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## **Economy & Efficiency Commission Presentation**

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*Editorial Note: Although every effort has been made to insure the accuracy of the material in this presentation, the scope of the material covered and the discussions undertaken lends itself to the possibility of minor transcription misinterpretations.*

**PRESENTATION BY  
Mr. Tyler McCauley  
Assistant Auditor Controller, Los Angeles County  
Topic: Follow-up on the EEC Debt Management Report  
July 8, 1999**

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Chairman Abel introduced Mr. Tyler McCauley, Assistant Auditor Controller for Los Angeles County. Mr. McCauley began his presentation by addressing a number of Commission recommendations. In response to recommending a written collection policy the Auditor sent a memo to each department reinforcing the required compliance with collection policy as found in the County Fiscal Manual. Also collection of debt was made a part of for each department head's performance evaluation. The Auditor has reviewed the fiscal manual guideline to insure that the policy is clear. This review seems to indicate that the policy is appropriate. The results of this effort will be the faster referral of debt to the Treasurer-Tax Collector and a quicker write off by the County of debts where there is no reasonable expectation of collection.

The second major recommendation category was the standardization of Request for Proposals (RFPs) for collection agencies so departments could use them more easily. Current contracts exist in the Treasurer, Courts, Library, and the Department of Health Services, (DHS). These contracts are modeled after the Treasurer's RFP and work is being conducted to see if this process can be improved.

A third recommendation category was the use of credit cards, electronic banking, internet commerce and the technology that allows clients to pay their debts. The Auditor has looked at the use of ATM's and kiosks has not found either practical for County use.

The County Chief Information Officer feels that the wave of the future will be the Internet rather than kiosks. Credit cards are being used by the Department of Health Services and the Treasurer. Without advertising the Treasurer had 2500 people pay their property taxes using credit cards. The Treasurer Tax Collector's intent is to put a notice on the next tax bill to facilitate the use of credit cards. The Treasurer is looking at future use of the Internet to assist in the payment of taxes. The Library is the first department to use the Internet for payments. Security of these transactions will become an increasing concern for the Auditor and for departments.

The fourth recommendation category was the use of offset and intercept. Mr. McCauley indicated that the County is intercepting everything that it can legally intercept. The Federal Government is interested in collecting federal debt rather than local debts. In any case, these types of intercepts require a social security number which many of the County debtors may not have. The State assists in interception for some debt, but

it requires a court order or judgment. Delinquent property taxes or court fines cannot be intercepted.

The issue of offset is difficult since the County does not have a common identifier. Property taxes are by assessor ID number, licenses are likely by social security number or employer identification number. There are not many opportunities for collection by offset since many of the debtors do not have these numbers. Accordingly, it is not likely that this method of collection will be pursued.

The fifth area involved the Registrar Recorder where a past due billing to a government agency for election services was not collected in a timely manner. This appears to have been an isolated case. There was a recent situation where the Auditor collected from a delinquent account through offset of their property tax allocation.

In the future, the Auditor sees a quicker write off of debt that is uncollectable, quicker referrals, more credit card use, and the use of the internet which is being driven by customer demand.

Commissioner Jimenez commented that the EEC reported debt number raised concerns. The CAO has worked to come up with a more reasonable number. In considering the EEC report the Board left off a recommendation to come up with a comprehensive number in the future. Supervisor Yaroslavsky's office is interested in revisiting this issue which remains outstanding. An additional unresolved issue is how the question of how the Probation Department is going to outsource its collection and at what point a bad debt will be referred to a collection agency.

Commissioner Stoke expressed concern over having the Commission pay greater attention in establishing an appropriate amount of debt for the County. The last number did not fairly reflect the amount of actual debt. Chairman Abel stated that the total debt amount would not be calculated in the future since the Board did not adopt this recommendation. He then asked Mr. McCauley the ramifications of not having a base number with which to compare progress. Mr. McCauley responded property tax is not a problem, since the County eventually gets its money. The other problems are in health and the Probation collections. In the health area there are a number of collection agencies, but they are trying to make collections on people with very limited resources. The major issue here is to qualify these people for some form of State aid. Most departments don't carry a large delinquency. A composite number is a good tool if it is accurate, if not, the public gets the wrong impression of delinquencies. Chairman Abel felt that getting a number published might place attention on the problem. Mr. McCauley agreed, but restated that the number should be accurate and not reflect uncollectable amounts.

Commissioner Stoke reaffirmed that a number should fairly reflect the situation. Chairman Abel felt that the methodology was what was important in the report, rather than the correctness of the final number. The report was able to bring light to the problem. Commissioner Lucente felt that the major issue was to define what was uncollectable. Commissioner Padilla commented that the Franchise Tax Board had some good procedures for the collection of debts. Whatever is decided upon as the definition of collectable debt should be used as the baseline for efficiency measurement. He asked Mr. McCauley how he felt the collections process has been developing over the past few years. Mr. McCauley responded that departments now have more awareness, although they had been trying to collect on this debt during the difficult financial time the County faced. Technology will take on greater importance in the future in tracking and collecting debt.

Chairman Abel asked Mr. McCauley if the Auditor would support a recommendation of the Commission to come up with a reliable definition of receivables/delinquent debt. Mr. McCauley felt that receivables is a normal part of doing business, when a debt becomes delinquent it then becomes a problem. Chairman Abel felt that it may be wise for the County to consider a composite number for purpose of analysis, even if receivables and delinquent debt are dealt with differently.

Commissioner Philibosian asked if there were any standards for a write off procedure. Mr. McCauley responded that the standards currently exist within the Fiscal Manual. Commissioner Philibosian further inquired as to whether each department was responsible for determining what was to be a write off. Mr. McCauley told the Commission that most departments don't write off debts, but rather refer them to the Treasurer Tax Collector according to the procedures described in the Fiscal Manual. Commissioner

Philibosian asked about the incentives and disincentives of the department in delinquent collections. Mr. McCauley felt that an incentive is to remove non-performing debts from their records. Collections are also a part of the department head's performance evaluation. As part of the discussion, Chairman Abel asked the Debt Task Force to make a recommendation at the next Commission meeting as to further actions.

Commissioner Farrar commented that a communication difficulty exists within the County when departments attempt to respond to the specific concerns raised by the Commission, rather than trying to address the basic concepts of the areas of investigation that were raised by the Commission. It is important for the County to see the problem in its proper context. Mr. McCauley commented that he did not see the delinquency problem being a huge problem in which the County was losing large amounts of money. Chairman Abel made the point that a department's first objective is to deliver service and then they are asked to perform functions such as debt collection. The Commission is interested in helping departments to do both.

Chairman Abel thanked Mr. McCauley for his presentation to the EEC.

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