



STATE OF WASHINGTON
OFFICE OF FINANCIAL MANAGEMENT

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August 6, 2008

The Honorable Brian Sonntag
State Auditor
P.O. Box 40021
Olympia, WA 98504-0021

Dear Auditor Sonntag:

Thank you for the opportunity to provide this coordinated response for the six state agencies involved in the performance audit on collection of state debt.

We are pleased the audit confirmed the excellence of the state's primary collection program. The Department of Revenue (DOR) is responsible for collecting taxes and accounted for 76 percent of the dollars this audit reviewed. The audit found that both this program and the smaller Benefit Overpayment Recoveries Program at the Employment Security Department (ESD):

- Employ all significant best practices identified in the audit.
- Use many additional best practices.
- Have streamlined debt collection operations.
- Have excellent performance measures to measure the effectiveness of debt collection efforts.

These conclusions correspond to other recognition for debt collection efforts that include the 2005 Outstanding Public Service Award DOR received from the American Society of Public Administration for effective collection practices.

Debt collection is only part of a larger set of responsibilities for other audited programs. For example, the Housing Trust Fund provides loans for affordable housing, and the Toxics Cleanup Program is charged with cleaning up contaminated sites. While these programs have taken steps to improve debt collection, it is unclear how much additional money can be collected when dealing with long-term housing loans or cases involving years of litigation.

Attached is our joint response to the report, sent on behalf of the six state agencies involved in the audit, which includes a summary of agency action steps that address the findings. Many of the recommendations have been implemented since initial audit fieldwork was performed in 2006. Additional information about detailed action plans can be obtained from the individual agencies.

Sincerely,

A handwritten signature in black ink, appearing to read "V. A. Moore".

Victor A. Moore
Director

Enclosure



cc: Cindy Zehnder, Chief of Staff, Office of the Governor
Joyce Turner, Deputy Chief of Staff, Office of the Governor
Larisa Benson, Director, Government Management Accountability and Performance
Cindi Holmstrom, Director, Department of Revenue
Karen Lee, Commissioner, Employment Security Department
Judy Schurke, Director, Department of Labor and Industries
Juli Wilkerson, Director, Community Trade and Economic Development
Jay Manning, Director, Department of Ecology
Paula Hammond, Secretary, Department of Transportation

Official Agency Response to the 2008 Performance Audit Report
“Collection of State Debt”
August 2008

The following state agencies prepared this coordinated management response to the audit report received on Tuesday, July 29, 2008: Department of Revenue (DOR), Employment Security Department (ESD), Department of Labor and Industries (L&I), Department of Ecology (ECY), Department of Transportation (DOT), Department of Community Trade and Economic Development (CTED), and the Office of Financial Management (OFM).

OVERALL RESPONSE TO AUDIT RESULTS

The majority of state’s debt is being collected timely. We are pleased the audit confirmed the state’s largest collection program is doing an excellent job. The Department of Revenue (DOR) is responsible for collecting taxes, and accounted for 76 percent of the dollars reviewed in this audit. The audit found that both DOR and the smaller Benefit Overpayment Recoveries program at the Employment Security Department (ESD):

- Employ all significant best practices identified in the audit.
- Use many additional best practices.
- Have streamlined debt collection operations.
- Have excellent performance measures in place to measure the effectiveness of debt collection efforts.

Many best practices are already being used. Most of the programs used the majority of identified best practices at the time of the audit. Since 2006, all of the audited programs have strengthened their debt collection efforts. Although best practices were used, their consistent use could not always be verified. These programs are focusing on improving documentation and consistently using best practices. Additional activity to further enhancement of debt collection is underway and outlined below in the action steps for each agency.

The amount of “cost savings,” or additional debt that can be collected by the state, is questionable. Industry-standard best practices may apply to certain lines of state business, but not all. Therefore, it is unclear how much *additional* debt can be collected by changing collection practices. For example, L&I used this opportunity to take a comprehensive look at their operations to maximize collections. The changes staff made went beyond the audit recommendations, and we are very encouraged that they have since shown an increase in debt collection in the Industrial Insurance Claims Benefit Overpayments program.

However, other lines of business at the state do not lend themselves as well to the same type of success. For example, debtors in other programs such as Toxics Cleanup at Ecology are involved in extensive litigation, and the program will not realize similar collection increases or “cost savings.” The Housing Trust Fund program strives to collect debt while keeping citizens in their homes.

We have included more detailed responses to the findings below, categorized by state agency.

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COMMUNITY TRADE AND ECONOMIC DEVELOPMENT

Finding 1A: The Housing Trust Fund program at the Department of Community, Trade and Economic Development should improve its timeliness for restructuring loans.

RESPONSE: We were pleased the audit found the Housing Trust Fund follows all applicable best practices identified in this audit. We agree that timeliness for restructuring loans could be improved. We are researching best practices in similar programs to determine reasonable expectations of timeframes for different types of “workouts,” such as loan restructuring, transfers of property, sales of property, and contractor’s loan portfolio analysis. We want to ensure we use accurate and appropriate benchmarks for “timely” resolution. These benchmarks will become the basis for measuring performance on our “workouts.”

Action Steps:

- Modify contract language to require quarterly, instead of annual, payments. *Completed.*
- Determine benchmarks and set goals for loan in “workout.” **By July 2009.**
- Evaluate options for improving timeliness. **By July 2009.**

Finding 1B: The Department of Community Trade and Economic Development could improve collections by implementing more collection best practices.

RESPONSE: CTED department staff have already begun implementing recommended best practices. In June 2007, we began billing in advance of providing services, to ensure all necessary costs were recovered as required by law. As of early July 2008, all outstanding debt had been collected.

Action Steps:

- Send invoices in advance of providing services. *Completed.*
- Draft funding and invoicing procedures that address all of the actions listed in the recommendation. *Completed.*
- Fully implement new procedures. **By October 2008.**

DEPARTMENT OF ECOLOGY

Finding 2A: The Department does not consistently use collection best practices in the Toxics Cleanup Program when attempting to collect on delinquent debt owed to the state.

RESPONSE: Ecology has implemented several best practices, and is actively considering others. Even with the use of these practices, this program will probably not be able to collect more outstanding debt, or collect it more quickly. For example, \$14.7 million, or 74 percent of the audited receivables, is for the cleanup of a severely contaminated former smelter site. Cleanup of the Asarco Superfund site began in the early 1990’s, and the responsible party paid Ecology for eight years. In 2003, Ecology and the Attorney General prepared for additional legal action to force payment of outstanding invoices. In 2005, the company filed for bankruptcy protection. Ecology is currently involved in extended bankruptcy hearings to recover costs incurred.

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Action Steps:

- Update receivable write-off policy. *Completed.*
- Begin collection efforts 30 days after the due date. *Completed.*
- Document collection efforts by site managers. *Completed.*
- Evaluate recommendations and add new policies and procedures as appropriate.
By October 2008.
- Fully implement new policies and procedures. **By December 2008.**

EMPLOYMENT SECURITY DEPARTMENT

Finding 3A: The Employment Security Department could improve the amount it collects from delinquent Unemployment Insurance taxpayers by using more collection best practices.

RESPONSE: We are pleased this program employed six of the eight identified best practices at the time of the audit in 2006. Since then, we have started using the other two practices: documenting collection calls, and making contact with delinquent employers within 30 days after the employer's debt is established. Additionally, as we work to develop a new tax system, we will determine the feasibility of using automated dialing.

Action Steps:

- Issue revised policy clarifying documentation requirements for UI Tax Collection activities, including all phone contacts. Incorporate into new Collections Manual. *Completed.*
- Send billing statements and make phone contacts with delinquent employers within 30 days. *Completed.*

Finding 3B: The Department did not retain Unemployment Insurance Tax Collection records in accordance with state records retention laws.

RESPONSE: As noted in the audit, the ESD took immediate corrective action in December 2006, and now retains copies of the billing statements.

DEPARTMENT OF LABOR AND INDUSTRIES

Finding 4A: Collection success could be improved if collection efforts are made within 30 days after the account becomes delinquent.

RESPONSE: We agree, and have addressed this best practice. As of July 1, 2008, we issued a revised collections timelines policy directing that accounts already in collections be contacted within 30 days of each new delinquency. This policy also requires that in most situations, we will file a tax lien within 30 days of the final assessment. Supervisors have additional monitoring steps in place to ensure timeline requirements are met.

Action Steps:

- Issue revised collections policy. *Completed.*
- Add automated computer reminder that will alert staff when an already overdue account receives an additional debt. **By October 31, 2008.**

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- Change our computerized legal exception report to notify supervisors if a warrant is not issued within 45 days of final assessment. **By October 31, 2008.**

Finding 4B: Consistent use of collection best practices could improve collection results on claims benefit overpayments.

RESPONSE: Beginning January 1, 2007, we revamped our entire claim overpayments unit and processes. Initial phone contact with all new debtors is required within 30 days of assignment. Collection letters and filing warrants are issued timely. Increased monitoring by supervisors ensures compliance. We also use an automated review of data from DSHS and reporting to Employment Security for wage matching and garnishment and analyze banking data for similar action when unable to secure payment or a voluntary payment agreement. Finally, we established guidelines for shorter-term payment agreements.

Following these changes, we experienced an increase in claim overpayment collections of approximately \$2 million each year from fiscal years 2006 to 2008.

We also have begun a clean-up effort on all claim overpayment caseloads. Initial analysis shows more than 1,000 debtors that owe less than \$100. The majority of those debtors owe less than \$60. It is not cost-effective to pursue full and active collection activity for these cases. Therefore, we are triaging cases to determine those that need warrant filing, reminder letters and release from caseloads. Similarly, we are working to close older cases that already have warrants in place, and should be removed from active status because the debtors are insolvent without employment, have left the state or are in similar situations.

Action Steps:

- Revise claims overpayment procedures, and collections and training manuals. *Completed.*
- Triage cases owing less than \$100. **By September 30, 2008.**
- Close older cases as appropriate. **By October 31, 2008.**
- Assign additional staff from another collection unit to assist with older case review. See also response to finding 4C. **By August 31, 2008.**

Finding 4C: Collection agents have large caseloads that decrease the effectiveness of collection efforts.

RESPONSE: We have analyzed available data and implemented a plan to reduce caseloads without adding staff. We are reassigning staff to assist in claim overpayment collections over the course of a six-month review period, with initial analysis after the first three months. During this time, case review triage efforts on claim overpayment debts will be completed, and we will be able to determine the effects of both the additional staffing on claim overpayment collection efforts and assignment of additional premium cases to field agents. After the full caseload review is complete, we will determine how best to allocate resources for collection of current debt.

Action Steps:

- Make final decisions on permanent assignment of staff to various debt types, as well as overall needs for collection staffing. **By March 2009.**

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Finding 4D: The Department does not use accounts receivable aging reports to monitor the collection of delinquent Industrial Insurance Premiums and Claims Benefit Overpayments.

RESPONSE: We have started using aging reports as part of our overall analysis of collections as of July 1, 2008. We have also used more complex data and analysis programs as part of our analysis of caseloads of claim overpayment collections.

Action Steps:

- Use accounts receivable aging reports. *Completed.*
- Use more complex aging data and analysis programs to help analyze caseloads of claim overpayment collections. *Completed.*

DEPARTMENT OF TRANSPORTATION

Finding 5A: The Risk Management Office could improve collections by using more collection best practices.

RESPONSE: We are pleased this program employed six of the eight identified best practices at the time of the audit in 2006. We are already in the process of incorporating the remaining best practices by updating collections policies and procedures, including legal actions. We also will coordinate to ensure the office’s policies and procedures are consistent with agency-wide policies and procedures.

Action Steps:

- Complete update of Enterprise Risk Management’s policies and procedures. **By December 31, 2008.** See also response to finding 5E.
- Document collection efforts, especially for collection efforts beyond the Enterprise Risk Management Office (i.e., Attorney General’s Office, collection agency). **By December 31, 2008.**

Finding 5B: The Risk Management Office does not make sufficient collection efforts on its “traffic-control only” accounts, resulting in unnecessary write-offs.

RESPONSE: DOT and their Attorney General’s representative believe the law is unclear regarding our authority to collect costs for traffic control “only” claims, following incidents when no highway damage occurred. Traffic control “only” claims also tend to be lower value, and the cost to litigate would likely be more than the recovery itself.

Action Steps:

- We will follow legislative direction regarding possible revisions to the law.

Finding 5C: The Risk Management Office does not process all highway damage claims in a timely manner.

RESPONSE: We agree the recommendations will strengthen the office’s collection program. We have already made significant strides in reducing claims delays by implementing electronic submittal of repair cost estimates.

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Action Steps:

- Update policies and procedures to reflect that repair estimates should be submitted weekly. **By March 31, 2009.** See also response to finding 5E.
- Obtain accident reports from the Washington State Patrol via electronic access. *Completed.*

Finding 5D: The Ferries Division could improve its collection efforts by consistently applying collection best practices.

RESPONSE: We agree, and will ensure the recommendations are incorporated into the division policies and procedures and followed by Ferries Division staff. We also will coordinate to ensure division policies and procedures are consistent with agency-wide policies and procedures.

Action Steps:

- Update Ferries Division policies and procedures. **By December 31, 2008.** See also response to finding 5E.
- Evaluate options for reducing caseloads. **By December 31, 2008.**

Finding 5E: The Department’s agency-wide collection policies and procedures should be updated to reflect collection best practices.

RESPONSE: We agree with the majority of recommendations, and will update our agency-wide collection policies and procedures. However, unlike other agencies covered in this multi-agency audit, DOT does not have the legal authority to use collection practices such as filing liens on property. Like most other claimants, DOT must first receive a judgment from the courts to determine liability. Since court involvement is necessary, it is not always cost-effective to proceed with legal action, since the cost of litigation often would outweigh the collection.

Action Steps:

- Incorporate best practices, as applicable, to agency-wide policies and procedures. **By December 31, 2008.**
- Evaluate current use of collection agencies and opportunities to maximize value of this resource. **By December 31, 2008.**

Collection of State Debt Performance Audit -
2006-2008
Summary Agency Action Plan

Finding	Action Step	Lead	Due Date	Completed with Current Resources	Budget Impact	Needs Legislation
F-1A	Modify contract language to require quarterly, instead of annual payments.	CTED	Completed	✓		
F-1A	Determine benchmarks and set goals for loan in "workout"	CTED	July 2009			
F-1A	Evaluate options for improving timeliness.	CTED	July 2009		Possibly	
F-1B	Send invoices in advance of providing services.	CTED	Completed	✓		
F-1B	Draft funding and invoicing procedures that address all of the actions listed in the recommendation.	CTED	Completed	✓		
F-1B	Fully implement new procedures.	CTED	Oct 2008			
F-2A	Updated receivable write-off policy.	ECY	Completed	✓		
F-2A	Begin collection efforts 30 days after the due date.	ECY	Completed	✓		
F-2A	Document collection efforts by site managers.	ECY	Completed	✓		
F-2A	Evaluate recommendations and add new policies and procedures as appropriate.	ECY	Completed	✓		
F-2A	Fully implement new policies and procedures.	ECY	Oct 2008			
F-2A	Fully implement new policies and procedures.	ECY	Dec 2008			
F-3A	Issue revised policy and incorporate into new collections manual.	ESD	Completed	✓		
F-3A	Send billing statements and make phone contacts with delinquent employers within 30 days.	ESD	Completed	✓		
F-4A	Issue revised collections policy.	L&I	Completed	✓		
F-4A	Add automated computer reminder that will alert staff when an already overdue account receives an additional debt.	L&I	Oct 2008			
F-4A	Change computerized legal exception report to notify supervisors if a warrant is not issued within 45 days of final assessment.	L&I	Oct 2008			
F-4B	Revise claims overpayment procedures and collections and training manuals.	L&I	Completed	✓		
F-4B	Triage cases owing less than \$100.	L&I	Sep 2008			
F-4B	Close older cases as appropriate.	L&I	Oct 2008			
F-4B	Assign additional staff from another collection unit to assist with older case review. See also response to finding 4C.	L&I	Aug 2008			
F-4C	Make final decisions on permanent assignment of staff to various debt types, as well as overall needs for collection staffing.	L&I	Mar 2009		Possibly	
F-4D	Use accounts receivable aging reports.	L&I	Completed	✓		
F-4D	Use more complex aging data and analysis programs to help analyze caseloads of claim overpayment collections.	L&I	Completed	✓		
F-5A	Complete update of policies and procedures. See also response to finding 5E.	DOT	Dec 2008			
F-5A	Document collection efforts, especially for collection efforts beyond the Risk Management Office (i.e., Attorney General's Office, collection agency).	DOT	Dec 2008			
F-5B	Follow legislative direction regarding possible revisions to the law.	n/a	At legislative discretion			✓
F-5C	Update policies and procedures to reflect that repair estimates should be submitted weekly.	DOT	Mar 2009			
F-5C	Obtain accident reports from the Washington State Patrol via electronic access.	DOT	Completed	✓		
F-5D	Update Ferries Division policies and procedures.	DOT	Dec 2008		Possibly	
F-5D	Evaluate options for reducing caseloads.	DOT	Dec 2008			
F-5E	Incorporate best practices, as applicable, to agency-wide policies and procedures.	DOT	Dec 2008			
F-5E	Evaluate current use of collection agencies and opportunities to maximize value of this resource.	DOT	Dec 2008		Possibly	