



A proven path for improving government debt collection

This issue paper describes a proven path to maximizing revenue collection using modern tools and techniques, improving processes and centralizing debt management.

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A PROVEN PATH FOR IMPROVING GOVERNMENT DEBT COLLECTION

Introduction

Public sector organizations that have implemented modern technology and best practices to improve their debt collection operations have been able to increase revenues by tens and hundreds of millions of dollars. This issue paper outlines a proven path to improving debt collection for state and local governments that is based on CGI's more than 25 years of experience.

CGI has worked with federal, state, provincial and municipal governments to successfully pursue each of the following initiatives discussed further in this paper:

- Operational reviews to assess and quantify opportunities for improvement and increased collections
- Modern technology for collections case management and risk modeling to automate processes and better prioritize delinquent cases and reduce the need for staff intervention
- Process improvements to take full advantage of new technology, including revising statutes to enhance collection capabilities
- Consolidation of debt collection into a single agency
- Jump-starting enhancements with “quick win” changes.

PROVEN INITIATIVES FOR IMPROVING GOVERNMENT DEBT COLLECTION

1. THE BEST FIRST STEP: OPERATIONAL REVIEWS

The path to better debt collection should begin with an in-depth review of current operations to assess and prioritize opportunities for improvement. Whether related to a single department collection project, or a multiple department consolidated debt project, the process is very similar.

CGI employs a ten step process in conducting reviews of current collections tools, processes and policies. This proven, standardized approach allows CGI to consistently compare collections organizations from varied backgrounds and operations, reliably determine opportunities for improvement, and estimate potential revenue increases from implementing those opportunities.

Collections experts review current tools and operational statistics and then assimilate the information and compare it to the best practice catalog. To minimize intrusion and disruption, the review typically requires only one or two days of on-site meetings. The result is a report comparing the government's current practices to national best practices, the set of opportunities available, an estimate of the additional revenue likely to be generated and the timing for receiving those increases.

2. SYSTEMS MODERNIZATION

Significant improvement in debt collections can be achieved by implementing modern case management systems that use predictive modeling results to determine the most appropriate treatment strategies. Such systems should be configurable to the government organization's unique needs, without requiring extensive customization.

There is a significant difference between a collection tool designed for government and one that is force fit to manage the unique collection capabilities allowed for government debt collection (e.g. wage garnishments, bank levies, liens, etc.). Additionally, modern tools should support growth in operations to include new best practices, while maintaining unique business rules, statutes and existing best practices. Using an experienced team to identify gaps between current operations and a model collections organization allows for the best application of new technology.

Case management

A modern case management system should allow government organizations to take the least intrusive collections action from the debtor's perspective, and the least costly action from the government's perspective. This should be achieved using systematic risk management driven by predictive models.

CGI's built-for-government collections case management solution, known as CACS®-G (Computer Assisted Collection System for Government), meets all essential requirements for managing government debt, including:

- Detailed workflow
- Detailed case-to-debt and case-to-debtor relationships
- Case consolidation
- Multiple debt types
- Involuntary collections processes
- Automated asset gathering
- Payment agreements with monitoring
- Integrated correspondence engine

CGI's Operational Reviews

CGI has performed many collection operational reviews for government clients to:

- Identify current activities within a tax collection department, other departments or across government
- Catalog what is working well and identify opportunities for improvement
- Recommend improvements, along with expected collection increases and estimated level of effort
- Identify gaps between the current operation and a model collections organization
- Estimate the revenue benefits, along with a timeline for achieving those benefits
- Identify changes to existing technology, managed service opportunities and initiatives resulting in early wins
- Recommend funding and delivery models (e.g. benefits funding, managed services, hosting, etc.).

The essence of risk management is determining the likelihood a debtor will pay voluntarily within a given amount of time, and then using that knowledge to determine the least cost and least intrusive action to obtain payment for a given case.

Scoring and predictive modeling

The essence of risk management is determining the likelihood a debtor will pay voluntarily within a given amount of time, and then using that knowledge to determine the least costly and least intrusive action to obtain payment for a given case. Statistical models have proven highly effective in increasing collections results by allowing the government to determine which cases are likely to self-pay versus those unlikely to pay without involuntary actions. Cases found to be less likely to pay voluntarily are then moved to a more direct approach, possibly including wage garnishments or bank levies as examples.

In conjunction with modernized case management, CGI also mines and analyzes the government's own data to build models that predict the likelihood of payment. Those models are then deployed using CGI's Strata® decision engine, which is integrated with CACS-G. When a case is scored using the model, the calculated risk score automatically triggers a collection treatment action based on that score to determine when actions will take place. The treatment actions then progress the case along the optimal collection path based on the prediction of the best collection outcome. Many CGI clients have seen substantial increases in collections when implementing scoring models and Strata, even without implementing an advanced case management system such as CACS-G.

3. BUSINESS PROCESS IMPROVEMENT

The greatest collection improvements come from changing business processes to take full advantage of modern technology. Conversely, when technology has limited capabilities, governments are constrained in terms of the process improvements they can make. For example, in some states with legacy systems, it can literally take months to change a single word on a notice. To maximize collection improvements, an organization must couple technology modernization with process improvement.

Generally, there are two types of collection process improvements: administrative and legislative. Administrative improvements are changes that can be made without revisions to law or published policy. Legislative changes involve more formal statutory and regulatory changes to help improve the collection process. Such changes can give government new collection options, tools and treatments that were not previously available.

Administrative improvements

Administrative process changes are the easiest to make, but can encounter challenges in terms of obtaining internal buy in. For example, an agency may be able to change how frequently it sends a collection notice under the law, but system limitations or inability to handle resulting call volume could prevent this change.

As part of a collection improvement project, administrative process changes are considered and coordinated with the capabilities of the case management system. Following are some of the goals that typically are pursued during a project:

- Identify any gaps where the process deviates from “best practice”
- Generate notices as fast as legally allowed
- Automate previously manual processes
- Optimize collection case treatments or assignments based on risk profile.

Legislative improvements

Legislative improvements are generally much more difficult to achieve, but can result in dramatic performance improvements. Governments have realized tens of millions (and in many cases hundreds of millions) of dollars in increased revenue with expanded legislative authority for collection staff. A successful approach to gaining legislative change is to address the needed legal or regulatory adjustments when pursuing legislative approval for the collection project, when prior approval is required.

Legislative improvements for government debt collection can allow:

- Automating the identification of banking institutions where a debtor banks through a process called a financial institution record match. Currently, states have this authority for Child Support and more than a dozen states have expanded this authority for other debt types (See sample statute from Kentucky in Appendix).
- Issuance of administrative wage and bank levy for non-tax debts (See sample statute from Iowa in Appendix).
- Blocking the renewal of professional/business licenses for debtors (See sample statute from Missouri in Appendix).

4. CENTRALIZED DEBT MANAGEMENT

Individuals and businesses owe money to the government for many reasons—from taxes and user fees, to re-payment of services, overpayments and student loans. As with taxes, some amounts owed will never be repaid without collection actions.

While tax departments have a focused collection operation, other agencies responsible for collecting unpaid debts have different core missions. Non-tax agencies often lack the collection focus, capacity and automated tools to adequately recover monies legally owed to the government.

Collecting debt requires similar activities, regardless of the type of debt. Experience has shown that consolidating unpaid debt, along with the responsibility for collection, into a centralized unit with a focused collection mission leads to significant increases in debt recovery. Additionally, creating the centralized unit, whether managed by government or a vendor overseen by government, can be funded exclusively from increased collection revenues.

Centralizing collection activities into a single agency:

- Eliminates redundant activities performed by various agencies
- Allows the government to both increase collections and reduce the cost of collections through economies of scale
- Increases the specific number of tools the government can employ to collect debts in a cost efficient manner
- Increases the collection volume managed, allowing the centralized agency to achieve economies of scale when purchasing services and enabling additional investment with high returns
- Streamlines and standardizes processes to achieve maximum efficiency
- Increases revenue to the government during the first fiscal year of the program
- Enhances the effectiveness of offset and intercept programs
- Leverages investment in collection methods and technology across a larger debt pool, thus increasing overall collection results.

Also, if desired, the centralized collection agency can offer its services to smaller jurisdictions (i.e., municipalities), providing further value and additional revenue for municipal government.

Centralized debt management delivers measurable results:

- 10%–45% increase in collection of unpaid debt (not just tax debt)
- Lower overall cost of collecting debts
- Contribution to the government's general fund during the first fiscal year of operation
- Increased voluntary compliance
- Fewer debts becoming delinquent over time as the public realizes the government's commitment to collect.

About the author



Ted London is a Vice President and leader of CGI's Tax, Revenue and Collections Center of Excellence. In this capacity, he manages a team of subject matter experts who focus on providing expertise to clients around the world to enhance their revenue and collection operations. Mr. London is also a recognized subject matter expert with over 18 years of experience in collections, tax administration and audit business processes for government. During this time, Mr. London has worked with more than 25 federal, state and provincial agencies including the U.S. Internal Revenue Service on the management of their collection and tax administration operations. Mr. London has also led many efforts to estimate the level of revenues that will be generated from proposed initiatives, and in turn the measurement of the actual revenue generated from those initiatives. Mr. London has made numerous presentations to major organizations including the Federation of Tax Administrators (FTA), the Organisation for Economic Co-Operation and Development (OECD), the North Eastern States Tax Officials Association (NESTOA), the Southeastern Association of Tax Administrators (SEATA), the National Association of State Comptrollers (NASC), the National Association of State Auditors, Comptrollers and Treasurers (NASACT), and the Government Revenue Collection Association (GRCA).

Legislative authorization for centralized collections

Centralized collection management is generally authorized through the legislative process for multiple reasons. It can mandate participation by all agencies to maximize effectiveness. Legislation can standardize authorized collection actions, including use of automated wage garnishments and bank levies. It can also authorize a cost recovery fee above the original debt amount for the central collection agency to fund its activities without any cost to the government's general fund. Additionally, legislation can authorize the collection unit to use a third-party service provider to provide case management, call management and other software and services to assist in collecting debts.

5. BENEFITS FUNDING

Unlike a traditional project that is funded through an appropriation where benefits may be promised, but not guaranteed, a benefits-funded project guarantees the government receives benefits or the vendor does not get paid. A benefits-funded project is a fixed price or time and materials contract, but the price is paid only from increases in revenue. The solution provider puts 100 percent of its fees at risk.

The contract is similar to a traditional contract with milestones, but payment is only made to the extent the government has realized measureable benefits. The portions of the contract related to review, approval and acceptance of project deliverables remain the same as a traditional contract. Measurable benefits mean the collections the government certifies exceed what would have been collected prior to the project using an agreed upon measurement methodology. Those benefits are typically shared between the government and the solution provider. In this model, both the government and provider have a real stake in delivering promised benefits, creating a shared goal and true public-private partnership.

Benefits funding creates opportunities for governments that need to undertake improvements when funding or legislative approval are an issue, because:

- There are no upfront costs
- Government payments are deferred until after benefits are achieved
- Using a Quick Wins approach, benefits can be achieved in less than 6 months or within the same fiscal year, depending on project start dates
- Risks are shifted to the solution provider because they are guaranteeing delivery of both the work and the benefits
- The model improves prospects for legislative support.

CGI's Benefits Funding Model

CGI offers creative funding models to allow projects to begin when traditional funding approaches may not be an option. The model depends on many factors including willingness to change, the length of the contract, and the needs and preferences of the government. As a pioneer of benefits funding, CGI has partnered with governments on 11 different projects using this option. Our clients have certified over \$2.2 billion in additional revenues that would not have been collected, but for our projects.

Often, CGI's benefits-funded projects are fully paid for before the end of first 12 months, further securing support from stakeholders. The result is the government receives the revenue enhancements it needs to fund priorities without risking paying a provider that does not deliver the promised benefits. If the results of the operational review support this funding model, CGI's assessment will document viable funding models, including benefits funding.

6. QUICK WINS

Unlike a “big bang” or phased approach, many of CGI’s clients have seen millions of dollars in additional revenue accrue in as few as 4 to 6 months after the start of a project. These “Quick Wins” are made possible by identifying a group of opportunities that will realize significant improvements without requiring significant level of effort for organizational changes, legislative barriers, political hurdles and technology changes. With Quick Wins, government begins to see tangible results in a matter of months, not years.

Some examples of Quick Wins implemented by our clients include:

- Automated bank and employment information gathering
- Automated issuance of collections documents and processes
- Identification of inactive cases which may now be collectible
- Automated identification of addresses and phone numbers
- Standardized collection processes
- Revised collection strategies.

Many Quick Wins can be accomplished simply by altering processes or through limited implementation of technology. After reviewing the government’s existing operations, a concise set of Quick Wins can be presented for consideration.

CGI’s Quick Win Philosophy

- Typically, government agencies tend to start slow on new projects; delivering benefits quickly can jump start the project
- Accelerating benefits improves stakeholder support and commitment for the new project
- Quick Wins can often benefit funding streams by showing quick results
- Quick Wins can often secure legislative support because it accelerates net benefits into the first fiscal year of a project instead of later in the timeline.

NEXT STEPS

Optimized collections contribute significantly to the fiscal well-being of governments at all levels. CGI’s experienced consultants can help governments assess their current processes and accounts receivables levels by conducting operational reviews and then benchmarking the findings against a national best practice catalog, and mapping out the best path forward. Learn more at cgi.com/govcollect.

APPENDIX

To display sample collections statues to achieve centralized debt collections, please click on this link to the APPENDIX.

FOR ADDITIONAL REFERENCE

CGI has reviewed current and emerging best practices in government debt collections in an issue paper entitled, “The next generation of government debt collection practices,” and has published a joint survey report and recommendations with NASACT, entitled, “Government Debt Collection: An Untapped Source for Increased Revenue and Sustained Fiscal Fitness.”

About the author



Stan Farmer is an Executive Consultant of CGI’s Tax, Revenue and Collections Center of Excellence. Mr. Farmer is a subject matter expert with more than 24 years of tax and collection experience.

Prior to working with CGI, Mr. Farmer worked for the State of Missouri for 18 years and served as the Director of Taxation and Collection. Mr. Farmer has been with CGI’s Tax, Revenue and Collections Center of Excellence for more than 6 years and he assists governments in designing and implementing integrated tax systems, collections systems, tax administration improvements, and best practices, and in improving compliance. During his time with CGI, Mr. Farmer has worked with federal, state and provincial agencies to improve the management of their collection and tax administration operations.

Mr. Farmer has made numerous presentations to major organizations including the Federation of Tax Administrators (FTA), the Midwestern States Association of Tax Administrators (MSATA), the Western Association of Tax Administrators (WSATA), and the Government Revenue Collection Association (GRCA).



ABOUT CGI

At CGI, we're in the business of satisfying clients by helping them succeed. Since our founding in 1976, we've operated upon the principles of sharing in clients' challenges and delivering quality services to address them. As the world's fifth largest IT and BPS provider, CGI has a strong base of 71,000+ professionals operating in more than 400 offices worldwide. Through these offices, we offer local partnerships and a balanced blend of global delivery options to ensure clients receive the optimal combination of value and expertise required for their success. We define success by helping our clients achieve superior performance and gain competitive advantage.

CGI has been at the forefront of the evolution of tax management through numerous successful partnerships with government and commercial organizations. Our solutions and services have helped six state government clients alone to certify over \$2.2 billion in increased revenues. We would be pleased to discuss specific ways your organization can take advantage of advanced technologies and best practices to evolve your operations.

Learn more at www.cgi.com/govcollect

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