ISSUE PAPER

The Case for Centralized Collections

This paper reviews the key drivers, considerations and benefits of centralizing the debt collection function at the national, state and local levels.

Introduction

Challenging economic times have created increased expectations for enhanced revenue productivity from government debt receivables. Within this context, more and more governments are moving to centralize their collection function with positive results. Once a centralized collections environment is created for governmental debts, collections will increase substantially, allowing millions more to be collected.

The experiences in a number of governments demonstrate that in a centralized collection environment where economies of scale are present, significant efficiencies can be gained—allowing government to collect more of the liabilities that are owed. This is true even if agencies currently responsible for the debt collection operate efficiently and maximize their individual results. Acting alone these agencies typically lack the economies of scale to bring the tools, workflow processes, and technologies needed to materially improve collections. The one exception may be the revenue or tax agency within the jurisdiction which often has the volume and statutes in place to be operating efficiently. However, even collections performance for tax debt can be improved through centralization.

With a Centralized Collection Operation (CCO) that leverages data sources, administrative levy authority, and better case management tools, there is strong evidence to suggest that significant improvement can and would occur. The net result is an increase in revenues from delinquent debts, as well as better return on total investment. The improvement opportunities identified would require cooperation and coordination between the CCO and the agencies that establish the debts.

While further analysis must be done to determine the timing and amount of expected revenue increases for a specific jurisdiction, experience suggests that **a 10 to 45 percent increase in delinquent collections is very achievable,** depending on the debt type and the processes and tools currently utilized. With appropriate statutory authority and buy-in from other agencies, the government should also expect to realize benefits within six months of beginning an implementation.

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Why centralize?

Agencies have a variety of specific rules and regulations that govern their collection processes, but most processes support similar needs: generating correspondence, attempting some form of contact, managing assignment of cases to outside collection agencies, writing off debt, performing skip tracing, and dealing with bankruptcy issues. However, the playing field for collection management is very uneven—primarily in the areas of access to advanced collection tools, availability of high-quality data that can aid the collection process, and the capability and authority to perform involuntary collection actions. Also, some agencies may only have staff members who perform collections part-time, without the time or opportunity to develop expertise and practiced processes that would offer higher yields and greater efficiencies.

While most agencies have billing functions within their legacy systems, billing and actively collecting are two different things. Billing applications are typically focused on accounting processes and lack the capabilities needed to aggressively collect delinquent debts. These capabilities include a robust workflow engine, risk scoring for account segmentation, and self-service channels for installment payment agreements.

Consolidating the collection functions can reduce redundancy, significantly increase collections, and streamline and standardize the collections process at a vastly superior level of efficiency and effectiveness. Several jurisdictions have centralized collection functions for tax and non-tax debt within various departments. For example:

- Michigan centralizes this function within the Michigan Department of Treasury
- Ohio centralizes this function with their Attorney General
- California centralizes many debt types at the Franchise Tax Board
- Colorado centralizes this function with their Department of Personnel and Administration
- Louisiana is centralizing this function within their newly established Office of Debt Recovery.

This model allows for significant economies of scale and enables process and technology improvements such as:

- Dedicated collections staff with the organizational ability to develop best practices
- Centralization of common business functions, such as skip tracing and bankruptcy filing, into a single unit, reducing the cost of duplicating the business process across multiple agencies
- Standardization of collection-related tools and technology, reducing maintenance costs, if a single application replaces multiple applications spread across government
- A single case management system built for collections, providing a wide set of capabilities:
  - A robust and flexible workflow engine that can be easily configured and adjusted to changing business conditions
  - A correspondence engine capable of generating advanced pieces of correspondence, such as payment plan coupons and involuntary collection actions, that can be maintained without IT staff involvement
  - Telephone technologies to support both inbound and outbound phone calls
  - Case management and workflow capabilities that support a number of different treatment streams
  - Web-enabled 24/7 self-services for debtors, stakeholders and authorized third parties
  - Centralized management reporting capabilities for more accurate reports across the entire collection portfolio while requiring less manual work to consolidate information from the individual agencies.

Consolidating the collection functions can reduce redundancy, significantly increase collections, and streamline and standardize the collections process at a vastly superior level of efficiency and effectiveness.

A tremendous value created by centralizing business functions is the ability to consolidate debts into a single case. This facilitates the collection process by providing a unified view to all receivables owed across multiple agencies—thereby reducing duplication of effort. It also allows for case assignment, prioritization and decision-making based on the total liabilities owed.

The multiple advantages of consolidating debtor information include:

- A collector can place a single phone call and talk to the debtor about multiple receivables during the same conversation
- A single payment plan, instead of multiple payments plans, can be initiated and monitored for the debtor which also eases the burden of the debtor keeping track of multiple plans
- A single action, such as a lien or a levy, can be generated and managed
- Correspondence can include all debts owed, reducing the volume of correspondence to be stored and thus reducing storage and staff resource costs
- Customer service can be improved by providing a single point of contact for debt resolution management
- Debtors can make one call to resolve all of their outstanding debt issues

The model also allows for improved process areas at the collection portfolio level. Increased volume allows for better leveling of collection staff. And, a single point of staff contact for private collection agencies (PCAs) will help their efficiency in case management. Finally, with a single collections entity, enforcement tools such as liens, bank levies, wage garnishments and professional license revocations can be standardized.

GENERAL CHARACTERISTICS OF NON-TAX DEBT

Based on CGI's experience in a number of jurisdictions, we would expect that the majority of delinquent non-tax government debt is owed by individuals and businesses that are financially distressed. Compared to tax debts, the average balance due per debtor will also likely be lower. Thus, for a high percentage of cases, it will not be cost effective to undertake labor-intensive collection actions.

Despite these observations, typical non-tax collection business processes in fact rely heavily on manual activities because of their lack of automated tools. In order to take an involuntary collection action, such as issuing a wage garnishment, an expensive manual process must take place to gather the critical financial data, and produce and issue the appropriate documentation. Automated collections case management applications would be highly productive, but in a decentralized collection operation, this investment would not be cost effective for each agency.

The overall strategy to improve collections, reduce costs and speed up the collection process is clear. The cornerstones of the new strategy should be automation, better access to debtor financial data, and the ability to collect non-tax debts using the same statutory tools as provided for tax debts. This strategy suggests centralization of collection activities. A CCO would be able to gather critical debt and debtor information data that could be used to collect liabilities efficiently and effectively.

These capabilities have proven to increase collections in multiple jurisdictions, and there is no question that this strategy would produce increased revenues.

A vision for centralized collection

A centralized collection function will allow the government to collect many debts through a streamlined process. It also will facilitate the government's ability to create a policy structure supported by technology that automatically assigns the case to the most cost-effective treatment stream. As a result, the government can collect more, collect faster, and do so at the lowest cost.

A key goal is to collect debt in the most efficient and effective manner, and do so in a way that is fair, open and transparent. There is no one-size-fits-all approach. The characteristics of the debt type and the age of the delinquency will determine the specific tools and approaches that will be the most cost effective.

A key goal is to collect money in the most efficient and effective manner, and to do so in a way that is fair, open and transparent to the taxpayer and public.

RECOMMENDED FRAMEWORK

In a centralized framework, new collection workflows are designed to focus on automating the majority of all collection activities and leveraging the use of data and predictive models. Consolidated billing and collection actions are utilized where feasible. Common collection support functions, such as gathering of address and phone information, are centralized. The recommended framework is shown conceptually in Figure 1.

Figure 1—High-level centralized collection framework
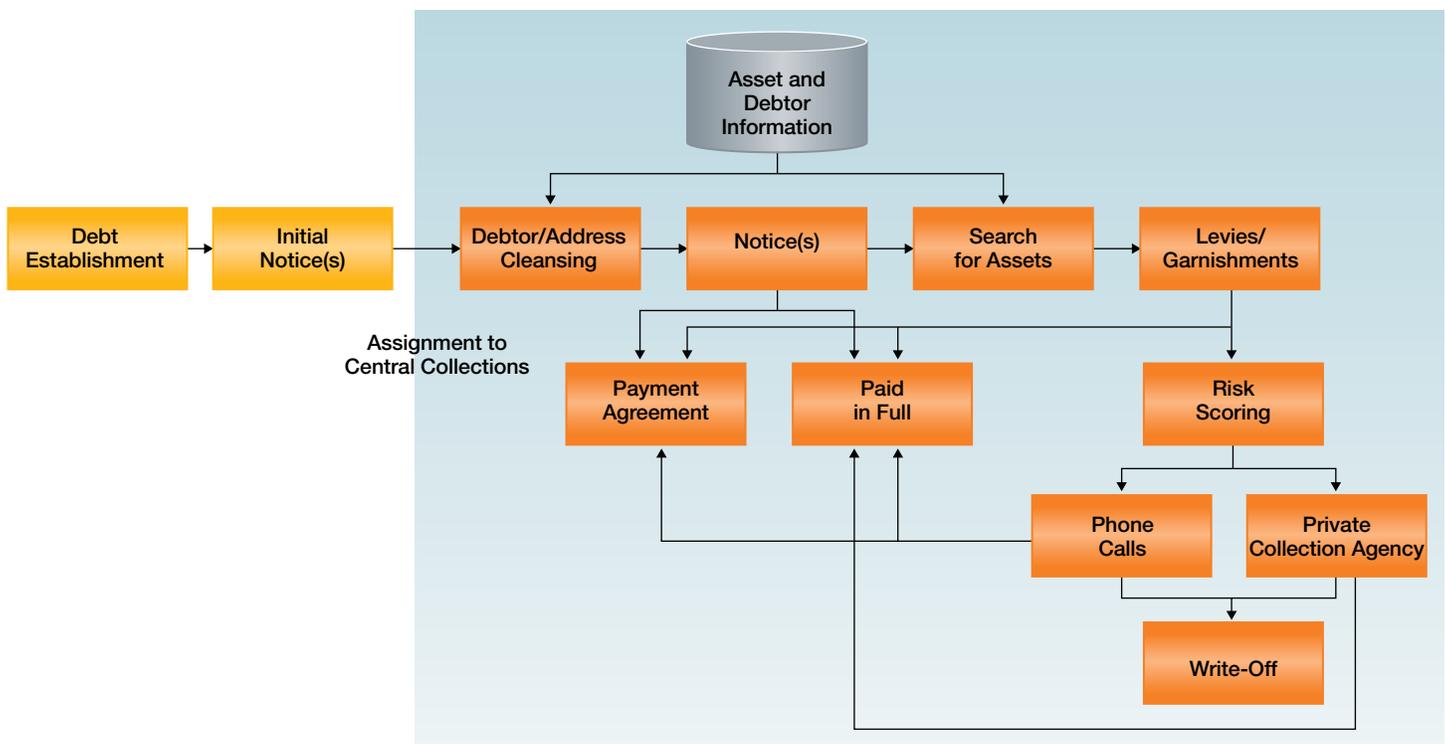
Each department would remain responsible for the establishment of its debts. Once the debt is established, each department would typically send one or more notices to the debtor in order to collect the money quickly. The policy makers would establish a threshold for a number of days for this collection activity (for example, 60 days), after which time the debt would be turned over to the CCO.

The CCO would then use its data repository of address information to locate the best address for the taxpayer and begin issuing a limited set of notices. If the debtor responds to the notice with a request for a payment agreement, the CCO would record and automatically monitor the agreement. Agreements could be taken over the phone by a collector. Additionally, with an appropriate infrastructure—in a 24/7 mode—agreements could be taken by phone or over the Internet.

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If the notices do not achieve collection, then the CCO would leverage a centralized repository of employer and bank information to issue levies or garnishments. In addition, where warranted, a lien would be filed in the home county of the debtor.

If payment still was not achieved, then the case would be scored for assignment. Based on the risk score, the cases would be assigned for phone treatment, field action or may be assigned to a PCA. Essentially, the case with the highest ROI would be assigned for pro-active collection treatment. If the debtor fails to pay in full after the variety of treatments were attempted, then the case would be written-off. This process would also provide the following capabilities:

- **Automated review for written-off debts.** When a debt is written-off, the liability is still typically owed. The government performs the write-off because there is a low likelihood of payment, and further collection activities are not warranted. However, because the debtor still has a liability, the automated system would continue to monitor for a new levy source (typically an employer). If the debtor develops an ability to pay, the system would automatically identify the debtor for collection. This would allow the government to collect revenues from written-off cases.

- **Automated offset of governmental payments.** This process would offer offset capabilities to automatically monitor for payments being made to debtors, such as tax refunds or payments to vendors. In these cases, the payment would automatically be intercepted to pay off the liability.

Finally, the government must review the legal authority of the CCO to collect debts to assure that the department has the proper legal authority to perform certain key collection actions. The authorities needed are described in greater detail in Section IV of this paper.

Operational models

Three primary operational approaches could be used to implement a centralized collections model:

- **Government-managed and operated—**Under this approach, the government would be responsible to establish the centralized collections function within one selected department. While the new CCO would likely contract with a private vendor to install and implement the hardware and software to support the new collection function, the CCO would be fully responsible for the operation and maintenance of the system thereafter. Once implemented, the department would then own, operate and maintain both the technology infrastructure and staff the collection function to support the ongoing activities.

- **Private vendor managed on behalf of the government—**Under this approach, the CCO would contract with a private vendor to provide a turnkey solution. The vendor would implement, operate, and maintain the new IT infrastructure for the CCO. The vendor would then be responsible for maintaining and operating the system for a set period of years. At the end of that time, the government could take over the operations of the system, or continue to have a private vendor manage the system. In addition, the vendor could also be responsible for providing a set of collection staff to respond to phone calls and letters, in order to further support the operations.

- **PCA outsourcing—**Under this approach, rather than building any infrastructure, debts would be given to PCAs to perform the collection. Under this approach, the government would pay a commission for all debt collected by the PCA.

The table below summarizes the advantages and disadvantages of each approach.
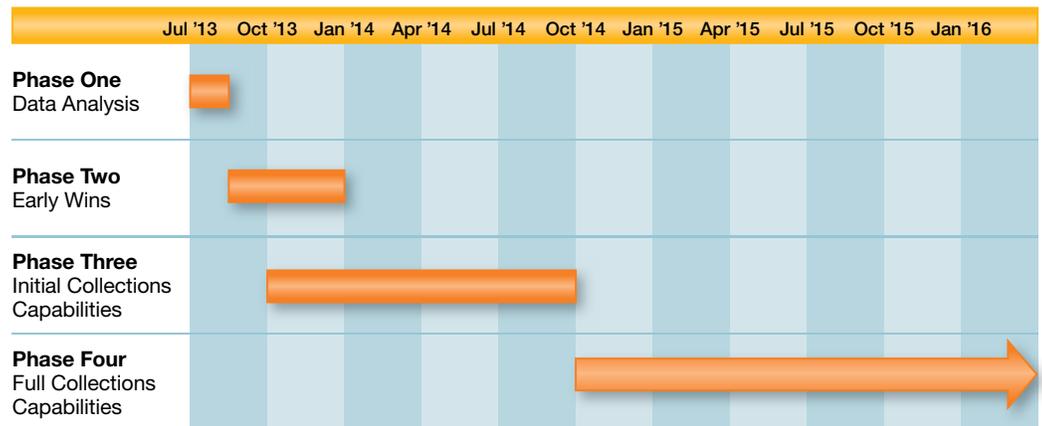
Comparison of centralized collection operational models			
	Government Managed	**Vendor Managed**	**Private Collection Agency**
ADVANTAGES	Some costs, such as the computer software, could be deferred until after revenues are achieved The government can retain full control of the operation The government can collect the easiest liabilities without paying a PCA unnecessarily The government can assure debt collectors follow their defined processes The technology vendor can be paid only out of new revenues through a benefits-funded contract	Most costs could be deferred until after revenues are achieved by requiring the technology vendor to be paid only out of new revenues through a benefits-funded contract The government can retain full control of the operation The government can assure debt collectors follow their defined processes Government costs are fixed and can be planned for Short time to implementation Government can mandate service level agreements Low government staffing required	Most costs could be deferred until after revenues are achieved because PCAs will be paid a commission only from revenues collected Government costs are exclusively tied to revenue collected Low governmental staffing required Shifts responsibility to a skilled and experienced vendor Government costs are fixed and can be planned for Short time to implementation Government can mandate service level agreements Lowest up-front cost and effort
DISADVANTAGES	Highest staffing required Government staffing costs variable Longest time to implementation	Would require work for government staff to take this over (if desired) when the vendor managed contract is complete	Difficult for government staff to take this over when the PCA contract is complete—no infrastructure would be in place Collection agencies typically focus on easiest cases Government would pay a commission on cases that could be easily collected (or are collected now without a PCA) Loss of control over operations, since cases are worked exclusively by a vendor Highest long term cost, because all revenues would be subject to a commission
ESTIMATED BENEFITS	*High* Government will work easiest cases, and send others to PCA for additional revenue Government will be able to perform automated collection actions on an ongoing basis on written-off cases if new asset sources are identified	*Highest* Government will work easiest cases and send cases remaining uncollected after automated processes are exhausted to a PCA for additional revenue Government will be able to perform automated collection actions on an ongoing basis on written-off cases if new asset sources are identified Government will have ongoing input from the vendor to continually improve collections processes	*Moderate* Likely increase over current collections through centralized management and better PCA management
COST OF COLLECTIONS	*Low* Government staff will only have limited responsibilities—responding to phone calls and letters PCA commission will only be required on cases that cannot be collected through automated processes	*Low* Government (or vendor) staff will have only limited responsibilities of responding to phone calls and letters Vendor costs fixed over time and can lower the government's overall cost of operation PCA commission will be required only on cases that cannot be collected through automated processes	*Higher* Government will have to pay a commission on all cases
TIME TO ACHIEVE BENEFITS	*Moderate* Through an Early Wins approach, benefits achieved within six months—time to implement the full infrastructure, though could be longer than through a vendor managed approach	*Fast* Through an Early Wins approach, benefits achieved within six months	*Fastest* While the overall long-term benefits will be lower, PCA contracts can be quickly established Note: PCA assignment can be used as a strategy of an Early Wins phase for the other two models

Implementation considerations

TIMELINE

It would be advantageous for the government to implement a phased approach to allow increased revenue to be recognized quickly. Other governments that have implemented collection transformation projects have achieved benefits in only three to six months. A phased approach will enable the government to achieve a long-term vision of a centralized collection infrastructure with minimum risk and with limited up-front funding. The suggested implementation approach involves four phases, as shown in **Figure 2.**

Figure 2—Notional Implementation Schedule

	Jul '13	Oct '13	Jan '14	Apr '14	Jul '14	Oct '14	Jan '15	Apr '15	Jul '15	Oct '15	Jan '16

Phase One — Data Analysis

Phase Two — Early Wins

Phase Three — Initial Collections Capabilities

Phase Four — Full Collections Capabilities

Phase One

For the first phase, the government or a selected vendor would conduct a detailed analysis of the government's debts, focusing on:

- **Debt types—**Each debt type has its own specific characteristics that will affect the collection strategies selected along with the challenge in collecting debts. For example, while a social services agency may have a significant receivable base, it likely includes both indigent individuals, as well as government employees able to pay off their debt slowly over time. Likewise, many of a university's debts may become more collectable over time, as students graduate and begin full-time employment.

- **Debt size and age—**For each department and debt, it is important to know the size and age of the debt to determine the opportunity available. Time is the enemy in collections. A debt that may be very collectable when it is 45 or 90 days old may be in significant jeopardy of not being collected after 180 or 360 days. Aging reports would assist in this analysis. Age of debts is a significant indicator of how much the government would expect to collect.

- **Legal authority for collections—**It is important to understand the statutory authority in place for the collection of each debt type. A centralized collection function needs to have the legal authority to perform necessary and reasonable collection actions. Current legal authorities granted to each of the agencies should be reviewed. Assuming the department would have increased collection authority over the current operations, this analysis would translate that increase in authority to an increased revenue estimate.

- **Quality and collectability of the debts—**This analysis would review the quality of the debt (how accurate is the debt and debtor information). Debts may not have detailed information on the debtor. Additionally, some debts are inherently more collectable than others. For example, when a taxpayer files a return saying they owe $10,000 but sends in only $5,000, the taxpayer knows they in fact owe the money. While they may not have the ability to pay at that point, they will likely not deny the liability and will likely work to make a payment. The same is true for some non-tax debts owed to government. This analysis would review the debt types and the processes that created the liability to assess the likelihood of payment.

- **Current collection process—**This analysis would review the current process used to collect these debts. It is important to understand the current process and how much effort each department is expending to collect debts. This would include understanding their billing processes and how many and which actions are taken to collect the debt. Where a department is using PCAs; it is useful to understand the distribution of accounts, the commissions paid and results achieved.

- **Tools currently available—**It is important to understand the level of automation each department has available to perform collection activities.

- **Quality of the debtor information—**The more that is known about the debtor, the easier it is to collect the debt. For example, when a registered vendor owes money to the government, the government typically has significant information about the vendor. In contrast, if a fine is issued on an abandoned vehicle without license plates, it may be difficult for the centralized collection unit to determine the debtor, let alone collect payment. This analysis would determine the quality of the debtor information in order to determine the collectability of the debts.

This analysis will be used to identify the collections opportunity for each debt, along with any issues that need to be addressed before cutover. This analysis will also result in an estimate of the increase in collections and/or decrease in cost (by debt type) that is available.

Coming out of this analysis would be a detailed recommendation on the ordering and prioritization of implementing each debt type within the centralized collection model. This phase would be expected to last four to six weeks.

Phase Two
This is the Early Wins phase in which the debt analysis would likely reveal a significant amount of low hanging fruit: revenues that could be collected quickly while the centralized debt collection operation is put in place. Examples include, work on returned mail to get the debts mailed to the correct debtor, involuntary collection actions for individuals that have previously received their due process, and new collection strategies for cases requiring collection action.

This process would likely be able to produce measurable results within three to six months from the start of the project, and could help demonstrate the value of this initiative to external stakeholders.

Phase Three
During this phase, the focus would be on expanding the collection infrastructure in terms of both debt types and capabilities.

As part of this phase, the focus would likely be on the agencies and debt types with the highest revenue opportunity for the government. We would expect that this phase would cover the top three to five debt types or agencies. This would allow the team to focus on the highest benefit areas first, rather than be distracted initially by other lower priority debt types.

In this phase, the government typically would follow three implementation threads:

- **Implement a collections case management system—**This new system would focus on billing, including returned mail correction, and on administrative levies and garnishments. In order to accelerate this initiative, this could be implemented in an environment hosted by an external vendor on secure equipment that maintains the highest levels of security and data confidentiality.

- **Build interfaces with governmental agencies—**One of the important ways that this program will generate revenue is through the intelligent use of information already within the governmental enterprise. A number of agencies have information useful for the collections process, including bank information, employer information and address and telephone numbers. These interfaces will centralize this information, respecting the citizen's rights and privacy, but utilizing this information to increase collections and reduce the cost of recovery.

- **Establish service level agreements and a governance model—**As the centralized collection process is established, it will be important to establish processes to transmit debts between agencies, and for coordination of approaches to support questions from the taxpayer. This task will establish a process for the governance of the new collections approach.

Phase Four
This phase would expand the infrastructure implemented as part of Phase Three. Three key initiatives would be implemented during this phase:

- **Expanded debt management—**This implementation would focus on bringing on cases from additional agencies and debt types into the centralized system. A schedule would be developed to add more debt types into the operations. The order would be based on the availability of data from the department, and the expected increase in revenues available.

- **Expanded collections case management capability—**This implementation would focus on providing additional capabilities into the collection enterprise, such as professional license revocation, debt set-off, skip tracing, etc.

- **Centralized data warehouse for information sharing—**The data warehouse will centralize skip tracing, employment, banking and bankruptcy data from various sources that will be available to the central collection unit and other participating agencies.

During this phase, the government may choose to offer this service to a partner jurisdiction (e.g., state, provincial, or local). By this point, the state will have an efficient collections function that is repeatable for other government debts. The partner jurisdictions could use the function to perform administrative levies, skip tracing, or even just billing. Through a standard process, the partner jurisdiction could send the debt to the centralized function and pay for the service out of a portion of the collections. The commission that would be paid to the state would offset state costs and further leverage the collections infrastructure created.

GOVERNANCE DECISIONS
From an implementation perspective, there will need to be a significant number of decisions made as to the governance of the new collections model. The CCO would look to the best practices from other governments, and work with the all of the affected stakeholders to determine the overall best process. These decisions include the following:

- **Data sharing—**Agreements would need to be in place to define who owns the information, how to use the information, and what limitations are placed on using the information

- **Cost reimbursement—**Rules for reimbursement of costs for the centralized collection function would have to be addressed

- **Timing for placement—**Agreements on when and how debts will be referred need to be addressed

- **Enabling legislation—**The government would need to evaluate what legislation is needed to support the centralized collection function

- **Cashiering and Accounting—**Cashiering and accounting processes need to be defined

- **Multiple Debt Types—**Policies and procedures to handle cases with multiple receivable types will need to be defined

- **Correspondence—**New correspondence will need to be written. There is strong evidence that well-written correspondence actually increases dollars collected

- **Training—**Training will need to be provided on the new collection processes, including debt-specific training

LEGAL AUTHORITY NEEDED

Different agencies may have different legal authorities available to them for debt collection. Under a framework of varied legal authorities, a centralized collection process will be more difficult to operate and would have a negative impact on expected revenues collected. Therefore, the government should consider rules that allow liabilities to be treated under one regimen for collections purposes when they are assigned to the CCO. This would allow them to process all delinquent liabilities under the same rules that are fair and efficient ways of collecting debt. Rather than the government creating a new set of authorities in this area, the government could simply authorize the CCO to perform all collection functions as if they were a tax debt if the tax debt authority is efficient.

Tax often is the best candidate since governments typically have the most collection authority for tax debts. The California Revenue and Taxation Code Section 19280 and Maine Revised Statutes Title 36, Paragraphs 111 and 112 provide excellent examples that other governments could follow. Louisiana enacted HB629 in June 2013 to create a centralized collection function.

This authority would also allow the CCO to utilize any government information currently available for the delinquent collections process for the collection of debt. Without this authority, the department could potentially be placed in a position where it could not use all of the information it gathers to collect on certain debt types.

Typically the CCO enhances the collection of debts by performing administrative wage levies, bank levies and liens without having to file a physical judgment in a local court. This practice has proven to be the single most effective enforcement tool for collecting receivables in the later stages of delinquency. It has also allowed governments to dramatically improve the cost-effectiveness of their collection programs. For agencies without this authority, obtaining a judgment requires them to compile information pertaining to the debt, fill out the needed forms, and adhere to a series of manual labor-intensive steps to in order to obtain a judgment from the court. When the judgment is obtained, the department can then move forward with legally enforced collection activities such as bank account seizure and wage garnishment. We recommend that the government avoid this labor-intensive court judgment process and supply the CCO with the authority to conduct administrative levies.

Finally, the government will need to establish cost reimbursement rules for the centralized collection function, such as authorizing the CCO to charge a reasonable cost recovery fee from the actual collections cost. Many governments allow their CCO to charge approximately 15 to 20 percent as a cost recovery fee.

The Centralized Collection Organization (CCO) enhances the collection of debts by performing administrative wage levies, bank levies and liens without having to file a physical judgment in a local court. This practice has proven to be the single most effective enforcement tool for collecting receivables in the later stages of delinquency.

OBTAINING EXPANDED DATA ACCESS

Access to reliable data is one of the items that separate an average performing collection organization from a high performing collection organization. Valid demographic information is essential for the letter and telephone contact process, while banking information and employer information can be used in the levy or garnishment process.

Information sharing is typically limited under a decentralized collection approach. For example, when one department is doing business with a debtor and has current contact information, another department may concurrently be spending significant efforts to locate the same debtor. One department might receive and process the bankruptcy notifications but another department that is servicing the same debtor fails to receive the notification and potentially misses an important date in the bankruptcy filing process.

When sharing does occur, the integration between the agencies is point-to-point—each department must establish a communication channel with another department on a one-by-one basis. Agencies maintain individual interfaces to single agencies, driving up the cost of collections. For example, the motor vehicle department, an excellent source of address information, must maintain multiple interfaces to send updates on address information to other agencies. The result is a complicated, inefficient and expensive process for sharing information across government agencies.

Communication between many government agencies in this type of environment for debt collection often is point-to-point. Figure 3 illustrates the point.
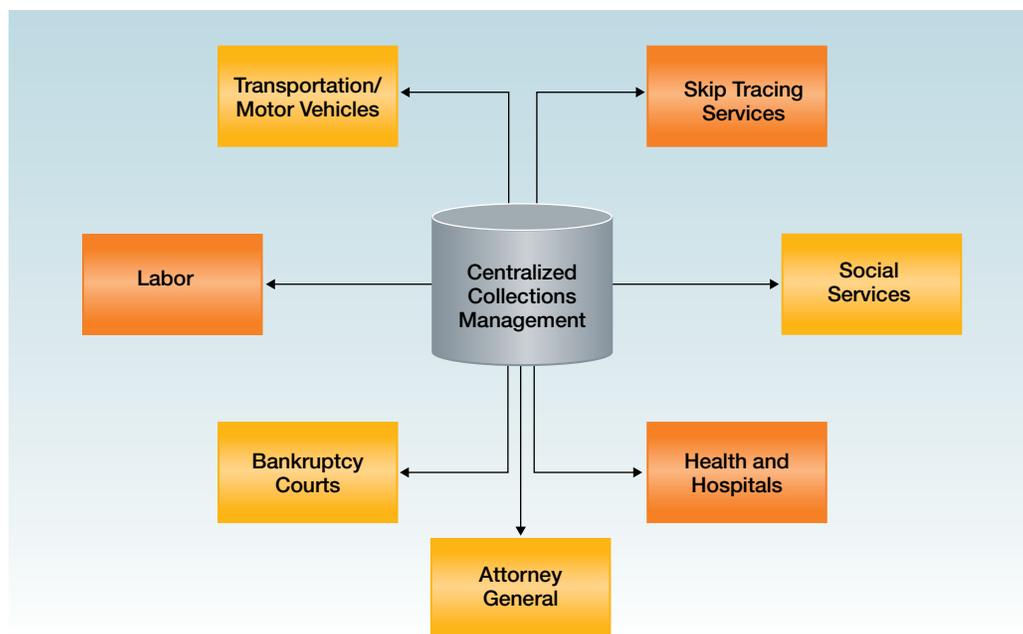
Figure 3—Point-to-point integration example
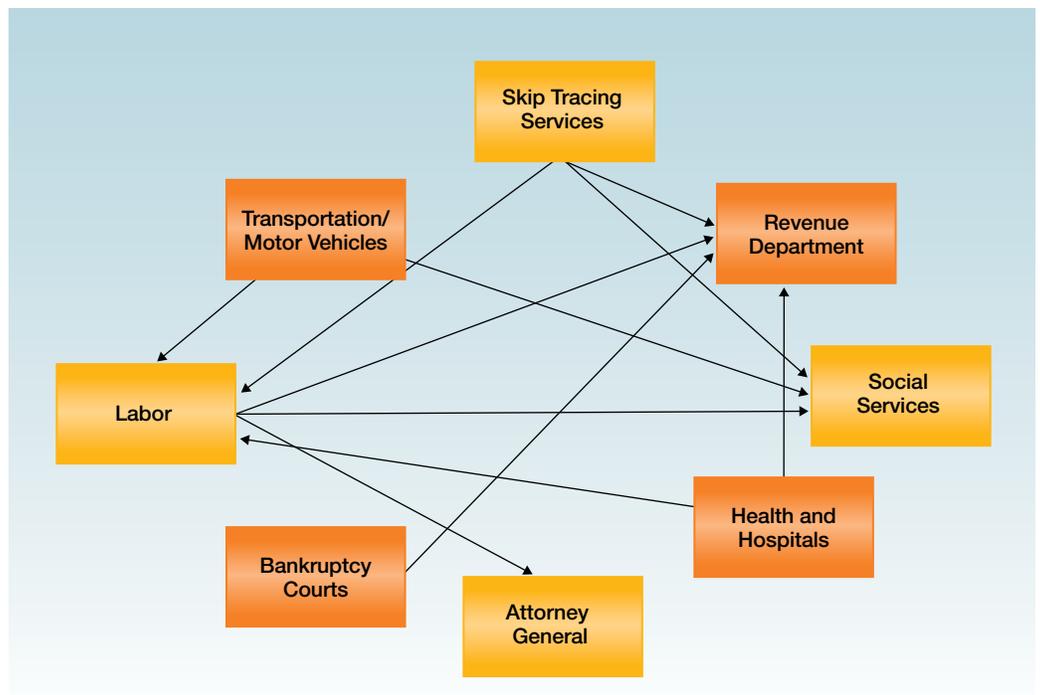
Certain agencies such as a Workforce Commission (State Department of Labor in some jurisdictions), which should be an excellent source of employer information, might have to maintain multiple interfaces to send updates on employers to other agencies. Smaller agencies (from a collections perspective) such as a Department of Social Services (Department of Human Services or Health Care Services) might have limited access to essential information, such as valid SSNs, that other agencies may have available but are not currently sharing. The result is likely a complicated and confusing integration model at the enterprise level.

Several governments have begun moving away from point-to-point interfaces and started combining data and making it available as a common service within a single repository. While most examples of data warehouses are at the department level, there has been a movement to encourage information sharing among agencies and implement a government-wide data warehouse.

For example, the California Franchise Tax Board is an agency trying to address this problem. As part of the ongoing project, they are also implementing centralized data repositories that receive feeds from multiple sources and agencies, updated in a single location for the use of many functions beyond collections purposes. When these projects are completed, the benefits will be significant.

Figure 4 illustrates how a centralized model simplifies and streamlines the flow of information critical to the success of collection programs.

Figure 4—Consolidated data management

This model not only simplifies the inbound storage of information by providing a single reference repository that can be used by multiple agencies, but also facilitates and extends information sharing. Demographic, bankruptcy, employer and other associated information is centrally captured from either one master source, such as bankruptcy filings, or from multiple sources, such as demographic updates from DMV and other agencies. As information is captured, various components can be packaged and passed to other government agencies that are servicing the same debtor. In this example, all participating agencies can receive updates of demographics, employer information and bankruptcies filings.

EXTERNAL COMMUNICATION

There is a theory in collections called a "wallet share." When someone owes you money, they likely owe others as well. Collectors try to collect a higher percentage of what is already in the debtor's wallet by clarifying that the best interests of the debtor lie with paying that individual or institution. In this regard, a strong external communication plan will in fact directly lead to increased revenues. If citizens believe that the government has increased its aggressiveness in collecting all debts and its willingness to impact debtor credit ratings, some percentage of citizens will voluntarily pay to protect their self-interest.

While most of the government's citizens will pay because they are financially responsible and/or have a solid sense of civic duty, others pay out of a fear for what will happen if they do not pay. To the extent that citizens understand that the government is embarking down a more rigorous collections path, the government will likely increase its wallet share.

Other considerations

CGI has identified several additional considerations for developing a CCO:

- **Legal authority—**In order to be successful, the CCO will need legal authority to perform collection actions on the government's behalf. The most effective collection authority is what typically is provided to the government tax agencies. We would recommend similar authority be provided for the collection of debt assigned to the CCO.

- **Debt condition—**Typically when compared to the profile of tax debts, most non-tax debts will have a lower average balance and be owed at a higher frequency by distressed individuals and businesses. These features will drive the collections strategy and process and likely suggest a streamlined process to provide the highest ROI for the government.

- **PCA usage—**A number of agencies currently make significant use of PCAs. While this makes sense for a department that does not have collection operations, it is likely producing a suboptimal result. The CCO would likely have the ability to collect a meaningful portion of cases without PCA assignment, thereby increasing overall collections and eliminating the need for the government to pay a commission on the easier cases. Once the department completes its process, it would then likely be beneficial to apply a PCA approach to further increase collections.

- **Managed services operation—**Given typical IT staffing challenges, a managed services approach to the technology infrastructure is likely worth considering. This would allow the CCO to implement the technology infrastructure faster and at a lower risk. Once in place, the government could decide at a later time to take over the operations. This would also allow the government to enter into a contractual service level agreement to assure ongoing performance and to assure full control of the operations.

- **Deferred payment and benefits-funded approaches—**There are a number of options the government could employ to defer the cost of establishing a centralized debt collection operation. Through contractual models such as benefits funding, the government can defer paying for the new technology infrastructure until after the benefits have been achieved.

- **Local government and court debt collection—**Once established, this centralized collection function could also be made available to cities and counties that have delinquent debt. They could send debt to the CCO to collect on their behalf, allowing the state to retain a cost recovery fee. Likewise, the state courts could also utilize this process in order to increase collections and decrease costs.

- **Centralized data sharing: value beyond collections—**The centralized collection model would establish a government-wide data repository about the government's citizens. While this information will be valuable for the collections process, this asset could also be available for any authorized department.

Estimating Return on Investment

The increased revenue for the government from a centralized collection program would be significant. The current challenge to quantifying the increase, however, is the need to better understand both the condition of each debt type and the existing collection process. Depending on the approach taken to collect the debts, each debt type would likely achieve a minimum 10 to 45 percent increase in the amount of delinquent collections achieved.

The following table showing a summary of the outstanding receivables in Louisiana as of March 31, 2013, is provided as an illustrative example. Of course, more would be gained from analyzing jurisdiction-specific data. Note that this table does not include court debts for the state, as they are considered local debts. However, they are a debt type that is well suited for assignment to a centralized collection function. This data shows a significant opportunity to increase revenues collected in Louisiana which will be realized through the recently passed legislation.

State of Louisiana: Schedule of Current Receivables Activity by Agency: Quarter End date 3/31/2013						
			Collections			
Agency	**Balance under 180 days**	**Additions**	**1-90 days**	**91-180 days**	**Moved to long term receivables**	**Balance under 180 days**
LA War Veterans Home	$ 1,652,091	$ 2,241,563	$ 1,764,951	$ 312,487	$ 161,541	$ 1,654,695
Secretary of State	$ 351,236	$ 1,331,158	$ 1,101,143	$ 15,119	$ 453,327	$ 112,805
Office of Attorney General	$ 4,832,334	$ 869,666	$ 72,056	$ 35,830	$ 879,988	$ 4,705,126
Department of Transportation and Development	$ 17,944,542	$ 9,175,265	$ 5,310,369	$ 355,956	$ 5,412,438	$ 16,041,044
Department of Health and Hospital	$ 315,980,274	$ 178,970,903	$ 11,868,499	$ 117,385,673	$ 33,823,180	$ 331,873,825
Department of Children and Family Services	$ 73,020,915	$ 44,863,148	$ 64,237	$ 35,967	$ 44,944,704	$ 72,839,155
Corrections—Adult Probation and Parole	$ 5,618,973	$ 4,346,826	$ 4,976,830	$ 0	$ (319,721)	$ 5,308,690
DNR—all offices	$ 14,358,021	$ 3,326,841	$ 5,380,062	$ 2,299,516	$ 91,431	$ 9,913,853
Department of Revenue	$ 84,690,878	$ 682,620,518	$ 43,433,596	$ 613,691,894	$ 33,522,042	$ 76,663,864
Louisiana Workforce Commission	$ 4,593,482	$ 0	$ 2,539,080	$ 14,293	$ 80,838	$ 1,959,271
DOE—Recovery School District	$ 1,652,647	$ 1,632,744	$ 940,312	$ 707,959	$ 281,351	$ 1,355,769
Other	$ 335,666,955	$ 458,962,918	$517,854,477	$ 84,936,031	$ 68,087,709	$ 123,760,636
Grand Total	**$ 860,362,348**	**$1,388,341,550**	**$595,305,612**	**$ 819,790,725**	**$187,418,828**	**$ 646,188,733**

Source: Analysis from State of Louisiana, Division of Administration, Receivables Report for the Quarter ended March 31, 2013

CGI

CONCLUSION AND NEXT STEPS

Centralized collections can contribute significantly to the fiscal well-being of governments at all levels. CGI's experienced consultants can help organizations 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.

For more information, visit us at **cgi.com/govcollect** or email us at **govcollect@cgi.com**.

ABOUT CGI

Founded in 1976, CGI is one of the largest IT and business process services providers in the world. We combine innovative services and solutions with a disciplined delivery approach that has resulted in an industry-leading track record of delivering 95% of projects on time and within budget. Our global reach, combined with our proximity model of serving clients from 400 locations worldwide, provides the scale and immediacy required to rapidly respond to client needs. Our business consulting, systems integration and managed services help clients leverage current investments while adopting technology and business strategies that achieve top and bottom line results. As a demonstration of our commitment, our client satisfaction score consistently measures 9 out of 10.

CGI has been at the forefront of the evolution of tax and collections management through numerous successful partnerships with government and commercial organizations. Our solutions and services have helped public sector clients alone to certify more than $4 billion in increased revenues. We would be pleased to discuss specific ways your organization can take advantage of advanced technology and best practices to evolve your operations.