Department of Revenue's withholding and payroll tax section, for example, recently began matching debtors to 1099 rental income information from tax returns and to the state's unclaimed property list to improve collections.

The Office of Payment Accuracy and Recovery, which collects some receivables for the Department of Human Services and the Oregon Health Authority, is using one of the broadest sets of collection tools. The office's tools include an online payment portal and a subscriber database, that provides nationwide employment data.

The use of collection tools is not consistent across agencies, however, or even within agencies that have multiple collections units. Oregon has also not adopted tools used successfully in other states.

Implementing new tools can be complicated. Some require legislative authorization. Some raise legal issues or opposition from lobbying groups.

Some raise controversy: After critical news stories, the Legislature recently passed a bill requiring the Department of Revenue to offer suspended tax collection to impoverished debtors whose income is solely from legally protected sources, such as Social Security disability income.

However, our research, discussions with other states and interviews with Oregon officials suggested widely used tools Oregon could pursue to increase collections.

Among the most promising: state vendor offset, improved bank account levies, Internet posting of large delinquent debtors, and a state lien registry. Oregon has considered all four of these tools for years, but has not implemented them.

State Vendor Offset

For vendor offset, states compare lists of state debtors to lists of vendors the state is paying to do work. If a vendor owes money to the state, the state intercepts the payments due and applies them to the debt. Vendor payments include payments to corporations and consultants and non-salary payments to state employees, such as travel.

We first recommended that the state begin a vendor offset program in 1997, nearly two decades ago, but Oregon has not implemented it.

During our current audit, we used debt data from the Department of Revenue, vendor information from DAS, and vendor payments from the state's accounting system to gauge the potential returns from vendor offset in Oregon. We tracked payments from 2011 to 2014, counting a payment as a potential debt offset only if the state paid the vendor in the year after the debt was incurred or in subsequent years.

Our findings:

- The state is regularly making payments to individuals and businesses that owe the state money.
- More than 9,000 state debtors were on the state vendor list and had received payments or were authorized to receive payments.
- In four years – from 2011 to 2014 – the state could have collected roughly \$3 million dollars had vendor offset been in place, indicating vendor offset could return at least \$750,000 a year.

These numbers could underestimate vendor offset potential. The debtor list at the Department of Revenue does not include all the state's debt, only debt sent to OAA and tax debt. Our methodology also captured only payments made in years after the debt was listed as incurred, missing payments in the same year. Finally, OAA tracks only the date debt was sent to OAA – not the original due date. If we knew the original debt date, we could have captured more payments as potential vendor offsets.

In our analysis, we found state payments being made to debtors who owed substantial sums to the state and to debtors the state had tried to collect from for several years. For example:

- One vendor for the Department of Human Services and the Oregon Health Authority received \$1.4 million in regular payments from 2008 to 2014. During that period, he accumulated \$224,000 in state debt. The state could have collected \$166,695 by intercepting payments made after the debt was incurred.
- Another vendor incurred debt of \$86,000 with Oregon Parks and Recreation, which sent the debt to OAA in 2013. In 2014, Oregon State Police paid the business \$19,894, which could have been intercepted.
- A vendor hired by the Oregon Department of Fish & Wildlife in 2012 had \$60,200 in child support debt and roughly \$500 in court debt. His \$21,000 payment could have been intercepted.

Since our 1997 audit, state officials have raised numerous concerns about vendor offset. They range from the potential administrative cost to legal barriers in matching Social Security numbers between the two lists to vendors refusing to do work if their debt is offset.

These concerns have been overcome in other states – at least 40 states have implemented a state vendor offset program. To date, Oregon agencies have deducted only three debts from vendor payments.

The states we spoke with say they efficiently collect debt through an offset function, which is often highly automated after initial setup. They also believe vendor offset has reduced future debt, because vendors aiming for state business are aware the state will intercept payments to debtors.

The federal government also does vendor offset. In fact, Oregon is poised to begin offsetting its payments to Oregon vendors against federal debt. If Oregon continues to resist vendor offset at the state level, it would be redirecting state payments to cover debts owed to the federal government, but not to Oregon.

At our recommendation, Senate Bill 55 included language authorizing state agencies to participate in vendor offset. The bill also attempts to facilitate the process by requiring DAS to establish rules on the use of Social Security Numbers for debt collection. As a unique identifier, SSNs can help agencies efficiently match debtors to other sources of data, such as vendor lists.

Fully automated offset may take time to develop. Discussions with other states and Oregon officials, however, indicate the state could begin implementing vendor offset with interim steps.

DAS could check with the Department of Revenue for tax debt and debt at Other Agency Accounts, for example, either before approving a vendor for inclusion on the state's list or before authorizing vendor payments.

Over time, the program can become highly automated with little overhead, other states and the federal government indicate. North Carolina, for example, reports that it runs vendor offset with one full-time-equivalent employee. Since North Carolina began vendor offset in 2010 it has collected about \$8 million. In 2014, it collected \$1.6 million.

Bank account levies

When it comes to bank garnishments and levies, all but one of Oregon's largest debtor agencies have to guess where a debtor might be banking. Other states, including Wisconsin and California, have worked with financial institutions to implement broader statewide matching systems that allow them to quickly link debtors to specific bank accounts.

In Oregon, the only agency that can match debtors to bank balances for debt collection is the Department of Justice's child support program. Federal law requires all states to access bank information for child support debt.

To assess the merits of these themes we focused on six states – Colorado, Kentucky, Maryland, New Jersey, Minnesota and Wisconsin – for in-depth discussions. These states all made improving collections a sustained priority. They have similar demographics to Oregon and, like Oregon, impose a state income tax.

Data analysis details

In addition to the work noted above, we used extensive data analysis at two points in our audit: to determine the potential for vendor offset and to analyze the performance of OAA and private collection firms in collecting Oregon Judicial Department (OJD) debt.

Vendor offset: We first matched the state vendor list we obtained in August 2014 from DAS to a list of DOR debtors as of September 2014, which included both tax debt and debt in Other Agency Accounts. Matching these two files revealed 9,140 state debtors who were on the state's vendor list, with \$67 million in total debt. Next, we pulled details of state payments to those debtors from 2011 to 2014 from the state's accounting system, including the agency making the payment, the date paid and the amount paid. We eliminated debtors whose debt was in dispute. We then matched the payment list to our list of state vendors who were also debtors, counting a payment to a vendor-debtor as a potential vendor offset if it occurred in the year after the debt was incurred or in subsequent years.

Oregon Judicial Department analysis: We obtained collection data from May to November 2014 from OJD. We then compared collections and collection rates between OAA and OJD's most experienced and highest performing private collection firm across four different age classes: 2 to 3 years old, 3 to 4 years old, 4 to 5 years old and older than 5 years. To ensure a fair comparison, we excluded debt less than 2 years old because OJD had begun sending debt to OAA before sending it to private collection agencies, giving OAA an advantage with this younger debt. We also estimated and eliminated tax refund offsets credited to OAA and eliminated OAA's "outlier" collections – large, single collections that could have skewed our results.

For both vendor offset and the OJD analysis, we assessed the data for reliability and sufficiency by reviewing internal controls over the data and conducting data reliability tests. We concluded the data were sufficiently reliable for our audit purposes.

Auditing standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained and reported provides a reasonable basis to achieve our audit objective.