REPORT OF

THE

STATE AUDITOR

Central Collection Services
Department of Personnel & Administration

Performance Audit
May 2004

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This report contains the results of a performance audit of Central Collection Services within the Division of Finance and Procurement at the Department of Personnel & Administration. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the Departments of Personnel & Administration, Regulatory Agencies, and Revenue.

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JOANNE HILL, CPA
State Auditor

Central Collection Services
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Authority, Purpose, and Scope

This performance audit of Central Collection Services (Central Collections), Department of Personnel & Administration, was conducted under the authority of Section 2-3-103, C.R.S., which authorizes the Office of the State Auditor to conduct performance audits of all departments, institutions, and agencies of state government. The audit was conducted in accordance with generally accepted government auditing standards. Audit work was performed from September 2003 through March 2004.

To evaluate Central Collections, we gathered information through interviews, data analysis, and document reviews. We would like to acknowledge the efforts and assistance extended by management and staff from the Departments of Personnel & Administration, Regulatory Agencies, and Revenue; the Judicial Branch; and private collection agencies with which Central Collections contracts.

Overview

Section 24-30-202.4, C.R.S., requires Colorado state agencies to refer delinquent debts due the State to the State Controller for collection unless the agency is granted specific statutory exemption from this requirement. Examples of the debts referred to the State Controller include student accounts and loans at higher education institutions, court-ordered restitution, and overpayments of unemployment insurance. Central Collections was created in 1975 to act as a collection service for debts referred to the State Controller. The General Assembly appropriated Central Collections about $1.1 million in cash funds and cash funds exempt (i.e., collection fees) and 17 FTE for Fiscal Year 2004. Over the last four fiscal years, Central Collections has recovered, on average, about $12.3 million annually.

For further information on this report, contact the Office of the State Auditor at 303.869.2800.

Summary of Audit Comments

Administration

As of January 2004, Central Collections was responsible for administering an active portfolio of about 326,600 debts totaling about $332 million owed to the State. Central Collections charges fees to cover its costs for collection services. We reviewed the internal controls and procedures over operations at Central Collections and found the following:

- **Central Collections does not have adequate controls to ensure that debtor payments are accurately posted to the correct accounts.** In Fiscal Year 2003 Central Collections received and posted about 121,000 transactions totaling $12.5 million. We found problems with the quality of the supporting documentation maintained by Central Collections and delay in posting of payments.

- **Central Collections does not always ensure that collection fees are charged correctly.** We found 62 errors or miscalculations of collection fees in a sample of 238 payments. Problems occurred when (1) state agencies added collection fees without specific statutory authorization and (2) Central Collections inconsistently applied its own debt collection fee rate. For Fiscal Years 1999 through 2003, Central Collections collected fees of about $7.9 million to cover costs of about $6.2 million. This resulted in a net profit of $1.7 million, indicating that its current fee of 15 percent may be too high.

- **Central Collections should improve its use of private collection agencies.** Section 24-30-202.4, C.R.S., requires that delinquent accounts assigned to Central Collections be transferred to private collection agencies no later than 90 days after receipt unless Central Collections is "in the process" of recovering the account. Central Collections currently contracts with six private collection agencies to recover delinquent accounts. We found that Central Collections does not always transfer accounts to the private agencies in accordance with the statutory requirements. Additionally, Central Collections has not established adequate controls to ensure that transfers to the State of monies collected by the private agencies occur at the scheduled time. Between April 2003 and June 2003, Central Collections did not receive bank transfers for all monies collected by three of the six private agencies. According to management, this was due to problems with routine "sweeps" of the accounts performed by the banks when forwarding the money to Central Collections. Although management subsequently required each private agency to open an account at the State's bank beginning in January 2004, as of May 2004 about $190,000 remained in the bank accounts used prior to January 2004.

- **Central Collections does not ensure that monthly reconciliations are complete and accurate.** Each month Central Collections is supposed to reconcile monies deposited in the State's bank account to debtor payments recorded in its information system, Columbia

Ultimate Business Systems. However, we found that Central Collections (1) does not maintain documentation in a manner that supports its reconciliations, (2) reconciliation procedures are not documented, (3) only one staff knows how to perform the reconciliations, and (4) as of April 2004, Central Collections was four months behind in completing its monthly reconciliations.

- **The Department of Personnel & Administration has not reverted required amounts to the General Fund.** Section 24-30-202.4(3)(e), C.R.S., created the Debt Collection Fund in the State Treasury. Statutes require that the fund balance at the end of the fiscal year not exceed 25 percent of the annual appropriated budget for Central Collections. Net revenues collected in excess of 25 percent are required to be reverted to the General Fund at the end of each fiscal year. The fund balance at the end of Fiscal Year 2003 prior to the reversion was $530,000; the Department should have reverted $262,300 at the end of Fiscal Year 2003, but reverted only $44,300.

Collection of Delinquent Accounts

We reviewed Central Collections' debt collection efforts and found:

- **The number and dollar amount of accounts placed by state agencies with Central Collections have declined significantly since Fiscal Year 1997.** State agencies are required by law to submit delinquent accounts to Central Collections unless they are exempted either by statute or by the State Controller. Since 1996 several large state agencies that have the option under statutes to conduct their own collection activities have stopped placing some accounts with Central Collections and cancelled and taken back the accounts placed previously. In Fiscal Year 1997 the accounts placed with Central Collections were worth about $71.8 million, and those placed in Fiscal Year 2003 were worth about $41.1 million, a decline of 43 percent.

- **Management has not thoroughly and systematically reviewed the activities and outcomes resulting from all aspects of the collection process.** We compared the internal collection activities for a sample of 50 accounts at Central Collections with the activities at two of the six contracted private collection agencies and found that (1) private collection agencies made significantly more attempts to contact debtors than did Central Collections staff, (2) private collection agencies worked from more updated contact information than Central Collections, (3) Central Collections collectors do not work schedules as conducive to collection efforts as do collectors at private collection agencies, and (4) Central Collections' staffing ratio is disproportionately weighted to administrative and managerial personnel.

- **The collector incentive program needs to be reevaluated.** To earn a bonus, a Central Collections collector must recover more than $62,000 in gross payments per month. We found that this goal is not challenging. On average, staff collectors recover about $79,000 each month, or nearly 1.3 times their goal. Additionally, the goal is the same for all collectors regardless of their experience.

- **Central Collections could improve its recovery of delinquent accounts by coordinating with other state agencies.** Colorado maintains several databases of information on individuals that Central Collections could use to leverage collections. For example, we reviewed information maintained by the Department of Regulatory Agencies to determine if there are any licensed individuals who have a delinquent account with Central Collections. We identified 3,400 active license holders in the Department's databases who also appeared in Central Collections' records. These license holders accounted for about $3.2 million in unpaid delinquent accounts owed to the State.

Our recommendations and the responses of the Departments of Personnel & Administration, Regulatory Agencies and Revenue can be found in the Recommendation Locator on pages 5 through 8 of this report.

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	19	Ensure payments are posted to debtor accounts accurately and timely by (a) improving controls, (b) evaluating the lockbox and manual procedures, and (c) providing formal training to staff.	Department of Personnel & Administration	Agree	October 2004
2	23	Ensure collection fees are charged in accordance with statutes by (a) requiring documentation for add-on collection fees, and (b) considering requesting statutory authority to add fees to all debts.	Department of Personnel & Administration	Agree	December 2004
3	24	Charge a uniform commission rate using a consistent methodology for all accounts.	Department of Personnel & Administration	Agree	October 2004
4	25	Implement necessary controls to ensure collection fees charged to accounts recalled from the private collection agencies are accurate and appropriate.	Department of Personnel & Administration	Agree	October 2004
5	26	Establish a basis for determining the reasonableness of the commission rate and periodically review the commission rate structure.	Department of Personnel & Administration	Agree	October 2004
6	30	Ensure compliance with statutes and rules covering the use of private collection agencies by (a) ensuring delinquent accounts are forwarded in accordance with law, (b) determining an appropriate remittance process, and (c) establishing reconciliation procedures covering monies collected by the private agencies.	Department of Personnel & Administration	a. Agree b. Agree c. Agree	a. September 2004 b. March 2005 c. June 2004

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
7	32	Implement adequate record retention procedures for activity on delinquent accounts by (a) requiring private collection agencies to retain adequate documentation, and (b) ensuring Central Collections maintains an organized and complete document storage system.	Department of Personnel & Administration	Agree	October 2004
8	33	Require state agencies to submit their delinquent accounts to Central Collections electronically.	Department of Personnel & Administration	Agree	May 2005
9	36	Improve the monthly reconciliation process by (a) formally documenting procedures, (b) training additional staff on the process, (c) ensuring monthly reviews, (d) maintaining documentation of items, and (e) addressing the reconciliation backlog.	Department of Personnel & Administration	Agree	July 2004
10	37	Ensure that required statutory reversions are made to the General Fund from the Debt Collection Fund at the end of each fiscal year.	Department of Personnel & Administration	Agree	July 2004
11	38	Ensure data provided on Central Collections to the General Assembly and the State Controller's Office are reviewed for completeness and accuracy prior to submission.	Department of Personnel & Administration	Agree	July 2004
12	39	Ensure Central Collections complies with all state policies on the use of computer resources.	Department of Personnel & Administration	Agree	June 2005

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
13	49	Convene a task force to evaluate options for maximizing recovery of debts including (a) decentralizing the collection function, (b) allowing state agencies the option to use Central Collections, (c) using Central Collections for administration of contracts with private agencies, and (d) improving the performance of Central Collections by addressing the issues in this report.	Department of Personnel & Administration	Agree	December 2005
14	51	Ensure that all agencies that place accounts with Central Collections have an opportunity to respond to the customer satisfaction survey and use the feedback to improve services.	Department of Personnel & Administration	Agree	March 2005
15	53	Develop meaningful methods of calculating recovery rates and establishing suitable benchmarks that present a complete and accurate representation of collection activities.	Department of Personnel & Administration	Agree	September 2004
16	57	Increase recoveries of delinquent accounts by (a) analyzing data on collection activities, (b) implementing formalized procedures for contacts with debtors, (c) identifying ways to improve obtaining debtor information, (d) contacting debtors during evening hours, (e) assessing staffing levels and the ratio of collections to administrative staff, and (f) considering modifying internal operations to reallocate some collector functions to administrative and managerial staff.	Department of Personnel & Administration	Agree	June 2005
17	59	Reevaluate the basis for the collector incentive plan and identify ways to make it more challenging and equitable.	Department of Personnel & Administration	Agree	August 2004

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
18	60	Work with the General Assembly to seek statutory authority to access professional licensee information in order to deny, suspend, or revoke professional licenses for failure to pay state debts.	Department of Personnel & Administration	Agree	December 2004
			Department of Regulatory Agencies	Partially Agree	January 2005
19	61	Work with the General Assembly to seek statutory authority to access professional licensee information in order to deny, suspend, or revoke professional licenses for failure to pay state taxes.	Department of Revenue	Agree	March 2005
			Department of Regulatory Agencies	Partially Agree	January 2005
20	64	Improve the information collected on delinquent accounts by (a) ensuring state agencies include the original due date for delinquent accounts, (b) using original due dates to assign priorities, and (c) working with state agencies to ensure debts are placed in accordance with state law.	Department of Personnel & Administration	Agree	June 2004
21	66	Review all waivers granted by the State Controller's Office on a regular basis to ensure the waivers remain necessary and appropriate.	Department of Personnel & Administration	Agree	October 2004

Overview of Central Collection Services

Background

Section 24-30-202.4, C.R.S., requires Colorado state agencies to refer delinquent debts due the State to the State Controller for collection unless the agency is granted specific statutory exemption from this requirement. Examples of the debts referred to the State Controller for collections include student accounts and loans at higher education institutions, court-ordered restitution, and overpayments of unemployment insurance. Central Collection Services (Central Collections) was created in 1975 to act as a collection service for debts referred to the State Controller, and statute states that the purpose of these collection activities is to achieve prompt collection of debts owed to the State. Central Collections is currently located in the Division of Finance and Procurement within the Department of Personnel & Administration; prior to January 2002, Central Collections was located in the Division of Central Services within that Department. The General Assembly appropriated Central Collections about $1.1 million in cash funds and cash funds exempt (i.e., collection fees) and 17 FTE for Fiscal Year 2004. Seven of the FTE are internal staff collectors.

From Fiscal Year 1991, the earliest year for which data are available, through December 2003, Central Collections received about 943,400 delinquent accounts of almost $771 million. State agencies and Central Collections have cancelled about 306,200 accounts totaling more than $296 million, leaving about 637,200 accounts of $475 million. State agencies may cancel accounts for a variety of reasons. In some cases, accounts are cancelled due to placement errors, such as a determination that the debt was invalid. In other cases, agencies not required to use Central Collections have cancelled and recalled large groups of accounts in order to oversee their own collection activities.

From Fiscal Year 1991 through December 2003, the programs utilized by Central Collections have recovered about $142 million. As of January 2004, Central Collections maintained an active portfolio of about 326,600 open accounts worth about $332 million. The table below shows the amount of delinquent accounts placed with Central Collections during each of the past five fiscal years. The amount collected represents total activity on those accounts as of March 31, 2004. In addition, the Judicial Branch has placed about $86.2 million in delinquent accounts for tax offset purposes only. These accounts are not included in the following table because they are not subject to the full range of collection activities typically used by Central Collections.

Central Collection Services **Recovery Rates for** **Accounts Placed During Fiscal Years 1999 – 2003**			
Fiscal Year	**Value of Accounts Placed During Year**	**Dollars Collected as of March 31, 2004**	**Recovery Rate[1]**
1999	$28,913,621	$10,122,338	35%
2000	$28,407,590	$8,940,551	31%
2001	$31,635,599	$7,277,877	23%
2002	$32,553,260	$7,883,137	24%
2003	$38,534,163	$5,517,882	14%
Total	$160,044,233	$39,741,785	25%

Source: Office of the State Auditor's analysis of Central Collection Services data.
[1] Recently assigned accounts have a lower recovery rate because they have not been actively collected as long.

The above table shows, for example, that as of March 31, 2004, about $10.1 million, or 35 percent, has been collected of the $28.9 million placed with Central Collections during Fiscal Year 1999; on the other hand, about $5.5 million, or 14 percent, has been collected of the $38.5 million placed during Fiscal Year 2003. For accounts placed over the past five fiscal years, Central Collections has experienced a total recovery rate of 25 percent.

Although the table indicates that the value of accounts placed with Central Collections has increased since Fiscal Year 1999, an analysis over a longer period shows that the number and value of accounts placed have declined from earlier years. For example, in Fiscal Year 1997 state agencies placed more than 113,500 accounts worth about $71.8 million, while in Fiscal Year 2003 state agencies placed about 46,500 accounts representing a total due of $41.1 million; however, this includes some accounts that have since been cancelled. In terms of the size of accounts, the value of individual accounts placed with Central Collections in Fiscal Year 2003 ranged from $1.00 to $1.4 million; the median account was $110 and the average account was $884. During this fiscal year, the Departments of Higher Education, Corrections, and Labor and Employment, and the Judicial Branch accounted for 91 percent ($37.5 million) of the $41.1 million placed with Central Collections. The

Department of Higher Education alone accounted for 68 percent (31,795 of 46,518) of the total number of accounts placed and 34 percent ($13.9 million of $41.1 million) of the total dollars placed with Central Collections in Fiscal Year 2003.

Collection Efforts

Central Collections uses a variety of methods to collect debts. The various collection activities include:

- **Internal staff collectors.** Central Collections sends demand-for-payment letters, contacts debtors by telephone, performs “skip tracing” activities, and prepares cases for legal action. Skip tracing activities involve locating the names, addresses, and phone numbers of debtors through various data sources including telephone and bank records. The demand-for-payment letters provide debtors with information on their rights under the Colorado Fair Debt Collection Practices Act, Article 14 of Title 12, C.R.S., and detail on the debt, including the amounts owed. Central Collections has access to the Department of Labor and Employment’s database for wage and employment histories as well as to the Motor Vehicle Division’s database for addresses and personal information, such as social security numbers.

- **Private collection agencies.** Section 24-30-202.4, C.R.S., requires that accounts that have been assigned to Central Collections for 90 days with no recoveries be referred to private collection agencies. Central Collections currently has contracts with six private collection agencies. These agencies can attempt to collect debts on accounts for one year, or longer if they can establish collection activity on the accounts. If the agencies cannot collect anything within the one-year period, the accounts are returned to Central Collections for possible placement with another private collection agency.

- **Legal action.** Central Collections and its contracted private collection agencies can take legal action on delinquent accounts. Legal action is used when debtors have attachable assets, such as wages that can be subject to garnishment.

- **Department of Revenue tax offset program.** Central Collections submits all accounts with social security numbers to the Department of Revenue in order to electronically intercept the debtors’ state tax refunds to repay their debts.

The following table shows the source of Central Collections' recoveries for Fiscal Years 2000 through 2003.

Central Collection Services
Source of Recovery Amounts[1]
Fiscal Years 2000 – 2003

Fiscal Year	Internal Collectors	Tax Offset Program	Private Agencies	Legal Action	Total Collected
2000	$6,073,500	$5,417,100	$3,369,900	$326,800	$15,187,300
2001	$5,534,800	$3,424,700	$2,009,600	$419,700	$11,388,800
2002	$5,815,500	$2,285,600	$2,190,300	$211,700	$10,503,100
2003	$6,866,000	$2,858,900	$1,958,600	$425,200	$12,108,700
Total	$24,289,800	$13,986,300	$9,528,400	$1,383,400	$49,187,900
Percent	49.4%	28.4%	19.4%	2.8%	100%

Source: Office of the State Auditor's analysis of Central Collection Services data.
[1]Amounts recovered include payments on debts placed in prior years and include commissions collected on accounts.

As the table above shows, the internal collectors at Central Collections have accounted for almost 50 percent of the total amount recovered from Fiscal Years 2000 through 2003. The totals shown in the table include commissions earned by the various collectors (i.e., the internal collectors at Central Collections, the private collection agencies, and law firms). Depending upon statutory or other legal requirements for specific types of accounts, commissions may be deducted from the assigned amount or added to the assigned amount.

Revenues and Expenses

The annual appropriations for Central Collections are based upon the agency's need, and the revenues are generated from collection fees. Section 24-30-202.4(3)(e), C.R.S., created the Debt Collection Fund within the State Treasury. According to statute, monies in the fund may be used to "offset a shortfall during the fiscal year in the revenue available to pay for the expenses incurred by the [state] controller in collecting debts owed the state." Statutes also place certain limits on the amount of fund balance that can be retained within the fund at the end of the fiscal year; these requirements are discussed in more detail later in this report.

The following table shows revenue, expense, profit/loss, and fund balance data for Central Collections over the last five fiscal years, as well as FTE appropriations.

Central Collection Services
Summary of Operations and Appropriated Full-Time Equivalent (FTE)
Fiscal Years 1999 – 2003

	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Totals
Collection Fee Revenues	$1,722,947	$2,121,475	$1,443,631	$1,189,509	$1,433,919	$7,911,481
Expenses	$1,333,955	$1,127,452	$1,193,762	$1,288,830	$1,258,605	$6,202,604
Profit/(Loss)	$388,992	$994,023	$249,869	($99,321)	$175,314	$1,708,877
Reversion to General Fund	$320,349	$1,025,824	$109,145	$0	$44,271	$1,499,589
Fund Balance	$344,828[1]	$313,027	$453,751	$354,430	$485,473	
Appropriated FTE	19	18	18	18	18	

Source: COFRS reports and Long Bill Appropriations.
[1] Fund balance at the beginning of Fiscal Year 1999 was $276,185.

As shown in the table, Central Collections' total collection fee revenues exceeded total expenses by about $1.7 million during this five-year period. However, in Fiscal Year 2002, Central Collections' expenses were greater than collection fee revenues.

Administration

Chapter 1

Background

As of January 2004, Central Collections administers an active portfolio of 326,600 debts totaling about $332 million owed to the State. To carry out its duties, Central Collections should have internal controls that ensure the database of assigned debts is accurate and complete, debtor payments are accurately posted to the correct accounts, and amounts collected are distributed to the appropriate state agencies. We reviewed the internal controls and procedures over operations at Central Collections and identified a number of areas in which improvements need to be made, as discussed below.

Processing of Debtor Payments

Debtors pay account balances in a variety of ways. Central Collections accepts payments in cash, checks or money orders, and credit cards; payments are received through the postal mail, through a bank lockbox, over the telephone, or in person at the Central Collections office. The primary methods used to post payments are manually by Central Collections staff and through the lockbox system.

In 1991 Central Collections began using the Columbia Ultimate Business Systems (CUBS) as its internal debt collection information system. CUBS was specifically designed to provide government agencies with a system to track, manage, and recover delinquent accounts. It allows collectors and administrative staff to manage accounts through alternative actions such as sending letters, scheduling follow-ups, requesting credit reports, assessing fees, and applying payments. When a payment is posted into CUBS, the payment must be divided into its component parts, such as the principal, assigned interest, accrued interest, collection cost, and penalties. Further, the appropriate collection fees must be deducted from the payment. Assigned interest represents the interest charged to an account before it is placed with Central Collections, while accrued interest is the amount added to an account after the placement date. At the end of the month, CUBS generates a monthly statement that lists the amounts collected and owed to the various state agencies that have submitted accounts for collection. Administrative staff disburse monies collected each month using either a warrant or interagency transfer based on the agency's preference.

During Fiscal Year 2003, Central Collections received and posted about 121,000 transactions worth $12.5 million. This includes monies collected by the private collection agencies. About 51,000 transactions (42 percent) were checks and money orders received and processed by Central Collections staff; 5,000 transactions (4 percent) were cash, payments by phone, and credit cards also processed by Central Collections staff; 27,000 transactions (23 percent) were processed through the lockbox system; and 38,000 transactions (31 percent) were from the tax offset process through the Department of Revenue. We reviewed the processes Central Collections uses for posting payments from debtors and found problems both with payments processed by Central Collections staff and those received through the lockbox system.

Posting by Central Collections

We found that Central Collections does not have adequate controls to ensure that the payments are accurately posted to the correct debtor accounts in CUBS. This is especially problematic due to the large volume of payments Central Collections processes.

We sampled 25 cash deposits processed by Central Collections staff during Fiscal Year 2003 to determine if the payments were posted properly. We selected 5 payments from each cash deposit, for a total of 125 payments, to test whether posting by Central Collections staff was accurate on the basis of the related supporting documentation. We identified the following problems:

- **Quality of supporting documentation.** We found instances where we could not determine if posting was correct based on the supporting documentation maintained by Central Collections. In 3 of the 125 payments (2 percent), the debtor account number or other identifying information was not written on the photocopied payment instruments. Additionally, when we tested the 25 cash deposits to determine if the individual payments support the cash deposit amounts, we identified 20 payments where the supporting documentation was not legible. Specifically, the photocopies for these 20 other payments were too dark to read important information, such as payment amounts or debtor account numbers. In addition to possible posting errors, this means that supervisors cannot perform meaningful review to ensure that staff are posting information accurately.

- **Delay in posting.** We found one check payment in the Central Collections files received in March 2003 that had not been posted to the debtor's account as of November 2003. The debtor's account was not established at Central Collections before the payment was received. Central Collections could not explain the delay in establishing the account and posting the payment. This indicates that Central Collections' reconciliation procedures for cash deposits and postings made to accounts are not adequate, which increases the risk of errors and fraud. Reconciliation procedures are discussed later in this chapter.

In addition to testing these payments and cash deposits, we tested 63 payments from payment vouchers and interagency transfers as well as 50 payments received at the private collection agencies, for an overall sample of 238 payments of various types, in order to determine the accuracy of commission rates charged on amounts collected. We found that Central Collections does not consistently apply the correct commission rate to payments received on delinquent accounts. Collection fees and commission rates are described later in this chapter. During our review of the 238 payments, we found 40 errors related to incorrect application of fees:

- 25 instances (11 percent) where collection fees were inconsistently applied to various payment fields. For example, a cash payment made to one account had collection fees of almost 20 percent applied to accrued interest; this account was placed with Central Collections in Fiscal Year 2003 and only 15 percent in fees should have been applied to the payment. In another instance, 100 percent in collection fees was applied to a tax offset payment for a bad check account; Central Collections staff report that no collection fees should be applied to accounts with charges from bounced checks, because the full charges should be remitted to the state agency.

- 15 instances (6 percent) where the percentage charged for collection fees was incorrect. In 13 instances (5 percent), the percentage charged was too high and in 2 instances (1 percent) the percentage was too low.

The problems we identified with posting payments and charging commissions accurately are the result of the lack of adequate formal policies and procedures for these processes at Central Collections. While administrative staff responsible for posting payments to debtor accounts have received on-the-job training, we found that they have not received formal training on the posting processes and they use incomplete and outdated reference materials. Specifically, the transaction code chart used to post payments to CUBS is incomplete. The chart enables staff to determine what codes to use in order to identify the types of payment (e.g., state payment, tax offset, or private agency payment) as well as the payment fields (e.g., principal, assigned interest, accrued interest, collection cost, or penalties). We identified eight additional codes that are used by staff, such as payments made by wage garnishment, overpayment refunds, and adjustments to legal judgments; however, these codes are not listed on the transaction code chart. Staff should have adequate training and complete reference materials to ensure consistent application of policies and procedures. Weaknesses in these internal controls over posting of payments increase the risk of errors and the potential for fraud.

Lockbox System

The lockbox system is intended to automate the posting of payments to debtor accounts. Debtors send payments to a bank lockbox via the postal mail; in turn, lockbox staff at the bank process the payments and create an electronic file that is accessed by Central Collections staff for posting to CUBS. In Fiscal Year 2003, lockbox transactions represented $1.6 million of the $12.5 million in posted transactions. According to the Department of Treasury's bank records, the lockbox used by Central Collections costs the State about $630 per month, or about $7,560 per year.

Lockbox systems are intended to streamline the payment and posting process for customers and to improve controls over cash receipts by having payments handled by a third party. However, we found that the lockbox used by Central Collections has several limitations:

- **The lockbox is unable to automatically post all payments received.** The lockbox stops downloading payments into CUBS when it experiences certain problems, such as no identifiable debtor account number on the payment instrument. Central Collections staff must research the errors and then manually post the payments. We tested the lockbox transactions for September 2003 and determined that Central Collections administrative staff had to manually post 15 percent (168 of 1,108) of the individual check payments made through the lockbox for that month.

- **Lockbox auto-postings are not always accurate.** The lockbox has applied an incorrect commission rate to payments. We tested 19 lockbox payments in Fiscal Year 2003 and found seven errors (37 percent) in which the lockbox applied the wrong commission rate. In five of these seven instances, the lockbox applied more in collection fees than is permitted for payments on accrued interest. The lockbox also has problems recognizing debtor accounts that have been referred to the private collection agencies. In another of the above instances, the lockbox system applied Central Collections' commission rate of 15 percent rather than the private agency's rate of 19 percent, for a difference of about $5.00. In such cases, the private agencies are negatively impacted because Central Collections only remits to the private agency the 15 percent actually applied by lockbox; Central Collections does not adjust the rate charged and pay the private agency the higher, contracted rate. The 37 percent error rate identified for this sample is unacceptably high and indicates a problem with controls over this process. These payments are automatically downloaded into CUBS, and Central Collections does not have adequate procedures in place to identify erroneous commission rates.

- **The lockbox cannot process credit cards.** Debtors send an average of 60 credit card payments to the lockbox each month. The bank then mails the payments to Central Collections. This adds time to the posting process because it requires Central Collections staff to manually post the payments. This can delay the receipt of payments by the State up to one week. However, according to Treasury staff, the lockbox is capable of processing credit cards after an account is established with the bank.

In addition to addressing problems with posting payments and charging commissions for transactions received directly, Central Collections should reassess the use of the lockbox system to determine if it is a useful tool in streamlining the posting of payments, given the limitations of the system. In its assessment, Central Collections should determine if these limitations can be fixed or adequately mitigated, or if the use of the lockbox should be discontinued. Accurately posting payments received and charging appropriate collection fees are part of Central Collections' core responsibilities, and it should have adequate controls to ensure these activities are performed properly and in a timely manner.

Recommendation No. 1:

The Department of Personnel & Administration should ensure payments are posted to Central Collections' debtor accounts accurately and timely by:

a. Improving controls to ensure that payments are processed correctly and that supporting documentation is adequate to demonstrate postings are appropriate.

b. Evaluating both the lockbox and the manual posting procedures to identify if the processes can be improved and streamlined. If the decision is made to continue the use of the lockbox, additional controls should be implemented to ensure commissions are charged accurately.

c. Providing formal training to staff on the posting of payments to delinquent accounts and ensuring that all policies, manuals, and reference materials used by staff are complete and current.

Department of Personnel & Administration Response:

Agree. Implementation Date: October 2004.

The Department will review existing processes and procedures to determine the most effective and efficient method for ensuring payments are posted to the correct accounts. Specifically the Department will evaluate existing controls, review the lockbox process, investigate posting options in CUBS, and maintain adequate supporting documentation.

Central Collections is in the process of developing a comprehensive policy and procedures manual from which we will train staff.

Commission Rates

As mentioned in the Overview section, Central Collections charges fees for its collection services, and the General Assembly appropriates cash funds derived from these fees for the administration of Central Collections. Section 24-30-202.4, C.R.S., does not include language regarding the assessment or collection of fees. However, the Department of Personnel & Administration has established the Accounts Receivable Collections Administrative Rule, which states that the costs of Central Collections' recovery efforts shall be added to all debts due the State as required or permitted by law or agreement with the debtor. Further, the Administrative Rule requires that Central Collections charges state agencies the "estimated costs" of collection. The Division of Central Services, where Central Collections was located until January 2002, set the current commission rate at 15 percent of the dollars collected in Fiscal Year 2001, and Central Collections recovers its costs by charging this fee on delinquent accounts placed for collections. Central Collections either takes the collection fees out of the amount collected on the account or adds the fees onto the assigned amounts, as summarized below:

- **Accounts with no collection fees added.** The majority of state agencies place accounts without any collection fees added to the assigned amounts. In these cases, Central Collections deducts the commission fee from the amount collected from the debtor. During Fiscal Year 2003 there were about 34,000 accounts with no additional collection fees assigned to Central

Collections; Central Collections deducted about $433,000 in collection fees from these types of accounts.

- **Accounts with collection fees added.** Four state agencies are statutorily required to add collection fees to the assigned amounts for certain types of delinquent accounts. The Department of Corrections and the Judicial Branch are required to add collection fees for all accounts; the Department of Labor and Employment is required to add collection fees for delinquent Unemployment Insurance overpayments and taxes; and higher education institutions are required to add collection fees for federal Perkins student loan accounts. For most Labor and Employment and Judicial accounts, Central Collections staff manually add collection fees on the accounts. For Corrections and the federal Perkins student loan accounts, the agencies add collection fees prior to placing the accounts with Central Collections.

  In the case of accounts with collection fees added, the debtor's account balance is increased to include the collection fees. During Fiscal Year 2003 there were about 12,500 accounts with collection fees added that were assigned to Central Collections; Central Collections collected about $259,000 in collection fees from these types of accounts.

As part of our audit, we reviewed the basis on which Central Collections was charging commission fees for both types of accounts. As discussed earlier, we tested a sample of 238 out of the approximately 69,000 payments made by debtors in Fiscal Year 2003 to determine if payments received by Central Collections and paid to state agencies were processed correctly and if Central Collections had implemented appropriate internal controls to ensure revenue is recorded accurately. In addition to the 40 errors described in the previous section, we found 22 instances in which agencies may have inappropriately added collection fees to debtor accounts. The problems related to these 22 items, as well as other concerns identified during our testing are discussed in detail in the following three sections.

Appropriateness of Collection Fees

In 1994 Central Collections asked the Attorney General's Office whether the State may generally recover its collection expenses from debtors. An assistant attorney general responded with an informal opinion that the recovery of debt collection expenses from the debtor is permissible only if specifically allowed by statute or *by prior written agreement with the debtor*. According to the Attorney General's Office, Section 24-30-202.4, C.R.S., authorizes the State Controller to collect debts on behalf of the State; however, the statute does not generally authorize the State to recover collection fees in addition to the amount owed from the debtor. Furthermore, the Colorado Fair Debt Collection Practices Act in Section 12-14-108, C.R.S., states that the collection of any amount, including interest, fee, charge, or expense, incidental to the principal obligation cannot be collected unless such amount is expressly authorized by the agreement creating the debt or permitted by law.

Central Collections maintains a list of state agencies that are authorized by statute to add-on collection fees. However, we identified several accounts with collection fees added that were not on the list maintained by Central Collections. Further, we found that Central Collections does not have adequate information to determine if these accounts with collection fees added are authorized by prior written agreement with the debtor. We identified several agencies that added on collection fees when assigning accounts to Central Collections, although they do not have specific statutory authority to do so; nor is Central Collections aware of a prior written agreement with the debtors covering the addition of collection fees to the debt. For example, during our review of 238 payments, we found 22 instances from 11 different agencies or institutions in which collection fees were added to the accounts, although there was no statutory authority to add on the collection fees or documentation of a prior written agreement with the debtor concerning these fees. In our sample the unauthorized accounts with added collection fees resulted in about $670 more in collections than allowed under statutes, or an average of about $31 per account. In addition to resulting in the collection of unauthorized fees, this practice can result in inequities. For example, a student at one institution can pay more than a student at a different institution for the same amount and type of debt.

Central Collections needs to ensure that it is charging fees only as provided in statutes. Central Collections staff can identify accounts that are placed with collection fees added because the fees are a separate entry on the account placement form used by state agencies when turning over accounts and in the CUBS database. In order to ensure compliance with state laws with respect to charging collection fees in addition to the debt owed, Central Collections should require that state agencies document the basis for adding their collection fees, such as the statutory reference or copy of the agreement with the debtor. Central Collections should collect added collection fees only on accounts where appropriate support is provided.

Alternatively, the Department of Personnel & Administration should consider seeking statutory authority to add collection fees to all debts owed to the State. This would simplify the administration of the commission fee and enable all state agencies to potentially be reimbursed for the total debt assigned for collection.

Recommendation No. 2:

The Department of Personnel & Administration should ensure Central Collections charges collection fees in accordance with statutes by:

a. Requiring that state agencies provide documentation stating their authority to add-on collection fees to account assignments.

b. Considering requesting statutory authority to add collection fees to all debts owed to the State.

Department of Personnel & Administration Response:

Agree. Implementation Date: December 2004.

The Department implemented a "Truth in Rates" philosophy for Fiscal Year 2004 to ensure that rates for each DPA service accurately reflect the cost of providing the service. In accordance with the "Truth in Rates" initiative, the Department now annually reviews all rates and fees, including Central Collections fees. This effort will include a review of statutory authority for add-on collection fees as suggested by the audit. The Department will pursue statutory revision, if deemed necessary.

Rate Charged on Accounts With Fees Added

We identified a second concern related to how Central Collections charges commission fees. Specifically, for the accounts with *no* fees added to the assigned amount, we found that Central Collections calculates its 15 percent fee *on the amount assigned* and deducts its collection fees from the assigned amount. For example, if Central Collections is assigned an account worth $100 and recovers $100 from the debtor, it deducts $15 in commission fees and remits $85 to the state agency.

For accounts with fees added to the assigned amount, we found that Central Collections increases the commission rate to 17.65 percent of the assigned amount, which allows it to earn 15 percent *on the total amount collected* ($17.65 ÷ $117.65 = 15 percent). For example, if Central Collections is assigned an account worth $100, the account would have $17.65 added for collection fees and the debtor would be responsible for $117.65 rather than $100. If Central Collections recovers the

$117.65 from the debtor, it deducts $17.65 in commission fees and remits $100 to the state agency.

According to management, Central Collections began adjusting its commission rate in the early 1990s for accounts with collection fees added in order to earn 15 percent of the total amount collected, including collection fees, as compared to earning 15 percent of the principal assigned. However, the Administrative Rule does not explicitly give Central Collections authority to adjust its commission rate for accounts with collection fees added. In fact, Central Collections management was unable to provide any authority for the adjusted commission rate for accounts with collection fees added. This practice resulted in an additional $72,300 collected from debtors on accounts placed during Fiscal Year 2002.

Unless Central Collections can justify charging a higher commission rate on certain types of accounts due to higher costs of recovery efforts, collection fees should be uniform and the method for applying the commission rate should be consistent across the various types of delinquent accounts. The Department should discontinue applying the commission rate to the entire amount collected for accounts with fees added and rather calculate the collection fee on the assigned amount of the debt.

Recommendation No. 3:

The Department of Personnel & Administration should charge a uniform commission rate using a consistent methodology for all accounts, regardless of whether collection fees are added to or deducted from the amount assigned.

Department of Personnel & Administration Response:

Agree. Implementation Date: October 2004

As stated in response to Recommendation No. 2, the Department now reviews rates annually and will re-evaluate the methodology used to determine Central Collections fees. The new rates will be communicated to all stakeholders. .

Collection Fees on Recalled Accounts

We found that Central Collections does not always apply the correct collection fees to debts that are recalled from private collection agencies. CUBS automatically adjusts accounts with collection fees added when they are referred to the private collection agencies in order to reflect the commission rates at these agencies. Most of these adjustments result in increases to account balances because four of the six private agencies have higher commission rates than Central Collections. However, we found that when these accounts are recalled from the private agencies by Central Collections, the collection fees are not subsequently reduced to reflect Central Collections' commission rate. Staff report that CUBS does not have the capability to readjust the collection fees when the account is recalled. As a result, Central Collections generally recovers additional revenue from the recalled accounts due to the higher commission rates at the private agencies.

While CUBS may lack the ability to automatically change commission rates when accounts are recalled to Central Collections, staff are aware when these accounts are returned. Central Collections should establish procedures to ensure commission rates are properly adjusted for recalled accounts to ensure that it is not collecting fees in excess of its contractual agreements.

Recommendation No. 4:

The Department of Personnel & Administration should implement necessary controls to ensure collection fees charged to delinquent accounts that are recalled from the private collection agencies are accurate and appropriate.

Department of Personnel & Administration Response:

Agree. Implementation Date. October 2004.

In March 2004, the Department created a process to recalculate collection fees when the account is recalled from the private collection agencies. The Department will continue to monitor these accounts and ensure collection fees are correct and will document changes to the process in the procedures manual.

Review of Commission Rate

As described in the Overview, from Fiscal Years 1999 through 2003 Central Collections collected fees of about $7.9 million to cover costs of about $6.2 million, which resulted in a net profit of about $1.7 million. According to the Administrative Rule, Central Collections should charge the estimated costs of collection. The

Division of Central Services, where Central Collections was located until January 2002, set the commission rate at 15 percent on the basis of a cost analysis performed in June 2000. Central Collections has charged 15 percent commission since July 2000. The Department of Personnel & Administration has not evaluated the commission rate used at Central Collections for nearly four years.

Good business practices require that management periodically review its fees to ensure they are appropriate. Specifically, the $1.7 million in net profits from the last five fiscal years represents about 21.6 percent of fees collected and about 27.6 percent of the expenses in that period, which suggests that the commission rate currently charged may be unnecessarily high. The Department should establish a basis for determining the reasonableness of the commission rate and implement a policy that requires a reevaluation of the rate charged on a regular basis.

Recommendation No. 5:

The Department of Personnel & Administration should establish a basis for determining the reasonableness of Central Collections' commission rate and periodically review the commission rate structure to ensure that commission rates are appropriate in relation to the cost of operations.

Department of Personnel & Administration Response:

Agree. Implementation Date: October 2004.

As stated previously, the Department now reviews rates and fees annually, including Central Collections fees, as part of the recent "Truth in Rates" initiative.

Management of Private Collection Agencies

Section 24-30-202.4, C.R.S., requires that delinquent accounts assigned to Central Collections be transferred to private collection agencies no later than 90 days after receipt unless Central Collections is "in the process" of recovering the account. The statute defines claims in the process of collection as debts on which payments have been made or promised, or on which a lawsuit has been brought.

Central Collections currently contracts with six private collection agencies to recover delinquent accounts. Under Section 24-30-202.4, C.R.S., contracts for collection services cannot exceed three years. Central Collections completed negotiations for the most recent contracts with private agencies in January 2003 for performance through January 2006. The following table shows accounts that have been forwarded to the private agencies for the period Fiscal Year 2001 through December 2003.

Central Collection Services
Accounts Forwarded to Private Collection Agencies
Fiscal Year 2001 – December 2003

Fiscal Year	Accounts Forwarded	Amounts Forwarded	Accounts With Payments[2]	Amounts Collected[2]	Recovery Rate
2001	21,100	$25,545,600	2,513	$1,075,600	4%
2002	18,318	$25,995,300	2,350	$1,036,200	4%
2003	12,778	$23,187,200	5,083	$723,500	3%
2004[1]	8,226	$14,088,500	1,432	$657,800	5%

Source: Office of the State Auditor's analysis of Central Collection Services data.
[1] Represents data through December 2003, or the first six months of Fiscal Year 2004.
[2] Amounts collected are from the specific accounts assigned within that fiscal year.

We reviewed Central Collections' compliance with statutory requirements regarding the transfer of delinquent accounts to private collection agencies for Fiscal Year 2003. Additionally, we evaluated Central Collections' management and oversight of the private agencies. We found problems with the timing of Central Collections' transfers and the remittance of payments.

Timing of Transfers

We found that Central Collections does not always transfer accounts to the private agencies in accordance with the statutory requirements. First, according to statute, Central Collections must refer accounts not in the process of collection to private agencies no later than 90 days after receipt. However, the current contracts stipulate that debts will be referred by Central Collections bimonthly, or twice a month. This allows Central Collections' collectors to work some accounts up to two weeks past the statutory deadline. In our sample of 50 accounts, we found that accounts were forwarded, on average, 109 days after placement with Central Collections. In addition, we found one account that had not been transferred until 364 days after the account was marked to be forwarded; Central Collections did not have any documentation to account for this delay. In order for the accounts to be referred in accordance with statute, Central Collections must forward accounts to the private collection agencies on a daily basis. The Department of Personnel & Administration should seek statutory change if it determines that the current statutory requirement for forwarding accounts is not feasible.

Second, Central Collections does not comply with the 90-day requirement for certain types of accounts. Specifically, Central Collections staff adhere to a 1994 internal memo that states delinquent Unemployment Insurance tax accounts from the Department of Labor and Employment should not be forwarded to the private agencies until 180 days after receipt, which is twice the statutorily allowable period. As discussed in Chapter 2, although the Department of Labor and Employment is statutorily exempt from the requirement to use Central Collections for overpayments of Unemployment Insurance, it has executed a Memorandum of Understanding (MOU) for the collection of delinquent Unemployment Insurance tax accounts. The MOU states that Central Collections shall adhere to all applicable federal and state laws. As stated earlier, Section 24-30-202.4(2), C.R.S., requires Central Collections to forward accounts to the private collection agencies 90 days after placement unless they are in the process of being collected. As such, these accounts should not be held at Central Collections beyond the statutorily allowable 90 days.

Third, we found that some accounts are not forwarded to the private agencies because of actions taken by collectors at Central Collections. The collectors can place accounts on hold or work payment plans to constantly update the promised payment dates, both of which CUBS recognizes as claims in the process of collection; thus, the accounts will not be forwarded to the private agencies. In our sample of 50 accounts sent to the private agencies, we found four instances in which accounts without subsequent payments were initially retained at Central Collections longer than statutorily allowable. These accounts were not in the process of collection as defined by statute and received no payments during the period when they were not forwarded. Central Collections management report that there are no controls or supervisory reviews over staff decisions to extend the period of time an account is held before being forwarded to a private agency. Not forwarding accounts to private agencies in a timely manner could result in lower overall collections for the State.

Remittance of Payments Collected

The private collection agencies remit gross monies collected to Central Collections (i.e., 100 percent of the total amount collected, including the private agency collection fees) in accordance with their contracts. At the end of each month, Central Collections administrative staff post payments to accounts in CUBS, apply the private agencies' commission rates, and return the collection fees to the private agencies in the form of a warrant. According to management, Central Collections prefers gross remittance because it believes this provides better control over the application and collection of fees. However, the Administrative Rule specifically states that private collection agencies must remit *net* proceeds of debts collected to Central Collections. If Central Collections believes that gross proceeds should be the basis for payments from private agencies, it should work with the Department of Personnel & Administration to revise the Administrative Rule accordingly.

In addition, Central Collections has not established adequate controls to ensure that transfers of monies collected by the private collection agencies are occurring at the scheduled times. For the three months between April 2003 and June 2003, Central Collections was not always receiving bank transfers for monies collected by three of its six private agencies. According to Central Collections management, this was due to problems with the banks involved performing routine "sweeps" of the accounts when forwarding the money to Central Collections. As a result, over these three months about $117,600 was not transferred into the Central Collections' operating account maintained by the State Treasury. At that time, Central Collections' policy was to allow each of the private collection agencies to open separate bank accounts for monies collected on state accounts. The monies were to be transferred to the Central Collections' account at the State Treasury, along with corresponding supporting documentation. Central Collections staff were aware of the problem with the transfers in the Spring of 2003 and continued to remit collected monies to the state agencies and collection fees to the private collection agencies during this three-month period, despite the fact that Central Collections had not actually received all of the related payments from the private collection agencies.

However, as of January 2004, Central Collections required each of the private collection agencies to open an account at the State's bank. This should enable staff at Central Collections and the Treasury to better monitor the deposits into the private collection agencies' accounts and ensure that timely transfers are made to Central Collections. Central Collections staff should have reconciliation procedures in place to verify that all monies deposited by the private agencies are routinely transferred into the Central Collections' account at the State Treasury. However, even though the private collection agencies began using the new bank accounts in January 2004, we found that as of May 2004 there was almost $190,000 remaining in the bank accounts previously used by two of the private collection agencies. Central Collections did not ensure that the monies in all preexisting bank accounts were accounted for and reconciled.

The Department of Personnel & Administration should ensure that activities with private agencies are appropriately managed and adhere to statutory and other requirements.

Recommendation No. 6:

The Department of Personnel & Administration should ensure that Central Collections complies with statute and the Accounts Receivable Collections Administrative Rule covering the use of private collection agencies by:

a. Ensuring that delinquent accounts are forwarded to the private agencies in accordance within time frames stipulated in state law or seek statutory change if the current requirement is not feasible.

b. Working with the private collection agencies to determine the most efficient and appropriate method of remitting proceeds to the State and resolving conflicts with the Accounts Receivable Collections Administrative Rule as appropriate.

c. Establishing reconciliation procedures to verify and ensure that monies collected by the private agencies on behalf of the State are transferred into the Central Collections' account at the State Treasury on a regular basis. In addition, Central Collections should resolve any remaining outstanding balances due from the private agencies.

Department of Personnel & Administration Response:

Agree. Implementation Dates: a. September 2004. b. November 2004, except rulemaking if necessary will be completed by March 2005. c. June 2004.

a. The Department believed that the 90-day statutory ceiling did not apply to those accounts that were not mandatorily referred to Central Collections. The Department will work with the Attorney General's Office to clarify its responsibilities. We will then update the MOU's as appropriate.

   The 90-day statutory ceiling may not be feasible with respect to some types of accounts. At this time, the Department believes that obtaining some statutory flexibility may be the preferable course of action. The Department will evaluate whether statutory changes in this area are warranted and proceed accordingly.

b. The Department will review applicable guidelines to ensure best practices are utilized. This will include evaluating Net vs. Gross remittances and will determine which method provides the best solution for the State. The Department will revise the Accounts Receivable Rule as required to conform to the adopted procedure.

c. In order to ensure funds are received timely and consistently, each private agency has been assigned a specific account with BankOne. These accounts automatically transfer balances to the State Treasury on a weekly basis. The Department is working to reconcile and will recover any outstanding balances due.

Supporting Documentation

We found that neither the private agencies nor Central Collections had adequate controls over supporting documentation for payments received from debtors. We visited the two Central Collections' contracted private collection agencies that have offices in Colorado. We found that these agencies do not retain any supporting documentation for the payments made on state accounts. Although the private agencies receive documents, such as checks, that they use to post payments against an account's balance, the agencies do not make copies of the documents for their records. Thus, we were unable to determine if payments received by the private collection agencies had been posted to the proper accounts in the correct amounts. The contracts with the State do not specifically require that the private agencies retain supporting documentation of the payments. Because Central Collections did not include specific language in the contracts regarding supporting documentation for payments, there may be an increased risk of fraud in posting payments to debtor accounts at the private collection agencies.

Furthermore, at the Central Collections office, we observed that there was not an adequate filing system to archive the supporting documentation for delinquent account activity (e.g., payment instruments and CUBS reports). The records are loosely organized in boxes stacked throughout the office. In addition, the cash receipt documents are not attached to the appropriate supporting documentation. As a result, Central Collections was unable to initially locate 12 of 25 cash receipts and/or supporting documentation for the sample we tested. The Department of Personnel & Administration Executive Office subsequently found the missing documents in its files.

It is clear that Central Collections lacks an organized and complete document storage system. In addition, by not requiring private collection agencies to retain supporting documentation on payments, Central Collections does not have the necessary information for responding accurately to inquiries from state agencies and debtors.

Recommendation No. 7:

The Department of Personnel & Administration should implement adequate record retention procedures at Central Collections for activity on delinquent accounts owed to the State by:

a. Requiring that private collection agencies retain adequate support to document payments received on state accounts.

b. Ensuring that Central Collections utilizes and maintains an organized and complete document storage system to account for all transactions.

Department of Personnel & Administration Response:

Agree. Implementation Date: October 2004.

The Department will evaluate industry standards and state record retention requirements and determine the appropriate documentation that should be retained both by private collection agencies and Central Collections. The Department will amend the contracts with the private collection agencies and internal procedures as required.

Assignment of Debts

State agencies assign delinquent accounts to Central Collections in various ways: manually by using paper worksheets, electronically through Central Collections' Internet site, or as an email attachment. The following table summarizes the sources of debt assignments in Fiscal Year 2003.

Central Collection Services
Assignment of Debts From State Agencies
Fiscal Year 2003

Source of Assignment	Number of Accounts[1]	Percentage	Amount of Accounts[2]	Percentage
Email attachments	28,967	66%	$14,839,500	33%
Paper worksheets	10,854	25%	$10,541,500	24%
Internet site	3,917	9%	$19,090,300	43%
Total	43,738	100%	$44,471,300	100%

Source: Office of the State Auditor's analysis of Central Collection Services data.
[1] This table excludes data entered manually by Central Collections administrative staff. Therefore, the number of accounts reported is less than data presented in the Overview section.
[2] This table includes duplicate and erroneous assignment amounts that were subsequently adjusted and/or deleted. Therefore, the amount of accounts here is greater than data presented in the Overview section.

Accounts submitted by paper worksheets and on Central Collections' Internet site are converted to electronic files at the Department of Personnel & Administration's Document Solutions Group located in Pueblo and then emailed to Central Collections; accounts submitted as an email attachment are downloaded directly into CUBS. During Fiscal Year 2003 Central Collections paid the Document Solutions Group more than $23,000 for data entry and conversion activities.

We found that some agencies with technological capabilities continue to place accounts manually using paper worksheets. For example, in Fiscal Year 2003 the majority of higher education institutions placed at least some delinquent accounts using paper worksheets. Central Collections should require that agencies submit delinquent accounts electronically to reduce its costs for data entry, minimize the opportunities for data entry errors, and improve reconciliation controls over data transmitted.

Recommendation No. 8:

The Department of Personnel & Administration should require state agencies to submit their delinquent accounts to Central Collections electronically.

Department of Personnel & Administration Response:

Agree. Implementation Date: May 2005.

The Department will revise the process for agencies to submit delinquent accounts to ensure electronic submission. However, it should be noted that exceptions to the electronic submission process may be necessary in certain circumstances.

Monthly Reconciliation Process

Each month Central Collections reconciles monies deposited in the State's bank account and recorded on the State's accounting system, the Colorado Financial Reporting System (COFRS), to debtor payments recorded in CUBS and to remittances made to state agencies and commissions paid to private collection agencies. According to the Department of Personnel & Administration, this helps ensure the accuracy and completeness of amounts recorded in both COFRS and CUBS and ensures that state agencies and private collection agencies receive the payments due to them. As part of this process, staff are responsible for investigating and resolving discrepancies found between the systems, which can occur when transactions have been recorded in one system but not the other (e.g., bounced checks), and for documenting these explanations in the reconciliation report.

We tested Central Collections' June 2003 and November 2003 reconciliation reports for accuracy and completeness and found that Central Collections does not maintain documentation to support each reconciling item listed on the reconciliation report, in addition to other problems listed below.

- In June 2003 Central Collections received 20 deposits totaling about $694,400 and made 679 disbursements totaling about $1.1 million. The June 2003 reconciliation report listed 38 reconciling items. With the assistance of Central Collections staff, we were able to re-create the basis for most of these reconciling items. However, for four items Central Collections staff determined that the amounts in the report were misstated for a net difference of $239.

- In November 2003 Central Collections received 20 deposits totaling about $447,000 and made 246 disbursements totaling about $432,000. The November 2003 reconciliation report listed 29 reconciling items. With the assistance of Central Collections staff, we were able to re-create the basis for most of these reconciling items. However, for six items Central Collections staff determined that the amounts in the report were misstated for a net difference of about $31,700.

As a result of these problems, we were unable to determine that the monthly reconciliations were complete and accurate. We also identified the following issues with the overall reconciliation process:

- **Lack of documented procedures and proper training.** Procedures for the monthly reconciliation process are not documented and only one staff at Central Collections is able to perform the reconciliations. Thus, there is no contingency plan in place in the event of staff turnover or if the staff person performing the reconciliation is absent for some period of time or busy with other duties. In addition, for internal control purposes, the reconciliation should be reviewed on a regular basis by an individual at a higher level than the one preparing the reconciliation to ensure that it is completed properly. Currently the Department's central accounting staff audit one reconciliation report each year. In addition to the annual audit, we believe reviews should be performed on a monthly basis.

- **Inadequate supporting documentation.** Documentation for reconciling items is not maintained in a manner that supports the adjustments identified on the reconciliations. For example, reconciling adjustments based on amount differences from the previous months' transactions are composed of individual transactions that are listed on the standard transaction summary report for the entire month; however, the specific items in the summary that make up the reconciling adjustment are not identified (e.g., checkmarked or highlighted) on the report. Thus, we could not verify the basis for some reconciling adjustments for either of the two reconciliations tested. In addition, lack of documentation means that the previously mentioned review process is time-consuming and not as effective as it should be because it is not possible to easily resolve discrepancies.

- **Backlog of reconciliation reports.** As of April 2004, Central Collections was four months behind in completing its monthly reconciliation report. Central Collections staff are to provide the reconciliation reports to the Executive Office on a monthly basis. As noted earlier, we found a number of posting errors during our testing of transactions. Therefore, errors may have occurred that have not been detected and corrected.

Routine reconciliations are a fundamental control which should be in place to ensure that all cash receipts are accounted for, and that transactions are posted accurately and timely, and to reduce the risk of errors and irregularities. The Department of

Personnel & Administration should take steps to improve controls in this critical area.

Recommendation No. 9:

The Department of Personnel & Administration should improve the monthly reconciliation process between the Colorado Financial Reporting System and Columbia Ultimate Business Systems to ensure that Central Collections accounts for all activity accurately and completely by:

a. Formally documenting the procedures used to perform the reconciliation.

b. Training at least one additional staff member on how to conduct the reconciliation.

c. Ensuring that complete and effective reviews of the reconciliations are performed on a monthly basis.

d. Maintaining documentation with the reconciliation to support all reconciling items identified.

e. Addressing the backlog of uncompleted reconciliations and ensuring they are completed on a monthly basis.

Department of Personnel & Administration Response:

Agree. Implementation Date: July 2004.

The Department will review the monthly reconciliation process and revise procedures as appropriate. This new process will be documented in the Central Collections procedures manual. Employees will be trained to ensure these are completed timely, accurately and adequate documentation is maintained.

Administration of the Debt Collection Fund

Section 24-30-202.4(3)(e), C.R.S., created the Debt Collection Fund in the State Treasury. According to statute, monies in the fund may be used to "offset a shortfall during the fiscal year in the revenue available to pay for the expenses incurred by the controller in collecting debts owed the state." Statutes also require that the fund balance within the Debt Collection Fund at the end of the fiscal year not exceed 25 percent of the annual appropriated budget for Central Collections. Net revenues collected in excess of 25 percent are required to be reverted to the General Fund at the end of each fiscal year.

We found that the Department of Personnel & Administration did not revert the full amount required to the General Fund. Specifically, the fund balance at the end of Fiscal Year 2003 prior to the reversion was $530,000. Based on the statutory requirement, the Department should have reverted about $262,300; the Department reports that due to incorrect interpretation of statute, it reverted only $44,300. Therefore, the Department needs to revert an additional $218,000 to the General Fund. We reviewed the past five fiscal years and found that the Department of Personnel & Administration has not reverted the correct amount to the General Fund at the end of any of these years; however, reverting the correct amount in Fiscal Year 2004 will correct for past problems with the reversion.

Recommendation No. 10:

The Department of Personnel & Administration should ensure that the required statutory reversions are made to the General Fund from the Debt Collection Fund at the end of the fiscal year.

Department of Personnel & Administration Response:

Agree. Implementation Date: July 2004.

The Department will complete the reversions of appropriate funds to the General Fund at the end of each fiscal year in accordance with statutory requirements.

Reporting

We reviewed the information that Central Collections provided to the General Assembly in the Fiscal Year 2005 Budget Request and to the State Controller for inclusion in the annual *Accounts Receivables Report*. The purpose of the *Report* is to show the current status of accounts receivable in the State of Colorado.

We found that the data in the Budget Request and in the *Report* do not accurately represent the total amount of delinquent accounts placed with Central Collections. Specifically, the information does not include the accounts placed by the Judicial Branch for tax offset purposes only. The Judicial Branch placed about $70.5 million with Central Collections from Fiscal Year 2001 through Fiscal Year 2003 for tax offsets only. Even though these accounts do not undergo the same type of recovery effort within Central Collections, we believe they should be included in the Budget Request and the *Accounts Receivables Report* to accurately represent the total amount of delinquent accounts placed.

Further, Central Collections overstated the Fiscal Year 2003 accounts placed by $13 million. One state agency that placed an account with Central Collections had incorrectly entered the value of the account as $13 million rather than $130. Although Central Collections later adjusted the account to the correct amount in CUBS, it did not correct the data submitted for the Budget Request and the *Accounts Receivables Report*.

Recommendation No. 11:

The Department of Personnel & Administration should ensure that data provided on the activities of Central Collections to the General Assembly and the State Controller's Office are reviewed for completeness and accuracy prior to submission.

Department of Personnel & Administration Response:

Agree. Implementation Date: July 2004.

The Department will ensure information provided by Central Collections is consistent, accurate and complete.

Use of State Resources

We found evidence of both hard copy and electronic pornography at Central Collections and immediately brought it to the attention of management within the Department. Management immediately notified staff at Central Collections to emphasize the need to use state resources appropriately. Additionally, management informed staff that the Department's Executive Director would address strategies for monitoring computer use and preventing abuse. The Department also considered the need for referral to the District Attorney. Computers used by Central Collections staff do not include any monitoring or preventive software to preclude misuse. The Department of Personnel & Administration should implement appropriate controls to prevent future misuse of state resources, including its computers.

Recommendation No. 12:

The Department of Personnel & Administration should ensure Central Collections complies with all state policies on the use of computer resources.

Department of Personnel & Administration Response:

Agree. Implementation Date: June 2005.

The Department requires all employees to sign a statement of compliance relating to the proper use of state assets. In addition, the Department is in the process of evaluating technical tools to monitor for inappropriate electronic activity.

Collection of Delinquent Accounts

Chapter 2

Background

As discussed in the Overview section, Central Collections uses four main methods of collecting delinquent accounts for state agencies: (1) collection work by its own staff, (2) referral of accounts to private collection agencies, (3) interception of state income tax refunds, and (4) legal action on attachable assets. Between the 12-year period from Fiscal Year 1991 through December 2003, these various methods have resulted in recoveries of $142 million. Over the last four fiscal years, the amount recovered has averaged about $12.3 million annually.

Central Collections' internal database, Columbia Ultimate Business Systems (CUBS), identifies the potential for recovery of each account based on various factors including the size of account balance and availability of identifying information on the debtor, such as telephone number, address, and social security number. These accounts identified by CUBS are then "worked" by Central Collections staff. If collection efforts have not resulted in any progress toward recovery within 90 days of assignment, Section 24-30-202.4(2), C.R.S., requires that the account be referred to a private collection agency. Thus, the private agencies work older, more difficult accounts. Additionally, Central Collections sends all accounts with social security numbers to the Department of Revenue for state tax offsets in case the debtor should be eligible for a refund. Accounts determined to have attachable assets are also referred to private law firms in order to file civil lawsuits to obtain judgments, garnish wages and bank accounts, and file judgment liens on real property or place levies on other assets.

Management of Collection Efforts

Effective collection activities are important to the State for several reasons. From a public policy perspective, collection of debts owed to the State helps to ensure that taxpayers are not unfairly penalized through higher fees and taxes as a result of some individuals' failure to pay obligations such as taxes or tuition owed to state schools, or for failure to remit overpayments of unemployment insurance claims. In the case of amounts owed to the courts, collections may be for court fees as well as for the debtor's legal obligation to pay restitution and compensation owed to victims of crime.

From a practical point of view, amounts generated through collection efforts often help fund the activity that originally gave rise to the debt. For example, collections of court fees are used to fund the operations of the State's courts, collections on unemployment overpayments are paid into the Unemployment Insurance Trust Fund to help fund other claims, and collections on federal Perkins Loans are placed into the higher education institution's revolving loan fund for this program. State agencies in which recoveries are used to help fund the agency's activity include estimates of collections on debts as part of their annual request for appropriations. In the case of taxes owed, collections are not retained by the Department of Revenue; these recoveries are paid into the State's General Fund, which is the funding source for the Department of Revenue and for other basic governmental activities such as prisons and education.

There is no standard benchmark against which to measure Central Collections' debt recovery efforts. We found that 7 of the 11 states we contacted did not collect data on recovery rates, and the 4 that collected data reported rates ranging from 2 percent to 30 percent using a variety of methods. According to data from the Association of Credit and Collection Professionals, the national recovery rate for accounts similar to the types collected at Central Collections averaged 28 percent during 2003. Although Central Collections itself has recently begun calculating recovery rates, we think its methodology can be improved. We understand that it is difficult to present a clear and comprehensive picture of the effectiveness of collection efforts. As mentioned in the Overview, we calculated a recovery rate for Central Collections over the past five fiscal years to be about 25 percent for the accounts placed during that period. We discuss recovery rate reporting in Recommendation No. 15.

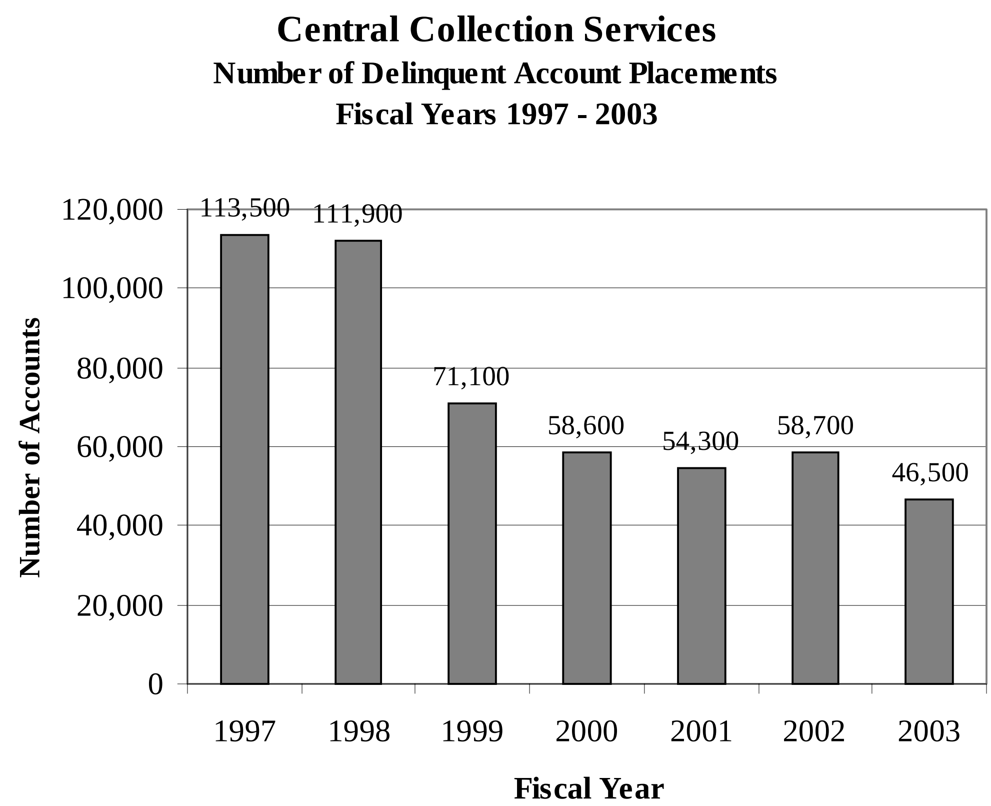
Central Collections' Recovery Operations

Our audit identified a number of problems with Central Collections' operations. Chapter 1 discusses areas where internal controls over basic functions such as posting payments, charging commissions, and transferring accounts to private collection agencies need to be strengthened. This chapter discusses concerns related to Central Collections' ability to assess, monitor, and report on the effectiveness of its recovery efforts; alternatives for structuring the State's collection activities; and ways to expand the State's ability to collect debts.

In addition to the problems identified during the audit with internal controls over operations and with performance assessment, we found that in recent years state agencies with the option under statutes to conduct their own collection activities have stopped placing accounts with Central Collections and have cancelled, or taken back, the accounts placed previously. These agencies now are either conducting their own collections or directly placing accounts with private collection agencies. Because some state agencies can use debt recoveries to fund their activities, they have an incentive to perform their own collections if they believe they can achieve a higher recovery rate than Central Collections. In addition, state agencies performing their own collection effort can save on collection fees, if the function is done in-house. Further, agencies may wish to exercise more control over their delinquent accounts.

Declining Account Placements

We found that the number and dollar amount of accounts placed by state agencies with Central Collections have declined significantly since Fiscal Year 1997. State agencies are required by law to submit delinquent accounts to Central Collections unless they are exempted by either statute or by the State Controller. Since 1996 several large state agencies have either sought or implemented statutory exemptions from the requirement to use Central Collections. The decline in the number of accounts placed from Fiscal Years 1997 through 2003 is shown in the chart below. In terms of the value of accounts, in Fiscal Year 1997 the accounts placed were worth about $71.8 million, and those placed in Fiscal Year 2003 were worth about $41.1 million; the $41.1 million included $2.6 million that have since been cancelled.



Source: Office of the State Auditor's analysis of Central Collection Services data.

The following state agencies have modified their approach for collecting certain types of delinquent accounts:

- Since 1996 the Judicial Branch has had statutory authority to use private collection agencies to collect on past due accounts and has given each court the discretion to either submit accounts to Central Collections and/or use the private collection agencies with which the Branch has contracted. Accounts are placed for collections after all internal efforts have been exhausted, usually within 45 days after the account is past due. During Fiscal Year 2003 the Judicial Branch used the full services of Central Collections for only about 26 percent of its accounts placed with Central Collections during the year. The remaining 74 percent of accounts were placed with Central Collections solely for the purpose of conducting tax offset procedures with the Department of Revenue.

In addition, in May 2004 the General Assembly passed Senate Bill 04-253 that allows the Judicial Branch to perform tax offset procedures directly with the Department of Revenue, rather than sending accounts through Central Collections. As discussed earlier, the Judicial Branch has sent almost 32,200 delinquent accounts totaling about $86.2 million to Central Collections for tax offset purposes only. These accounts had not received regular collection efforts by Central Collections' internal collectors and were not forwarded to the private collection agencies used by Central Collections.

- Senate Bill 91-140 exempted the Department of Revenue from using Central Collections for its debt recovery beginning January 1, 1992. However, the Department continued to use Central Collections for recovery efforts through Fiscal Year 1998. In Fiscal Year 1999 the Department of Revenue recalled all delinquent income tax accounts previously placed with Central Collections and discontinued sending new income tax accounts. The Department reports that it had conducted a study of Central Collections' activity on Revenue accounts and identified concerns about lack of adequate collection efforts and account activity reporting. In addition to other reasons, Revenue reported that Central Collections' internal collectors rarely tried to contact debtors by telephone. Revenue further reported that the Central Collections procedures did not include provisions for any type of telephone contact with the debtors.

- In Fiscal Year 2001 the University of Northern Colorado requested and received from the State Controller an exemption from sending accounts to Central Collections for federal Perkins student loans. Since 1991 the federal Perkins student loans accounted for $3.3 million (or 29 percent) of the $11.6 million in accounts placed by the University. The University continues to assign non-Perkins student loan accounts to Central Collections.

- Beginning in Fiscal Year 2004, the University of Colorado entered into a pilot program with the Colorado Student Loan Program to recover delinquent federal Perkins student loans. Since 1991 the federal Perkins student loans accounted for $6 million (or 32 percent) of the $18.7 million in accounts placed by the University. The University continues to assign non-Perkins loan accounts to Central Collections.

In addition, for Fiscal Year 2005 the Department of Labor and Employment was appropriated six additional FTE for collections of Unemployment Insurance overpayments to augment the efforts of Central Collections. According to the Department's decision item:

> It is critical for the Department to promptly pursue and collect all Unemployment benefit overpayments and return these overpayments to the UI Trust Fund. The Department has determined that a direct collections unit is the most cost-efficient method of recovering overpayments to the UI Trust Fund and collecting penalty payments to the Revenue Fund. Colorado currently collects Unemployment Insurance overpayments, and the resultant penalties, from claimants, utilizing only passive collection techniques and the services of Central Collections.

As discussed below, we found that the Judicial Branch had a higher recovery rate than Central Collections for collecting delinquent accounts. During the audit we asked for information on recovery rates from state agencies responsible for their own collections in order to compare their effectiveness with that of Central Collections. The Judicial Branch was the only agency able to provide recovery rates. We compared the recovery rate for accounts assigned by courts that chose to use Central Collections to recover debts with the recovery rate achieved for accounts assigned by courts to private collection agencies. The results are summarized in the table below.

Central Collection Services
Comparison of Recovery Rates for Collection of Debts Owed to Courts
Accounts Placed During Fiscal Years 2001 – 2003
Collections as of April 2004

	Number of Accounts	Value of Accounts (Millions)	Amount Recovered (Millions)	Recovery Rate
Court Placements With Central Collections	18,000	$17.4	$0.9[1]	5.1%[2]
Court Placements With Private Agencies	99,700	$55.3	$5.4	9.8%

Source: Office of the State Auditor's analysis of data from the Judicial Branch and from Central Collection Services.

[1] **The amount recovered represents principal collected (i.e., no collection fees) from the internal collectors at Central Collections and the private agencies used by Central Collections.**

[2] **Central Collection Services' internal collectors recovered about $612,000, or 3.5 percent, and the private collection agencies used by Central Collection Services accounted for an additional $277,000, or another 1.6 percent.**

As shown in the table, the courts using Central Collections experienced a recovery rate of about 5 percent. This rate is considerably lower than the overall recovery rate of Central Collections shown in the Overview primarily because of the difficulty associated with collecting Judicial Branch accounts, which can include debts from restitution and court fines. In addition, the amount recovered shown in the table above does not include collections resulting from the tax offset program (collections from the tax offset program represent $406,000 for these accounts). The table also shows that the court placements to private collection agencies had a recovery rate of almost 10 percent. Viewed another way, if Central Collections had achieved the same 10 percent rate as did the courts directing their own collections, Central Collections would have recovered about $1.74 million, or about $840,000 more than the $900,000 actually obtained from debtors.

We understand that the collectibility of delinquent debts varies substantially by the type of account. This is demonstrated by Central Collections' recovery rate for the Judicial Branch accounts shown above as compared to the overall recovery rate of Central Collections discussed in the Overview. Further, Central Collections reports that the average size of the accounts placed with Central Collections is larger than those Judicial places with private agencies, which may impact the collectibility of the accounts and the subsequent recovery rate. As such, this comparison cannot necessarily be applied to all accounts placed with Central Collections. However, we believe that the difference in recovery rate demonstrated by the courts' using private collection agencies indicates that state agencies may be more successful at collecting their own accounts. Based on the information from our audit, it appears that the Judicial Branch could increase the collections on its delinquent accounts by discontinuing placement of accounts with Central Collections for recovery.

Assessment of Alternatives

The concerns we identified with Central Collections' operations, the movement toward agencies performing their own collections, and the potential for state agencies to do a better job collecting their own accounts suggest that the State should reevaluate how collections are performed. In particular, consideration should be given to whether it is in the State's best interest to continue to mandate that agencies use the services of Central Collections unless they receive a specific exemption. The Department of Personnel & Administration should take the lead in forming a task force of stakeholders to review the State's existing collection mechanisms and evaluate cost-effective alternatives that could better maximize recovery efforts for delinquent accounts. The task force should include representatives from state agencies including the State Controller's Office and from private collection agencies.

Alternatives that the task force should consider include (all except Option 4 would require statutory change):

- **Option 1: Decentralizing the collection of delinquent debts** by requiring state agencies to manage their own accounts. The State Purchasing Office within the Department of Personnel & Administration could facilitate the decentralized process by maintaining a list of prequalified private collection agencies that state agencies could select from for recovery efforts. State agencies would also be able to refer delinquent accounts directly to the Department of Revenue for tax interception.

- **Option 2: Allowing all state agencies the option of using Central Collections** for debt recovery or contracting directly with private collection agencies. This would eliminate the need for agencies to receive a specific statutory exemption from using Central Collections. Similar to Option 1, State Purchasing would maintain a list of prequalified private collection agencies. This would allow agencies to make their own assessments of whether they believed they have sufficient resources to oversee their own collection activities. For smaller state agencies, continuing to use Central Collections might be a preferred alternative.

- **Option 3: Maintaining Central Collections but changing its role.** Under this option, Central Collections would not perform collections with its own staff but would contract with private collection agencies to handle all delinquent accounts currently referred to Central Collections. Central Collections would be responsible for administering and monitoring the contracts with private agencies, working with the state agencies to ensure accounts are sent to the private agencies in a timely manner, and remitting monies collected to the state agencies.

- **Option 4: Maintaining the existing Central Collections program** in the Department of Personnel & Administration but making improvements identified in this report. This should include assessing additional steps Central Collections could take to maximize the leverage that the State has over individuals. As discussed later in this chapter, Central Collections could coordinate with the Department of Regulatory Agencies to identify debtors who have state-issued professional licenses (e.g., nursing). These debtors would not be able to renew their licenses until they pay their debts owed to the State.

Regardless of the method ultimately selected, the Department of Personnel & Administration needs to measure recovery rates to related performance goals. A strong collections effort is an important contribution to the financial well-being of the State. Even a 1 percent increase in collections for accounts placed with Central Collections from Fiscal Year 1999 through Fiscal Year 2003 would have resulted in additional collections of almost $1.6 million, or about $320,000 each year. The Department of Personnel & Administration should take steps to determine the most efficient and cost-effective manner for the State to conduct collection activities.

Recommendation No. 13:

The Department of Personnel & Administration should convene a task force of public and private stakeholders to evaluate options to maximize the recovery of debts owed to the State. The options considered should include:

a. Decentralizing the collection function by requiring state agencies to manage the recovery of their own delinquent accounts.

b. Allowing state agencies the option to use Central Collections or oversee their own recovery efforts.

c. Discontinuing the use of Central Collections staff for collection activities and using the staff instead to administer contracts with private collection agencies to handle recovery activities for delinquent accounts.

d. Improving the performance of Central Collections by addressing issues identified in this report.

The Department of Personnel & Administration should work with the General Assembly on any necessary statutory changes.

Department of Personnel & Administration Response:

Agree. Implementation Date: December 2005.

The Department will initially focus on implementing the audit recommendations to improve the operation of Central Collections. Once these changes are implemented, the Department will develop a task force comprised of internal and external stakeholders to evaluate the effectiveness of operations and to determine the best structure for collection activities in the State. The task force is projected to complete its work by December 2005.

Customer Satisfaction Survey

As previously discussed, Central Collections has experienced a decrease in business from state agencies. Since state agencies are Central Collections' customers, Central Collections should have an adequate process in place to identify concerns that state agencies have with its collection efforts and take steps to address those areas.

Central Collections management believes that customer service is an important element in measuring its success in providing debt collection services to state agencies. For the past two years, Central Collections has surveyed a limited number of state agencies with the goal of improving its customer service. It developed a questionnaire asking the respondents to rate services on a five-point scale, where one is poor and five is excellent. According to the Department of Personnel & Administration's Fiscal Year 2005 Budget Request, Central Collections' overall rating in Fiscal Year 2003 increased to 3.3 from 2.68 in Fiscal Year 2002. While this is an improvement, it nonetheless indicates that state agencies basically rate Central Collections' services as fair, as opposed to good.

We reviewed the results from Central Collections' customer satisfaction surveys for Fiscal Years 2002 and 2003 and found the following problems. First, Central Collections surveyed a limited sample. Central Collections emailed the survey to 75 (21 percent) of its 350 client agencies. While it sent surveys to at least one representative from its major client agencies, not all client agencies were surveyed. Second, Central Collections received a low response rate. The response rate in Fiscal Year 2003 was 13 percent (10 of 75) of the agencies that received the survey. Therefore, only 3 percent of Central Collections' overall customer base of 350 agencies has provided input on its customer service.

Central Collections staff report that the Division of Finance and Procurement within the Department of Personnel & Administration will administer the customer satisfaction survey for Fiscal Year 2004. The Division should improve future customer satisfaction surveys by giving all of Central Collections' client agencies the opportunity to respond regarding its management and collection efforts, and using the feedback to improve operations. Making the survey available on Central Collections' Internet site could be one way to obtain more input from agencies.

Recommendation No. 14:

The Department of Personnel & Administration should ensure that all agencies that place accounts with Central Collections have an opportunity to respond to the customer satisfaction survey, report the results to the General Assembly, and use the feedback to improve services.

Department of Personnel & Administration Response:

Agree. Implementation Date: March 2005.

The Department incorporated customer service survey metrics in the Department's budget document in 2002. Since this initial survey, we have continued to make improvements to the survey instrument and process.

This year's survey response rate was double that of last year. The Department is proud of the customer service improvements made by Central Collections compared to previous years. Central Collections continues to emphasize customer service improvement despite the challenges of having a portfolio size for individual collectors that the State Auditor found was significantly larger than comparably sized private agencies.

The Department will incorporate the suggested improvements of the audit report in the next customer survey.

Recovery Rate Reporting

According to its Fiscal Year 2005 Budget Request, Central Collections has adopted the recovery rate of debts owed to the State as its primary performance measure. However, Central Collections' methodology for calculating this rate has been applied somewhat inconsistently over the last four years, and more importantly, the method used has not resulted in a meaningful measurement of Central Collections' performance. We found the following problems with the recovery information contained in the 2005 Budget Request.

The recovery rate includes collection and cancellation totals on accounts that were placed in previous fiscal years; however, Central Collections compares these totals with accounts that were placed only for that fiscal year. The calculation is illustrated below.

$ collected in one year, regardless of when related debtor accounts were placed
$ of accounts placed in that year less $ of accounts cancelled[1] in that year
[1] Cancelled accounts may have originally been placed in prior years.

There are two problems with this method of calculating the recovery rate. First, it does not specifically indicate how successful Central Collections has been with recovering particular debts. We found that the calculation method used by the two private agencies we contacted was designed to provide information on the recovery of accounts placed at a particular point in time and could be further broken down by accounts placed by particular customers. In this way, the private agencies are able to demonstrate how successful their efforts have been on behalf of each customer for specific batches of accounts placed. Second, because of the volume of accounts placed in earlier years that state agencies have taken back, or cancelled, Central Collections' calculation method could overstate the recovery rate. While the impact of cancelled accounts can vary greatly from year to year, Fiscal Year 1999 data can be used to illustrate how misleading recovery rates reported using Central Collections' method can be. During Fiscal Year 1999 the Department of Revenue and University Hospital cancelled and recalled 55,500 accounts worth almost $27 million that had been placed with Central Collections in prior years. If Central Collections had used its current calculation method, it would have reported a recovery rate of 233 percent for Fiscal Year 1999 due to the large number of cancellations.

To demonstrate the effectiveness of its recovery efforts to the General Assembly and to specific state agencies, Central Collections should develop a more meaningful method of calculating its recovery rate and use this performance measure to monitor and improve operations. Calculating the rate based on the dollars collected over time as a percentage of the value of the original related debtor accounts placed during a specific period is an approach that Central Collections should consider. As shown in the Overview, for the purposes of this report we used the cumulative amounts collected as of a certain date divided by the value of the related valid debtor accounts placed during a given fiscal year. Central Collections should determine the methodology and time period that provides the most useful representation of collection activity for its customers and use this measurement to monitor and report on its efforts and improve performance.

Recommendation No. 15:

The Department of Personnel & Administration should develop meaningful methods for calculating recovery rates and establishing suitable benchmarks that present a complete and accurate representation of collection activities. The Department of Personnel & Administration should measure Central Collections' activities against these benchmarks on a regular basis to report these results to its customers and improve performance.

Department of Personnel & Administration Response:

Agree. Implementation Date: September 2004.

The Department began calculation of a recovery rate as a Central Collections performance metric in the Department's budget request document in 2002. The Department is still learning about and enhancing collection rates as a measure of performance, thus this measure continues to evolve.

As recognized by the Office of the State Auditor, establishing a valid recovery rate calculation and identifying a reasonable benchmark is highly complex in this industry.

The Department will continue evaluating resources from the collection industry to develop a sound methodology for calculating collection rates in reporting performance information.

Collector Activities

After accounts are assigned to Central Collections, CUBS automatically distributes the accounts by assigned dollar amount. The goal is to ensure that all collectors receive an equal share of the total dollars placed. Each collector has an average of 6,900 accounts worth about $9.9 million in his or her individual active portfolio.

Based on parameters set by management, CUBS initially prioritizes the workload of accounts for each collector. The priority of accounts is based on the collection potential, meaning that newer accounts with high dollar balances and accounts with debtor telephone numbers and social security numbers are scored higher. Furthermore, collectors can prioritize their individual workloads. Accounts with small dollar balances and little contact information are scored lower. In fact, due to the scoring method used by CUBS, Central Collections does not actively pursue delinquent accounts that are less than $100 aside from an initial letter. CUBS automatically generates and sends letters to the debtors; however, collectors can send additional letters at their discretion. The standard procedures for issuing letters based on account size are shown in the table below.

Central Collection Services
Letter Series for Delinquent Accounts
Placed for Collection Efforts

Balance	$0 – $100	$100 – $500	$500 – $1,000	Over $1,000
Letter 1	Next business day after assignment	Next business day after assignment	Next business day after assignment	Next business day after assignment
Letter 2			30 days after Letter 1	30 days after Letter 1
Letter 3		30 days after Letter 1	45 days after Letter 2	45 days after Letter 2
Letter 4				Every 10 days after Letter 3

Source: Central Collection Services' *Collectors Guide*.
Note: Central Collections has developed a series of letters to be used at various stages of the collection process.

Central Collections oversees the collection of a wide variety of debtor accounts, and management encourages a combination of collection activities, such as telephone calls and letters. While Central Collections manages accounts in an informal matter, it needs to formally conduct a thorough and systematic review of the activities and outcomes resulting from all aspects of the collection process and determine the most effective level and combination of work activities for the various types of accounts placed for collections. CUBS is able to provide detailed data on the recovery activities performed on delinquent accounts such as the number and type of contacts with debtors, the time frame for recovery efforts, and the resources used to recover the accounts. An ongoing comprehensive review and assessment of collections data is necessary to develop policies for collectors to follow and to maximize recovery efforts. Without this, Central Collections cannot ensure that it is targeting its efforts on activities that are most effective in obtaining recoveries.

We compared the internal collection activities for a sample of 50 accounts at Central Collections with the activities at two of the six contracted private collection agencies for 25 accounts at each agency that received payments in Fiscal Year 2003. We found the following:

- **In our sample, private collection agencies made 16 times as many attempts to contact debtors as did Central Collections staff.** Central Collections staff made about 107 calls compared with 1,707 calls made by the private collection agencies for our sample. Central Collections' telephone attempts resulted in 20 contacts with debtors and the private agencies' attempts resulted in 482 contacts with debtors. While Central Collections has prescribed policies covering the number of letters to be sent to the debtors, it does not require collectors to make telephone calls to debtors. Central Collections reports that the collections supervisor encourages a combination of demand letters and telephone calls in collection efforts. The private collection agencies report that telephone contacts are more effective recovery tools than letters.

  As previously mentioned, collectors at Central Collections have an average of 6,900 accounts in each collector portfolio. We compared this workload with the workloads at the two private collection agencies in our sample. We found that collectors at one private agency have an average of 2,200 accounts in each collector portfolio during a 90-day period, while collectors at the other agency report using an industry average of 800 accounts in each collector portfolio during a 30-day period. Since collectors at Central Collections have more accounts in each collector portfolio than at the two private agencies contacted, this increases the need for Central Collections to identify and target telephone calls where they will be most effective. Therefore, in conjunction with the analysis of information in the CUBS database on the result of collection activities, Central Collections should develop and implement a policy on making telephone contacts with debtors.

- **Private collection agencies had more updated contact information than Central Collections.** In our comparison of collector notes for the same 50 debtors, we found that the private agencies located updated home addresses and/or telephone numbers for 56 percent (28 of 50) of the debtor accounts that had previously been worked by Central Collections. Current contact information is critical for effective collections.

  The State should have ample systems via the Internet or its own databases, such as the Motor Vehicle Division's database at the Department of Revenue, to locate debtors. Central Collections should develop systems and procedures to ensure that its collectors use updated contact information to locate debtors.

- **Central Collections collectors do not work schedules as conducive to collection efforts as do collectors at private collection agencies.** The Colorado Fair Debt Collection Practices Act allows collection agencies to contact debtors between the hours of 8:00 a.m. and 9:00 p.m. The private agencies we visited require their staff to make telephone calls during the morning and evening hours (when debtors are more typically at home) and to work nights and weekends. Central Collections staff work weekdays only on eight-hour workday schedules, beginning as early as 7:00 a.m. and ending no later than 5:30 p.m.

  Central Collections should further explore flexplace and flextime schedules, which permit employees to work alternatives to the standard eight-hour day, such as working longer days but receiving an extra day off every other week. This should be done with the intent of making contact with debtors by telephone during evening hours.

- **Central Collections' staffing ratio is disproportionately weighted to administrative and managerial personnel.** We compared the organizational structure of the two private collection agencies in our sample with that of Central Collections and found that the private agencies have more staff directly involved with collections than in administration and management. Specifically, one private agency has 1.5 collectors for each administrative and managerial personnel, while the other has 1.3 collectors for each administrative and managerial personnel. The American Credit and Collections Professionals reports an average of 2.2 collectors for each administrative and managerial personnel in 2002.

  In the Department of Personnel & Administration's Fiscal Year 2002 Budget Request, Central Collections stated that it had about 1.5 collectors for each administrative staff but that its goal was to have two collectors for each administrative support person. Central Collections stated that it would streamline its clerical functions to reach the 2:1 goal. However, we found that Central Collections currently has 17 FTE with 7 of these representing collector positions and the remaining 10 performing administrative and managerial duties. This is a ratio of 0.7 collectors for each administrative and managerial person, which is below the 2:1 goal. According to Central Collections management, internal collectors perform some administrative duties that are not performed by collectors at private agencies. Central Collections should reassess its activities and use of staff resources to ensure it has the appropriate number of collectors to operate effectively and efficiently.

According to management, Central Collections is at a competitive disadvantage with the private sector agencies; for example, it has more constraints than private agencies in hiring temporary employees, and there are statutory limits on how much it may retain in its fund balance. In any case, Central Collections should ensure that it uses its resources as effectively as possible.

Central Collections' internal database contains a wealth of information that should be used by management to identify the best practices to use in collection activities and develop policies based on this analysis. In addition, Central Collections should formalize procedures for telephone contacts, improve identification of current debtor information, explore ways to extend telephone calls into allowable evening hours, and assess the current use of resources to ensure the most effective collection activities.

Recommendation No. 16:

The Department of Personnel & Administration should increase recoveries of delinquent accounts by:

a. Analyzing data on collection activities to determine the most efficient and effective recovery efforts and incorporating these practices.

b. Developing and implementing, on the basis of the analysis in "a," formalized procedures for making telephone contacts with debtors.

c. Identifying ways to improve obtaining current debtor information.

d. Exploring ways to enable staff to make phone calls to debtors during allowable evening hours.

e. Assessing staffing levels and the ratio of collections to administrative staff to ensure resources are used in the most effective manner for collection activities.

f. Considering modifying internal operations to reallocate various collector functions to administrative and managerial staff with existing associated responsibilities.

Department of Personnel & Administration Response:

Agree. Implementation Date: June 2005.

The Department will evaluate the collection activities and processes, including automatic dialing programs and skip tracing tools. The Department will also review for proper staffing levels and the most beneficial work schedules for collectors. The revised processes will be documented in the Central Collections procedures manual. In addition, staffing adjustments will be made as appropriate.

Collector Incentive Program

Central Collections has adopted an incentive program for the staff collectors. The program operates as follows. To earn a bonus, a collector must recover more than $62,000 in gross payments per month. For example, if a collector collects 1 percent over the $62,000 goal, that individual will receive an additional 1 percent of his or her salary as a bonus that month. Such monetary incentives are available for collections up to 25 percent over the $62,000 goal. Further, collectors who recover up to 35 percent more than the goal receive four hours of administrative leave in addition to the monetary bonus; collectors who collect up to 40 percent over the goal receive an additional four hours of administrative leave, for a total of eight hours, in addition to the monetary bonus. In Fiscal Year 2003 Central Collections paid its collectors a total of about $36,000 in bonuses. In addition, the collectors earned a total of 312 hours of administrative leave.

We question the incentive program. First, the goal is not challenging. We found that the staff collectors recovered an average of almost $79,200 per month. In other words, the average collector routinely collected almost 1.3 times their goal. Second, the goal is the same for all collectors. The incentive program does not account for collection experience. This means that collectors who are newly employed with Central Collections have the same goal as collectors who have worked in collections for years. The length of time collectors have worked at Central Collections ranges from 1½ to 13 years. Private collection agencies take into consideration the experience of individual collectors when establishing goals.

We found that private collection agencies use a variety of methods to offer incentives for their collectors including incentives for obtaining immediate payments over the telephone, profit sharing opportunities, and bonuses for exceeding collection goals. The Department of Personnel & Administration should work with Central Collections to improve the incentive program by making it more challenging and equitable for collectors.

Recommendation No. 17:

The Department of Personnel & Administration should reevaluate the basis for the collector incentive plan and identify ways to make it more challenging and equitable.

Department of Personnel & Administration Response:

Agree. Implementation Date: August 2004.

The Department is in the process of reevaluating the incentive goals for collectors to ensure collectors are appropriately compensated, taking into consideration the state's total compensation plan and industry standards.

Use of Data on State-Issued Licenses

Another way in which Central Collections could increase its recovery of delinquent accounts is by increasing its coordination of activities with other state agencies. Because Central Collections is a state agency, it is able to access information that a typical private collection agency cannot. For example, Central Collections already accesses Department of Labor and Employment records for an individual's wage and employment data in order to garnish employee wages for recovery purposes. However, we found that Central Collections is not maximizing state resources in its collection efforts. Other states are beginning to use data on state-issued professional licenses in their collection efforts. For example, three states (Maryland, Minnesota, and Missouri) currently prohibit renewal of professional licenses for failure to pay state income taxes; Kansas is seeking statutory authority to deny professional license renewals to individuals who fail to pay taxes owed to the state or fail to file a tax return.

Colorado maintains several databases of information on individuals that Central Collections could use to leverage collections. For example, the Department of Regulatory Agencies regulates and issues professional licenses for many occupational groups in Colorado. We reviewed the information maintained by Regulatory Agencies to determine if there are any licensed individuals who have a delinquent account with Central Collections. We compared the two databases and identified about 3,400 active license holders in the Department's databases who also appeared in Central Collections' records. These license holders accounted for about $3.2 million in unpaid delinquent accounts owed to the State.

Currently as required by federal law, Child Support Enforcement in the Department of Human Services already uses data maintained by the Department of Regulatory Agencies as a tool to collect child support payments. Section 26-13-126, C.R.S., also directs the Department of Human Services to work with state agencies that issue recreational licenses, in addition to professional licenses, in order to deny, suspend, or revoke such licenses for failure to pay child support.

The Department of Personnel & Administration should work with the General Assembly to evaluate the benefits of expanding statutory authority to take action such as denial, suspension, or revocation of state-issued professional licenses for failure to pay debts owed to the State. This will require consideration of the balance between privacy concerns and the State's debt recovery efforts. As discussed above, other states have resolved this issue in favor of debt collection, at least in the case of debts owed for taxes. If granted this additional statutory authority to collect debts, the Department should evaluate the effectiveness of the process and consider seeking statutory authority to access data on recreational and motor vehicle licenses maintained by state agencies such as the Division of Wildlife in the Department of Natural Resources and the Motor Vehicle Division and Motor Vehicle Dealer Board within the Department of Revenue.

Finally, as discussed earlier in this chapter, the Department of Revenue no longer places delinquent tax accounts with Central Collections for recovery. Therefore, any collection effort initiated by Central Collections with the Department of Regulatory Agencies that involves the professional licenses will *not* include individuals who have failed to pay their state taxes. As mentioned above, several other states already use data on professional licenses in the collection of delinquent income taxes. As part of its efforts to work with the General Assembly to access data on professional licenses for debt collection purposes, the Department of Personnel & Administration should coordinate with the Department of Revenue to include debts owed for taxes as part of the expanded collection effort.

Recommendation No. 18:

The Departments of Personnel & Administration and Regulatory Agencies should work with the General Assembly to seek statutory authority to access professional licensee information in order to deny, suspend, or revoke professional licenses for failure to pay debts owed to the State.

Department of Personnel & Administration Response:

Agree. Implementation Date: December 2004.

The Department will work the Department of Regulatory Agencies and the General Assembly to determine if statutory revisions are necessary to leverage professional license information in the collection of debt.

Department of Regulatory Agencies Response:

Partially agree. Implementation Date: January 2005.

The Department of Regulatory Agencies (DORA) partially agrees with this recommendation. DORA strongly agrees that it should work with the Department of Personnel and Administration (DPA) to seek statutory authority in the 2005 legislative session to suspend professional licenses for failure to pay debts owed to the State. However, DORA is noting partial agreement because we would like to limit the new authority to license suspension only, and not include denial or revocation. Currently, DORA has a process in place whereby licensees are suspended for failure to pay court-ordered child support as directed by the Colorado Department of Human Services. Suspension has proved an effective method to bring licensees back into compliance. In order to limit costs, DORA believes the implementation of the recommended strategy should be modeled after its currently successful Child Support Enforcement (CSE) process.

Similar to CSE, it is also important to note that DORA's role should be administrative in nature. DORA will not take any role in the due process requirements that may be needed prior to DPA issuing a notice to DORA to suspend. All such due process requirements must be handled by DPA, under whose authority and direction DORA would act to suspend a license.

Recommendation No. 19:

The Departments of Revenue and Regulatory Agencies should work with the General Assembly to seek statutory authority to access professional licensee information in order to deny, suspend, or revoke professional licenses for failure to pay state taxes.

Department of Revenue Response:

Agree. Implementation Date: March 2005.

The Department of Revenue will work with the Department of Regulatory Agencies to propose legislation that will allow the information sharing necessary to deny, suspend, or revoke professional licenses for delinquent taxpayers.

Department of Regulatory Agencies Response:

Partially agree. Implementation Date: January 2005.

The Department of Regulatory Agencies partially agrees with this recommendation. DORA strongly agrees that it should work with the Department of Revenue (DOR) to seek statutory authority in the 2005 legislative session to suspend professional licenses for failure to pay debts for state taxes. However, DORA is noting partial agreement because we would like to limit the new authority to license suspension only, and not include denial or revocation. Currently, DORA has a process in place whereby licensees are suspended for failure to pay court-ordered child support as directed by the Colorado Department of Human Services. Suspension has proved an effective method to bring licensees back into compliance. In order to limit costs, DORA believes the implementation of the recommended strategy should be modeled after its currently successful Child Support Enforcement process.

Similar to CSE, it is also important to note that DORA's role should be administrative in nature. DORA will not take any role in the due process requirements that may be needed prior to DOR issuing a notice to DORA to suspend. All such due process requirements must be handled by DOR, under whose authority and direction DORA would act to suspend a license.

Data Submitted by State Agencies

We reviewed the placement of delinquent accounts by state agencies and found that almost half of the accounts do not include information on the date the debt originally became delinquent. State agencies, including higher education institutions, individually determine the original due dates for their debts. As previously mentioned, Section 24-30-202.4, C.R.S., requires state agencies to place delinquent accounts with Central Collections for collection efforts within 30 days after the debts become due. Therefore, if an account is due and payable in 60 days, it should be turned over to Central Collections at 90 days. CUBS includes a field for the original due date of the account, and Central Collections' *Collectors Guide* requires agencies to include the date when submitting delinquent accounts for collection. However, the placement worksheet that Central Collections provides for state agencies to use does not include a due date field. Therefore, Central Collections is not able to determine if state agencies are placing accounts within the statutorily required 30 days past due. In addition, original due dates are needed to determine how old the account is, which is an important factor in assessing an account's collectibility. Currently Central Collections' internal database, CUBS, uses the date the account is *assigned* as one of the factors for determining the priority of the account for collection activity.

Our review of CUBS data showed that only about 55 percent of the accounts assigned in Fiscal Year 2003 contained an original due date. Furthermore, some of the due dates appear to be inaccurate. For example, we identified instances in which the original due dates were recorded as several years in the future (i.e., 2028) as well as years in the past (i.e., 1930). The following table shows the age of accounts at the time they were placed with Central Collections regardless of the waivers issued by the State Controller to agencies with respect to the 30-day past due requirement. The waivers are discussed in the next section.

Central Collection Services
Age of Accounts at Placement Based on Original Due Dates
Fiscal Years 2001 – 2003

Fiscal Year	30 days or less		31-60 days		61-90 days		Over 90 days	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
2001	5,575	$3,729,100	5,876	$3,541,000	9,185	$1,899,000	15,764	$15,434,100
2002	5,719	$4,616,600	4,660	$3,222,400	8,750	$1,431,200	13,282	$14,461,800
2003	3,145	$2,568,500	2,446	$1,350,300	8,887	$1,056,600	8,998	$10,691,800
Total	14,439	$10,914,200	12,982	$8,113,700	26,822	$4,386,800	38,044	$40,587,700

Source: Office of the State Auditor's analysis of Central Collection Services data.
Note: The data only include accounts that had a valid identified original due date when placed with Central Collections.

For those accounts where an original due date was furnished by the state agency, these results show that a significant number of accounts are not placed with Central Collections until they are over 90 days past due, or 60 days past the statutorily required date. Specifically, for the period shown about 41 percent of the accounts, or 63 percent of the dollar amount assigned to Central Collections, were over 90 days delinquent when placed. These results indicate that agencies are not necessarily complying with the statutory requirement to place accounts within 30 days of becoming past due.

We were unable to determine the extent of noncompliance, due to the lack of placement data collected by Central Collections. In order to determine whether or not state agencies are complying with placement requirements, the placement information in CUBS needs to be analyzed in relation to whether or not the agency has received a waiver from the 30-day past due placement requirement and, if so, what the agreed-upon placement date is under the waiver. Central Collections reports that it does not have the resources to monitor state agencies' timeliness in placing debts and does not have authority to require that agencies make placements more promptly.

While we recognize that Central Collections does not have the authority to enforce requirements that debtor accounts are placed for recovery in a timely manner, it should identify ways to encourage state agencies to promptly turn over debts for collection. With respect to data submission, Central Collections should ensure that agencies include the original due date when turning over the account for collection by including a required field for the original due date on the placement worksheet used by agencies. Additionally, in order to more accurately target collection efforts, whenever possible, Central Collections should establish priorities for collection activities on the basis of the number of days a debt is past due rather than on the basis of the date the debt was assigned to Central Collections.

Recommendation No. 20:

The Department of Personnel & Administration should improve the information collected on and the assignment of delinquent accounts for recovery by:

a. Ensuring that state agencies include the original due date for delinquent accounts when assigning them for collection.

b. When original due dates are available, assigning priorities for collection activities on the basis of the number of days past due rather than of the date assigned, along with other relevant factors.

c. Working with state agencies to ensure that debts are placed in accordance with state law.

Department of Personnel & Administration Response:

Agree. Implementation Date: June 2004.

The Department will ensure that the original due date is captured when assigning debt and will use this information to prioritize collection activities. In addition, The Department will communicate to state agencies the requirements of timely submission of accounts in order to increase collectibility of debt.

Waivers for Placement of Accounts

As previously mentioned, Section 24-30-202.4, C.R.S., requires that agencies assign delinquent accounts to the State's centralized collection agency within 30 days of the account's becoming past due. However, statutes allow the State Controller to waive this time requirement on the basis of a documented and justified need. Since 1992 the State Controller has granted 12 waivers to nine different state departments and higher education institutions. These waivers extend the time requirement for state agencies to place accounts with Central Collections from an additional 30 days to nearly 1½ years of the account's becoming past due. The waivers granted by the State Controller include accounts such as student fees and tuition at higher education institutions, fees associated with boiler inspections conducted by the Department of Labor and Employment, and accounts for damage to state property in traffic accidents from the Department of Transportation.

We reviewed each waiver that has been granted by the State Controller and found that of the 12 waivers granted, 4 are at least 10 years old and an additional 3 are at least 5 years old. We contacted state agencies that had received the 12 waivers and found that in four cases the waivers were either unknown or no longer necessary. In one case the waiver was no longer necessary due to programmatic changes, and in three additional cases the responsible agency staff were not aware of the waivers.

The State Controller's Office does not conduct any review of the appropriateness of the waivers that have been granted to ensure that they are still necessary or appropriate. We believe the Department of Personnel & Administration should periodically review the waivers. Alternatively, the waivers could be granted for a limited time, such as three years, after which the agency could be required to justify its continuance.

Recommendation No. 21:

The Department of Personnel & Administration should review all waivers granted by the State Controller's Office on a regular basis to ensure that the waivers remain necessary and appropriate or require that waivers be renewed periodically.

Department of Personnel & Administration Response:

Agree. Implementation Date: October 2004.

The Department will establish a process for granting waivers. This process will provide for regular review of waivers to ensure that waivers remain necessary and appropriate.

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