

Government Debt Collection

An Untapped Source for Increased
Revenue and Sustained Fiscal Fitness

Survey Report and Recommendations



Overview

State budget shortfalls, which are estimated to be as much \$260 billion for 2011 and 2012, are a harsh reality across the country. States are addressing these fiscal challenges to a large extent by cutting spending and services, raising taxes, tapping reserves, and monetizing assets.

In addition to these drastic measures, this survey shows that a number of states are considering expansion of their delinquent debt collection programs to increase revenue from their accounts receivable as part of a balanced program for getting into, and staying in, fiscal shape. Depending on current conditions in a state, enhancing collection tools and capabilities would likely increase revenues by scores of millions of dollars each year. In addition, we have observed that states with comprehensive collection practices are able to increase voluntary compliance when the public feels the State is serious about collection activities.

The National Association of State Auditors, Comptrollers and Treasurers (NASACT) and CGI, a leading information technology and business process services firm, conducted this survey to identify the strategies, practices, and initiatives states are using to enhance their debt collection capabilities. Our research objectives were to:

- Determine whether states are including collections initiatives as part of the revenue shortfall solution
- Document and understand the current state of debt management strategies and practices
- Identify successful innovations that can be leveraged to increase revenue
- Share our findings with NASACT members, other practitioners, and policy makers.

We thank the 21 NASACT members who participated in this survey for their time, candid assessments, and insightful responses. We hope they and their fellow NASACT members and other government practitioners will benefit from this shared body of knowledge as they seek effective ways to raise needed revenue for their states.

CONTENTS

Overview	1
Survey Design & Methodology	2
Findings & Analysis	3
Successful Debt Management Initiatives	8
Recommendations.....	9
Conclusion	11
Appendix.....	12

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This survey was conducted between March and May 2010. An invitation to participate was sent to all NASACT members, and the 21 respondents represent a diverse range (Figure 1).

Figure 1: Profile of Survey Participants

Budget	>\$50B	\$30B - \$50B	\$10B- \$30B	< \$10B
State	California Illinois New York Texas	Georgia Massachusetts North Carolina Virginia	Colorado Kentucky Missouri Oregon South Carolina Utah West Virginia	Idaho Maine Montana Nebraska Nevada New Hampshire

Survey Framework

Based on nearly three decades of experience in helping governments enhance their debt collection tools and practices to enable them to generate increased revenue, CGI has developed a proven framework for benchmarking operations to identify significant opportunities for improvement. With that experience, we designed the survey to meet NASACT’s goal to gain a broad understanding of current state environments for collecting delinquent debts (e.g. court fines, hospital fees, motor vehicle fees, student loans, transportation fines, taxes, unemployment insurance, and university fees). The survey also was based on CGI’s deep knowledge of best practices and successful initiatives in debt collection.

Our survey’s 23 multiple-choice and open-ended questions (see Appendix) focused on:

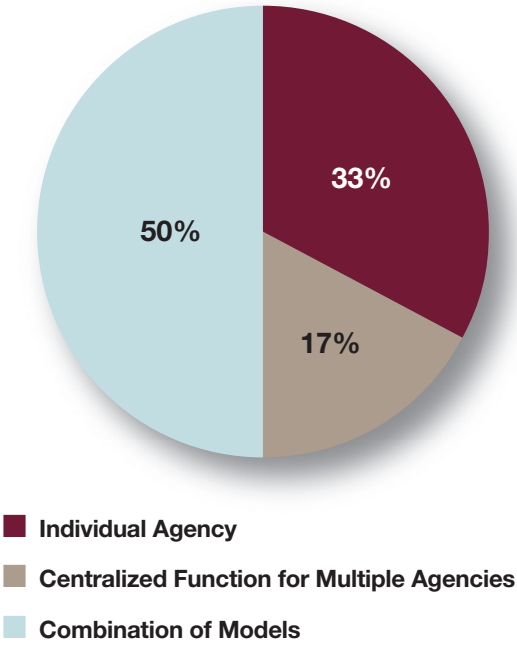
- Current business models and processes used by states
- Use of automation and support technologies and tools
- Authority to initiate involuntary collection actions
- Program effectiveness and evaluation criteria
- Perceived constraints
- Opportunities for improvement.

Strategies and Practices: How Debts Are Managed Today

Survey respondents currently are using many varied approaches for the collection of government debt. Programs are managed by individual state agencies, private collection agencies (PCAs), or a combination. All respondents use PCAs to a degree, but none are using them as their primary resource. Generally, the business process is managed by individual state agencies, and then cases are turned over to PCAs after some collection activity by the government as a final recourse. Only 17 percent of respondents are using a centralized collection approach. Of these, some jurisdictions are only centralizing to act as a clearinghouse for PCAs, while a few others are using the State revenue agency for centralizing collections.

The fact that 83 percent of respondents are managing receivables in a decentralized manner is significant as there was a high correlation in the survey results between how debts are managed and the overall effectiveness of collection operations. Based on our experience, decentralized collection operations (outside of tax agencies) tend to receive less focus, are funded at sub-optimal levels, and are limited in their ability to pursue significant opportunities for improvement. At the macro level, most of these organizations do not view delinquent collections as part of their core mission, further hindering opportunities to generate increased collections from existing receivables.

Figure 2: Primary Business Model for Managing Debt



Current Collection Practices and Perceived Effectiveness

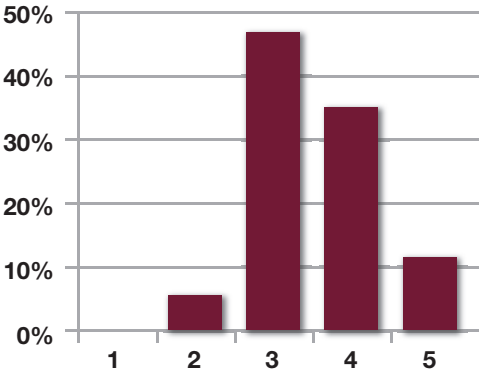
Respondents were asked a series of questions to gain insights about their collection enforcement processes. Responses described current processes, identified which were most effective, discussed the frequency of certain collection actions, and ranked the relative effectiveness of specific actions.

From the responses, we could see that most agencies follow a similar collection process at the highest level. The process begins with notices, which then may proceed to some additional action such as phone calls and some level of involuntary collection actions (e.g., offsets or something stronger). In addition, all states reported that they leverage PCAs at some point in the process.

Process Effectiveness

Most respondents feel their current collection processes are working but can be improved. More than half believe their processes are adequate or below (Figure 3).

Figure 3: Effectiveness of Collection Process
(1 = Extremely Ineffective, 5 = Extremely Effective)



It is significant to note that states with centralized collections rated their effectiveness in the higher range (4-5) compared to states with individual agency collection models that rated their effectiveness in the lower range (2-3), and those with combined models generally rated their effectiveness in the 3-4 range.

Collection Strategy Effectiveness

Figure 4 represents a rank-ordered list of what survey respondents indicated were the most effective debt collection strategies. The most commonly reported effective strategy was the use of offsets, which can include tax refunds (state and federal), vendor payments, or the withholding of future services. While respondents also noted that the issuance of liens, bank levies, and wage garnishment were effective, these strategies were used relatively infrequently. With a few notable exceptions, respondents' current collection case management tools did not appear to provide for the automation of these actions.

Figure 4: Most Effective Strategies for Debt Collection

- 1. Offsetting state and federal tax refunds
- 2. Liens, levies, garnishments, and license holds (if available)
- 3. Automated notices and correspondence
- 4. Centralized collections
- 5. Better use of private collection agencies
- 6. Automated collection software
- 7. Electronic payments
- 8. Imposition of penalties and interest
- 9. Increased staffing

Opportunities for Improvement

Ninety-four percent of survey respondents believe there are opportunities to increase collections (Figure 5). This shows that even states that believe they are doing a good job with collections understand that additional revenues can be generated from enhancements to their programs. To this end, 44 percent have initiated new collection programs for delinquent receivables in the past one to two years, and 86 percent intend to initiate such programs in the next one to two years (Figure 6), clearly identifying an opportunity and demonstrating need.

Figure 5: Are there additional opportunities to increase collections?

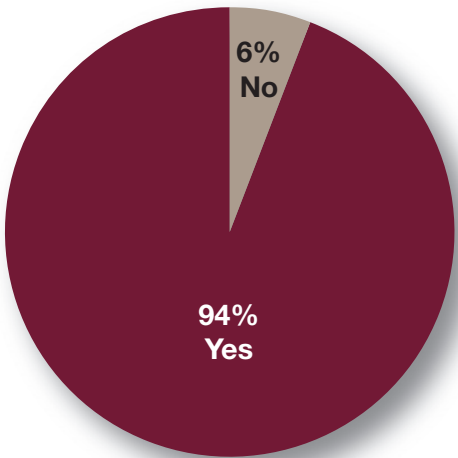
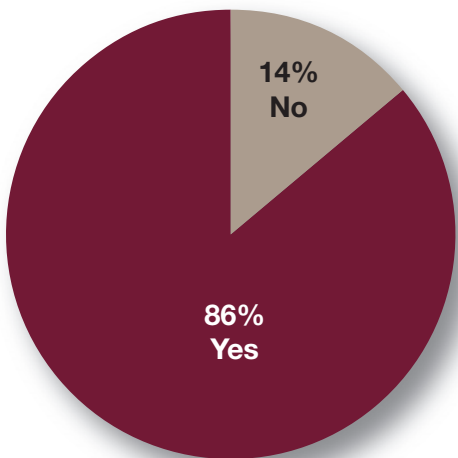


Figure 6: Do you plan to initiate new collection programs?



Planned Improvements

Respondents were asked to describe collection enhancement initiatives that were implemented within the last two years. They were also asked to identify additional new programs they plan to implement in the next one to two years. Figure 7 represents the varied list of initiatives reported:

Figure 7: Reported Collection Improvement Initiatives

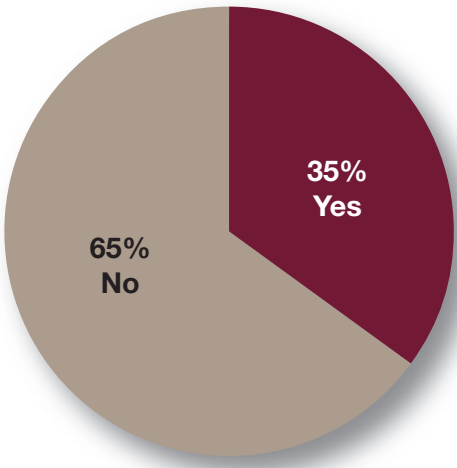
- Enhancing statewide reporting of collection program operations
- Enacting additional collection fees
- Establishing online payment capabilities
- Improving capabilities for tracking of statutes of limitations to collection
- Implementing a statewide centralized offset process
- Enacting statewide receivable policies
- Improving vendor offset programs
- Centralizing debt collections
- Better managing of private collection agencies
- Implementing new collection software
- Garnishing state employee wages
- Establishing an enterprise accounts receivable system
- Centralizing monitoring of collection activities and results
- Providing for holds on professional licensing

Consideration and Use of Centralized Collections

More than one-third of respondents have considered or recently implemented a centralized collections strategy for multiple debt types within a single agency (Figure 8). In our observations, we have seen dramatic improvements where states have pursued this strategy. As such, centralization is a significant and likely opportunity for states over the next few years. Such strategies effectively enable organizations to achieve the critical mass and focus necessary to:

- Justify investments in new technologies for managing delinquencies and automating many collection-related activities
- Enable the gathering of data on addresses, phone numbers, and assets available for involuntary collections in a coordinated manner
- Centralize governance, decision-making, and oversight to manage receivables consistently from the point a fee is determined through its collection or write off
- Eliminate redundant activities and systems
- Consolidate debts and capture critical data in a single location
- Maximize value from private collection agency contracts.

Figure 8: Considered or Recently Implemented Centralized Collections



Common Constraints

Survey respondents identified a number of significant constraints to improving collection processes and generating increased revenue, including:

- Limitations of legacy applications
- Legislative constraints on authority to collect delinquent debts
- Limited access to third-party data
- Limited collection resources
- Insufficient accounts receivable data
- Too many manual processes.

This list of constraints is very consistent with our observations from multiple operational reviews of government debt collection organizations throughout the country, especially where collections are decentralized. Such constraints are significantly more challenging to overcome when the collection of government debt is spread throughout multiple departments or agencies. This is especially true when an individual agency's primary mission is to provide citizen services, as there is little opportunity to focus limited resources or management time to enhance their collection operation.

Successful Debt Management Initiatives

A number of examples throughout the country clearly demonstrate the ability to generate additional revenue by increasing the focus on debt collection and adopting proven best practices in managing government debt. Opportunities exist for jurisdictions both large and small. Successful debt management initiatives tend to fall into the following five categories:

Automating Collections and Modernizing Case Management

Automating collections reduces the cost of collecting revenue from debts and allows staff to be redirected from manual tasks to expand the organization’s capacity to resolve additional cases, without hiring more staff. The net effect is a significant increase in overall productivity, and thus revenues collected. Modern collection case management systems also enable management to better prioritize and manage cases, and assign “the right case to the right resource using the right tool at the right time to get the right result.” This is what CGI calls the “5R Collection Strategy.” For example, when collections are centralized in an Attorney General’s office, automation enables the greatest number of cases to be collected by allowing the easier cases to be collected through the automated processes so that attorneys can focus on the hardest-to-collect cases which truly need their high level of skill.

Centralizing Collections

Centralizing debt collections (either just non-tax collections or all collections) opens the door to increased automation, consistent collections practices, enhanced collections tools, and a greater focus on collecting revenues. These tools and business processes achieve faster and more consistent billing, improve debtor location and correspondence management, and change the public’s perception of the State’s ability to collect. This results in dramatic increases in collections, along with increases in voluntary compliance which further increase revenue. Examples of successful centralized programs for tax and/or non-tax debt collection include:

- Michigan, which centralizes this function within the Michigan Department of Treasury
- Ohio, which centralizes this function with their Attorney General’s Office
- California, which centralizes selected debt types at the Franchise Tax Board
- Colorado, which centralizes this function with their Department of Personnel and Administration.

Capturing More Data

Some states are using electronic data capture, data integration, data warehouses, and analysis tools to collect and evaluate more data to help craft strategies that resolve more cases. Updated debtor addresses and phone numbers, other entity data, and asset data (such a wage and bank information) can dramatically improve revenues collected and the case closure rates, as well as provide key data to assess the risk of nonpayment.

Managing PCAs More Effectively

This survey confirms that the use of PCAs is a common practice. However, not all organizations use PCAs in the same way. From negotiating contracts with multiple agencies in competitive environments, we have observed that a significant increase in state collections can be achieved by establishing PCA contracts that require multiple agencies to continually compete for state business through a scorecard approach.

Alternative Delivery Models

A number of states have begun to explore managed services implementation approaches in which the State maintains oversight for the program, but transfers responsibility for implementation and operation to a private sector provider. The contract requires the vendor to implement and operate the full collections infrastructure on the State’s behalf. The State and vendor then develop service level agreements (SLAs) to assure system availability, timely call answering, and other outcomes.

These operations typically require the vendor to make all upfront investment and receive payment solely from increases in revenues that would not otherwise have been collected. This is an important program improvement during these challenging budgetary times as many projects are being deferred due to a lack of revenues. Using this strategy, states have been able to reduce upfront costs, decrease financial risk, spread financial costs over a longer period, and shift costs until after additional revenues are generated, effectively allowing new revenues to pay for the program. Managed services also have increased state access to technology solutions, expertise, and services that are otherwise hard to find and retain in-house at a reasonable price.

Recommendations

Strategies: Take a Broader View

How will states develop recommendations for improving debt collection? Our survey suggests there is a tendency to consider incremental improvements (e.g. expanding existing programs, increasing use of PCAs, addressing operational problems, etc.) rather than move to a fundamentally different way of doing things.

Embracing this challenge as a broader opportunity to transform existing collections business models can yield substantial rewards. The steps to transformation include:

1. Define the State’s future vision for managing delinquent debt
2. Begin to build a consensus around the future vision
3. Develop a roadmap to achieve the vision by defining logical steps
4. Build the business case.

A First Step: Operational Review

Operational reviews conducted by experienced consultants are an extremely effective way to assess current collection processes and accounts receivable levels, and benchmark these findings against a national best practices catalog. Such reviews can help states identify opportunities for improvement and estimate the level and timing of revenue increases. This strategy has been and continues to be leveraged by multiple states.

Typical operational reviews only require a few days to complete. Information gathering sessions are held with collection program staff to gain an understanding of current collection business processes, staffing, and operational effectiveness. Fact gathering is followed by a detailed set of findings and recommendations, including an estimate of expected revenue increases to be generated from existing accounts receivables.

Once the assessment is complete, states can then decide whether to pursue the recommendations. Such reviews also provide the foundation for building a business case for needed investments to improve the effectiveness of collection operations.

Business Models: Consider Centralization to Achieve Critical Mass

Centralization is more than an organizational strategy: it is a shift in thinking that requires states to view delinquent debt management as a core function of government as opposed to a back-office activity of agencies with other core missions. This shift in focus is the principal enabler to identifying opportunities to improve programs and generate significant new revenues; and, as such, merits serious consideration by all states. Benefits include creating economies of scale for infrastructure and technology improvements, concentrating statewide expertise, eliminating duplicate efforts and tools, developing a consolidated view of statewide debt, and establishing a single, cohesive statewide strategy.

Program improvements typically require investments in enabling technologies (such as case management systems, central data repositories, statewide offset processes, and more) that automate many activities and capture and analyze critical debtor information needed to successfully resolve accounts. Because it is generally not economically viable for individual agencies to make separate investments in such collections technologies, centralizing debt collection from a statewide perspective can create the critical mass necessary to allow the state to truly transform its management of delinquent receivables.

A modern collection case management system provides the necessary collection infrastructure to automatically assign cases to the most cost-effective treatment stream, and provide significant automation for executing those treatments. This allows the State to collect more, collect it faster, and do so at a lower cost. These capabilities include:

- Automated correspondence generation
- Automated gathering of data such as addresses, phone numbers, bank account information and employer information
- Automation of payment agreements (including allowing taxpayers to set up their own agreements over the Internet)
- Automatically managing case inventory based on statistical likelihood to pay.

Technology Management: Evaluate All Options

Investment in new enabling technologies is essential for realizing opportunities to maximize revenue. However, states must also consider the net budget impact during each fiscal year, as an implementation approach with a negative impact in “year one” may outweigh the positive long-term revenues. Typically, when creating a new function such as a centralized collection center, the state hires employees, buys or leases equipment, and builds or contracts for new systems. As a result, the state-managed and operated model requires significant upfront costs and is not typically driven by outcome measures.

A managed services approach offers the following benefits for enabling collection technology implementations:

- Maximizes return on taxpayer investment over time
- Provides little or preferably zero negative budget impact in each fiscal year
- Minimizes implementation or financial risk to the state
- Minimizes the cost and operational effort to implement and maintain over time
- Shifts upfront cost to the vendor
- Reduces time to implement with the vendor bringing in staff that are already trained
- Provides long-term cost predictability via a fixed price agreement
- Allows the State to license the infrastructure, systems, and automated tools
- Provides Service Level Agreements for the State
- Maintains state control of policy, procedures, and relationships with agencies.

In addition, rather than sending cases exclusively to a PCA, a managed services contract can be structured to: (1) allow the State to collect the easiest cases without paying the typically high PCA commission rates; and (2) allow the State to retain ownership of the infrastructure used to manage the centralized collection services center. This provides the ultimate flexibility where the vendor is utilizing tools that are actually owned by the State. It also allows the State to rebid or take over the operation in the future if desired.

Funding Approaches: Finance with New Revenues

Finding capital to invest in new technologies, even those with a high ROI, is difficult in tough fiscal times. States should investigate financing new collections solutions with a “benefits-funded approach” that requires no general fund revenues. Contracts can be structured to only pay from a portion of new revenues or a cost recovery fee charged to debtors paying to the centralized debt collection function. California, Michigan, Missouri, and Virginia represent great examples where managed services, benefits-based, or contingency-based contracts have been utilized for government debt collection efforts.

The current fiscal crisis has made it clear that government must aggressively explore better ways to create efficiencies and raise revenue to maintain citizen services. While the survey respondents are clearly committed to finding ways to improve the effectiveness of their debt collection activities, their plans do not suggest a clear, distinctive movement toward fundamental change. This is partially due to the fact that individual agencies are limited in their ability to implement significant innovations independently.

The survey also clearly demonstrates recognition by states that significant opportunities remain to bring in additional revenues from improved debt collection strategies and methods. Most respondents are planning to make improvements. If they follow the successes that other states have realized through automation, centralization, and statutory changes allowing for more involuntary collection actions, they can significantly increase revenues to support critical state functions. In addition, through new funding models, they can do so with minimal risk and without any upfront payments.

It has often been said that a crisis is a terrible thing to waste. Government debt collection programs cannot continue to conduct “business as usual” and expect dramatically different results. Significant staff augmentations are cost prohibitive, and their return on investment does not justify such a strategy. However, taking a fundamentally fresh look at how government accounts receivables are managed, and proposing bold new approaches for managing them, will likely be received as a positive change that can help states reduce budget deficits and sustain fiscal fitness.

SUMMARY OF RECOMMENDATIONS

1. Take a broader view of debt collection strategies
2. Consider centralization to achieve critical mass
3. Evaluate all technology management options
4. Finance improvements with new revenues collected

Taking a fundamentally fresh look at how government accounts receivables are managed, and proposing bold new approaches for managing them, will likely be received as a positive change that can help states reduce budget deficits and sustain fiscal fitness.

Questions for NASACT-CGI Debt Collection Survey

Collection Process

1. Please indicate how your organization or your state manages the collection of delinquent government debt:
- ☐ Individual agencies are responsible for the collection of their own debts
- ☐ A centralized government-run debt collection function is utilized
- ☐ Private collection agencies are utilized as the primary means of collecting delinquent government debt
- ☐ A combination of several models (please explain below)
- ☐ Other/Not Applicable (please specify) or Combination
2. How effective do you rate your collection process? (1 = Extremely Ineffective, 5 = Extremely Effective)
- Please describe the most and least effective aspects of your process: _____
3. If the above options do not adequately describe the process used to manage the collection of your receivables please provide a brief description. For example, your jurisdiction may use a combination of several options to manage collections or a completely unique model: _____
4. Which of the following measures do you use to determine the effectiveness of your collection program?
- ☐ Dollars collected in relationship to the amount available to collect
- ☐ Overall return on investment of collection program activities
- ☐ Planned vs. actual collections
- ☐ The size of delinquent receivables over time
- ☐ Transactional cost to resolve a case
- ☐ Other (please specify)
5. Please provide, if available, the following information about your accounts receivable. Can you provide historical information covering the last two or three years?
- Current Receivable Balances: _____

• Amount Collected Per Year: _____

If the information is available by debt type or agency, please provide it:

6. What are the most effective techniques used to collect debts in your organization?
7. What are the key limitations of your current statutes preventing you from collecting more debts?
8. Have you made changes recently that have increased your collections, and if so what are they?
9. What are the limitations of your current technology platform?

Centralized Debt Collection

10. Has your organization thought about or recently implemented a centralized debt collection function?
- ☐ Yes ☐ No
11. If yes, please describe the pros and cons you have experienced. If no, are you considering a centralized debt collection function, and if so why or why not?
12. If your jurisdiction has a centralized debt collection function please describe your experience to date and provide some details on its size, scope and operations. For example, improvements in the management of receivables, the size of receivables, annual collections, and number of staff involved:

Debt Enforcement

13. Please describe your debt enforcement process and if it varies by debt type or agency:
14. If a debtor does not voluntarily respond to billings what actions can you take to enforce collections? Please select actions as they apply to your jurisdiction:
- ☐ Filing of a lien

☐ Offset vendor payments
- ☐ Obtaining a judgment

☐ Use a collection agency
- ☐ Garnishing wages

☐ Revoke drivers license
- ☐ Issuing a levy against a bank account

☐ Other (please specify): _____
15. Does this vary by debt type and if so how?
16. Please rate how effective your debt enforcement processes have been based on the answers you selected above.

	Extremely Ineffective		Effective		Extremely Effective
Filing of a lien					
Obtaining a judgment					
Garnishing wages					
Issuing a levy against a bank account					
Offset vendor payments					
Use a collection agency					
Revoke drivers license					
Other					

Please list the enforcement process if you selected Other: _____

17. Approximately how often do you take an involuntary collection action to obtain payment on a past due debt and does it vary by debt type or agency?

Improvement Programs

18. Have you initiated new collection programs for delinquent receivables in the past one to two years?
- ☐ Yes ☐ No
19. Please describe the program improvements you have recently initiated in the past one to two years:
20. Please describe how your jurisdiction has benefited to date from those programs:
21. Do you believe there are additional new opportunities to significantly improve the effectiveness of how your receivables are managed?
- ☐ Yes ☐ No
- If yes, please describe the new programs: _____
22. Do you intend to initiate new collection programs for delinquent receivables in the next one to two years?
- ☐ Yes ☐ No
- If yes, please describe the new programs: _____
23. Please describe how your jurisdiction plans to benefit from those programs: _____



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About NASACT

The National Association of State Auditors, Comptrollers and Treasurers (NASACT) is an organization for state officials who deal with the financial management of state government. NASACT's membership is comprised of officials who have been elected or appointed to the office of state auditor, comptroller or treasurer in each of the 50 states, the District of Columbia and U.S. Territories. For more information on NASACT or its affiliate organizations, the National State Auditors Association (NSAA) and the National Association of State Comptrollers (NASC), call (859) 276-1147 or visit www.nasact.org.

About CGI

Founded in 1976, CGI Group Inc. is one of the largest independent information technology and business process services firms in the world. CGI and its affiliated companies have approximately 26,000 professionals.

We deliver built-for-government IT solutions that maximize revenue while minimizing costs. As a full service systems integrator and managed services provider, CGI has the industry know-how, tools and technologies to address business challenges across the public sector spectrum. CGI provides state and local governments with creative IT solutions that drive efficiencies, effectiveness and cost containment—all while achieving your short term needs and maintaining your long-term vision.

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