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EVALUATION OF RECEIVABLES TRACKING AND COLLECTIONS SYSTEMS: A BLUEPRINT FOR CHANGE

A Report by

The Los Angeles County
Citizens' Economy and Efficiency Commission

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The mission of the Commission is to examine any function of county government at the request of the Board of Supervisors, on its own initiative, or as suggested by others and adopted, and to submit recommendations to the Board which will improve local government economy and efficiency, and effectiveness.

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Executive Summary

At the time of this study…delinquent unsecured account receivables were estimated at 1 Billion…

The Los Angeles County Board of Supervisors commissioned the Economy and Efficiency Commission to conduct a management audit to ***evaluate receivables tracking and collections*** within the County of Los Angeles. This study focused on two basic objectives:

- The development of procedures to recover delinquent receivables owed to the County and
- The recommendation of procedures to significantly reduce delinquent receivables within County departments.

At the time of this study (September 1997), delinquent unsecured account receivables were estimated at $1 Billion, excluding secured property taxes, based on surveys of all county departments and interviews with selected departments. (See Exhibit A.) **There are a number of factors responsible for this problem including delayed reimbursements from Federal and State agencies, delayed collections from public agencies, and the nature of the services provided.**

Figure 1 (below) illustrates how the proportion of delinquent receivables as reported by County departments has grown in relation to the current receivables owed the County.

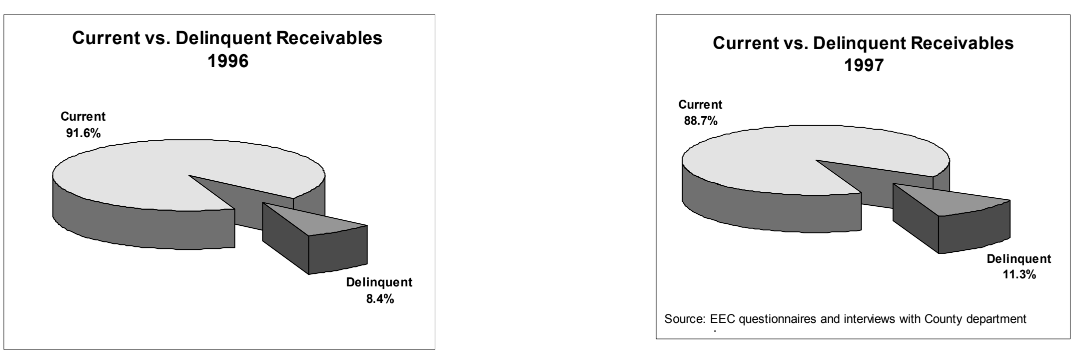


Figure 1 - Current vs. Delinquent Receivables 1996 -1997

Notwithstanding these factors, this study will show that collections can be increased dramatically, but not without changes in, ***priorities, procedures*** and ***attitudes***. Regrettably, this process will not be painless. However, it is possible to construct a methodology that is both ***efficient*** and ***sensitive to those individuals involved***.

This study will show that collections can be increased dramatically, but not without changes in, priorities, procedures and attitudes.

This study provides the empirical and analytical data to support the recommendations for changes in the infrastructure of the County to efficiently and cost-effectively collect outstanding debts. This report reviewed the size and scope of receivables and delinquencies and the feasibility of recommendations to improve collections.

The study team, under the auspices of the Economy and Efficiency Commission and the Debt Collection Task Force, conducted an extensive review of County collection practices, compiled listings of receivables and delinquencies as submitted by County departments, developed best practices of debt collection procedures, and performed interviews with select County departmental management and County staff. ***Thereafter, draft conclusions were discussed with County management and experts from the private sector. We believe this process validates the conclusions and recommendations enclosed.***

Best practices in debt collection is the foundation of this report. The study reviewed current ***County debt collection practices and prior management audit reports***, (including studies done by The Grand Jury, Price Waterhouse, Peat Marwick, Harvey Rose Accountancy, etc.) Subsequently, the ***conclusions and recommendations*** herein are derived from a pragmatic and systemic analysis of County departments in comparison with national best practices and Congressional data relative to collecting debt.

Best practices in debt collection is the foundation of this report.

We note that many departments at the conclusion of the study ***reported a significant improvement in the collection of receivables estimated at approximately $20 Million*** (during the June, 1998 advisory committee meeting the Sheriff Department reported that contract cities had met their obligation on delinquent receivables initially reported to this team). Additionally, the Probation Department provided a comparison of collection results for the periods September 1995 through August 1996 and September 1996 through August 1997 ***showing a $4.7 million increase in collections a 47% increase*** achieved with the assistance of a private collection partner. This is evidence that increased attention to the collection process and implementation of this report's recommendations can be expected to dramatically increase County collection of receivables.

An example of potentially speedy recovery of monies is other governmental agencies with debts owed to the County (Government agencies are notorious for slow payment of debts). The ultimate goal however is to deploy manpower (public and private) and technology to efficiently collect the debt identified by this study as outstanding debt owed to the County.

The development of best practices will enable the County to systemically increase collections in all County departments.

Additionally, the ***development of best practices*** (extracted from successful collection programs from government agencies and private corporations experienced in collections field throughout the U.S. – as well as congressional hearing testimony) will enable the County to systemically increase collections in all County departments. One example of the recommendations forthcoming in this report is to establish accountability at the departmental level by mandating an ***Annual Report on Debt Collections by Los Angeles County***. The purpose of this initiative is to recognize departments that are producing results. The resourceful and efficient departments become the models for those departments that are falling short of the County's expectations.

The impetus and motivation for developing a comprehensive debt collection methodology is the County's need to fund mandated services. Because of insufficient funding, the County must find revenues to support the burgeoning demand for a host of social services. A major untapped resource to assist in funding these services is the collection of outstanding debts. However, there are daunting political, economic and social challenges that must be met.

This study recommends public/private partnerships in some instances. However, this not a panacea.

The waters of collecting receivables are at best murky; in order to prevent running aground, the Board must take into consideration the pitfalls of collection, the cost/benefit and the long-term impact of the process. For example, this study recommends public/private partnerships in some instances. However, this is not a panacea. Research from this study has shown instances where public/private partnerships improved collections dramatically (an example of private collection efficiency can be found in the Department of Health Services and Probation department sections of this report). Therefore a practical approach to collections would suggest a case-by-case approach in selecting which departments collect debts either through public/private partnerships or in-house collections.

Regardless of the method of collection there is an undisputed need for standard collection practices. A part of standardization must include uniform access to debtor information between all agencies.

Without question, technology will play an integral part in the tracking and collection of receivables.

In addition to manpower issues, the Board should determine the best use of technology on this project. Without question, technology will play an integral part in the tracking and collection of receivables. One of the critical recommendations in this report is the responsible implementation of technology. In addition, the gap created by inefficient data collection and retrieval procedures can be rectified through selective technological integration of information. This is not to suggest that technological applications alone will solve the information-related problems. There are many bitter examples where technology has proven to cause as many problems as it solves when administered haphazardly. This is why this report is filled with recommendations that mandate a protracted review of the benefits of any technological innovations before investments are made.

No matter what method of collection is used, there must be thoughtful preparation for the inevitable hue and cry from the affected parties (the departmental employees, the debtors and the general public). ***This report gives the Board the foundation to ascertain the most effective and efficient collection procedures. The proven concept of 'best practices' as illustrated in this report will prove invaluable as a blueprint for change.***

…the purpose of this report is to provide the Board with a road map to recovery of the funds rightfully owed to the County.

Thanks to the support and cooperation of the County agencies that participated in this management audit, this report is an accurate representation of the size, scope and magnitude of the County's receivables tracking and collections systems. The goal is to ***prioritize debt collection, establish policies that permit efficiencies and implement procedures that ensure successful collections.*** Moreover, departments must empower, educate and motivate employees to recover receivables as a matter of self-preservation and professionalism.

Finally, the purpose of this report is to provide the Board with a road map to recovery of the funds rightfully owed to the County. When implemented, the recommendations made in Section II will be a framework the County can use to recover funds to meet the incessant demand for services.

Section I

Introduction

The philosophy of this study was to develop a blue print for change in the County's debt tracking and collections systems and improve the management of its receivable delinquencies and accounts receivable program. As such we have developed action recommendations frequently using the word ***"Direct"*** attempting to avoid recommendations "to study and/or review" to ensure immediate steps be taken to improve collections within the County.

The philosophy of this study was to develop a blue print for change in the County's debt tracking and collections systems

Our purpose was to develop a constructive blueprint for change that will assist County management and County departments in accomplishing specific objectives within a reasonable time frame. In using the word "Direct", we intend and expect that County management will evaluate the effectiveness of such recommendations to ensure that cost effective decisions be made to carry out such instructions. Additionally, we do not wish to limit the ingenuity or resourcefulness of County management in coming up with alternatives.

Los Angeles County has the daunting challenge of collecting receivables efficiently. Fortunately, there are many opportunities to improve collections, reduce delinquencies, reduce errors, and increase efficiency. The County needs a comprehensive, integrated approach based on a common vision to make the most of these opportunities for improvement.

Fortunately, there are many opportunities to improve collections, reduce delinquencies, reduce errors, and increase efficiency.

The Economy and Efficiency Commission (EEC) was asked to assess certain collection aspects of selected departments within Los Angeles County. These assessments encompassed staffing, organization, technical requirements, policy issues, workflow processes and customer interface. The initial four month assessment of County receivables concentrated on data gathering, assessing current operations, comparing these to the best practices of public and private sector organizations and identifying opportunities for improvement. During this time the project staff:

- Collected operational data and reviewed internal documentation
- Surveyed employees, receiving a 98% return of the surveys
- Benchmarked the practices of select departments against other government agencies and private organizations

- Mapped the collection process of selected departments
- Conducted in-depth interviews with managers, employees and stakeholders of the current collection process.

While it has traditionally been a labor-intensive operation, it now must adjust to the information age where high technology and centralized communications are playing a more dominant role.

The current assessment? Visionary thinking, creative strategies and practical solutions will be necessary to create the very best collections process for the County of Los Angeles. But some basic concerns must be addressed before the County can take the actions required to become a high performance organization for the 21st Century.

Like all government organizations, the County must adapt to the realities of the 1990's. While it was once in the business of processing forms and depositing checks, today it is engaged in electronic commerce. While it has traditionally been a labor-intensive operation, it now must adjust to the information age where high technology and centralized communications are playing a more dominant role. And while the County could once operate in relative isolation, it is increasingly required to become a partner to its partners — inside and outside of government — to better meet the challenges.

The Project Team

Under the auspices of the Economy and Efficiency Commission, a team of experts and consultants was assembled to conduct this study as follows:

Mr. Kenneth Pride, Esq. was selected as the project director for this project and brings over twenty years of private and public experience, a legal background, and extensive experience in public and private industry best practices.

Strabala, Ramirez & Associates was selected to bring their 100 years of cumulative firm accounting and consulting experience with both large private and public agencies to this engagement. In addition to being one of the largest locally owned CPA firms in Southern California, they are also renowned experts in the area of government consulting, and bring a wealth of experience in the areas of re-engineering, management audits, and efficiency studies.

Harry Hufford was also requested to provide expert consultation to this project. Mr. Hufford served as CAO for the County of Los Angeles from 1974 to 1985 and interim CAO in 1993. From 1985 to date he has been an active businessman in the fields of law firm management, the securities industry, and non-profit organizations.

He is the founder and Principal of HLH Consulting and brings over 45 years of private and public sector experience to the project.

KPMG Peat Marwick, one of the largest CPA and consulting organizations in the world, was a consultant to this project and assisted the team in the area of government interface, the collections contract template, and privatization issues.

David Williams of Command Corporation, ***Hilda Simmons*** and ***Robert Glanton-Smith*** were consulted throughout the course of this study and were instrumental in the final editing and publishing of this document.

…the Economy and Efficiency Commission assembled a team of corporate partners consisting of private sector debt collection and receivables management experts.

After conducting a preliminary study of County receivables, the Economy and Efficiency Commission assembled a team of corporate partners consisting of ***private sector debt collection and receivables management experts***. Some of these partners have or have had contracts with the County for collection activities on an on-going or pilot basis. The volunteer corporate partners included:

National Revenue Corp. (NRC) is the nation's third largest collections management and receivable organizations and was consulted in the area of public/private partnerships.

GC Services is a national tell-services company entering its forty-first year of operations. They specialize in providing unique solutions to complex customer service and collections problems.

Pacific Credit Bureau representatives were consulted as experts in the area of collections and debt tracking. They specialize in high volume low cost solutions for complex organizations.

Transworld Systems is one of the largest collections management organizations in the U.S. with over 140 offices nationwide.

USCB is an 83-year-old organization specializing in the area of receivable and resource management.

Unisys is one of the nation's largest organizations specializing in systems solutions and provided invaluable input in the area of technological options to the County of Los Angeles.

GE Capital and ***SCA Credit*** provided expert assistance in the area of securitization and collections management.

Lockheed Martin provided invaluable insight into the collections process at the Probation Department.

Description of the Problem

The County of Los Angeles has at least 37 operating departments. (Note: Exhibit A lists only those departments reporting receivables and delinquencies.) These departments are funded by varying degrees of general fund revenues (generated by sales and property taxes), special tax assessments, and in many, but not all departments, user fees. These user fees are charges to individuals, business, other county departments and other government agencies for products and services rendered by the County. Because these fees make up part of the operating budgets of these departments, collection can be a critical factor in meeting the day to day cash needs of those departments. Many of these fees, permits and licenses for example, are paid in cash at the time incurred.

The collection of those user fees that are not paid at the point or time of service by individuals and commercial entities is the focus of this study. Receivables owed by government agencies are subject to political and fiscal considerations that are beyond the scope of this study, but we have commented on those receivables when appropriate.

In theory, this system would allow each department to tailor its collection activities around its resources and priorities. In practice, this system has produced mixed results and a high volume of uncollected receivables for the County as a whole.

Guidelines for the collection and administration of accounts receivable by Los Angeles County agencies are contained in Section 9 of the County Fiscal Manual. These guidelines mandate the objectives of the system, internal controls, reporting to Auditor-Controller, collection of prior period receivables, referral of uncollectible accounts to Treasurer-Tax Collector (TTC) and write-off of uncollectibles. The manual outlines a decentralized system where each agency is responsible for its own receivables. The emphasis in the County guidelines is on basic accounting procedures and annual reporting for the production of financial statements.

The guidelines are not specific about the day-to-day mechanics of collection within the departments. Each department is allowed their own internal system, as long as the guidelines are followed. ***The result is a patchwork of systems among departments***: computerized and manual, in-house and contracted, high and low priority. In theory, this system would allow each department to tailor its collection activities around its resources and priorities. In practice, this system has produced mixed results and a high volume of uncollected receivables for the County as a whole.

The mandate of the Commission is to establish the size of receivables owed to the County, identify those receivables owed by the private sector, and make recommendations on how those receivables could be collected more efficiently.

Size of Receivables and Delinquencies

Each department within LA County was surveyed to determine the size of their receivables and delinquencies. The results of the survey were followed up directly with each of the departments. The results of the survey indicated that several departments used various definitions of a receivable. Some departments did report their collectibles, while others used their total income from fees (both collected and uncollected), others in an aging format, and other variations. This required further inquiry and massaging of the data to achieve a reasonable estimate of what is owed to the County.

"The mandate…make recommendations for further study on how those receivables could be collected more efficiently."

Exhibit A, is the Commission's estimate of receivables and delinquencies owed the County based on its survey and subsequent follow-up interviews. At the end of Fiscal Years 1996 and 1997, County receivables (including $5.58 billion in secured property taxes) were $9.5 billion and $8.5 billion respectively. ***Delinquencies were $799 million and $959 million respectively. Although total receivables have fallen, both the dollar amount and percentage of delinquencies to total receivables has risen over the last two fiscal cycles.*** These amounts do not include the delinquent family and child support receivables the District Attorney Bureau of Family Support Operations is responsible for collecting on behalf of custodial parents.

OUR FIELD EXAMINATION HAS REVEALED THAT BOTH RECEIVABLES AND DELINQUENCIES ARE MUCH GREATER THAN ORIGINALLY ESTIMATED.

Departments Chosen for Focus

Based on total receivables reported in Exhibit A, the Commission focused on the following County agencies based on size of receivables reported by each agency, and the opportunities to collect receivables from private entities:

Department	Receivables as of 6/30/97
Treasurer-Tax Collector (Secured Property Tax portion: $5.58 billion)	$6.3 Billion
District Attorney Bureau of Family Support Operations*	2.0 Billion
Department of Health Services	1.9 Billion
Probation**	323.0 Million
Superior Courts and Municipal Courts	91.4 Million
Sheriff	29.8 Million
* Not owed to LA County but by non-custodial **Delinquency amount as reported through the survey interview.	

The current collection practices of these departments will be reviewed in depth later in this report, as well as our recommendations for improvement.

Departments Chosen for Overview

The team chose three other county departments for study based on the relative size of their receivables: the ***Library, Public Works*** and ***Registrar-Recorder County Clerk***. We interviewed their key account receivable personnel and summarized our observations and suggestions later in this report in separate sections for each of these departments.

Other Departments

In addition to the ten departments mentioned above, Los Angeles County has 28 other departments. Although the majority of these departments have receivables, they were not chosen as part of this study's focus due to the following conditions found in the early stages of our investigation:

- Some departments had no or a very small amount of receivables.
- Some departments' receivables were owed by other government entities, and therefore outside the scope of this study.
- The volume of receivables due private and commercial customers was very low relative to the total volume of County receivables.

Project Scope and Methodology

Based on its initial review of the project objectives, the EEC team developed a three-phased approach designed to identify and implement a full range of alternatives for enhanced debt collection for the County of Los Angeles.

Phase I of the project scope involved an internal assessment of previous studies performed on the County's debt tracking and collection activities including management audits and Grand Jury reports. In this phase, EEC collected information from a variety of sources and performed a public and private sector best practices study for debt collection.

Phase II involved an external assessment primarily focused on providing a set of feasible partnering alternatives that would enhance the overall effectiveness of the County's current government interfaces with appropriate federal, state, and local governments as they relate to debt tracking and collection procedures. In this phase, EEC conducted research on California state laws, including the Code of Civil Procedures -Section 1013, Vehicle Code-Section 15210, and Business & Professional Code-Section 101. Research of federal laws included the Federal Debt Collection Act of 1996, Executive Order 13019 and Internal Revenue Code Section 6103. Reviews were also made of ancillary federal regulations and pending legislation that could affect offsets and exchange of information between agencies.

The team also interviewed members of the Treasurer & Tax Collector's (TTC) Office and the Office of the Auditor-Controller. Individual team members interviewed officials of the Internal Revenue Service (Federal/State Relations Office), the California Franchise Tax Board, US Treasury Department (Financial Management Services and Government Wide Policy & Planning Divisions), Staff of the U. S. Senate Finance Committee, and employees of various State Revenue and Social Services Departments. Team members also met with a former Chief Administrative Officer for the County and various representatives from private collection agencies.

Phase III focused on verifying and collecting additional information from the departments studied, collection process flow charting (See Exhibit B for the flow chart symbol legend), and the development of recommendations with departmental input. County Department personnel involved in debt collection, including representatives from

TTC and the Department of Health Services (DHS) attended an Advisory Committee meeting to gather feedback about recommendations under development before this report was issued.

Figure 1 below depicts the team's three-phase approach to this study:

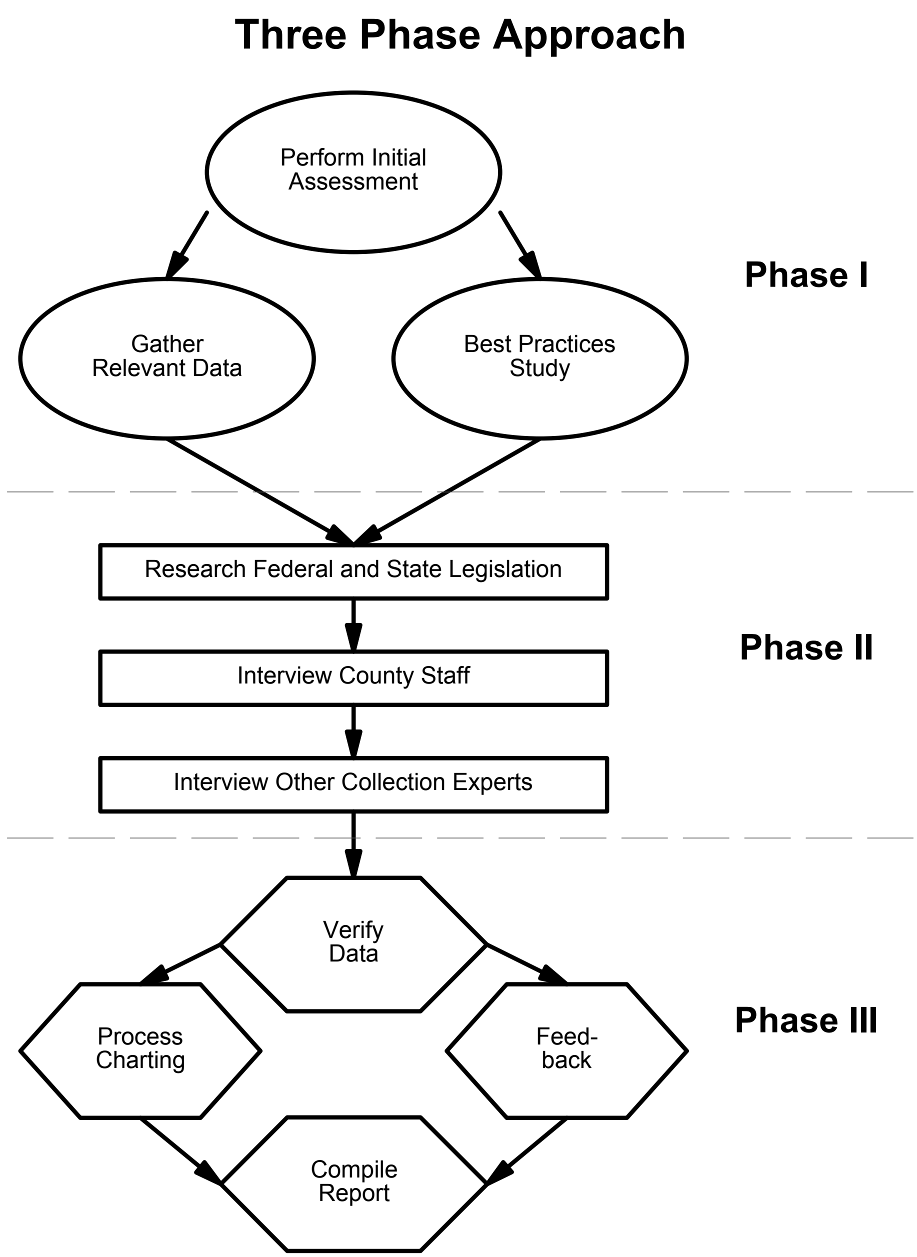


Figure 1 - Methodology for Evaluation of Receivables Tracking and Collections Systems

Section II

Conclusions and Recommendations

Although there is a centralized responsibility for the accounts receivable management or delinquent accounts collection within the County of Los Angeles, a number of departments feel their delinquencies are not handled efficiently.

Although there is a centralized responsibility for the accounts receivable management or delinquent accounts collection within the County of Los Angeles, a number of departments feel their delinquencies are not handled efficiently. As a result, each department has not been responsible for its own accounts receivable and collection activities even though they feel that their budgets are tied directly to their revenue generating process. Policies and procedures, technology resources, organization and levels of commitment for collection activities vary greatly across the County. The County's accounts receivable, a major asset of the County of Los Angeles, are neither centrally monitored nor controlled. Within the controlling department, there is significant room for improvement by adopting a quality approach.

The many individual findings revealed by the EEC in this study are summarized by the following general observations of the County's debt collection practices:

While there is a countywide collection entity in place, there are at present, no uniform, quantifiable goals or performance measures…

- There are approximately 37 revenue or collection activities in approaches vary from highly sophisticated organization and technical control to ad-hoc and manual systems. Overall, receivables management is not a high priority. Most departments do not consider collections to be central to their mission or a support function in their strategic planning.
- There is limited ability to monitor accounts receivable at a countywide level. While there is a countywide collection entity in place, there are at present, no uniform, quantifiable goals or performance measures for accounts receivable management and collection activities within the County. Accountability measures are not in place.
- Data sharing between the departments is limited and/or restricted. Access to some types of information by specific departments is available, but generally, access is limited. There are data privacy issues, which limit access. This restricts access to important information needed to locate debtors and to attach liens to assets that might be used to satisfy debts.

Many departments have accumulated large balances of old receivables.

- Many departments have accumulated large balances of old receivables. Department and Treasurer Tax Collector (TTC) collection resources are concentrated on newer debts which means many older receivables are not being actively pursued for collection. There are no guidelines, other than write-off policies, for the handling of these accounts.
- The use of collections tools, such as intercepts and vendor offsets, is an effective mechanism for the collection of past due accounts and is used by some departments. However, these tools are not used consistently by all agencies for all accounts. The use of these tools is also manually intensive and should be thoroughly automated.
- Collection functions such as skip tracing and asset investigation are assigned to individual departments initially. While some data sharing is done, there is duplication of effort in these areas.
- The services provided by the Treasurer Tax Collector for the collection of accounts receivable are used by most county departments but there is moderate faith in their abilities to collect creating a disincentive to using TTC because of cost and uncertain collection priorities.

TTC has an active professional collection activity but it is very understaffed.

- The degree to which departments have dedicated resources to perform collections varies greatly by department. TTC has an active professional collection activity but it is very understaffed.
- There are a variety of technical solutions available for accounts receivable management. These range from manual systems to PC spreadsheet to complex computer systems. However, there is also no common tool made available by the county to help agencies manage their accounts receivable with the exception of the LEADER systems currently under development. There is also no countywide standard or consensus concerning which functions and features are most needed in a standard accounts receivable system.

EEC Recommendations for Improving Debt Collection Practices

Note: As the following recommendations are implemented, appropriate sections of the *County Fiscal Manual* may need revisions as indicated.

Implementation: Within Six Months

1. Direct each County department in conjunction with the Auditor-Controller and TTC to develop an expanded written collection policy. This policy should include procedural guidelines for the early capture of collection related information using common identifiers, reporting to Auditor-Controller the size of its receivables inventory on a periodic basis more frequently than annually, and the collectibility of the items in the inventory by class or by account.

2. Direct TTC and the Auditor-Controller to establish guidelines for the preparation of Requests for Proposal (RFP) for collection agency services, based on a department's request to maximize the use of collection agencies. These guidelines should address the number of contractors used, length of contracts, allowable work period, initial placement of accounts, retention of payfile, experience level, fees and incentives, performance evaluation, county exposure to litigation as a result of contractor practices, and reporting to TTC on contractor effectiveness. (See Appendix 2: *An Approach to Public/Private Partnerships in Debt Collection*)

3. Direct TTC and the Auditor-Controller to review the current use of the electronic credit card and check acceptance guarantee program for payment of County services and debts and establish guidelines for the expanded use of these services on a cost/benefit basis.

4. Direct the Treasurer-Tax Collector to develop a plan for an amnesty, prepared in conjunction with affected departments, for the most delinquent receivables. This plan should be carefully drawn to adjust for departmental considerations, the community's reaction, and future levels of payment compliance. The plan should also provide for an ability to accept less than the full amount due (an offer in compromise) and an ability to establish payment plans.

5. Direct all Departments to develop a list of debts that are not collectible. Each department with outstanding debts should prepare this list. The list can be created after each department develops a write-off policy for unsecured uncollected debts that are over 48 months old. The write-off policy should be developed in conjunction with and under guidelines from the Auditor-Controller and TTC. These recommended policies and implementation guidelines must be delivered to the affected departments within a specified time frame.

6. Direct the Department of Health Services in conjunction with TTC to modify TTC's handling of delinquent ***self-pay*** inpatient accounts to include the initial use of private collection agencies, with provisions for unpaid accounts to be referred to TTC after a reasonable period of time for continued collection efforts or write-off. This recommendation would include continued DHS funding of TTC at current levels through the next fiscal year to enable evaluation of TTC's cost effectiveness as the secondary collector and/or allow the TTC to restructure its collection activities. (See DHS Section)

7. Direct the Department of Health Services to capture account collection information at time of service for all users of the DHS facilities, regardless of anticipated payment method.

8. Direct the Department of Health Services to issue an RFP for collection agency assistance with their Ability to Pay accounts.

9. Direct the Department of Health Services to use a private collection agency for initial collection efforts at all DHS hospital self-pay inpatient account referrals.

10. Direct the Probation Department to maintain continuing information on its databases beyond twelve months to accommodate the tracking of receivables owed by probationers.

11. Direct the Probation Department to issue an RFP for collection agency assistance for the debt collection functions of Probation.

12. Direct the Probation Department to change its databases to enable screening and capture of correct SSN's and addresses.

13. Direct the Probation Department to capture more and better information about Probationers early in the process: at court, at sentencing, or upon release.

14. Direct the County Counsel to study and propose any necessary legislation on the legality of license intercepts both within LA County and in cooperation with regional counties, as a method of collection, and report its findings to the board.

15. Direct the County Counsel to study and report to the board on the legality of holding or denying non-emergency, non-medical County services and benefits to delinquent debtors as a method of collection.

16. Direct the County Counsel to investigate and report back to the Board on the legality of obtaining Social Security Numbers from motorists at the time citations are written, and propose any necessary legislation.

17. Direct the Sheriff Department to collect from the municipalities in arrears for department services and maintain a current account status.

18. Direct the Sheriff to include and enforce late payment clauses in contracts as an incentive to pay promptly.

19. Direct the Library to reduce the threshold for collection agency referral from $90 to $50.

20. Direct the Library to conduct a library amnesty program.

21. Direct all Departments where appropriate to require advance payments or substantial deposits as a condition of providing service.

22. Direct the Auditor-Controller to establish guidelines for the tracking of early write-off accounts for the indigent and other obviously uncollectible accounts. This recommendation is designed to enable TTC and the individual departments to accurately report receivables that are *expected* to be collectible (eliminate uncollectible accounts receivable)**.**

23. Direct the Auditor-Controller to conduct a bi-annual study to consider benefits and risks of the sale and securitization of unsecured County debts. The study needs to be conducted on a periodic basis in order to gauge changing market conditions, regulations, sales methods, and the impact on community relations.

Implementation: Six to Twenty-four Months

49. Direct BFSO, Superior Courts and Registrar-Recorder to expand exchange of data to reduce duplicate entries in their management information systems processes.

24. Direct the Auditor Controller, in conjunction with all affected departments to develop and present to the Board of Supervisors an *Annual Report on Debt Collections by Los Angeles County.* This report would account for all county receivables/delinquencies and document departmental compliance with board recommendations resulting from this study.

25. Direct the Chief Administrative Officer, in conjunction with the Department of Human Resources, to incorporate debt collection goals and the progress made by Department Directors on recommendations adopted from this reports. These goals would become part of affected Department Head's Performance Agreement Objectives and the Management Appraisal Program (MAP).

26. Direct the Department of Public Works (DPW) to create and circulate a list of contacts of private and public agencies doing business with DPW for internal use. Information about agreements among agencies and among contractors affecting DPW construction projects would improve collections.

27. Direct the Sheriff, with guidance from County Counsel, to withhold non-emergency and non-medical services to slow pay/no pay accounts.

28. Direct the Sheriff, with guidance from County Counsel, to charge municipalities for the medical care and security of city prisoners held for misdemeanors which the cities are not currently responsible for.

29. Direct the Sheriff to adopt a procedure for the billing for services within 14 days of any billable service.

30. Direct the Sheriff to adopt a procedure for contract issuance which includes a 50% retainer requirement and payment in full upon completion of private contracts with the motion picture and television industries.

31. Direct the Auditor-Controller with the cooperation of the Chief Information Officer (CIO) and the Internal Services Department (ISD) to issue a progress report to the board on the plan to increase the use of electronic banking, Internet commerce, and Electronic Data Interchange (EDI) to streamline the County's debt and revenue collection functions. This report should cover the possibility of using existing systems when appropriate, and the collection of data by electronic over manual methods early in the process.

32. Direct the District Attorney Bureau of Family Support Operations (BFSO) to draw up a proposal, including relevant costs and benefits, for improving its call center operations to include predictive dialers and other technology, and an increase in staff if necessary.

33. Direct BFSO to explore the possibilities of sharing information with other County departments using various databases and other forms of communication with appropriate forms of privacy safeguards.

34. Direct BFSO in conjunction with County Counsel, to explore methods to increase access to Department of Justice and other federal government databases in its location and skip-tracing function. The deliverable on this recommendation might involve proposing legislative or regulatory changes.

35. Direct the County Counsel to investigate and recommend changes to Federal and State laws and regulations to give County departments the legal authority to implement collection actions such as wage garnishments, tax intercepts, establish liens and levies, and the establishment of higher priority in bankruptcy for obligations owed by debtors to the County.

36. Direct the DHS to propose an ordinance in conjunction with County Counsel, to authorize the DHS director to write off all or part (account compromise) of an individual account as necessary to maximize collections. The pilot program would include reporting requirements including a periodic report of all compromises made by the DHS director to the Auditor-Controller for review with a copy to the Board of Supervisors. If effective, expand to other departments as requested.

37. Direct the Department of Health Services to study and employ billing and collection techniques used by other private and public hospitals to spur collections, including such practices as legal demand letters, earlier billings, and enforcement of the federally mandated dispute clause.

38. Direct the Department of Health Services to conduct a pilot study at one DHS hospital to perform credit checks on ATP patients to identify false or missing billing information provided by patients which results in a reduction of the patient's liability, with a private collection firm to reimburse the cost of inquiry and perform the initial collection.

39. Direct the TTC in conjunction with CIO and ISD, to prepare a cost/effectiveness study on the feasibility of establishing an on-line database using middleware technology to interface with existing County systems. This would enable access to information about debts owed the County by individuals at the time service is provided to further enhance inter-County department offsets and deny non-medical, non emergency services to delinquent debtors. This system could also enable the paperless exchange of debt information to the TTC when debts become delinquent.

40. Direct the County departments where appropriate, in conjunction with CIO, ISD and TTC to expand the automatic point of transaction system for County departments. This system should improve upon existing electronic transaction capturing systems for collections to streamline data transfer, speed bank deposits, and reduce paperwork where applicable. Long range improvement could include self-service applications such as Web enablement.

41. Direct the EEC to do a follow-up study on the ongoing policy implications of the County's receivables tracking and collections systems. This report should be coordinated with the Audit-Controller's first *Annual Report on Debt Collections by Los Angeles County.*

Implementation: Within Twenty-four to Sixty Months

42. Direct the Auditor Controller to evaluate the offset or intercept capability between all departments during the licensing process and report to the Board all opportunities for such.

43. Direct the Chief Administrative Officer (CAO) in conjunction with County Counsel to provide offset or intercept capability to all departments from any settlements they are paying out.

44. Direct the Registrar/Recorder/County Clerk in conjunction with County Counsel to study the development of reciprocal agreements with other jurisdictions regarding payment and settlement schedules. RRCC has service relationships with 88 cities, counties and other government agencies across the state.

45. Direct the Registrar/ Recorder to work with the Auditor Controller to resolve the long reimbursement period for election related activities. Pending resolution of this circumstance, direct the Auditor/Controller to change its audit guidelines to reflect the long operating cycle for election related activities, unique nature of election costs and reimbursement, and additional costs associated with responding to audit findings which do not take this into account.

46. Direct the Probation Department to employ legal remedies through the courts to address bad debts accumulated by probationers.

47. Direct Probation in conjunction with County Counsel to investigate and recommend changes to State law to allow the conversion of criminal judgements to civil judgements. This conversion would enable the County to employ traditional collection techniques not available for enforcement of criminal judgements.

48. Request the Municipal Courts in conjunction with County Counsel to study and report to the board the feasibility of de-criminalizing traffic offenses, and to recommend appropriate changes in legislation. The effect of de-criminalization would place traffic offenses and the resulting fines in the realm of civil judgements, enabling the use of a wider variety of collection methods.

49. Direct DHS in conjunction with County Counsel to research and suggest legislative changes enabling DHS to access FTB tax return information for collection purposes and the authority to intercept federal and state tax refunds.

50. Direct the County Counsel to investigate and recommend changes to the Public Records Act to allow exchange of pertinent library account information for collection purposes.

51. Direct the Auditor Controller to prepare and provide Los Angeles County employee and contractor intercept database matching to TTC, BFSO, DHS.

52. Direct the Auditor Controller to provide offset or intercept capability to all departments during the licensing process.

Section III

Analysis of County Debt Collection Practices

Probation Department

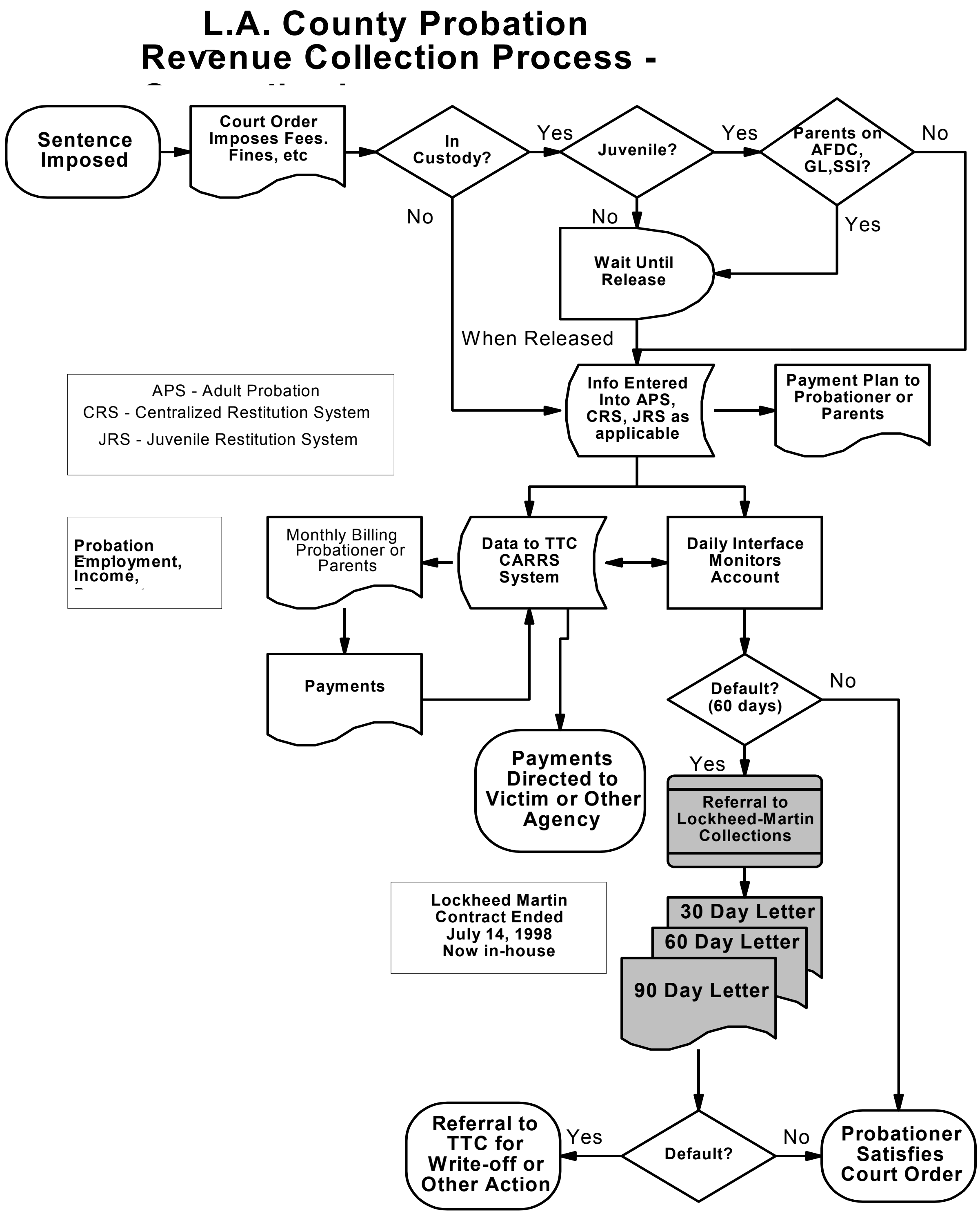
Editor's Note: *Between the time our fieldwork was conducted for this department and the issuance of this report, Probation requested editorial changes to clarify information provided by their personnel during the survey and interview process. Using our best judgement, some of these changes were made while others were not. The Department has made significant progress in increasing collections, is implementing programs to improving their collection process, and is heightening awareness among its staff about the importance of the financial aspects of probationer case management. The team believes these are positive steps in improving Probation's collection process, and would like to see this continue with the proper utilization of a public/private partnership with a collection expert. The contract with the private collection agency discussed below expired on July 14, 1998. The Department has temporarily implemented an exclusively in-house collection program for delinquent debts until another RFP for collection services is awarded in several months. This team is concerned about collection opportunities, which may be lost in the interim.*

Overview of the Collection Process

Probation has a caseload of approximately 78,000 adult and 22,000 juvenile probationers. These cases are monitored by over 650 Deputy Probation Officers, with about 300 assigned to adults and about 350 assigned to juveniles.

Under the Penal Code, the Los Angeles Probation Department is authorized to collect debts from probationers for outstanding fines, court judgements for restitution to victims, and the costs related to their prosecution, parole, rehabilitation and monitoring. Probation has a caseload of approximately 78,000 adult and 22,000 juvenile probationers. These cases are monitored by about 300 Deputy Probation Officers (DPO's) assigned to adults and about 350 assigned to juveniles. The probationers are charged a $26 per month Cost of Probation Services (COPS) fee (which can be reduced to as low as $5 per month under certain conditions) with additional fees assessed for drug testing, restitution, fines, etc. added as indicated. The probationers are given monthly payment plans to track and collect their COPS and other fees. If the probationer is unable to pay fines and restitution in full at the time of judgement, the department is authorized, under certain conditions, to include these debts in the monthly payment plan. Probation's goal is to collect as much as possible in a lump sum or on a monthly basis from the probationer until debts are satisfied. Based on ability to pay and other factors, the typical monthly payment is about $50 per month.

Flow Chart of Collection Process, January - June 1998



The process that ended July 14, 1998 involved the collection agency, Lockheed Martin, with their advanced collection tools and techniques. The correspondence process flowcharted above has no adverse consequences for the debtor if the account is not paid. Legal alternatives such as a court appearance, garnishments, liens, etc. are not currently employed to compel collection, but have on occasion been utilized in the past.

The Size of Probation Receivables

Information gathered during our field interview allowed us to determine that Probation receivables were significantly understated on the survey than the amount Probation reported to us in our follow-up interview:

Receivables Reported on Survey by Department	Reported Receivables Estimated after Field Interview
$118,000,000	$323,000,000

Accounts receivable are not aged, so Probation was unable to tell us how much is being carried and for how long.

This apparent discrepancy was later addressed by Probation personnel, who explained that the amount reported on the original survey was adult probationers only, the amount given during the field interview included all probationers as of September 30, 1997. These accounts include over 61,000 cases owing $52.5 million whose probation may have been terminated and may no longer be legally collectible. No further verifiable information was available at the time of this report.

Approximately 50% of these receivables were reported to us as restitution to victims and 34% were for monthly probation charges. When interviewed by the EEC, Probation reported total outstanding receivables at $323 million in over 213,000 accounts as of September 30, 1997. These accounts are owed by individual probationers, or their parents, in the case of juvenile probationers. The Department currently uses TTC to invoice the probationers on payment plans, and simultaneously monitors their accounts with TTC using three databases. The database Probation uses depends on the type of the probationer: Adult Probation System (APS) for adult probationers; Centralized Reimbursement System (CRS) for probationers required to pay restitution; and Juvenile Restitution System (JRS) for juveniles. TTC charges an annual fee for its services. However, their success has not been impressive, with $500,000 in probationer accounts in suspense.

Collection Philosophy

During our initial interviews Probation management stated that no written collection enforcement policy exists. Their collection enforcement is driven by court orders relating to individual probationers. Accounts receivable are not aged as part of its standard reporting protocol, so Probation was unable to tell us how much was being carried and for how long. During our follow-up discussions, we learned that Probation has reported to the Board of Supervisors the size and age of its receivables based on special reports, and that their collection policies are integrated into procedure manuals and the training of their employees.

Some legal constraints prevent or delay the collection of Probation receivables:

- Incarcerated probationers are not required to pay until released.
- Judgements against juveniles are the responsibility of their parents.
- Parents and probationers on some form of public assistance are not required to pay until they have the ability to pay.
- Probation has no legal ability to garnish checks, to use IRS tax refund intercepts, or to convert criminal court orders to civil court orders (enhances long term ability to collect).

…the backlog of cases not collected amounts to over $323 million in TTC's CARRS system.

Some procedural constraints limit the Department's ability to track and quantify their receivables:

- The databases do not track the age of receivables beyond one year. *As a result, the backlog of cases not collected amounts to over $323 million in TTC's CARRS system.*
- Information about probationers (Social Security Numbers, addresses, employers, etc.) is not collected during the court or custody process but during the first interview with the DPO.
- During our interviews it was reported that 60% of probationers are not seen by their DPO's.
- The probationers themselves are responsible for reporting address and employment changes to their DPO's.
- No one is assigned to address incorrect information about probationers relating to payments on accounts.

Impact of a Private Partnership

As part of a pilot program beginning in September 1996, the Department assigned their receivables over 60 days delinquent to Lockheed Martin (LM) for collection at a ***commission rate of 17% on***

COPS and fees collected. (By law there is no commission paid on restitution collected - about half of all Probation receivables. Restitution collections are channeled through the Auditor-Controller to the victim.) The contract also included probationer case management as well as collection activities.

…these letters triggered incoming calls from probationers who claimed they did not know about their debts owed to the County and were interested in establishing payment plans.

By the end of 1997, the contract was extended six months and expanded to include 100% of receivables over 60 days past due. However, we learned that most of the receivables transferred were for COPS fees ($32 per month) and restitution fees. In many cases, Probation retained the receivables related to other fines and fees charged. Approximately 45% of probationers on payment plans became delinquent and subject to collection.

The contractor used a correspondence collection approach, sending 30, 60 and 90 day letters for collection. Telephoning was used occasionally, but was not considered an effective tool with this population. According to LM's representatives, these letters triggered *incoming* calls from probationers who claimed they did not know about their debts owed to the County and were interested in establishing payment plans. LM's volume of uncollected receivables was $229 million as of April 1998.

The effectiveness of Probation's partnership with the private collection agency is illustrated in Figure 2 on the next page.

Collections by both the private contractor and Probation through TTC increased $4.7 million dollars (47%) during the first twelve months the contractor was employed as compared to the previous twelve months according to the Probation Department. Average monthly payment plan amounts were also impacted during this period as illustrated in Figure 3.

An increase of 47% in overall collections and 20% in average monthly payments for adult probationers is noteworthy, and deserves careful study by Probation in their future collection plans. Based on Probation's own statistics, and those provided by the Auditor-Controller, an RFP directed at obtaining expert collection assistance for Probation could result an increase in collections. A private collection partner with an extended contract could take advantage of the learning curve, and the opportunity to hold and work the accounts longer than this vendor was allowed before the contract ended, and perhaps increase collections more.

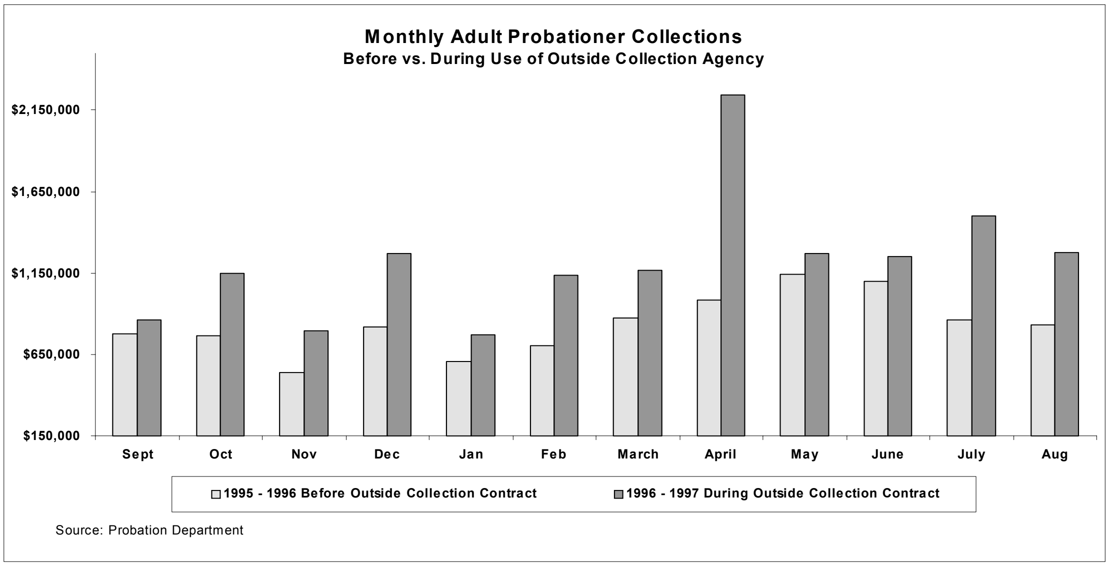


Figure 2 - Increased adult probationer collections during the collection agency contract period

An increase of 47% in overall collections and 20% in average monthly payments for adult probationers is noteworthy, and deserves careful study by Probation in their future collection plans.

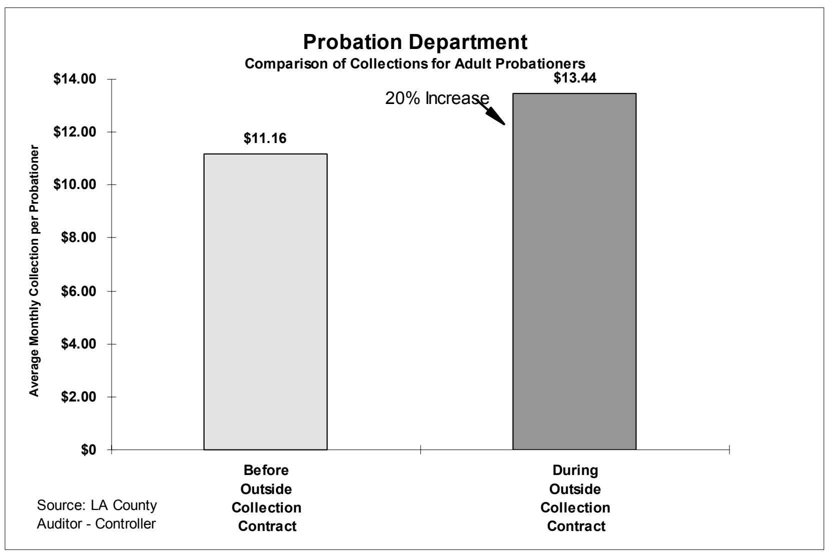


Figure 3 - Increase in monthly payments by adult probationers

Collections increased during the contract period. However, outside factors may have influenced the results:

- The economy improved throughout this period, and unemployment fell by 1.2% from July 1995 to November 1997, which perhaps improved probationer's prospects for employment.

- Assembly Bill 594 took effect at the same time the contractor began. This bill might have influenced the size of the accounts because it allowed Probation to increase its one-time fee at the beginning of the probationary period from $35 to $50. The bill may also have influenced the monthly payment plans because it allows expansion of the financial evaluation period for payment plan establishment from 6 months to 1 year. LM believes that the bill had no effect on its collection efforts.

Whether these factors accounted for all, part, or none of the increase cannot be empirically determined with certainty.

We believe that if the Department determines that outsourcing of collection procedures is appropriate, then it should focus on the collections aspect of the privatization rather than including the outsourcing of other services.

Probation issued an RFP for Probation case management and collection services in March 1998. We believe that if the Department determines that outsourcing of collection procedures is appropriate, then it should focus on the collections aspect of the privatization rather than including the outsourcing of other services. Nineteen collection firms and county agencies, including Treasurer Tax Collector, requested a copy. Twelve of these attended the bidders conference, and five agencies, including LM and TTC, submitted bids. The Probation Department disqualified all five responses, and the RFP was not revised or re-issued. ***We believe they should issue a request for collection services only***. At this time, Probation is planning an in-house collection effort to begin in July 1998 when LM's contract expires.

The RFP issued by Probation included several case management elements beyond the scope of debt collection:

- Telephone call-in reporting
- Mail-in reporting
- Kiosk reporting system (automated booths, a system Probation does not currently own, that would require the contractor to design, develop and plan by December of 1998 and implement by January 1, 2000)
- Additional services as necessary

The team's reading of the RFP left the impression that Probation intended to find a contractor to take over many of the basic case management tasks of Probation, as well as a study and implementation of the kiosks, an entirely new technology for the department. Probation established a tight timeline for the kiosks in order to maximize revenue. The principal focus of the vendors, including TTC, is collection, not case management.

Recommendations to Increase Collections

The recommended process (flowcharted on the next page) involves utilization of a private partner (collection agency) after Probation and TTC has had 60 days to pursue collection. The collection vendor is introduced earlier and for a wider variety of collections. Uncollectible accounts would be pursued with tax intercepts for three tax cycles before the accounts would be referred to TTC for write off by the Board of Supervisors or further collection.

Currently, the Probation system transfers all delinquent receivable information to TTC and the probationer information is transferred to an inactive status. The department has stated that after twelve months, the files are removed from the receivable system because they state that they cannot currently maintain that information. The *County Fiscal Manual* currently requires that delinquencies be transferred to TTC for write off. We recommend that the Probation Department follow the *County Fiscal Manual* with regard to the write-off policy.

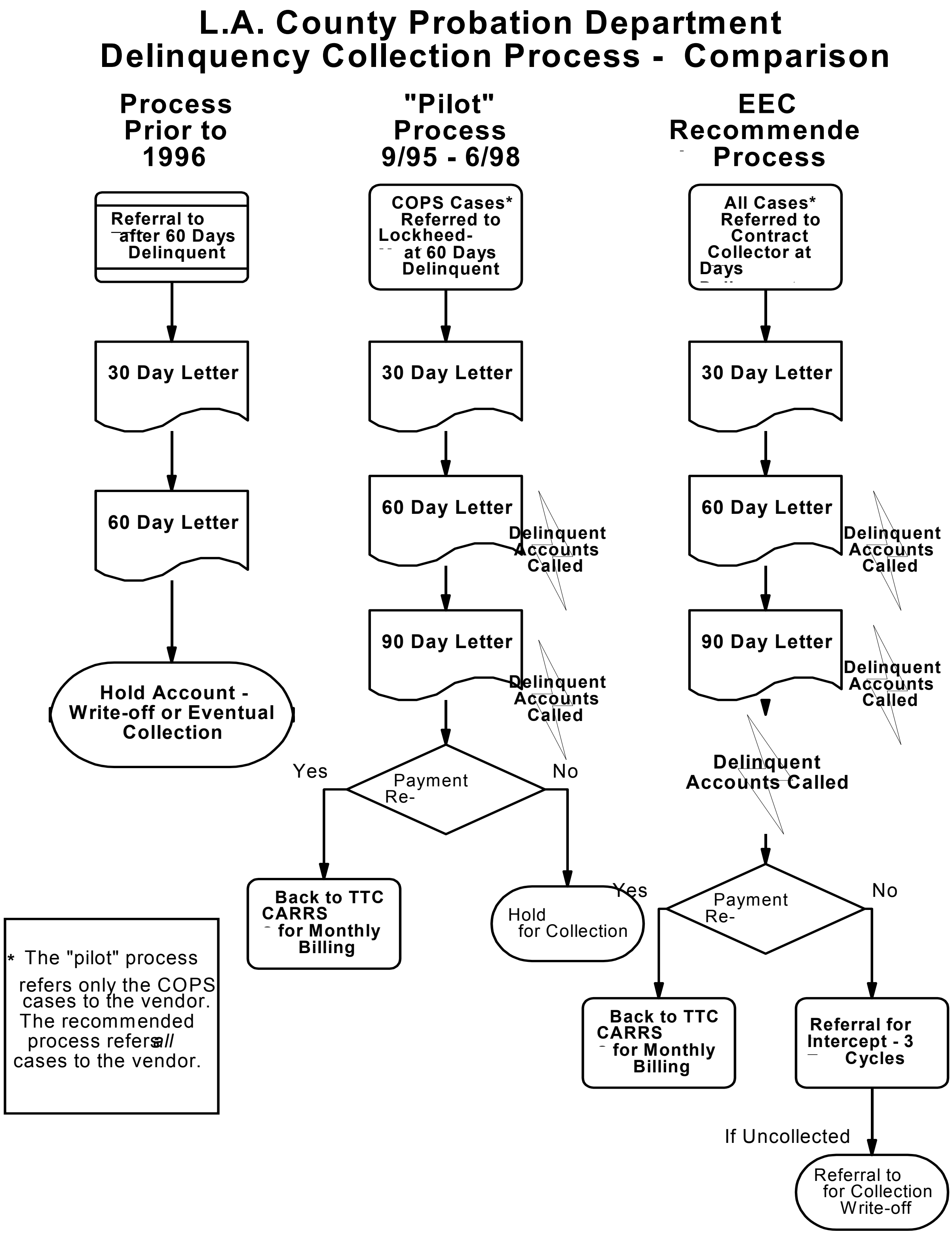
Other recommendations to address legal and procedural constraints include:

- TTC's CARRS system should screen & capture correct SSN's and addresses.
- Better up-front information at first point of contact in court, at sentencing, or upon release from custody.
- Probation should coordinate with courts to modify the source documents to collect better and more complete information which will improve the collection process.
- Legislative changes to allow Probation to garnish wages, convert criminal judgements to civil judgements, and ability to use IRS tax refund intercepts.

Implementation of Recommendations

The recommendations requiring legislative changes will require the cooperation of elected officials on the county and state level to introduce bills into the State Assembly for consideration. The recommendations to address information gathering on probationers will require a task force or committee consisting of court, probation, TTC and collection agency personnel to formulate specific plans and guidelines for implementation.

Flowchart Comparing Probation's Former Collection Process with EEC's Recommended Process



Municipal and Superior Courts

The amount of resources given to collection and the intensity of the collection effort varies from court to court with varying success.

The Los Angeles Municipal and Superior Courts administer the judicial process throughout Los Angeles County. The receivables for these courts are owed by individuals for traffic and criminal fines, civil penalties, and to recover the cost of court-appointed legal counsel. These receivables are collected in-house and by a collection agency employed by some, but not all of the courts. The amount of resources given to collection and the intensity of the collection effort varies from court to court with varying success.

For the sake of economy, we will focus on the collection practices of three entities of the County's 25 courts which present useful scenarios for our study: Los Angeles Municipal Court (LAMC), the Administratively Consolidated Municipal Courts (ACMC), and the Superior Court. This is done in anticipation of the re-alignment of Municipal and Superior Courts state-wide.

Size of Court Receivables

The amount of receivables reported to the EEC during our survey is summarized in Table 1 below:

Facility	Fines, Forfeitures & Penalties	Service Charges*	Total
Administratively Consul. MC	$25.8 Million	$1.1 Million	$26.9 Million
Los Angeles Municipal Court	26.3 Million	0.7 Million	27.0 Million
Superior Court	Less than 0.1 Million	2.5 Million	2.6 Million
All Other Courts	41.3 Million	0.6 Million	41.9 Million
Total	**$93.5 Million**	**$4.9 Million**	**$98.4 Million**

*Mostly Indigent Defense Cost Recovery Program

Table 1 - Municipal and Superior Court Receivables June 30, 1997

Based on subsequent interviews, EEC revised its estimate of Court receivables to $98.4 million.

Should the County of Los Angeles wish to evaluate the total potential of a collection program, then the entire population of accounts eligible for a recovery effort must be taken into consideration. It could be estimated that the County currently manages approximately 500,000 delinquent traffic related cases annually, and may possess as many as 1.75 million delinquent traffic cases within its total inventory. With the average balance of a typical delinquent traffic case approaching $600, ***the total inventory eligible for referral could be over $1 billion***. Assigning a hard number to Court receivables, specifically fines and penalties, is challenging due to the unique nature of the receivables themselves.

Assigning a hard number to Court receivables, specifically fines and penalties, is challenging due to the unique nature of the receivables themselves.

The actual amount paid after adjudication may be considerably less when you consider the fact that the majority of these "delinquent accounts" are directly tied to a category of cases where a court appearance has not been made. In the case of GC Services, a collection agency currently engaged by several courts to collect delinquent traffic fines, as much as 20% of the cases referred for collection make subsequent court appearances and have their civil assessment amounts reduced or waived entirely. These circumstances make the measurement of the collection performance challenging as well, which will be explained later in this section.

For example, ***when a driver is issued a traffic ticket in California, it is a criminal (as opposed to a civil) violation, specifically an infraction***, a lesser offense than a misdemeanor or felony. Unlike some states where most traffic violations are civil violations with set fines, *a traffic ticket is a summons to appear before a magistrate*, and the amount of the infraction listed on the ticket is not a fine, but a bail amount. In reality, the most motorists view the bail amount (which coincidentally varies by offense cited) as fine and mail in their check, which satisfies the court.

The collection process begins when the motorist does not pay the bail, such as when he ignores or forgets about the summons. The bail becomes a *failure to appear* assessment — a criminal fine. If this assessment is not paid after a courtesy notice is sent (see flowcharts below) a *failure to pay* assessment — a civil assessment — is added to the total amount sought from the motorist.

Until recent years, the courts did not use civil assessments, but issued arrest warrants to compel motorists to appear. ***The courts may decide at any time to abandon the use of civil assessments and return to their former practice issuing warrants, which would change the receivables picture for the courts entirely***.

The failure to appear (criminal) portion is not a true receivable (a collectable amount) from an accounting standpoint because it may be waived or reduced by a judge at any point during the collection process if and when the motorist appears. By statute, criminal fines collected are earmarked for the funding of court operations, and cannot be reduced by commissions paid to a public or private collector. If traffic infractions were decriminalized and made civil offenses, the funding of court operations would have to be addressed, but the courts would be allowed to use traditional collection actions to collect fines.

Although the failure to pay (civil) portion may also be waived or reduced at the judge's discretion, it is closer to the accounting definition of a receivable because it is owed the County General Fund, and civil judgements can be pursued using wide variety of traditional collection tools and techniques. ***Civil assessments may legally be reduced by commissions paid to public or private collectors.***

The County's automated traffic and criminal case management systems, ETRS and TCIS, are not designed to process accounts receivable such as fines, fees and bail.

Constraints on Collection of Amounts due the Courts

As explained above, bail, fines and fees due the court do not lend themselves to the accounting definition of receivables. The courts also face other legal and logistical factors that limit their ability to collect amounts owed:

- Personal and financial information on defendants is often incomplete or incorrect.
- The County's automated traffic and criminal case management systems, ETRS and TCIS, are not designed to process accounts receivable such as fines, fees and bail.
- Bail, a criminal judgment, by legal definition is not subject to traditional collection measures such as levies, liens and seizures.
- A significant number of amounts owed are uncollectible because the defendants are indigent.
- Court ordered fines and fees can be satisfied by non-monetary means such as custody or community service.

A Comparison of In-House versus Outsourced Collections

The collection processes of ACMC versus LAMC provides a useful comparison of an in-house based system over an outsourced system respectively.

Several courts within the County have elected to refer their cases to collection agencies after they have made an attempt to collect the easy accounts

ACMC established its Delinquent Traffic Citation Program (DTC) in 1996, because administrators were unhappy with the effectiveness of TTC as their collection alternative. ACMC performs administrative functions for the Compton, Downey, Los Cerritos, Whittier, Southeast and Santa Anita Municipal Courts. The system is based on taking a substantial amount of the collection process in-house, where management believes more receivables can be collected at lower cost with more customer satisfaction and greater accountability than with outsourcing to a collections vendor.

The majority of internal programs are managed in a similar manner. T*he variances occur only with the level of intensity the individual courts take in order to effect collection on their outstanding caseloads.* For most courts, the internal collection programs consist of a letter writing campaign, coupled with the issuance of a driver's license hold on traffic related failure to appear and failure to pay cases. ***Several courts within the County have elected to refer their cases to collection agencies after they have made an attempt to collect the easy accounts***, (i.e., "cream" the inventory prior to referral). Therefore it should be expected that the internal collection programs collect more money than the private sector programs, due to the fact that they manage a larger and more current inventory.

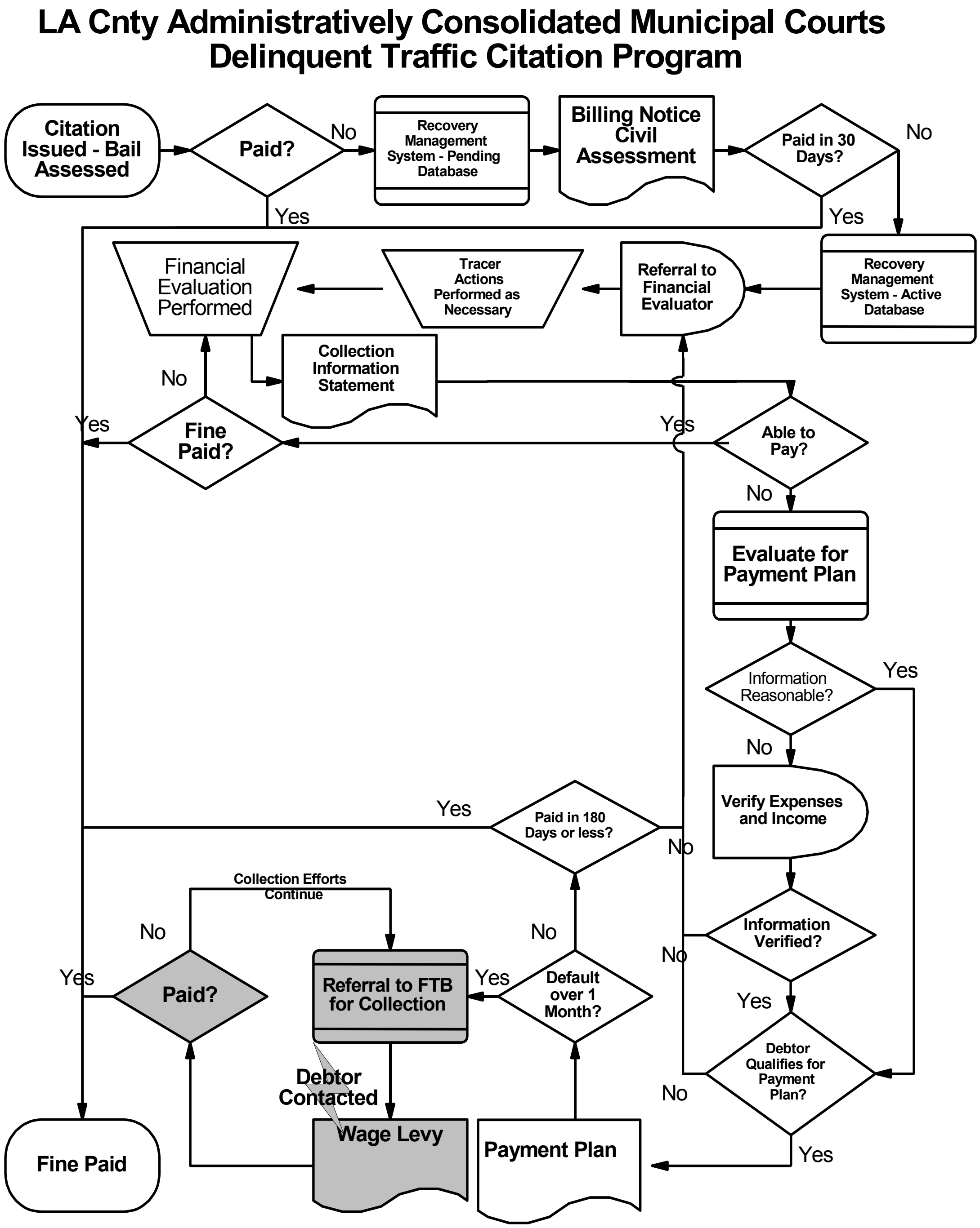
ACMC has taken in-house many functions a collection agency would perform: skiptracing, employment and income verification, credit checks and payment plans, etc; and purchased telephone, hardware and software systems to perform these functions in their own facility with Court personnel.

Start-up costs for the DTC system were reported to us at about $328,000. A staff of seven employees lead by their Division chief have an annual budget of less than $500,000 for salaries, benefits, services and supplies. The volume of receivables at the end of fiscal year 1997 was $24.4 million.

The sections in grey indicate the points in the process where collections of long overdue accounts are given to the FTB to collect, taking a 15% commission. At this point, the receivables may have been in the DTC system a long time, depending on when the default began. The FTB can perform wage and bank account levies the ACMC cannot perform, because ACMC does not have the authority.

The following flowchart outlines the DTC process:

Flowchart of ACMC's DTC Process:



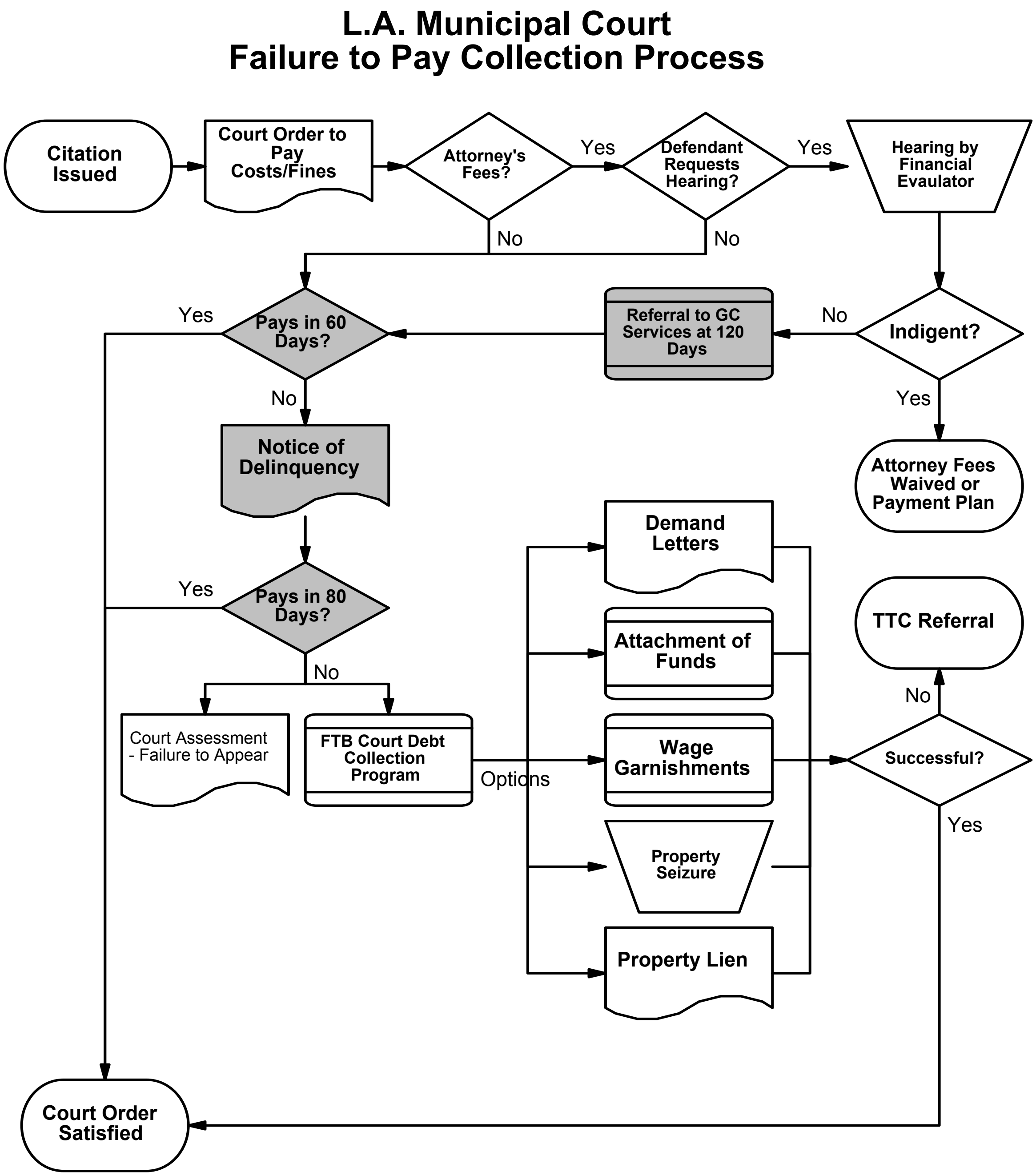
The Los Angeles Municipal Court established its revenue enhancement unit (REU) in January 1995. In November of 1992, GC Services ***(a private collection agency) was awarded a contract to conduct a pilot collection program on behalf of the outlying Judicial Districts***. The successful results of that pilot program resulted in a competitive procurement. In April 1996, GC was selected among several vendors qualified to perform collection services on behalf of all the Superior and Municipal Courts of Los Angeles County. Currently, GC has contracts with LAMC and nine other courts. Although the majority of their programs are directly tied to the management of traffic related cases, the contracts contain provisions whereby they will be able to expand the scope their programs to include non-traffic related cases.

Note that the contractor (in grey) is involved early in the process, and is given about 180 days to collect the accounts. This gives GC a limited time to work accounts as compared to ACMC's in-house program where cases worked longer. If unsuccessful, LAMC resorts to the FTB as the collector of last resort.

The contractor is paid a commission of 17% to 26% depending on the level of service provided and the volume of referrals received. This fee is charged only on the civil portion of the account. Underlying fines are transferred directly to the court. Therefore there is no budgetary impact on the courts operations.

A flowchart of the collection process for the Los Angeles Municipal Court (a GC Services client) follows:

Flowchart of LAMC'S failure to Pay Process



Effectiveness of In-House vs. Outsourced Collections

A court receivable held and pursued for months or years may be instantly reduced to a much lesser amount during a court appearance. The waiving of receivable amounts can distort the measurement of performance results of collection when comparing the ratios of receivables assigned versus the amounts collected. In these circumstances, performance of the collection process may be more properly judged by the ratio of monies collected versus monies owed *after* waiver by the bench, rather than the ratio of amount collected versus receivables assigned to collectors.

Comparing the effectiveness of the two systems has been difficult at best. The charts below and their explanations will provide some useful comparisons:

1996- 1997 Municipal Court Collections

Collection Method	Referrals	Total Direct Collections	Percent of Accounts Referred Collected	Collection Cost or Commission Paid to GC Services
In-House Staff	$84,792,959	$18,798.130	22.2%	Not Available
GC Services	73,504,741	8,830,698	12.8%	$2,041,946
DMV	Not Available	791,950	Not Available	1,010
Total	**$104,150,160***	**$28,420,778**	**27.23%**	**$2,042,956**

*Reflects the total delinquencies for which collection action was undertaken. This amount is not the sum of the methods above because, in some instances, both attempted collection of the same delinquency at different times.
Source: May 19, 1998 Memorandum to County Board of Supervisors, *Municipal Courts Debt Collection Program*, from David E. Janssen, Chief Administrative Officer

The chart provides a useful starting point for discussion but has serious shortcomings regarding its overall accuracy.

The internal collection operations were unable to provide accurate information on the size of their inventories and the individual costs of their collection programs. The $104.1 million total is about one-tenth the estimated $1 billion backlog referred to earlier in this section. Without this information, an accurate recovery percentage cannot be obtained, and therefore they cannot be compared to GC Services in this context where inventory and cost information is readily available.

Additionally, it is conceivable that part of the inventory assigned to GC Services during the 96-97 fiscal year was also included in the numbers represented by the internal operations, and may have therefore, been counted twice. Seventy-four percent of the accounts referred had prior collection activity and were aged as long as three years.

An equitable comparison of the internal collection operations vs. contracted collections cannot be drawn due to the following reasons:

- The size of the courts' inventory of accounts span 5 years, and is inclusive of *all* delinquencies, failure to appear and failure to pay current and backlog cases, criminal failure to appear and failure to pay current and backlog, and indigent defense cases. The length of time the contractor is able to work the accounts referred to them is 4-6 months; 12 months if the contractor is successful in establishing a payment arrangement. Therefore, the contractor's inventory consisted of only those accounts that the individual courts have elected to send to them, and span six months worth of delinquent case data. It is estimated that GC currently manages less than 10% of the courts' total population of delinquent accounts.

- The age of the receivables within each program, (i.e., 74% of the referrals) had prior collection activity, where the court attempted collection prior to referring the case, thus aging the inventory and making collections more difficult.

- The courts retain the ability to accept payment regardless of the disposition of the civil assessment. The contractor is required to return those cases when a bench officer has waived the civil assessment. The collection of the original bail amount in this instance is not included in GC's collection totals, but is included in the court's internal programs.

- The internal operations consist of several different case types: Traffic failure to appear and pay cases, delinquent criminal fines and fees, and indigent defense cases. Whereas, the private sector contracts only consist of the traffic failure to appear caseload during fiscal year 1996-1997.

In order to effectively assess any single collection program, several critical items must be considered: the *dollar amount* and number of cases referred by month, the *age* of the accounts at the time of assignment, the *total amount collected* on the assigned inventory by month, and the *total cost of collection*.

Additional analysis of the performance of GC Services reported on the previous table is reflected in the following table:

1996 - 1997 GC Services Delinquent Citations Collections/Resolutions

	Direct Collections	LAMC*	Nine Outlying Courts	Total
1	Total Referrals Received	$43,705,636	$29,799,105	**$73,504,741**
2	Total Collections (commissionable)	1,229,182	7,601,516	**8,830,698**
3	Commission Earned (Cost to County)	212,111	1,829,835	**2,041,946**
4	Net Proceeds to County (2 - 3)	1,017,071	5,771,681	**6,788,752**
5	% Total Collections to Total Referrals (2 ÷ 1)	2.8%	25.5%	**12.0%**
6	% Commission Rate on Collections (3 ÷ 2)	17.3%	24.1%	**23.1%**
	Other Resolved Referrals			
7	Estimated Fines Paid to Courts Facilitated by GC Services (No Commission Payable)	$19,800	$2,751,510	**$2,771,310**
8	Waived Civil Assessment Penalties Resulting from Court Appearances Set by GC Services (No Commission Payable)	14,166	2,795,946	**2,810,112**
9	Total Resolved Referrals (2 + 7 + 8)	$1,263,148	$13,148,972	**$14,412,120**
10	% Total Resolved Referrals (9 ÷ 1)	2.9%	44.1%	**19.6%**
11	% Commission Rate on Resolved Referrals (3 ÷ 9)	16.8%	13.9%	**14.2%**

*LAMC referral began in April 1997, represents only three months of collection effort, nine outlying courts represent 12 months collection activity.
Source: GC Services

In this chart, if one focuses on Row 5 (the GC's performance in the nine outlying courts) where GC had a full year to work the inventory it was given, GC collected 25.5% of its referrals (as opposed to 12% overall when LAMC is included. As discussed previously, the court's ability to waive fines and assessments once the defendant appears can distort the measures of effectiveness of the collection effort. If the waived amounts are added to the amounts collected, as well as the fines paid due to GC's efforts, the contractor's collection performance increases to 44.1% of referrals to the nine courts that used GC for the full fiscal year (Row 10).

Some courts have chosen to design a program that utilizes internal resources exclusively. Some courts have found that it is more cost effective for them to directly assign their accounts to the outside contractor, while others have developed a program that uses a combination of the two.

The statistical capability that the contractor demonstrated when responding to our study and the Chief Administrative Officer's inquiries was far superior to that of the internal operations. Ultimately, this provides the County with comprehensive collection data, which is clearly not matched by the internal operations. The costs associated with our outside collection programs are fixed, in that they receive compensation if they are successful. True costs and liquidation figures must be provided, in order to accurately assess any particular collection program's effectiveness.

True costs and liquidation figures must be provided, in order to accurately assess any particular collection program's effectiveness.

The courts retain a significant amount of control over how their delinquencies are managed. The respective bench officers determine whether or not the court involves itself in a civil assessment collection program. Undue pressure from the County to mandate a certain program may result in the courts opting to return to the old method of collection, which solely consists of issuing driver's license holds and arrest warrants. In order for the courts to remain vested in a particular collection solution, (i.e., a civil assessment program pursuant to P.C. §1214.1), then they must be able to reap a financial benefit that helps to offset their operational costs expended to manage this program. They must also be able to modify their processes in order to accommodate a change in directive from their respective bench officers. Without this level of control, the courts will more than likely choose not to engage in a comprehensive collection effort.

Superior Court

Los Angeles Superior Court operates in ten courthouses throughout the County. As enumerated at the beginning of this section, almost all of the $2.5 million in receivables owed the court at the end of Fiscal Year 1997 resulted from the Indigent Defense Cost Recovery Program (IDCP). This is a small amount in relation to the total court receivable picture, and will be discussed briefly here in order to highlight the differences between the Municipal and Superior Court receivables.

In 1994, the Court replaced its contracts with outside collection agencies with an in-house program: the Indigent Defense Attorney Fees Collection System. The system hardware is based on PC technology using dBase 5.0 for Windows as its software platform. The system enables the entry and tracking of cases and fees; automatic removal of paid cases from the active list, automatic printing of reminders, delinquency notices and failure to pay letters, and the production of management reports. The collection performance of IDCP during Fiscal Year 1997 is reflected in the table below:

Collection Performance - Superior Court IDCP	
Total Referrals - 23,339 Cases	$7,466,168
Total Collections - 20,119 Cases (includes non full-pay accounts)	1,512,633
Cost of Collection*	391,593
Net Proceeds	$1,121,040
% Total Collections to Total Referrals	20.3%
% Cost of Collections	25.8%

*Includes salaries, supervision, county benefits and supplies
Source: Superior Court

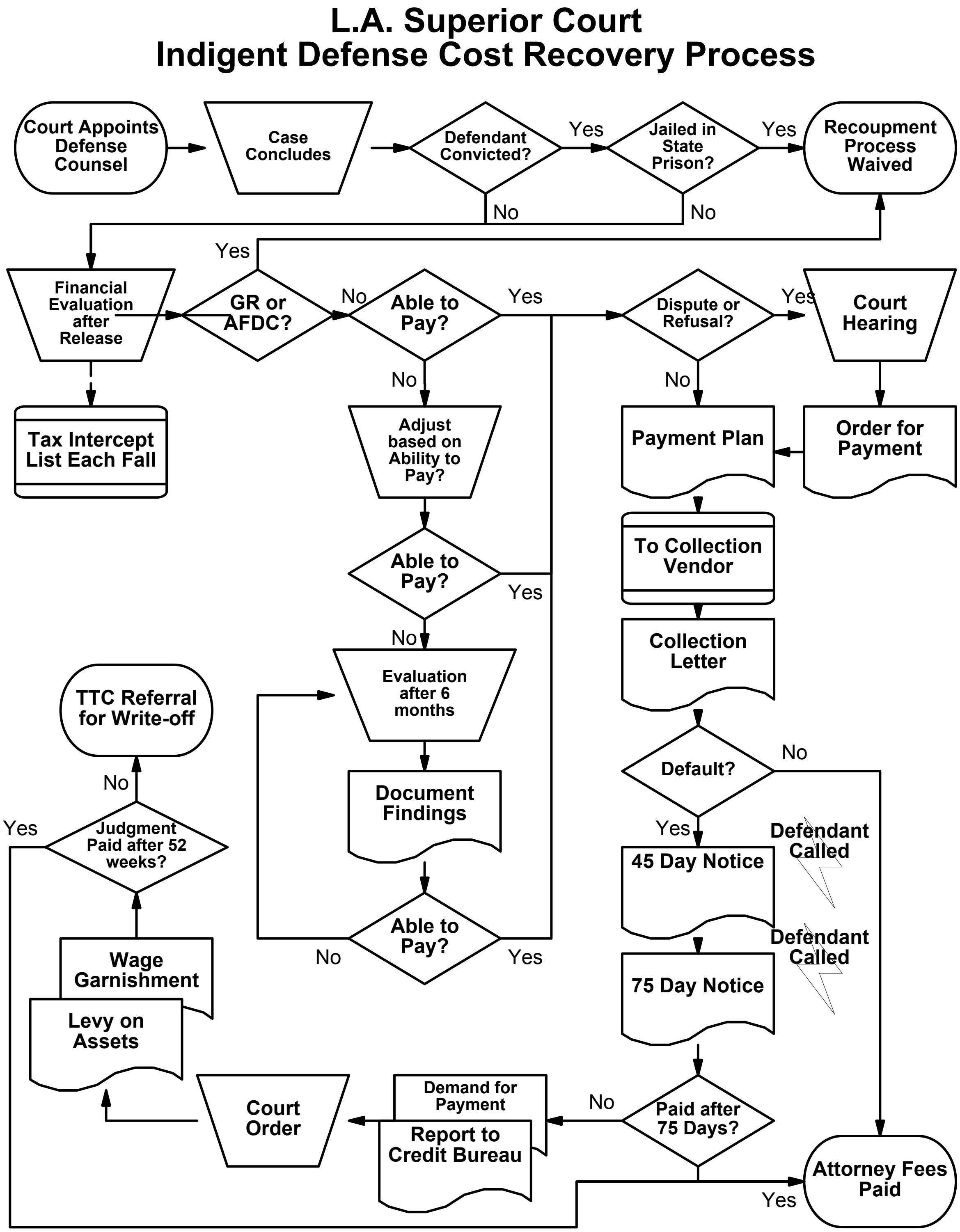
Fifty-two percent of the referrals and 57% of the collections originated in the Juvenile Courts, where parents and guardians are typically responsible for paying attorney fees. The disposition of the IDCP caseload for Fiscal Year 1997 is summarized below:

Disposition of IDCP Caseload - Fiscal Year 1997	% of Referrals	% of $ Referred
Indigent - No Ability to Collect	20%	20%
6 month Re-evaluation (on Relief, AFDC, etc.)*	10%	10%
Payment Plans/Agreements to Pay	38%	30%
In-Custody/Evaluations Pending*	25%	31%

*Statutory prohibition against collection activity for litigants in these categories
Source: Superior Court

Analysis of the flowchart (below)of this collection process reveals the following:

- Statutory prohibitions against collection (mentioned above) cause delays in 35% of the cases referred.
- The use of IRS tax intercepts is limited to an annual information exchange.
- The litigant has the ability early in the process to delay payment by means of dispute or refusal to pay, which triggers a court hearing.
- There are no provisions for the early write-off of uncollectible indigent accounts.
- The use of the collection agency is limited to administration of the payment plans.


L.A. Superior Court
Indigent Defense Cost Recovery Process
Court Appoints Defense Counsel
Case Concludes
Defendant Convicted?
Yes
Jailed in State Prison?
Yes
Recoupment Process Waived
No
No
Yes
Financial Evaluation after Release
GR or AFDC?
No
Able to Pay?
Yes
Dispute or Refusal?
Yes
Court Hearing
Tax Intercept List Each Fall
No
Adjust based on Ability to Pay?
No
Payment Plan
Order for Payment
Able to Pay?
Yes
To Collection Vendor
No
Collection Letter
Evaluation after 6 months
TTC Referral for Write-off
Default?
No
Document Findings
No
Yes
Judgment Paid after 52 weeks?
Yes
45 Day Notice
Defendant Called
Able to Pay?
No
Yes
Wage Garnishment
Defendant Called
75 Day Notice
Levy on Assets
Court Order
Demand for Payment
No
Paid after 75 Days?
Report to Credit Bureau
Attorney Fees Paid
Yes

Recommendations for Further Study

- Decriminalization of traffic offenses.
- Better data gathering on defendants early in the process.
- Shorten collection times
- Amnesty for very old parking and traffic fines
- Early referral to TTC for indigent legal cost recovery
- Re-evaluate the collection process in each court on an annual basis to determine changes to be made, including changes in the mix of in-house and outsourced collections, and the appropriate level of intensity of the collection effort.

Department of Health Services

The Department of Health Services (DHS) is safeguarding and improving the health of all Los Angeles County's residents. DHS operates six public hospitals (including three trauma centers and four emergency rooms), six comprehensive health care centers (including two urgent care centers), 23 health centers, and provides numerous health related services and health education (i.e. immunizations, inspections, education, etc.) for Los Angeles County residents. DHS is the largest department in the County government and the second largest public health care system in the nation. Last year, County hospitals and health centers (including contract sites) served approximately 100,000 inpatients totaling approximately 750,000 patient days, and provided approximately 2 million outpatient visits.

DHS net operating budget of $2.2 billion for fiscal year 1996 - 97 was funded by $1.8 billion in revenues and $400 million in County funds. One and one-half billion dollars in revenue is derived principally from MediCal payments, and to a lesser extent from MediCare, state and federal grants, insurance payments and a small amount of private payments.

HS collection philosophy is to maximize net collections (collections minus costs) utilizing both internal and external services, to take advantage of specialized skills and enhance cost effectiveness…

DHS collection activities are dramatically affected by DHS responsibility for the health care of County's indigents and welfare recipients. This responsibility, coupled with an historical emphasis on patient care over finances, has created an environment of conflicting priorities for DHS management.

Collection Philosophy

DHS collection philosophy is to maximize net collections (collections minus costs) utilizing both internal and external services, to take advantage of specialized skills and enhance cost effectiveness, and generally centers around the payers who provide the greatest amount of revenue for DHS (MediCal, and third party payors).

The concept that the patient is ultimately responsible for the costs of care is understood by DHS managers. Of the County's 9.2 million residents, 2.6 million are uninsured and 1.8 million are MediCal recipients. DHS is the health care provider of last resort for the County's indigent and working poor. As such, DHS focuses most of its collection efforts toward recouping those costs from public programs. The magnitude of DHS responsibility towards this population is so great that the State of California has granted DHS a special waiver to solicit and process MediCal applications from patients in its own facilities directly, unlike other counties where the Department of Social Services assumes that responsibility. Most of the cost of soliciting and processing these applications is subsidized by State and Federal funds.

Non-MediCal patients may qualify for the County's Ability-To-Pay program, the Pre-Payment Program (explained below), third party payment (insurance, et al), or be responsible for cost of their care themselves. DHS collection philosophy centers around the payors who provide the greatest amount of revenue for DHS: MediCal, and known and potential third party payors.

Collection Practices

DHS employs a multi-faceted strategy to accomplish its collections. The Department employs a combination of external and internal resources in combinations best suited for the type of payment sought, and the age and type of account to be collected. The use of outside resources is governed by DHS's perception of the best match of skills, economies of scale and resources to collect a given class of collection accounts. In addition to its own efforts, DHS currently employs five vendors (two additional vendors are contemplated), the CAO Urban Research Division, and the TTC to collect delinquent accounts. DHS divides its collection process into seven levels of collectibility. Each level is serviced by DHS, a private contractor, or combinations of both. A detailed chart of these levels of interaction is included in Exhibit C.

The Department employs a combination of external and internal resources in combinations best suited for the type of payment sought, and the age and type of account to be collected.

For patients who are not MediCal eligible, or do not qualify for third party benefits (i.e. insurance) DHS was mandated by Consent Decree in 1987 to provide low-cost or no cost medical care primarily under two programs: the Pre-Payment Plan and the Ability-To-Pay plan (ATP).

Briefly, the Pre-Payment Plan allows the patient to pay a set flat fee for emergency room or outpatient care at the time of care, or an envelope is provided to the patient with which to mail their payment back to DHS within seven days. Patients who do so have the remainder of their charges forgiven.

ATP is available to both inpatients and outpatients who choose not to use the Pre-Payment Plan. Eligibility is based on an interview with DHS Patient Financial Services (PFS) personnel. Due to stipulations in the Consent Decree, PFS must accept the patient's sworn statement, and can only verify financial information given (employment, rent, expenses, etc.) Historically, DHS does not have effective mechanisms to identify payment resources the patient did *not* disclose. Patients who are determined able to pay are billed for the portion of their charges they are able to pay, and the rest are forgiven. Those patients with no ability to pay have all their charges forgiven.

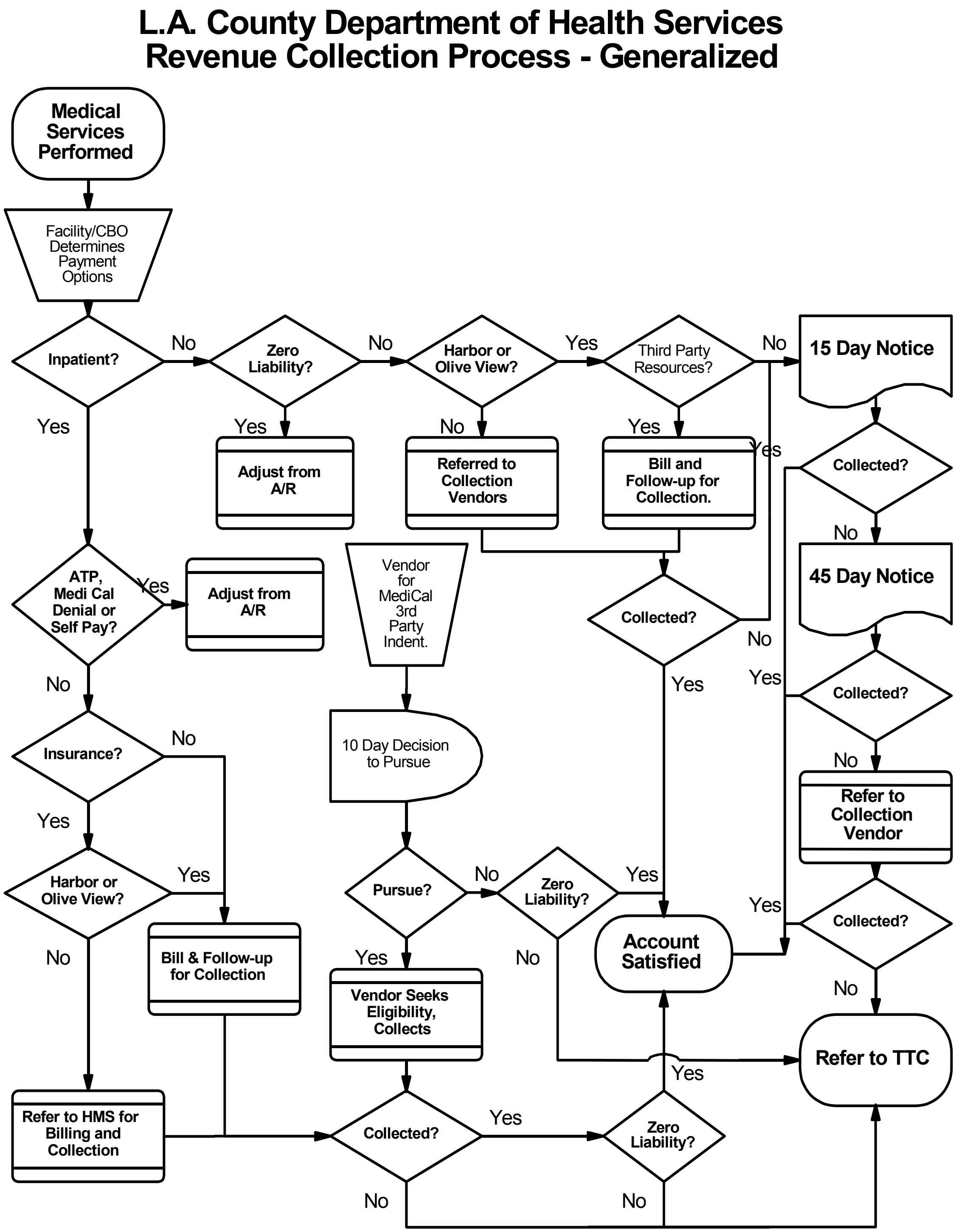
PFS informs patients that do not use the Pre-Payment plan or apply for MediCal, ATP or some other state or federal assistance, that they are personally responsible for the full amount of all their charges. These self-pay patients are the focus of DHS Business Office's efforts to identify sources of payment, re-examine MediCal eligibility, billing patients for service, and refer delinquent accounts to contractors, CAO Urban Research, and the TTC.

Consolidated Business Office and Facility Business Office (CBO)

Depending on the hospital, self-pay classified accounts are processed by either the Central Business Office (CBO) or the facility's own billing department. For the sake of brevity, we will refer to both functions as "CBO." Once the CBO receives a self-pay classified account from PFS, they bill the patients for the amount that they are responsible for. If the patients fail to respond to the bills, the accounts can be directly submitted by the CBO to contractors, or the accounts can be sent to the Treasurer Tax Collector Collections Division. Accounts that are no longer being worked directly by DHS are removed from accounts receivable.

The patients are contacted by letter to settle their accounts. These letters instruct the patients to send payments to the TTC lockbox or to call the collection agency to make payment arrangements and/or discuss their case. The demands have a 30-Day Dispute Clause that advises the patients that they have 30 days to respond or they become legally liable for 100% of the amount.

Flowchart of DHS Collection Process



Following the current procedure at the PFS, all outpatient accounts which are transferred to the CBO for billing are expedited into the billing cycle on a timely manner. It is important to note that the most effective approach to billing and collections is contacting the responsible parties as soon as possible. This establishes a sense of importance and urgency to the medical bill.

Outside Collection Agency Average Collection Results

TTC used the traditional correspondence collection methods it employs for other County departments. USCB, with their expertise in healthcare collections used their arsenal of industry best practices to achieve a higher collection rate.

Currently the national average for self-pay collections in the medical field is between 30% and 35%. With regard to insurance, a collection contractor's typical resolution rate is between 75% and 90%. This will vary depending on the age of the account and demographics of the debtors. The demographics of debtors of public hospital systems reduce this success rate dramatically. According to a survey of three public hospitals in California (Santa Clara, San Bernardino and Alameda Counties) conducted by the Auditor-Controller in January 1998, the collection rate on referred self-pay accounts was approximately 5%.

In a pilot study conducted by DHS and TTC at Harbor/UCLA Medical Center in 1997, where delinquent self-pay classified accounts were divided between a private collection agency, USCB, and the TTC, the overall collection rate was 5.52% for USCB and 2.61% for TTC. In the study, TTC used the traditional correspondence collection methods it employs for other County departments. USCB, with their expertise in healthcare collections used their arsenal of industry best practices to achieve a higher collection rate.

The willingness of USCB to assist patients in receiving MediCal benefits accounted for the higher collection rate for USCB. TTC does not pursue MediCal payments. The net collection rate for USCB (after its 25% collection fee) was 4.13%. Had DHS requested a breakdown of TTC's costs, the gap between their respective collection rates would have remained.

One of the most expensive and time-consuming functions of a medical business office is recovering delinquent insurance claims"

Insurance Recovery Program

In regard to insurance claims, achieving resolution means 1) payment 2) determining what additional information is required to pay the claim, or 3) the patient is not covered, and therefore is responsible for the debt.

One of the most expensive and time-consuming functions of a medical business office is recovering delinquent insurance claims. Insurance company policies dictate the claim procedure. DHS and other medical service providers struggle with the bureaucratic process of pursuing delinquent claims. In an effort to alleviate this, many states have passed legislation requiring insurance companies to pay or deny claims within 45 days. While this should help, many medical facilities still have claims aged 60, or even more days with no payment or denial. An average of 11-19% of hospital 3rd party payments are still due after 60 days.

Collection agencies have been successful in the medical billing field using the following strategies:

- Their demands bypass the insurance clerks, and get the supervisor involved.
- Most insurance companies have policies in place requiring an immediate response to outside 3rd party contacts.
- Agencies contact each insurance processing center from the nearest office to their location, providing local impact.
- Licensed collection agencies are required by the Fair Debt Collection Practices Act (FDCPA) to include a "Federally Mandated Dispute Clause." This clause states in part, "All portions of this claim shall be assumed valid unless disputed within 30 days of receiving this notice." This is important because most insurance carriers do not pay all portions of patients' claims. Therefore the carrier must respond to the mandate or face paying 100% of the claim.

One of our proposed recommendations … involves changing the collection practices of TTC with respect to DHS accounts.

Another common approach for settling insurance claims is compromise. Insurance companies or health care providers will sometimes offer a compromise amount to settle a claim, rather than prolong the claims process, which could result in little or no revenue collected. Currently, DHS is offered compromises, and sees them as useful in some cases. Although DHS can negotiate offers from insurers, it does not have the legal authority to accept them. TTC has limited authority to compromise accounts, with the Board of Supervisors retaining the final authority.

As discussed earlier, DHS current process attempts to use contractors to their best advantage. One of our proposed recommendations (flowcharted below) involves changing the collection practices of TTC with respect to DHS accounts.

Treasurer Tax Collector

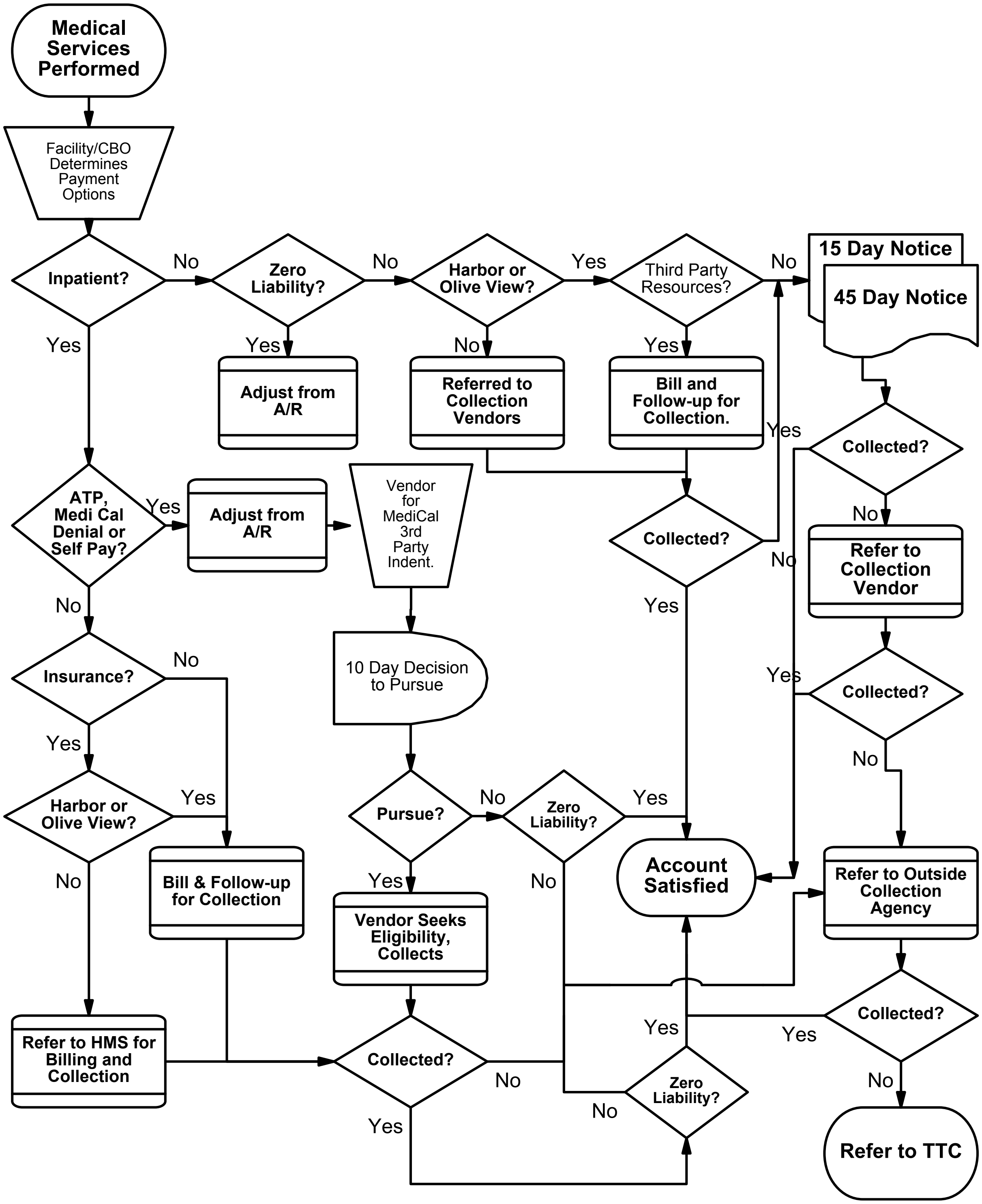
Based on the results of the pilot study, TTC would remain involved in DHS collection process, but DHS would submit the accounts directly to an outside collection agency. The contractor's demands would instruct the patients to either make their payments, or to contact the collector handling the case to discuss the matter. DHS would pay the contractor a contingent fee of 8 - 32% depending on various criteria.

With the contractor's incentive in place, each and every account would be systematically worked. The collectors would work the accounts for a limited, but reasonable, period, at which time the account would be transferred to TTC for determination for write-off, or to pursue further collection.

Recommendations for Further Study

- Use a private collection agency for initial collection efforts at all DHS hospital self-pay inpatient account referrals.
- As outlined in the flowchart above, use TTC to perform secondary collection efforts on all DHS self-pay inpatient accounts after referral from a private collection agency.
- Continue DHS funding of TTC at current levels through the next fiscal year to enable evaluation of TTC's cost effectiveness as the secondary collector and/or allow the TTC to restructure its collection activities
- Conduct a pilot study at one DHS hospital to perform credit checks on ATP patients to identify false or missing billing information provided by patients which results in a reduction of the patient's liability, with a private collection firm to reimburse the cost of inquiry and perform the initial collection.
- Seek a County ordinance to authorize the DHS director to write off all or part (account compromise) of an individual account as necessary to maximize net collections. A periodic report of all compromises would be prepared by DHS for the Auditor-Controller for review, with a copy to the Board of Supervisors.
- Legislative changes enabling DHS to access FTB tax return information for collection purposes and the authority to intercept federal and state tax refunds.

L.A. County Department of Health Services
Revenue Collection Process - Proposed



County of Los Angeles Public Library

Including Library Buildings and Bookmobiles, the Library manages 88 outlets throughout the County, serving 3.2 million registered borrowers, who make over 14 million loans per year. During fiscal year 1997, the Library generated $4.3 million in receivables, and collected $2.1 million, with $2.2 million remaining on their books as "delinquent." An understanding of Library Receivables and Delinquencies, requires an understanding of the unique nature of Library operations.

Collection Philosophy

The Library is a proprietary entity, which relies on special taxes and the general fund grants for its finances. Its primary mission is to lend books, periodicals, and other materials to its patrons. With the exception of one small program, the FYI research service, the Library does not charge its patrons user fees. The receivables it generates are extended use fees (overdue fines) and charges for lost books and materials. These items accounted for 99.9% of the receivables mentioned above. The remainder are bad checks over $50, which are eventually forwarded to TTC for collection or write off. Extended use fees and lost material charges account for less than 4% of Library revenue on an annual basis. Libraries are under no regulatory or statutory obligation to charge patrons for overdue and lost items. Libraries all over the country charge these fees as neither a source of operating revenue, nor as a punishment for tardiness, but *as a means to motivate patrons to return loaned materials*.

Libraries all over the country charge these fees as neither a source of operating revenue, nor as a punishment for tardiness, but as a means to motivate patrons to return loaned materials.

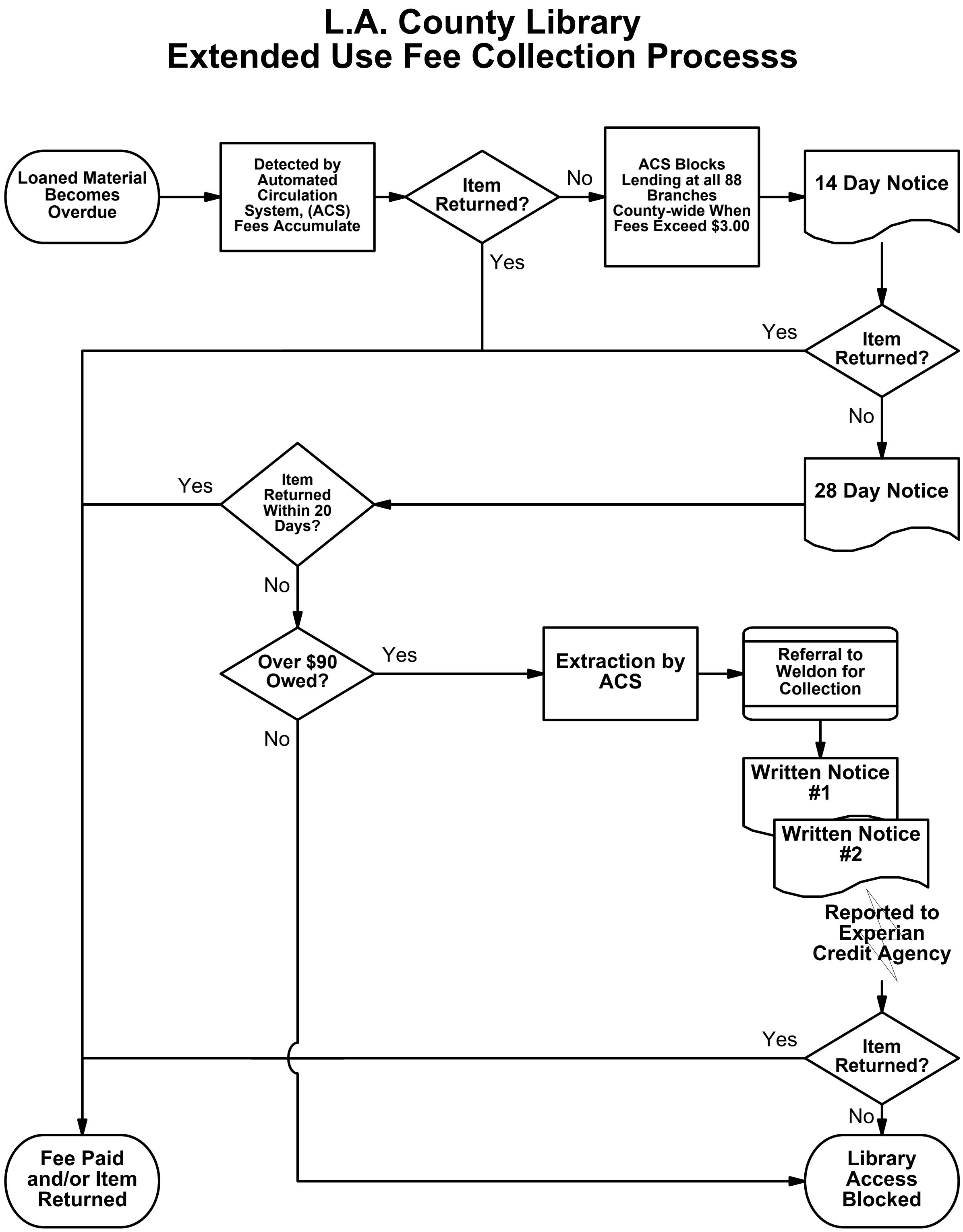
This motivation drives Library collection practices, and is logical from a service and financial standpoint. Librarians are more interested in getting books returned to their collections for other patrons to use than to collect fees for replacement. If your neighbor borrows a wrench, moves away, and does not return it, you can purchase another at the local hardware store. If a library patron does not return a book or magazine, chances are the title is out of print and cannot be purchased. For the library, return is preferable to replacement because many titles are out of print shortly after publication and cannot be replaced, or cannot be replaced without a costly search effort.

If traditional collection practices were applied to the Library, the collection of money rather than the return of materials would be emphasized. This emphasis would be detrimental to the Library's underlying mission of providing a wide variety of materials for loan.

Patrons might view aggressive collection as discouraging return and encouraging payment. The library might generate additional funds for purchases, but most purchases would be new titles, not replacements of lost items, which may be in demand by borrowers.

Overview of Collection Efforts

However, LA County Library collection practices are by no means passive. In comparison with the other 33 library systems in Los Angeles County, and the Orange County Library system, the LA County Library is the most aggressive in collection of the fees and lost material charges. The Library charges the highest fines: 25¢ per day for adults and 10¢ for children; uses the DRA (Data Research Associates) automated circulation system to track its fines and materials among its 88 outlets; sends two collection notices to users with balances due; and employs a collection agency which specializes in library collections. ***Users with balances due are blocked from further borrowing by the computer system at all outlets until the balances are paid.*** Supervisors at the local branches have the authority to waive fees charged to borrowers at their discretion. Waived fees are calculated on a monthly basis by Fiscal Services in order to monitor this activity and to compare the percentage of fees waived with other libraries as a method of control over the authority to waive fees.


L.A. County Library
Extended Use Fee Collection Processs
Loaned Material Becomes Overdue
Detected by Automated Circulation System, (ACS) Fees Accumulate
Item Returned?
No
Yes
ACS Blocks Lending at all 88 Branches County-wide When Fees Exceed $3.00
14 Day Notice
Yes
Item Returned?
No
28 Day Notice
Yes
Item Returned Within 20 Days?
No
Over $90 Owed?
Yes
No
Extraction by ACS
Referral to Weldon for Collection
Written Notice #1
Written Notice #2
Reported to Experian Credit Agency
Yes
Item Returned?
No
Fee Paid and/or Item Returned
Library Access Blocked

Size of Library Receivables

The Library provided the following summary of its receivables and collections at the end of fiscal years 1996 and 1997:

	FY 1995-96	FY 1996-97
Receivables by Type		
Bad Checks	$ 2,371	$ 2,427
Fines, Fees, Lost Books & Materials	3,822,675	4,326,486
Subtotal	3,825,046	4,358,913
Less Collected By:		
County Library Staff	1,871,006	1,966,864
Weldon and Associates	159,096	128,517
Treasurer-Tax Collector	70	- 0 -
Subtotal	(2,030,172)	(2,095,381)
Total Delinquencies	$1,794,874	$ 2,263,532
Delinquencies by Type		
Bad Checks	2,301	2,427
Fines and Fees*	861,557	1,122,281
Lost Books & Materials	931,016	1,138,824
Total	$1,794,874	$2,263,532

*Generally will not meet collection agency criteria.

The total value of receivables held by the Library was not provided. If this amount was given, it would add little value to the study due to the process the Library uses to put receivables on its books. The conversion of fines to lost materials charges, the write-off policy, and the interaction of the collection agency distorts the total. The cause of this distortion is attributed to the nature and philosophy behind the library's management.

How a Fine Becomes a Lost Material Charge

Extended use fees (fines) accumulate in the patron's account until materials are returned or the assessment equals the "class value" of the missing material. Class value is an estimate for materials in a group of similar materials, and will rarely reflect the historical or replacement cost of the material. For example, a novel which may have cost $20 per copy when new several years ago, would be assigned to the "adult fiction" class, where all materials are given a fixed value of $18 per copy (example amounts used for the sake of explanation). If replaceable, that novel may cost more or less to replace at current prices depending on the market. An effort to track current prices (if available) of materials in the library collection, traced to each item would be costly and time consuming. The class values are adjusted for market conditions from time to time, but the amounts owed by patrons are not adjusted. Thus, the value of the receivables the Library holds is inexact from an accounting standpoint: the aggregate of fines over $3.00 assessed by its computer system, and these arbitrarily estimated costs for materials lost.

The Library does not write off delinquent accounts.

Write-off Policy

The Library does not write off delinquent accounts. An estimate of uncollectible accounts is not made. This practice reflects "the return is preferable to payment" philosophy in the library community. With the exception of bad checks over $50, nothing is referred to TTC. Delinquencies accumulate from year to year, and stay active on the system. This method keeps the patron in "blocked" status, in the hopes of return or collection the next time the patron tries to borrow materials. The Library values the return of its materials, even years later, over the payment or write off of delinquent accounts.

Collection Agency Interaction

Weldon and Associates, the Library's collection agency, specializes in collection for Libraries. According to their recently renewed contract, Weldon is paid a flat rate $4.50 to $4.90 per account referred depending on volume. Accounts owing over $90 are referred by the DRA system to Weldon according to the status of the borrower (patron, library employee, VIP's), the type of material borrowed, and amount owed. Accounts referred remain in the DRA system, as delinquent borrowers are instructed to return the materials or pay their accounts at any branch library. The accounts remain with Weldon for four months, with the option of extending to seven years. Weldon is a correspondence collection agency that sends two notices within 60 days, and reports the unpaid balance to the Experian credit reporting agency. Phone contact not is attempted because of poor results.

Weldon reported to the Library the following results for fiscal years 1996 and 1997:

	Gross Assignments		Net Assignments*		Total Recovered		Cost of Collection
Fiscal Year	**Accts**	**Amounts**	**Accts**	**Amounts**	**Accts**	**Amounts**	
1996	3,834	$609,357	3,223	$536,590	2,509	$159,096	$18,788
1997	3,722	$554,376	3,446	$504,835	2,039	$128,517	$19,243

*Net Assignments are Gross Assignments less Mail Returns, Disputes, Bankrupts, etc.

Over the last two years, Weldon collected approximately 28% of the net assignments passed to it by the Library. These are good results, which beg the question: *Why not increase Weldon's assignments and thereby increase collections and returns?*

The answer to this question is reveled in the sizes of individual accounts receivable. The Library provided the following information regarding their outstanding fines created during the last two fiscal years:

Amount Owed	Number of Borrowers	Total Amount Outstanding	Average Amount Owed
Under $50	219,013	$2.077 Million	$9.48 each
$50 or more	19,598	$1.960 Million	$100.01 each

The Library holds a large number of accounts with very small balances, and relatively few accounts which will meet collection agency criteria…

The Library holds a large number of accounts with very small balances, and relatively few accounts, which will meet collection agency criteria, which includes a threshold amount of $90. The cost effectiveness of pursuing smaller accounts with either the collection agency or increase in-house collectors is questionable. The Library also reports one of the major limitations of the correspondence method of collection is the high number of notices returned as undeliverable by the Post Office due to the mobility of the region's population.

Other Factors in Library Collection

The Library does not employ specialized employees for collection. Collection responsibilities are spread among employees in Contract Services, Fiscal Services, and Bibliographic Services. Remember, the emphasis is on the return of materials over collection of monies. This emphasis helps make individual librarians at the branches directly involved in the collection process. Through the lending and return of materials, and the collection and waiving of fines on an ongoing basis, collection responsibilities are spread widely throughout the organization.

Borrower privacy issues affect the collection process. The Library is restricted from sharing information about library patrons and the materials they borrow by several sections of the Public Records Act (§6254, 6254.5, 6255, 6267) and perhaps by Constitutional protections of freedom of speech and expression. These restrictions limit the sharing of borrower information with other County, State, and Federal agencies to coordinate collections, or to employ tax or license intercepts.

Recommendations for Further Study

- Reduce the threshold for collection agency referral from $90 to $50.

- Accept credit card payments (subject to limitations) for payment of lost books and materials fees.

- A "library amnesty" program where overdue materials could be returned without penalty by borrowers. The Library last held an amnesty program during the last two weeks of June, 1986. That amnesty resulted in the return of 63,603 books and other materials valued at over $1 million. A prior amnesty, held in April 1981, resulted in the return of 30,000 items.

- Amend the Public Records Act to allow the exchange of pertinent account information with government agencies for collection purposes.

Los Angeles County Department of Public Works

The LA County Department of Public Works (DPW) provides water and sewage service to residential and commercial customers, and building permits, repairs, engineering services, inspections, and installations for individuals, construction companies, real estate developers, municipalities, and government agencies. The agency bills for most products and services it provides. DPW is responsible for these services throughout the entire county except in areas serviced by municipalities and water districts that have not contracted with DPW. At the end of fiscal year 1997, DPW had an Accounts Receivable balance of $9.8 million, with $569,700 considered "delinquent" by DPW.

Collection Philosophy

The department places a high priority on collecting its receivables, but is hampered by the nature of the interaction between government agencies (its major customers) and the long payment cycle times typical in the construction and real estate development industries.

DPW relies heavily on collection of fees for product and service for its day-to-day operating expenses. The department places a high priority on collecting its receivables, but is hampered by the nature of the interaction between government agencies (its major customers) and the long payment cycle times typical in the construction and real estate development industries. This environment has lead to the practice of sending outstanding receivables on two tracks for collection depending on the customer. Fiscal Management is primarily responsible for collection from private customers and public entities who pay quickly. Government customers with long-aged receivables are referred to DPW upper management because of political considerations and other commitments.

Compared with the total volume of receivables, TTC participation in the collection process is minimal. DPW refers 250 to 350 accounts per year to TTC for write off. Accounts referred for write-off totaled $310,702 and $158,822 for Fiscal Years 1996 and 1997, respectively. About two-thirds of these accounts were over $50 (average $2,087), and the remaining third under $50 (average $29). The population of write-off accounts is dominated by bad checks, private sector long term receivables, and charges that are past the statute of limitations for collection.

Overview of Collection Efforts

DPW separates its receivables into two major categories: Waterworks and Services.

Waterworks are utility billings to residential and commercial customers and non-water sales memo billings for damaged or lost

DPW property. These billings are automated until they are deemed uncollectible. Then a manual process takes over which eventually leads to referral to TTC for collection or write off. Customers tend to pay their utility bills on time to avoid cutoff of service, therefore, these receivables take up a very small part of outstanding receivables.

Services are billings for services to cities, government agencies and private companies for construction, engineering repairs and related services. These billings are entered into the FMIS system, which interfaces directly with the County CAPS system, and is reconciled on a monthly basis. DPW is converting to a new system, FAS (Financial Accounting System) July 1, 1999. The bulk of these receivables are owed by government agencies, some for many months or years before they are paid. These receivables take up the bulk of long-aged receivables and will be discussed in greater detail below.

DPW does not employ an outside collection agency. Delinquent accounts and dishonored checks are referred to TTC for collection, which charges DPW a 35% fee on collections.

Overview of DPW Receivables

DPW provided the following summary about its receivables outstanding at the end of fiscal years 1996 and 1997:

Receivables by Customer	FY 1995-96		FY 1996-97	FY 1997 %
Private Individuals/Companies	$2,404,079		$2,691,276	27.5%
Major Utility Companies	79,606		103,526	1.1%
Solid Waste Landfills	23,634		133,750	1.4%
Financial Institutions	2,522		2,237	0.0%
Rents and Leases	67,343		30,767	0.3%
Other L.A. County Departments	821,204		638,083	6.5%
Cities	2,932,599		2,616,473	26.7%
Other Government Agencies - LACMTA	1,524,672		3,226,573	32.9%
Other Government Agencies	73,632		17,274	0.2%
Treasurer Tax Collector	1,448		5,520	0.1%
Undeliverable - Bad Address	66,794		13,244	0.1%
Bankruptcy - E.J. Burnett	243,458		243,458	2.5%
Bankruptcy - Other	22,380		1,608	0.0%
Duplicate Provider Numbers	111,148		68,753	0.7%
Corrected Undeliverables	5,372		29	0.0%
Provider Address is Blank	5,083		5,083	0.1%
Total Receivables	$8,384,974		$9,797,654	100.0%

Approximately 60% of DPW's receivables are owed by cities and LACMTA. LACMTA alone owes approximately one third of all DPW receivables. Another 27.5% are owed by private entities, mainly construction companies and real estate developers. The following analysis of the age of receivables (provided by DPW) in these three categories (totaling 87% of all DPW receivables) will be helpful in explaining the collection challenge DPW faces:

DPW Accounts Receivable Aging (Selected Categories) as of 6/30/97							
Customer Class	**Current**	**Over 30 Days**	**Over 60 Days**	**Over 90 Days**	**Over 180 Days**	**Over 360 Days**	**Total**
Private Indiv. & Cos.	$1,291,829	$133,972	$56,078	$157,659	$801,165	$250,573	$2,691,276
Cities	1,272,861	748,679	165,793	347,434	62,029	19,678	2,616,473
LACMTA	1,309,156	40,791	117,935	540,485	21,077	1,197,130	3,226,573
Total of Three Largest Classes	$3,873,846	$923,442	$339,806	$1,045,578	$884,271	$1,467,381	$8,534,323
Percent of Three Largest Classes	45.4%	10.8%	4.0%	12.3%	10.4%	17.2%	100.0%

Nearly 40% of DPW receivables among these three classes are outstanding over 90 days. In the private sector, receivables of this age would be turned over to professional collectors, written off to bad debt, or settled by other means. Using the "over 90 days" yardstick, over $3.4 million of DPW delinquencies (as opposed to the $569,700 reported) would be considered delinquent. The use of the private sector rule of thumb has little application for government accounts due to provisions of the *County Fiscal Manual* and the usual payment cycle of government agencies.

LACMTA invoices are very slowly paid and require much effort on the part of Fiscal personnel to collect, sometimes warranting personal delivery of documents to spur payment.

The *County Fiscal Manual* provides an exception for the referral of uncollectible accounts owed among government agencies. These accounts remain with the involved departments. According to the DPW personnel we interviewed, accounts owed by cities are paid slowly, but regularly, and eventual collection is virtually assured. Payments are held up for a variety of reasons (disputes over division of costs, the fiscal cycle, legislative appropriations, awaiting payments from other agencies, etc.) but are typically settled by DPW management and collected.

LACMTA has paid $1 million to $2 million each year on account. LACMTA invoices are very slowly paid and require much effort on the part of Fiscal personnel to collect, sometimes warranting personal delivery of documents to spur payment. Although DPW dispatches invoices to LACMTA on a timely basis, LACMTA project managers often do not receive DPW invoices for payment approval, and subsequent duplicate deliveries must be made before the invoices reach the right manager. DPW Fiscal personnel are prohibited by their management to contact LACMTA (and other government) management to pursue payment. The DPW requires these requests to be forwarded to their management and handled at that level. DPW is now producing a spreadsheet that tracks invoices by project manager to improve LACMTA response to invoices when presented. This particular account has more than doubled its outstanding balance from fiscal year 1996 to fiscal year 1997.

The strongest collection tool DPW currently employs is the denial of building permits to bankrupt accounts.

Amounts owed by private entities may be turned over to TTC if over $50 and owed more than 60 days. DPW holds these accounts much longer because they have had better results collecting their own overdue accounts and because they have difficulty reconciling TTC reports with their own. They also feel that the 35% charge TTC places on collected accounts is too costly. The size and age of many private accounts is due to the long collection cycle in the construction and real estate development industry (120 days or more is common). DPW does not use a collection agency, although the Fiscal Manual allows this, and other County agencies have had some success with the practice. The strongest collection tool DPW currently employs is the denial of building permits to bankrupt accounts.

Currently, the accounts receivable staff is composed of one full-time and one part-time employee supervised by one accountant. At one time, the DPW accounts receivable team employed an individual who coincidentally had a good working knowledge of the construction industry. This person was effective in collection because he understood the jargon and cycles of the industry, and knew the most effective person to contact in those types of organizations to effect payment.

Recommendations for Further Study

- A formalized, written list of contacts at government agencies and agreements among agencies doing business with DPW.
- Authority to file liens against private construction projects with which the DPW is involved (a common practice in the private sector).
- Use of a private collection agency as an alternative to the TTC.
- Authority to write off accounts up to specified tolerances by fund.
- Authority to use tax and license intercepts as collection tools.
- Convert a position in accounts receivable to a collection specialist position.

Los Angeles County Registrar-Recorder/County Clerk

The Registrar-Recorder/County Clerk's (RRCC) department was selected for study by the Commission based on the size of receivables at the end of Fiscal Year 1997: $16.8 million with $3.8 million delinquent. Upon interviewing RRCC personnel, we learned that almost the entire balance, $16.1 million, is owed by other government agencies (predominantly agencies of the State of California) for election-related services. Because the Commission's focus is on County receivables held by individuals and business, our discussion of RRCC will be more brief than the other departments.

Overview of Collection Efforts

The *County Fiscal Manual* stipulates that receivables owed by other government agencies remain with the involved departments. Although payment can take up to two years in some cases, the RRCC reported no uncollectible receivables. Of the $3.8 million in delinquencies reported at the end of Fiscal Year 1997, $2.5 million of these were collected as of early May 1998. Over the years, the slowness of payment has had little budgetary impact on RRCC operations because these delays are expected and planned for. Overdue accounts by cities and special districts are referred to RRCC Fiscal Manager for collection. According to written internal procedures provided to us, these accounts are turned over to TTC after 120 days. In practice, these accounts are settled in full after payment terms are negotiated. Claims against other government agencies are handled on a case-by-case basis by the Fiscal Manager, or in some cases by the RRCC Division Manager.

Of the $3.8 million in delinquencies reported at the end of Fiscal Year 1997, $2.5 million of these were collected…

Non-government receivables are handled internally by the RRCC Receivable/Collections staff of two accountants, a clerk and a secretary. Delinquent accounts are referred to TTC for collection or write off after a series of letters at 30, 60 and 90 days overdue. Very few accounts (usually bad checks) are referred. RRCC does not use a collection agency for non-government accounts because Fiscal Management does not feel the volume warrants this.

Recommendations for Further Study

- Direct the Registrar/ Recorder to work with the Auditor Controller to resolve the long reimbursement period for election related activities. Pending resolution of this circumstance, direct the Auditor/Controller to change in audit guidelines to reflect the operating cycle for election related activities, unique nature of election costs and reimbursement, and costs associated with responding to audit findings which do not take this into account.

District Attorney Bureau of Family Support Operations

The District Attorney Bureau of Family Support Operations (BFSO), like the other 58 county district attorneys, is under contract to the California Department of Social Services to collect child support from non-custodial parents and transfer the funds to the custodial parents. The mission of BFSO is to establish paternity, locate the non-custodial parent, establish and enforce court orders to pay child support, collect child support, and establish and enforce medical insurance coverage. Although the collections pursued by BFSO are not debts owed to the County of Los Angeles, the collection of child support has a ripple effect on County expenditures for welfare, AFDC, health care for the uninsured, and other social welfare programs directed towards children and single parents.

Although the collections pursued by BFSO are not debts owed to the County of Los Angeles, the collection of child support has a ripple effect on County expenditures for welfare, AFDC, health care for the uninsured, and other social welfare programs directed towards children and single parents.

In recent years, BFSO has been under increasing scrutiny by the media and government-funded studies. The reports coming out of those studies have been highly critical of BFSO efficiency and effectiveness in establishing paternity, locating non-custodial parents, and affecting payment of child support. We have chosen not to re-hash these reports, but to concentrate on changes made since their issuance, and on our own recommendations for improvement.

Our study has revealed that although a substantial amount of child support remains uncollected, BFSO is progressively improving its operational effectiveness. Improvements in the ARS computer system, additional staff, and recently enacted welfare legislation has lead to a reduction in caseload and additional collections.

Size of BFSO Receivables

As of the compilation of this report, BFSO is working 500,000 active child support cases with an estimated $2 billion in receivables due custodial parents. The relative age of the receivables owed was not provided. As a "receivable" unpaid child support accumulates until the child reaches the age of majority, and remains payable to the custodial parent.

Although a substantial amount of child support remains uncollected, BFSO is progressively improving its operational effectiveness.

BFSO's Challenges in Collecting Child Support

Until recently, BFSO's greatest challenge in collecting child support was the identification of the fathers of children of unwed mothers. Establishing paternity as early as possible greatly improves BFSO's probability of collecting solid data (address, Social Security Number, employment, etc.) about the father and collecting child support. Several weeks, months, or years after birth, it was difficult to encourage fathers to come forward voluntarily. Mothers were reluctant to identify the fathers out of concern regarding reduced social services and welfare payments if the father was identified. Until welfare reform legislation was adopted in 1994, unwed mothers could not be compelled to identify fathers in order to receive benefits. The new legislation requires all hospitals and birthing centers to seek a written declaration of paternity from the father at birth, and include that information on the birth certificate.

Prior to the legislation, less than 8% of the fathers of children of unwed mothers signed documents recognizing their paternity at the time of the child's birth. In 1995 and 1996, when the legislation's mandate was voluntary, 50% signed paternity documents. When the legislation became mandatory in 1997, 70% of these fathers signed documents at the time of birth. Although the law provides for unilateral recision of the declaration, BFSO reports only a handful of paternity recisions, and no court challenges to the law or to paternity established in this fashion. BFSO has not reported a reduction in its receivables balance due to this change in policy citing its recent adoption and lack of reliable data information on a statewide level while the State improves its automation.

Automation improvements in BFSO's ARS system resulted in a 200,000 case reduction in calendar year 1997.

BFSO reports that recent improvements in the ARS system has enabled BFSO to improve its locating capabilities, to close "uncollectible" cases, to automate the (paternity) establishment process, and to reduce its accounts receivable by 20%. ARS allows BFSO to link directly to the California state locator system, and indirectly to the federal system.

Automation improvements in BFSO's ARS system resulted in a 200,000 case reduction in calendar year 1997. Prior to that time, BFSO had difficulty identifying cases that met its "closing criteria." In order to better focus its collection efforts, BFSO's policy allows child support cases to be closed if the non-custodial parent cannot be located within thirteen quarters (39 months). The custodial parent is informed of this decision and can appeal within 60 days. Any case can be re-opened at any time when additional location information is provided. In 1997, the ARS system identified 200,000 unlocated cases meeting this criteria, allowing BFSO to purge its caseload of cases least likely to be resolved. This reduced the caseloads of Case Officers, allowing them to focus on cases more likely to be resolved.

In response to observations made in previous reports, BFSO has increased its staff by 150 case officers. BFSO is seeking Board approval for 45 - 50 additional staff for its recently approved Call Center. The Distributive Call Center will employ distributive call technology, with predictive dialers under consideration, but not yet approved.

Access to Department of Justice (DOJ) databases is a manual interface, limited to one non-linked terminal for the entire county. Citing security reasons, current DOJ guidelines limit counties in the U.S. to one terminal per county regardless of size or pattern of use.

Privacy Safeguards

There is concern about the type and amount of information that child support agencies collect and have access to. Much of the information that child support agencies collect is strictly guarded by both Federal and State statutes. The use or release of information concerning recipients of benefits of programs under the Social Security Act is restricted to purposes directly related to administration of those programs. Welfare Reform amended the State Plan requirement, effective October 1, 1997, and requires the State IV-D agency to institute safeguards against the unauthorized use of disclosure information, including prohibitions against the release of information concerning the physical whereabouts of one party to another where there is a protective order or reason to believe that such disclosure may result in harm. Specifically, child support information may be disclosed only for purposes of, and to the extent necessary in, establishing and collecting child support obligations from, and locating, individuals owing such obligations.

…expanded access to records affords BFSO greater opportunities for tracking down delinquent parents

The Impact of Welfare Reform

Child support enforcement reform will mean that many families which are *not* currently on welfare will never be forced to go on welfare in the first place. The new law also expands an IV-D agency's authority to access a variety of other records, including credit histories, financial institution records, corrections and law enforcement records, military locate, telephone, utility and cable television customer records, and a full array of State records (vital statistics, State and local tax records, corrections and law enforcement records, occupational and professional license records, State corporation and partnership records, employment security records, public assistance records and motor vehicle records.) This expanded access to records affords BFSO greater opportunities for tracking down delinquent parents.

Flowcharts of the BFSO Collection Process

See Exhibit D.

One of the striking features of the BFSO Flowcharts is the apparent co-mingling of establishment and casework with the collection process itself. At first, EEC looked closely at this co-mingling for opportunities to streamline the process: separate case development from collection to allow specialists to concentrate on each process. We found this strategy to be unworkable. The processes are purposefully combined in order to preserve the legal and financial safeguards of the non-custodial parent as provided by law.

Recommendations for Improvement

Although BFSO has made great strides in the last two years to improve its operation, performance measures of BFSO compared with other counties in California remains low. We suggest the following improvements in the BFSO collection process:

- Direct BFSO to explore the possibilities of sharing information with other County departments using various databases and other forms of communication with appropriate forms of privacy safeguards.
- Direct BFSO to draw up a proposal, including relevant costs and benefits, for improving its call center operations to include predictive dialers and other technology, and an increase in staff if necessary.
- Direct BFSO in conjunction with County Counsel, to explore methods to increase access to Department of Justice and other federal government databases in its location and skip-tracing function. The deliverable on this recommendation might involve proposing legislative or regulatory changes.
- Direct BFSO, Superior Courts and Registrar Recorder to continue to explore the options of increased exchange of data to reduce duplicate entries in their management information systems processes. The initial efforts have saved the county millions of dollars in manpower hours for both the DA and the Superior Courts.

Sheriff Department

The Los Angeles County Sheriff Department provides police services for unincorporated areas of the County and municipalities under contract; jail and custody-related services; and traffic and security services for private entities for events such as large gatherings and film production. The Sheriff charges user fees to municipalities, school districts, and other public and private entities for these and other services.

The Size of Sheriff Receivables

In response to our original survey, the Sheriff reported its receivables to us and the Auditor-Controller as $52.3 million at the end of Fiscal Year 1997. The amounts owed were roughly distributed among the following creditors:

Class	Amount	Anticipated Collection
U. S. Government	$1.7 million	6 Months
State of California	20.5 million	2 to 12 Months
Municipalities	28.0 million	2 to 3 Months
Other	1.8 million	2 Months
Owed from Prior Years	0.3 million	6 Months
Total	**$52.3 million**	

As with many County agencies, the bulk of their receivables are owed by other government agencies, 96% in this case. Pursuant to the interview with EEC, the Sheriff modified the total receivables collectible to $29.1 million. Due to ongoing disputes with the State of California regarding inmate medical reimbursement discussed below, the exact amount of receivables can only be estimated at this time.

Collection Philosophy

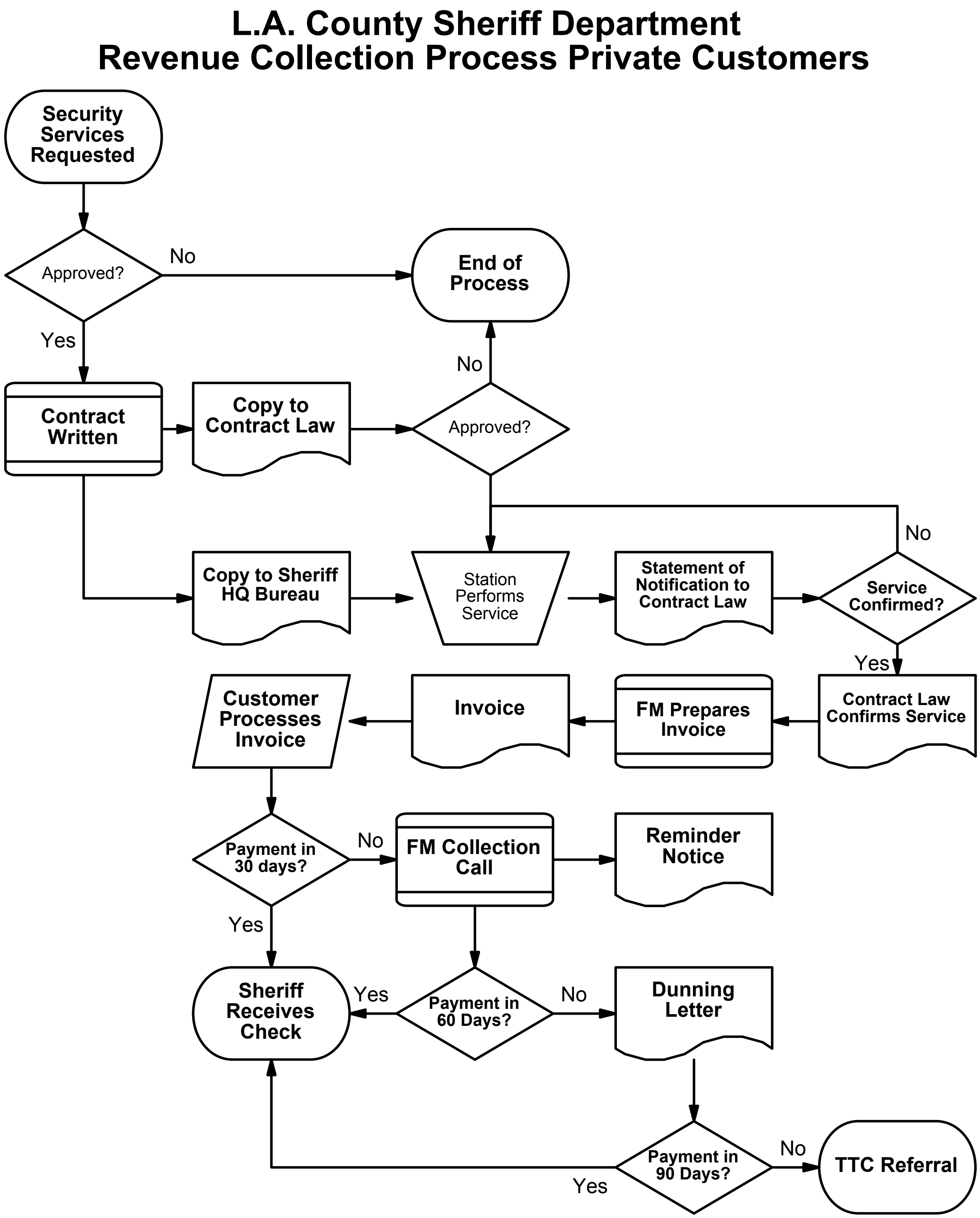
Although the Sheriff does not have a written collection policy, the department follows the format flowcharted for collection from private entities. These are mostly film and media production companies who owe a large number of small accounts. About eleven employees spread throughout the fiscal administration branch are involved in the collection process for public and private customers.

According to a report issued by the Auditor - Controller to the Board of Supervisors in April 1997, the Sheriff's Department could be more aggressive in collection in several areas:

- Four contract cities were found to be past due 90 days for a total of $2.1 million. Late payment clauses in these contracts are not enforced.
- Of the amount owed the Sheriff by the State for services, $15 million ($26 million based on EEC interview with Sheriff personnel) has been in dispute since July 1995 for the security of inmates in County medical facilities. An audit by the State found that a percentage of the services billed could not be supported by the documentation provided, nor were the rates justified. These charges were booked as revenue by the County and continue to be held as a collectible receivable even though a settlement for a lesser amount is likely. At the time this report was written, an agreement on the settlement amount was pending, and the payment of $7.3 million is anticipated for Fiscal Year 1998.
- The Sheriff was found not to bill cities for services provided in jail wards for their inmates.
- Accounts owed by private entities from prior fiscal years ($0.3 million listed above) are not pursued aggressively because the Sheriff finds it difficult to allocate resources for comparatively small amounts. These amounts are carried far past their collectibility (some of the debtors are bankrupt) and are not forwarded to TTC for write-off.
- Overdue and uncollectible accounts receivable are not regularly reviewed and remain on the Sheriff's books as collectible for months or years, resulting in an overstatement of the available fund balance.

Based on EEC's interview with Sheriff personnel, it has been estimated that a total of $25 million in institutional accounts receivable have been "written off" over the last three fiscal years. The "write-off" was not officially made by TTC, but consisted of adjustments to amounts reported to the Auditor/Controller by the Department. The source of these adjustments is a 40% reduction in the amounts billed to the State Department of Corrections for services rendered and believed collectible based on discussions with the State. A representative of the Auditor-Controller has recommended that the account receivable balance be reduced to $18 million based on the age, type and collectibility of receivables. The Sheriff relies mainly on correspondence to collect its debts with a referral to TTC for delinquent accounts fairly early in the process, as the *County Fiscal Manual* allows. An examination of the aging of Sheriff receivables on July 9, 1997 showed over 160 small accounts aged 90 days to over five years referred to TTC but not collected or written off.

Flowchart of Collection Function



Recommendations for Change

- Notify directly the City Councils of municipalities in arrears for Sheriff department services.
- Negotiate payment plans for cities in arrears.
- Enforce late payment clauses in city contracts as an incentive to pay promptly
- A goal of billing for services within 14 days of the event/service.
- Stronger monitoring and follow-up of collection activities.
- Up-front collection of user fees to private entities, or deposits for services if exact costs cannot be estimated in advance.
- Withholding, when possible, of services to slow-pay/no pay accounts until accounts are current.
- If determined to be legal, charge cities for medical treatment and security of city prisoners.
- Establish a written collection and write-off policy.
- Review current collection staffing as compared to potential for outsourcing.
- Annual review of accounts receivable with recommendations to TTC for collection or write-off of uncollectible accounts.
- Outsourcing for non-sufficient funds (NSF) checks.
- Establish procedure for contract issuance which incorporates a 50% retainer requirement and a payment in full upon completion for private contracts.
- A study should be performed relating to staffing and organization for collections.

Implementation

These suggestions will require review by County Counsel to determine their legality in light of existing statutes and regulations. Some of the procedural suggestions involving review and forwarding to TTC for write-off could be implemented almost immediately, as they are already mandated by the Section 9 of the *County Fiscal Manual.* Reorganization of the collection effort may impact staffing levels and positions authorized, which would require changes to the Sheriff department budget.

Treasurer Tax Collector

History

According to key personnel, prior to 1976, collections in the County of Los Angeles were basically decentralized. The Bureau of Resources and Collections (BRC), under the Department of Hospitals, was primarily responsible for collecting inpatient hospital charges for each hospital.

BRC was housed separately from the hospital facilities and philosophically removed from the department's main mission in order to focus on collections. Prior to 1973 the county had staff located at each facility to obtain information to facilitate collections. This included obtaining financial statement, establishing payment plans and taking accident and property liens. The goal was to conduct a financial interview with each patient prior to discharge. The referrals for collection were received by BRC approximately three to six months after discharge. Each referral package contained all of the documents completed by the in house collectors.

In addition to hospital charges, BRC was responsible for collecting adult and juvenile attorney fees, welfare overpayments and charges for minor detention in county and state run facilities. Miscellaneous debts such as damage to county property, emergency loan programs were under the responsibility of the Auditor-Controller. In 1973, the BRC collectors were replaced with caseworkers whose primary responsibility was to interview and qualify patients for MediCal.

In 1976, the Board of Supervisors centralized all collections under BRC under the advice of Harry Hufford, CAO at the time, and created the Department of Collections (DOC). The county developed a collection policy mandating that all county departments refer delinquent accounts to the Department of Collections. The department was given a broad range of powers and duties, including the ability to compromise debts, take legal action and recommend the write-off of certain uncollectible debts.

By far, medical charges still made up the bulk of DOC's receivables. As each facility strived to maximize third party reimbursement (MediCal, Medicare, and private insurance), the time delays in making referrals to DOC increased. In spite of the various programs available including MediCal, there were a substantial number of patients who refused to apply.

Instead of receiving collection referrals within three months of discharge, the delay in referrals was extended to a nine (9) months average. In addition, the majority of the referrals did not contain financial and employment information or repayment agreements, all critical to the DOC mission to maximize collections on delinquent referrals.

The DHS and DOC came up with a plan which included placing collectors at each facility. Patients who refused to apply for financial assistance, as well as those who had excess assets, were referred to the DOC collector. The assumption was that if a patient realized they would have to pay for the service, it would encourage them to apply for one of the financial assistance programs (i.e., MediCal, Ability to Pay).

The collectors interviewed responsible family members, obtained financial and employment information and obtained promissory notes. Although the program was good in concept, it faltered due to a lack of “buy in” at each facility. With the emphasis on third party recovery, particularly MediCal, there continued to be major delays in the hospital sending referrals to DOC.

In addition, the financial information documents completed by DOC and the medical records, which resulted in a referral, went to separate units within each facility. Consequently, DOC would receive referrals for collection minus the financial documents that had been completed by the collectors. In spite of extensive meetings and procedural changes to fix the problem, all efforts failed. As a result, DOC recalled the collectors.

Other problems surfaced with the hospitals. While in the process of collecting, DOC would routinely identify charges eligible for MediCal and insurance billing that were not processed at the hospital. However, since DOC could not bill MediCal or the insurance carriers, the MediCal stickers and insurance information would be returned to the hospital for billing. This continues to be a problem today, as documented in TTC's quarterly write off report to the Board of Supervisors.

In 1985, DOC merged with the Treasurer and Tax Collector. Since that time, probation and the courts have taken over the responsibility of collecting their account receivables. What remains of the old department of collections is now consolidated under the Collections Division within TTC.

Approximately in 1992, TTC and Health Services developed a pilot program at Harbor/UCLA Hospital to compare the results of TTC collections efforts to those of a collection agency. In early April 1997, after DHS obtained collection information on the pilot and consulted with the collection agency, it announced its intention to directly refer accounts to the outside collection agency (USCB). The decision to refer to USCB was based on empirical data which indicated that the outside collection agency could collect receivables at an 18% ratio versus TTC if it received accounts directly.

Present

TTC has the responsibility to collect all unpaid debts for the County of Los Angeles. TTC's staff believes that one of the major problems within the department is the lack of incentive programs and promotability. The staff of TTC believes that the adoption of performance-based incentive programs would increase collections.

The workload is currently 2,500 to 4,500 accounts per collector. Eight years ago the workload was approximately 500 accounts per collector.

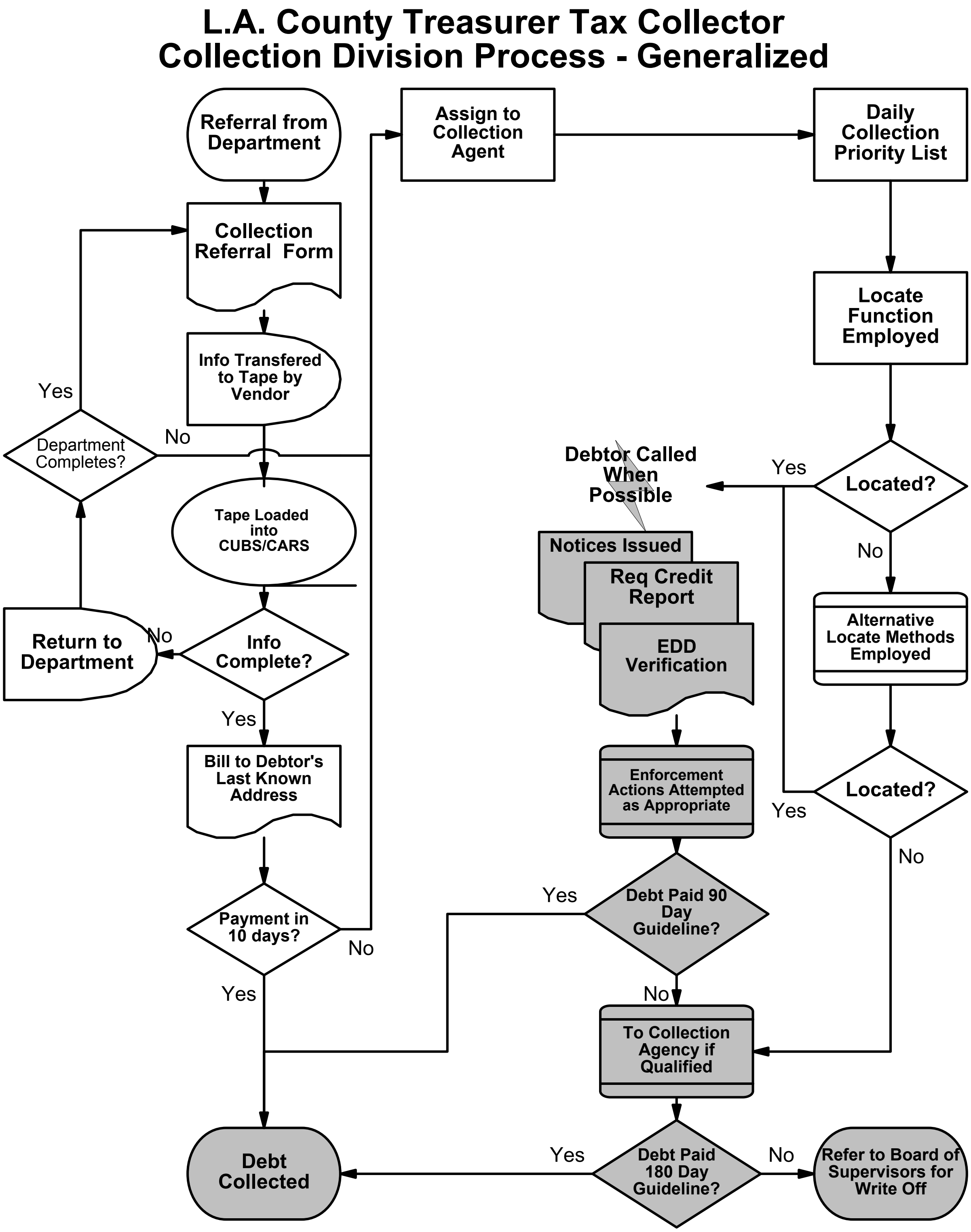
TTC's staff feels that Los Angeles County has a soft enforcement collections system. The County's collection program is not aggressive. Although TTC's collectors now have newly implemented collection goals, collector's collection totals are not placed in competition with one another as may be typically found at outside collection agencies.

The workload is currently 2,500 to 4,500 accounts per collector. Eight years ago the workload was approximately 500 accounts per collector. According to some staff, approximately 40% of the accounts are uncollectible. A formal training manual exists and some staff did receive training several years ago. There is some specialization for collectors because of the passage of time and particular collecting skills.

Basic Collection Procedure

After receiving a departmental referral, which could be sixty days to twenty-four months after a department's initial point of service, TTC attempts within ten days after referral to send a bill out. They quite often cannot send a bill out because of faulty information received from the departments. According to TTC staff members, ***"we spend more time in account correction than account collection"***.

Subsequently, a collector sends out a letter requesting a call from the debtor. If there is no response, TTC performs an Employment Development Department interface to request employment information. EDD interfaces are manual and overloaded with paper. The responses take from 60 to 90 days. EDD interfaces are only done on accounts of $500 or more.


L.A. County Treasurer Tax Collector
Collection Division Process - Generalized
Referral from Department
Collection Referral Form
Info Transfered to Tape by Vendor
Department Completes?
Yes
No
Tape Loaded into CUBS/CARS
Return to Department
No
Info Complete?
Yes
Bill to Debtor's Last Known Address
Payment in 10 days?
No
Yes
Assign to Collection Agent
Daily Collection Priority List
Locate Function Employed
Located?
Yes
No
Debtor Called When Possible
Notices Issued
Req Credit Report
EDD Verification
Alternative Locate Methods Employed
Located?
Yes
No
Enforcement Actions Attempted as Appropriate
Debt Paid 90 Day Guideline?
Yes
No
To Collection Agency if Qualified
Debt Paid 180 Day Guideline?
Yes
No
Debt Collected
Refer to Board of Supervisors for Write Off

Technology

TTC has utilized two different computer systems in the past, Accounts Receivable System (**ARS**) and Automated Delinquency System (**ADS**). This system was upgraded to Columbia Ultimate Business Systems (**CUBS**). The department is currently attempting to resolve internal complaints about billing rate errors and letter content.

We have consistently observed that information is incomplete or lacking and this limits the efficiency of the CUBS system.

We have consistently observed that information is incomplete or lacking and this limits the efficiency of the CUBS system. Staff members have indicated that many of the features are not being utilized, suggesting that further training is necessary.

Staffing

A five-fold to nine-fold increase per individual is difficult if not impossible to manage. As a result, each worker handles or does not handle a realistic volume of cases. This suggests that a time study or a work measurement study be done to establish appropriate work levels. Cross training has been discussed but was never implemented.
At the time of our review, there were twelve collectors for general accounts, four collectors who work in the field for small claims cases, workers compensation cases and personal injury, three collectors handling legal collections with one supervisor. They operate with seven clerical support staff. Management has indicated that they had more than fifty collectors in 1980, currently they only have twelve collectors.

We believe that the TTC should act as an advocate of cash collections while protecting the County's cash position as well as the county's creditworthiness.

Future

The Treasurer Tax Collector provides an invaluable role in the collection function of the County of Los Angeles. We believe that the TTC should act as an advocate of cash collections while protecting the County's cash position as well as the county's creditworthiness. We believe that the treasurer has a legitimate interest in insuring that bills are rendered and payments are made to continuously enhance the cash position of the county. We note with interest that the duties of a corporate Treasurer are, as defined in *Barron's Finance and Investment Handbook*, "A company officer responsible for the receipt, custody, investment, and disbursement of funds, for borrowing, and, if it is a public company, for the maintenance of a market for its securities."

Among the duties the government code Section 2.52.040 enumerates for the Treasurer are, " to provide centralized collection services for delinquent accounts receivable to all County departments…to monitor, collect and provide cash management controls on all revenue due the county for state and federal grant and subvention programs, and contract city services…(and) to develop a centralized and automated record keeping system for delinquent accounts."

As the collector of last resort, they have a responsibility to maintain cutting edge knowledge of best practices.

We believe that TTC should become the collector of final resort for the County of Los Angeles. Additionally, TTC should handle delinquent collections for departments when requested. As the advocate of cash collection for the county, its responsibilities must include monitoring of collection activities, and assist in the development of RFPs which allow for public/private partnerships of the collections function at the department's discretion. As the collector of last resort, they have a responsibility to maintain cutting edge knowledge of best practices. Where desired by county departments, TTC could provide a cash collection service from the beginning of the delinquency process.

Recommendations

Based on its review of previous studies and materials, state and federal laws, and interviews with key personnel, the team has a number of first impression observations and recommendations. Because of the time-frame involved and the limitation of funding for a longer-term analysis, the comments and recommendations could not be fully developed or subjected to in-depth analysis and costing. However, the team believes each is worthy of consideration or further development as appropriate.

- ***The definition of accounts receivable varies among departments. As a result, we recommend establishing a common definition, understanding or process to accurately project accounts receivable.***

  The starting point should be the figures in the audited financial statements of the County. This should then be supplemented with information from the various other departments that is not included as part of the audited financial statements. Once a baseline is established, it can be used as the basis for another measure, a projection of the amount of debt that may actually be recoverable. For purposes of debt collection management and to measure collection performance, establishment of projected recovery would be extremely helpful.

Many private collection agencies (PCAs) screen debt through pre-collection analysis. Originally developed to help identify those accounts most likely to yield results, these models also help PCAs decide the value of debt portfolios. These predictive analysis models use sampling techniques to project the recovery value of accounts receivable portfolios before they commence collection actions. In general terms these predictive models require the name, last known address and Social Security Number of the sampled accounts. Using this information, the collection company runs various diagnostics, including credit bureau checks, employment analysis and demographic data. This data is coupled with the age, type and average amount of debt outstanding. This information is then joined with previous recovery experience rates to predict the "recovery value" of the debt portfolio.

Such projections are then used to allow the collection company to zero in on those accounts that are most likely collectible. The County might find that such an analysis on existing accounts receivable could assist in determining the probable recovery rate of the various types of debt it collects.

Whether a method like this is used periodically, or simply as a one-time effort, adherence to a better definition of debt and establishment of projected collectability is paramount to establishment of a baseline against which to measure results. Failure to do so will result in wide variances in what individuals may believe to be the recovery value of accounts receivable. This in turn could cause adverse publicity, budget miscalculations and poorly informed judgments on the performance of the County's debt collection operations.

Another phase of defining the accounts receivable is to establish and enforce firm guidelines on debt write-off. Our review indicates that many departments have large amounts of old debt on the books. Unless such debt is the subject of installment agreements or other anticipated collection, the debt should be written-off. This will also assist County Supervisors in determining the value of County accounts receivable.

- ***As the collector of last resort, TTC has the responsibility to maintain cutting edge knowledge of best practices.***

The problem here is twofold. First, there is a lack of consistency and wide variety of approaches used in the collection activities of the various departments within the County. Departments have important basic functions so that debt collection actions prior to referral to the Treasury Tax Collection office are not often a high priority. Secondly, the Treasury Tax Collection function has insufficient resources assigned to debt collection. At the time of our review, approximately 8 collectors are assigned an average of over 2,400 accounts each for collection and follow-up. Thus, the delay also comes from lack of resources.

Due to the wide variety of techniques and time lines used in the departments prior to referral to TTC, more in-depth actions often come months after the original debt is incurred.

Accordingly, the actions within many departments and subsequently within TTC are focused on creaming accounts. This is done by sending our multiple notices prior to using other intervention techniques. Due to the wide variety of techniques and time lines used in the departments prior to referral to TTC, more in-depth actions often come months after the original debt is incurred. The inconsistency in when and how frequently accounts are assigned from the various departments to TTC contributes to such delay. There are guidelines as to when such accounts are to be transferred to the Treasury Tax Collector's Office, however, compliance with the guidelines vary.

Failure to work accounts in a timely manner has a two-fold negative impact. First, the longer an account goes without contact the less likelihood there is of any recovery. Different types of debt and debtors respond to varying types of approaches. Some pay based on notices, while others require personal contact. Secondly, failure to attempt to collect on such accounts sets up an expectation among future customers that accounts do not have to be paid.

The increased use of private collection agencies (PCAs) could greatly enhance County collection operations. While the TTC utilizes PCAs, it does so too late in the process. Secondly, the research capabilities, employee incentives and technology available to a top rate PCAs will most likely be superior to those available to County debt collection operations. This is not about the individual capabilities of the County employees but is a statement of the advantages PCAs often enjoy. These advantages may be summarized as follows:

- The use of private collection agencies earlier in the process is now a best practice within private industry and within all levels of governments. Federal, state and local government agencies now routinely use PCAs for all debt collection or to assist in the collection of debt, taxes, loans and other obligations. PCAs are now evolving into a vital part of the government's debt recovery process. In fact, Los Angeles County's Department of Health Services is a prime case study example of how PCAs can improve debt collections.

Results of a study conducted by the Department indicate that sending accounts directly to the outside collection agency before sending them to TTC resulted in double the amount of collections on accounts so routed.

- The Department of Health Services has an on-going initiative to improve its collection of accounts receivable. This initiative involves an in-depth look at its processes, work flows, notices, and use of privatization. One recommendation pending as a result of this study is to change the sequence of actions on in-patient accounts receivable. Currently, the self pay accounts receive notices from the health care facility, unpaid accounts then go to an outside vendor who attempts to determine if the debtor may in fact qualify or have for third party coverage for the amount owed. Accounts that remain unpaid are next sent to the Treasury Tax Collection Department for another round of collection attempts. Finally the remaining unpaid accounts are referred to an private collection agency. Results of a study conducted by the Department indicate that sending accounts directly to the outside collection agency before sending them to TTC resulted in double the amount of collections on accounts so routed. The results of this study known as the Harbor Pilot have been concurred with by the Auditor Controllers office. Accordingly, a change in the sequence of routing such accounts should be considered.

- ***In terms of the use of privatization, the focus should be on management and collection of debts other than secured real estate taxes.***

Even when such taxes are not immediately paid, the eventual sale or turnover of real estate properties generally results in the payment of such taxes at some point in time. Los Angeles County's experience is typical in that most real estate taxes are eventually collected. Accordingly, we do not believe that this is an area that should be subjected to focus during this review except for real estate tax debt that is no longer secured. Secured real estate tax debt is that debt where the property taxed is still owned by the debtor. In some instances, real estate tax debt is owed but the debtor no longer owns the property. This unsecured debt is not as likely to be collected and could be subjected to privatization as part of the overall use of private debt collectors.

- ***The County should test new strategies to prevent and collect delinquencies that are used as best practices in a variety of jurisdictions.***

  There are a number of best practices used by government agencies in prevention and collection of delinquent debt. Examples of such best practices are:

  - Early intervention: Payment arrangements, full financial information and identifying information is gathered at the time the service or debt is established. One best practice is the use of collection personnel or PCAs at this point in the process. When the debt is being established at the point of delivery of services or when fines are imposed, financial advisors and collectors are assigned to work with recipients. While it may be difficult to convince a health care professional to concentrate on debt recovery at the point of service, referring the customer to a collection professional to arrange for payment is more easily implemented.

  - Business Licensing Strategy: Another tool is the denial of certain non-emergency benefits, employment, business licenses or the ability to compete for County business if there is delinquent debt outstanding or until satisfactory arrangements are made to resolve such debt. Potential contractors or vendors who provide services to the County should be required to be current on debt obligations to the County. The presence of delinquent debt could be used as a disqualifier to participate in bids or as a part of the evaluation scoring on competitive bids.

In order to implement such a strategy, departments must have the ability to check TTC records on outstanding debt and such information must be accurate and current.

  - In order to implement such a strategy, departments must have the ability to check TTC records on outstanding debt and such information must be accurate and current. Generally, some dollar threshold is established before checks against a central data base of delinquent debt is required.

  - Intra-County offsets: Coupled with the business licensing strategy is the concept of offsetting County payments to vendors or individuals who owe the County money. This best practice is one where all payments over a certain dollar threshold are matched against a listing of debt over a certain threshold. These payments are subject to offset to satisfy delinquent debt. It is necessary to ensure the database of delinquent debt is accurate and current. There must also be a quick resolution process to resolve disputes.

Once a master file and a common identification numbering system are in place, payments, refunds, license applications and business proposals can be routinely screened against the master file to offset debt or to otherwise aid in collecting amounts due.

- Use of a Common Debtor Master File and Identifying Numbers: In order to use either a Business Licensing Strategy or Intra-County offsets the County must use a common identifying numbering system on all debt, so that multiple debt owed to various departments can be identified as being owed by the same individual or business. Other jurisdictions often use the SSN for individuals or the Federal Employers Identification Number (EIN) for business taxpayers. Obviously, consideration must be given to the cost of setting up such a system however in order to properly administer debt owed the County some form of such a system must be used. Accordingly, the County may wish to establish such a system for certain types and amounts of debt as a prototype for such a system. Once a master file and a common identification numbering system are in place, payments, refunds, license applications and business proposals can be routinely screened against the master file to offset debt or to otherwise aid in collecting amounts due.

- ***The County should pursue legislation to expand the type of debt that may be referred to the California Franchise Tax Board and other agencies for offset against tax refunds or other payments to include debts owed to the Department of Health Services.***

  The Department of Health Services currently cannot refer their delinquent accounts to the California Franchise Tax Board or other State agencies for offset of State Income Tax refunds or other payouts. This type of debt is not authorized for offset by the existing statute. The County should consider requesting legislation that would permit the referral of such debt to the State for offset. In order to determine if such a program would be beneficial, the County should request the California Franchise Tax Board to run a "simulated offset program" against a sampling of past due debt. This would provide the County and State with data as to whether such a program would be beneficial and cost effective and provide the basis for any recommendation if the simulation indicates the success for such offsets.

- ***Move the authority to accept "compromise or settlement" of debt owed to the County down to the Department level. Allow Department Heads or appropriate designees to accept settlements of debt.***

In some instances the lack of "on the spot" authority prevents settlements.

The current process within the Department of Health Services requires referral outside this Department whenever a settlement offer is made for less than the full amount of the debt by a citizen or a third party insurer. This approval process is time consuming and cumbersome. Additionally, such approvals are usually routinely granted. However, the approval takes several weeks. In some instances the lack of "on the spot" authority prevents settlements. This authority could be coupled with periodic reports to and reviews by the Auditor Controller to alleviate concerns about improper judgments on settlements. Frequently such settlement offers are made by third party insurers who use short deadlines for acceptance of such offers as a settlement technique. Legislating changes to the County ordinances or procedures to delegate such authority to various department heads would be a positive step in streamlining decision making in this area.

- ***The County should commend and publicize the business re-engineering efforts underway within the Department of Health Services on debt management and collection as a best practice for other County Departments who manage accounts receivable.***

  The Department of Health Services has been engaged in a long-term review of its processes, systems and the work flow related to debt management and collections. A number of process changes, recommendations and improvements have been made due to this effort. If outside consultants are used, they primarily serve in a facilitator role. In other words, the ideas for improvements and modifications come from the employees within the Department engaged in the work. The Department has shown a willingness to use a variety of techniques to improve its debt collection performance. For example, it is currently considering the feasibility of privatizing the submission and management of claims made to commercial insurance companies. Similar efforts could produce improvements in other departments. The key is the involvement of employees and manager who understand the current system coupled with encouragement, to seek new solutions. Not all ideas that surface will work, however, the day to day emphasis on process improvement will yield results.

- ***Direct each County department in conjunction with the auditor controller and TTC to develop a written collection policy. This policy should include guidelines for the early capture of collection related information using common***

identifiers, reporting to Auditor-Controller the size of its receivables inventory on an on-going basis, and the collectability of the items in the inventory by class or by account.

- ***Direct the Auditor-Controller and TTC to review or establish guidelines for the writing of Requests for Proposals (RFP) for collection agency services and the use of collection agencies for maximum effectiveness using the template found in the appendix of this study.***

- ***Fully automate the interface between TTC and the referring departments. This interface would not only expedite referrals to TTC, but it would also dramatically reduce non-revenue producing activity.***

- ***Direct TTC to develop and implement a reward and recognition program for above average performance. The department at one time had a Board approved bonus plan which awarded a cash bonus to employees who exceeded unit standards.***

- ***Direct TTC, with guidance from County Counsel, to establish a system to track receivables and payables owed between government agencies and use amounts owed to one government to offset the receivables of the same government.***

- ***Direct the Auditor Controller in conjunction with TTC to change the payment standard for government agency accounts to a net/90 day time frame to reduce the number of delinquent account notices and provide a more realistic grouping of receivables and their collectibility.***

Outsourcing Treasurer-Tax Collector

We have carefully considered the option of recommending outsourcing the total Treasurer-Tax Collector function of the County of Los Angeles. We have concluded that it is not an appropriate recommendation at this time for a number of reasons. The recommendations we are presenting create immediate opportunities for significant financial recovery for the County during the current fiscal year. A structured plan for outsourcing, targeted to meet specific objectives, will be more cost effective and will ensure a smooth transition to a more effective collections program. We believe that a full outsourcing of TTC, even if achievable, would create lost opportunities in terms of the time to develop the RFP, preparing the proposal, and awarding a contract.

We do not rule out, at some future date, the possibility of contracting out the collection function in its entirety, but we believe a more practical approach would be to stage a series of contracts to determine the feasibility of making a total shift to a fully privatized system. In the interim, we believe the treasurer-tax collector and affected County departments should proceed rapidly with the recommendations contained in this report to enhance the County's fiscal position.

Section IV

Federal and State Interface Review

There are three levels of interface that are most frequently used as best practices by government agencies. These are interfaces with federal government agencies, state governments and local governments. Typical interfaces include authorization to administratively offset payments of tax refunds, some benefit payments or other payments to satisfy qualifying debt. A second type of interface is the exchange of information and access to databases that contain information to assist in locating debtors or their assets. Lastly, there is the use of "holds" on certain types of licenses, non-emergency benefits or the ability to transact business with an agency until debt is satisfied. The team reviewed the current use of offsets and interfaces from three perspectives in that we looked at legislation and other authorities at the federal, state and local levels. A discussion on each follows:

Federal Interface and Liaison

The team met and interviewed a number of officials with the US Treasury Department's Financial Management Services and Government-Wide Policy and Planning and Financial Divisions. The team also interviewed management officials of the Internal Revenue Service, National Director of Federal State Relations and the IRS Los Angeles District's Federal State Coordinator. Team members also spoke with representatives of the Federation of Tax Administrators and various state agencies. Lastly contacts were made with officials of the Social Security Administration and Department of Health and Human Services to explore possible liaison opportunities.

There are currently a number of opportunities for interface between States, and in some instances other levels of government and Federal agencies.

There are currently a number of opportunities for interface between States, and in some instances other levels of government and Federal agencies. Included in these opportunities are the ability to use administrative offsets against eligible federal payments and, in some instances, federal tax refunds. For example, states are able to certify delinquent child support payments to the Internal Revenue Service for offset of federal tax refunds. Los Angeles County is involved in this type of offset program. Also, some federal agencies can certify certain non-tax debts owed the federal governments to the IRS for offset. In order for a level of government other than a state to participate in any of the current federal refund offset programs, the debt must be defined as a obligation to the state.

Offsets of Federal Payments

Unfortunately, with the exception of some programs that local governments participate in with their state counterpart, local government debt cannot be administratively offset at the federal

The trend to use offsets has been greatly expanding. Most recently, federal legislation in the Debt Collection Improvement Act of 1996, and Executive Order 13019 issued in September of 1996 expanded the ability of designated agencies to use offsets.

The Debt Collection Improvement Act of 1996 at the federal level authorizes the Secretary of Treasury to offset certain types of federal payments other than tax refunds for other federal agencies and for some state debts. There is a required regimen of previous collection action, certification etc. Unfortunately, with the exception of some programs that local governments participate in with their state counterpart, local government debt cannot be administratively offset at the federal level.

Offset of IRS Refunds

Currently federal tax refunds cannot be offset for non-federal debt except in the areas of delinquent child support payments, student loans, and some similar quasi-federal debts. This barrier may be eliminated when pending legislation HR 2676, IRS Restructuring and Reform Act introduced in 1997 is enacted. The Act authorizes the administrative offset of federal tax refunds to satisfy certain state tax debts. Legislative versions of this act have passed both the House and Senate and conferees are currently working to iron out the differences in the two bills.

Review of the legislative language and discussions with the Senate Finance Committee staff indicates that while this legislation will pass, the language is of little help to Los Angles County. While federal refunds could be administratively offset by States, the type of debt involved is limited to "income taxes." None of the types of debt owed to Los Angeles County will be covered by this legislation.

Access to IRS Held Information

Numerous states and some local governments have authorized access to IRS information and can exchange information that assists both in the administration of income taxes. Section 6103 (d) (1) of the Internal Revenue Code authorizes the disclosure of certain confidential taxpayer data for tax administration purposes. This authorization pertains to states. The definition of a state includes any municipality with a population in excess of 250,000. However, the definition of tax administration purposes requires that the tax to be administered are either an income or wage-based tax. IRS officials advised that in 1996 they attempted to get Treasury's General Counsel to give them a broader definition of taxes and debt covered by this section of the Internal Revenue Code. The purpose was to allow access to IRS confidential tax information by local governments to assist in collecting a wider variety of debt. General Counsel's opinion prohibited any such expansion. None of the debt owed Los Angles County meets this definition, thus the IRS is prohibited under the Internal Revenue Code from disclosing confidential information to the County.

Access to Other Federal Agency Information

There are limited opportunities to use federal administrative offsets or federal information databases to assist in County debt collection.

Federal privacy and disclosure statues govern the exchange of personal and confidential information between the federal government and other government agencies. The team reviewed other federal statutes and made contact with other agencies including the Social Security Administration and Health and Human Services to gauge the availability and desirability of using data, agencies other than the IRS may posses. Based on our review, the type of debts owed LA County generally cannot be offset against federal payments and the exchange of information is also limited. Importantly, in reviewing the type of information maintained by various federal agencies, when it is updated, and the overall currency of such data, access would generally not be helpful to the current County collection effort. Lastly, the lack of common or missing identification numbers on some debt, the age of the debt, and the type of debt involved would also, in our judgement, make such an effort non-productive.

Summary

There are limited opportunities to use federal administrative offsets or federal information data bases to assist in County debt collection. The County can make improvements in the other areas that would be more productive than the use of additional interface with federal agencies.

State of California Interface and Liaison

Many of Los Angeles County citizens owe delinquent sums of money to departments at all levels within the County. Ironically, at the same time these individuals owe the County monies, the State of California's Franchise Tax Board (FTB) may owe the same individuals a tax refund.

The County of Los Angeles primarily interfaces with the FTB to help offset tax and non-tax debts owned by County residents. However, the FTB in turns liaisons with the State of California's Department of Social Services (DSS) and the State of California Lottery to exchange information on County debtors.

To gain a better understanding of these offset programs between LA County and the State of California, the team interviewed a number of personnel in the Collection Services Division of the County's Treasury Tax Collector's Office and the State of California's Controller's Office, Franchise Tax Board, and Department of Social Services. The team also studied all relevant State of California Codes outlined in the table below:

Government Code	12419.5 – Offsets and Deductions 12419.8 – Offset of Amounts Due to a City or County; Deduction of Costs • 12419.10 – Offset of Fine,Bail, parking Penalty, or Reimbursement
Revenue and Taxation Code	19280 and 19551
Vehicle Code	15210
Code of Civil Procedure	1013
Business & Professions Code	101, 1000, and 3600

Franchise Tax Board (FTB)

In 1975, the FTB began intercepting the tax refunds of Californians who owed delinquent amounts to the state and counties agencies. In addition to collecting delinquent tax obligations, the FTB also intercepts a host of court-ordered debt (e.g., court fines, penalties, orders), child support obligations, and California State Lottery prizes. Once intercepted, the refunds and lottery prizes are redirected to the agencies to which the debts are owed.

The State of California's FTB has established three programs for collecting such outstanding debt: 1) Interagency Intercept Collections Program; 2) Court-Ordered Debt Collections Program; and 3) Child Support Collections Program.

Interagency Intercept Collections Program - Collection Process

The County of Los Angeles, along with numerous other local agencies, has elected to participate in the State of California's Interagency Intercept Collections Program. Interagency Intercept Collections are governed by Sections 12419.5 and 12419.8 of the California Government Code.

On the tenth of each month, LA County's Treasurer Tax Collector's (TTC) Office sends delinquent accounts (90 days or older) via tape to the FTB for intercept only after avenues for collection have failed and the debtor has been sent a notification of the impending intercept. The FTB then loads the data into a mainframe file, which is matched by social security number against taxpayer records. If the system matches a delinquent account to the taxpayers' records, a "flag" is placed on the account to indicate that FTB will intercept any pending tax refund. Accounts that the system cannot match to the taxpayer records are held in a suspense file. If the debtor later files a return that matches an account, the mainframe system will pull the account from the suspense file and intercept the refund or flag the account if no refund is yet due. Flags remain on accounts until the end of the calendar year.

In addition to flagging accounts that match taxpayers' files, FTB matches accounts with winners of the California State Lottery. FTB receives a tape of prize winners from the California State Lottery to match against the intercept accounts before lottery winnings are distributed.

Interagency Intercept Collections is self-funded. FTB and the State Controller's Office calculate their administrative costs annually; the State Controller's Office bills and collects these amounts from LA County and other participating agencies. LA County and other participating agencies are billed approximately 11 cents for each case submitted on tape. Government Code Section 12419.2 allows LA County and other participating agencies to add this cost of collection to the amount the debtor owes the agency.

The table below shows the Interagency Intercept Collections Program's latest collection totals for fiscal year 1996/1997.

INTERAGENCY INTERCEPT COLLECTIONS PROGRAM

1996/1997 FISCAL YEAR COLLECTION TOTALS

CLIENTS		**COLLECTED INTERCEPTS**		**PERCENT**
Type	**# Participating**	**Number**	**Total Dollars**	**Of Total Collected**
State agencies	89	286,040	$50,210,221	57.3%
City agencies	32	9,369	992,336	1.1%
County agencies	51	61,770	7,672,087	8.8%
Federal (IRS)	1	94,912	28,702,303	32.8%
Total	**173**	**452,091**	**$87,576,947**	**100.00%**

In an effort to reduce the amount of court-ordered debt owed in the state, the California Legislature allowed the FTB and county superior, municipal, and justice courts to form partnerships to collect court-ordered debts. For those courts that volunteer to participate in the program, FTB collects certain criminal fines, penalties, forfeitures and restitution orders, as well as most Vehicle Code violations. FTB's Court-Ordered Debt Collections Program is authorized under Section 19280 of the California Revenue and Taxation Code.

However, not all courts under LA County jurisdiction participate in the FTB's Court-Ordered Debt Collections Program. At one time, LA County municipal and superior courts did participate in the Court-Ordered Debt Collection Program. However, these two LA County courts were recently consolidated and have since elected to submit delinquent debts to GC Services, a private collection agency, rather than to the FTB. On the other hand, LA County's Administrative Consolidated Municipal Courts (ACMC), which consists of about 7 municipal courts and is based in Compton, just recently joined the FTB's Court-Ordered Debt Collections Program.

On the tenth of each month, all delinquent ACMC cases are submitted by the County's TTC Office via tape to the FTB to be processed. FTB first mails a Demand for Payment notice to the debtor. If the debtor does not resolve the debt within 10 days, the FTB then issues a levy against the debtor's bank accounts, wages, or other sources of income. When a levy attaches a bank account, the debtor has 10 days to pay his/her debt, or the bank forwards the funds to FTB. When a levy attaches wages, the debtor has at least 10 days to pay voluntarily before the employer begins withholding up the 25% of his/her disposable income.

Any monies collected by the FTB for the courts are deposited into a Court Collection Fund--an account created for Court-Ordered Debt Collections. The balance, minus FTB's administrative costs (not to exceed 15% of collections), is transferred to the court, county, or state fund to which the debt is owed. The table below shows the Court-Ordered Debt Collections Program's latest collection totals for fiscal year 1996/1997.

COURT-ORDERED DEBT COLLECTIONS PROGRAM
1996/1997 FISCAL YEAR COLLECTION TOTALS

CASE INVENTORY		*COLLECTION ACTIVITY*	
Cases submitted by courts	106,581	Demand notices	74,668
Cases returned before FTB action	(27,484)	Bank levies	2,242
Cases returned after FTB action	(10,068)	Wage levies	37,228
Net change in inventory	**69,029**	**Total collection activities**	**114,138**
Fiscal year-end inventory	**107,140**	**Total collected (rounded)**	**$3,762,500**

Summary

Based on our review of the legislation, authorizations, and current practices, the County is making adequate use of the various interfaces available at the state and local level. However, the team believes that the County could benefit more from these interfaces by expanding the type of debt that may be referred to the FTB to include debts owed to the Department of Health Services.

Section V

An Approach To Public/Private Partnerships

Government agencies are increasingly turning to the private sector for assistance in collecting government managed debt.

While recognizing that some County Departments and the Treasurer Tax Collector currently use private collection agencies to support their efforts, the team finds that a increasing number of federal agencies, states and local governments are turning to the private sector for assistance in collecting government managed debt.

If the County greatly expands its approach to use of PCAs or when existing contracts with PCAs are renegotiated or put up for bid, the approaches outlined in Appendix 2 will assist in improving the outcomes of the use of PCAs.

Government agencies are increasingly turning to the private sector for assistance in collecting government managed debt. Forty state governments now use private collection agencies to augment their own tax collection operations. Debts for student loans, delinquent child support payments, fines, and taxes are now commonly referred to the private sector from agencies at the local, state, and the federal level. The downsizing of government, the need for revenue and government re-invention efforts have heightened the use of private debt collection to replace or supplement the government's own debt collection processes.

The team believes that by using a systematic approach to contractor selection, setting performance incentives, and properly monitoring contractor performance, government will ensure that results from this form of privatization are maximized.

Despite the increasing privatization the results have been mixed. This is caused in part by: (1) the resistance in the bureaucracy to the idea of privatizing; (2) philosophical disagreement with the concept of transfer of what some see as an "inherent governmental responsibility"; (3) the constraints government regulations place on the procurement process in general; and primarily (4) because of poorly designed plans to select, motivate and monitor the performance of the private collection agencies hired.

The team believes that by using a systematic approach to contractor selection, setting performance incentives, and properly monitoring contractor performance, government will ensure that results from this form of privatization are maximized.

Number of Contractor

EEC recommends using a minimum of two or three contractors for most debt portfolios, e.g. one contractor per $50 million of annual placements but no less than two. This number can be larger depending upon the size of the debt and number of accounts assigned to contractors, however, the number must remain manageable. The use of multiple contractors ensures competition and allows the client to provide incentives to all by offering rewards to the highest performing contractors.

Additionally, the agency should select an alternate contractor as a "standby" in case one or more of the original contractors defaults or does not otherwise perform. This alternate would then automatically move into the defaulting contractor's slot. (See using the term of the contract as an incentive to encourage contractor performance.)

…the agency should select an alternate contractor as a "standby" in case one or more of the original contractors defaults or does not otherwise perform.

Length of Contract

The investment required by both the government agency and the collection contractors to ensure the contract's success requires significant up-front expenditures. The government agency must establish proper coordination, build interfaces and arrange for facilities and staffing to ensure the contractors have what they need to perform at peak efficiency. Contractors must likewise make similar investments. They may be required to make up-front expenditures for facilities, staffing, computer, and telecommunications equipment. In order to ensure that the contractor is willing to make the required up-front investments, the base term of any contract should be for a period of at least three (3) years. The contract should also allow for an additional two [one (1) year] options to renew the contract without further competition based on satisfactory performance. The length of the contract serves as a compliment to the item, retention of payfile in encouraging contractors to adopt a long-term view on investment and performance. This extended contract term allows the collection contractors to invest more heavily in the collection effort and make meaningful commitments on facilities, personnel, and equipment. These are required investments in order to deliver high recovery rates. This stimulates long-term thinking, planning, and a thorough collection approach.

Increasing Contract Term By Using Standby Awards

Many government agencies have experienced the problem of being dissatisfied with one or more collection contractors midway through a contract. However, when faced with issuing a new RFP or continuing the contract, some chose the easiest path; they continue with a poor-performing contractor. To guard against this, some clients shorten the contract life to give themselves an easy exit strategy.

EEC suggests another solution; the award of standby or inactive contracts as part of the RFP process. The "standbys" do not receive work initially, but are available as backup if one of the initial contractors does not perform. The standby contracts are at no cost to the client unless activated. Thus, poor performers can be placed on notice and if results do not improve, they can be readily replaced. Additionally, this ensures continued competition if an original contractor defaults. Having a contingency plan by using standby contractors eliminates the need to shorten the contract term and to rebid contracts more frequently.

Retention of Installment Agreement (Payfile) Accounts

Allowing a contractor to retain accounts in repayment status after the expiration of a contract is **essential** to ensure an all-out quality collection effort. It is a reality in the collection business, that if collection contractors are not allowed to retain accounts in repayment (installment agreements) status after expiration or termination for convenience of a contract, they will concentrate their efforts on short-term results.

It is costly and time consuming to properly negotiate and implement a repayment program where the debtor does not default and pays regularly until an account is paid-in-full. In order to generate maximum results, collection contractors incur significant up-front collection costs in skiptracing, salaries, bonuses, etc. The majority of these costs are expended on all debtors, even those who cannot be located or who cannot pay. It is unrealistic to expect contractors to focus on long-term efforts at recovery if they cannot retain the earnings from such accounts after the contract term is completed. Failure to allow this retention will encourage short-term creaming and concentration on balance-in-full collections and substantial down payments. This creates a lack of sensitivity to the debtor's current financial situation. It also ignores the revenue available from using longer-term installment agreements for individuals otherwise unable to pay. Without retention, the collector is motivated to focus only on very short term results which reduces recovery and promotes adverse debtor reaction.

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The percent of accounts that pay-in-full, immediately, is three percent for the average collector and five percent for the industry leaders. Collectors usually do not generate enough collections from up-front payments to offset their initial expenses let alone make a profit. Profits come from the last few months of longer-term payouts. Therefore, if accounts are placed at month thirty of a thirty-six month contract, retention provides an incentive for the collector to properly work all accounts to the end of the contract period by attempting to negotiate acceptable repayment terms. Without retention, the collector is motivated to focus only on very short term results which reduces recovery and promotes adverse debtor reaction.

In summary, for any collection contractor to achieve the highest level of performance for the client, it is essential that the retention of paying accounts be permitted beyond the expiration or termination of the contract, for convenience of the contract. The term beyond the conclusion of the contract should be equal to the time necessary for an average balance account to pay in full through monthly installments. The collector should know an account will be retained if it is kept in current repayment status for the retention period. In most cases, this period will be approximately thirty-six months.

Note: If a contract is terminated for cause, all accounts should be returned within sixty (60) days of the date of termination.

Initial Placement of Accounts

In order to properly compare and monitor performance, contractors must be judged in an environment that creates a relatively level playing field. The process of assigning accounts to the various contractors should be on a random basis from the portfolio of accounts to be assigned. Each contractor should receive an initial placement of accounts which is equal and based on random selection. Accounts assigned should be of similar size, age and condition. This inventory becomes the baseline against which to measure contractor success is measured. Therefore, to ensure fair comparisons the inventory should be of equal nature.

Pre-Qualifying Experience

Past history is predictive of future results. ***No other factor in predicting successful contractor performance is more important than experience.*** If a collection contractor has a history of performance they are likely to perform well in the future. Establishing minimum experience standards pre-qualifies all prospective collection contractors for the government agency. It also eliminates the enormous amount of time wasted reviewing bids received from firms who are unable to adequately provide the services necessary to achieve maximum results. Using such pre-qualifying experience ensures that the government will use collection contractors who have a track record of superior performance.

Some contractors can provide satisfactory results on a $10 million dollar portfolio but cannot provide the same results on a larger portfolio. The government must be assured that the bidders have the resources to accommodate the contractual requirements, complex reporting and electronic communications required for the amount of money in the portfolio. On large portfolios we recommend establishing minimum experience criteria for contractors of three to five years experience of government debt collection handling portfolios of equal size to the portfolio being placed. Further we suggest the contractors be required to provide information on their performance provided by their clients for all their contracts within the three to five year period. Particular attention should be given to contracts with similar size and reference information should be obtained.

***NOTE*: Contractors should not be selected if they are owned by the same parent or holding company to avoid a conflict of interest.**

Fees, Incentives and Placement Distribution

Many of the unsuccessful efforts feature contracts that focus on requirements and activities that do not directly correlate to results. It is virtually impossible to pre-establish a rate of recovery for most portfolios of delinquent debt. There are simply too many variables affecting a debtor's ability to pay. Since it is virtually impossible to pre-establish a rate of recovery for any portfolio of delinquent debt, governments often believe the fee should be the primary determining factor when selecting a private collection agency. What often happens is that the emphasis on the fee causes some bidders to bid low to "buy" the contract with the intention of "creaming the accounts." Statistics have proven that a low bid usually equals low effort and low recovery.

The adoption of a fixed contingency commission percentage rate coupled with performance incentives eliminates the confusion and uncertainty in selecting contractors based solely on commission rates.

Use of Fixed Fee

One solution to this dilemma is to pre-establish a fixed contingency collection fee and then add performance incentives for contractors who excel at recovery. All contracts should be based exclusively on what is collected. The basis for the contingency fee structure is that a contractor is only paid for what is collected. The adoption of a fixed contingency commission percentage rate coupled with performance incentives eliminates the confusion and uncertainty in selecting contractors based solely on commission rates. Neither the lowest nor highest rate always guarantees the best results.

It is essential that a reasonable fixed commission rate be established which allows contractors to invest the necessary resources to provide the optimal return for the client. Any "low bid" type award may force the winning contractor to curb costs and allocate minimal resources in order to provide the minimum services required by the RFP. The end result is a creaming collection effort and a significant loss to the client.

A competitive rate increases the value of the contract when compared to other potential clients with comparable portfolios. Opponents of fixed commission rates argue that it removes the competitive nature of the bidding process. To the contrary, in addition to key factors such as experience, staffing, systems, and financial stability, contractors would state what activities and level of service they would provide for the fee established in the RFP. Importantly, it also allows the agency to concentrate on qualitative factors such as experience, demonstrated performance, and proposed workplans in selecting a contractor.

Adding Performance Incentives to the Fixed Fee Concept

While EEC recommends that the RFP solicit bids based on a fixed fee contingency for all successful contractors we also believe that offering bonus incentives to the top performing contractors based on their long-term performance ensures a competitive environment and a payback from contracting out. Bonuses are only paid to top performers. The objective of performance incentives is to motivate contractors to compete against each other for financial and placement volume rewards. The concept is simple. The top performer gets a larger share of the recovery amounts and a larger share of future portfolio placements.

Performance incentives can usually be separated into two categories; (1) fee incentives and (2) placement incentives. The value of implementing these performance incentives can be measured by the bottom line results, *more revenue collected*.

Contractor performance should be compared (netback results) over a set period of time, i.e. a period of six months. Performance bonuses such as 2% of collections to the top performer and 1% to the second place performer are used as incentives to increase performance. Additionally, the high performing companies should receive a larger portion of future placements as an added incentive. In a three contractor situation the initial placements might be 33.3% of the portfolio each to start. However, future placements should be awarded to the top performers so that after the initial period of performance comparison, the distribution pattern would change to 50/30/20%. This percentage is adjusted periodically based on performance.

In summary, while government contracting has historically focused on one determining factor in selecting firms to collect government debt, "low cost or fee," EEC's experience is that a competitive environment created by the use of performance incentives, with significant rewards and penalties is much more effective in motivating contractors and achieving results. Under such circumstances contractors will focus on achieving the highest returns while the compensation paid by the agency is in direct proportion to the results achieved by each collection contractor. Those who produce the most are paid the most.

Evaluating Prospective Vendors

The ability to properly staff the contract with experienced senior management and front line personnel will make a significant difference in a contractor's ability to implement the work plan for the client.

The main focus of the evaluation process should be based upon a collection contractor's ability to perform. Establishing a weighted scoring system that focuses on experience, dependability and history of performance in government debt collections, combined with the ability to provide the staffing, management, equipment, and facilities are the primary factors that are indicative of success. The ability to properly staff the contract with experienced senior management and front line personnel will make a significant difference in a contractor's ability to implement the work plan for the client.

The work plan, specific collection activities that will be undertaken and client support also deserve important consideration in the evaluation process. However, while technical capability is important, the primary focus of the evaluation should be based upon fact not speculation. The client should rely on the past demonstrated performance and capabilities of the prospective contractors.

EEC recommends the following weighting factors or points for the evaluation of the technical proposal:

Management/Staffing/Scheduling	20 percent
Contractor Experience	40 percent
Workplan and Information Systems	30 percent
Financial Stability	10 percent

This lack of emphasis on low cost or low fee as a major determining factor is because of the standard fee-based plus incentives approach outlined above. EEC recommends that the emphasis be primarily on quality of the contractors and, hence, results, rather than fee. If cost cannot be removed as a factor, it should be included as a minor factor e.g. 15 percent of the total score.

Evaluation of Contractor Performance

The recommended method of measuring contractor performance is the concept "net back performance". This concept may be adjusted by other factors such as the number of legitimate customer complaints; however, in the final analysis, the basic test of performance should be the amount of assets recovered while using proper collection techniques. The value of "netback" lies in the concept of measuring the client's share of dollars recovered by the collection agency in relation to the opportunity of the amount they had to collect and less fees charged. EEC's experience confirms that the collection effort extended by a collection firm depends on the profitability of the accounts being worked. The variables that affect profitability are:

- The cost of setting up and loading the accounts on the contractors' data base;
- The difficulty of working the accounts (how thoroughly they were worked before the referral is made to the contractors);
- The collectability of the account (likelihood of getting paid once contact is made);
- The average balance of accounts; and
- The fee for service charged.

A collection firm offering low rates is typically forced to reduce the level of effort it conducts on each account, relying on a skimming or creaming method on only high balance accounts to make a profit. In other words, they concentrate on easy to locate, easy to contact accounts leaving the more difficult accounts untouched. The less favorable accounts for which government expects collections to be performed typically become secondary placements. The agency then receives a low price but at a high cost. *Seasoned creditors, who use contractors, consider performance not price, as the base underlying tenet.*

"Net back" refers to the client's share of the dollars recovered by the collection contractor. In other words, if a collection firm is paid a 20% fee on monies collected, and collects $1,000,000 for the year, the "net back" is $800,000. When comparing two collection firms with equal volume of placements, determining which firm is yielding the greatest net back is easy. The agency returning the most money to the client is the better performer. However, when comparing different volume accounts (contract and amounts) to collection firms, which are paid different fees, i.e. base fee plus bonus or incentive, one needs to examine the "net-back" percentage to determine which firm is providing the client with the greatest return.

For example:

	Collection Firm A	Collection Firm B
1995 Dollars Referred	$ 1,000,000	$ 2,000,000
Recovery Rate	15%	10%
Gross Dollars Collected	$ 150,000	$ 200,000
Collection Contingency Fee	25%	20%
Fee Paid to Vendor	$ 37,500	$ 40,000
Net back to Agency	$ 112,500	$ 160,000
Net Back Percentage	11.15%	8%

Collection Firm A's net back to the client per dollar referred is greater than Collection Firm B's even though Firm B is charging a lower fee and was given twice the volume of accounts.

This evaluation method should include controls to ensure fair and equitable competition.

This evaluation method should include controls to ensure fair and equitable competition. Each firm should receive a random selection of like accounts. Second, the time frame used for comparative results should be structured over an interval long enough to prevent firms from altering their normal procedures and to accurately reflect the agency's usual recovery rates. Third, a significant volume should be given to each firm at the start of the competition. This volume will dictate that the firms distribute these accounts among all of their collectors designated for this contract in their usual manner in order to be able to work on all accounts during the evaluation period. Fourth, a reward and penalty system should be implemented to reward firms providing the best results and to penalize the least effective company. This system gives firms an incentive to produce the best results. It also ensures the greatest percentage of the clients accounts are with the firm that provides the best return.

Conclusion

Government owes it to taxpayers to vigorously pursue delinquent debt to ensure that everyone pays their fair share of taxes, gets their child support or repays their other obligations to government. The traditional approach of selecting the lowest bidder(s) needs to be rethought. The emphasis should shift to qualitative factors in selecting contractors and provide incentives for high performance to encourage optimum contractor productivity.

Section VI

Sale and Securitization of Property Tax Liens

Background

Governments sell or securitize property tax liens to eliminate backlogs of accumulated delinquent tax receivables and convert those receivables into cash. Tax liens, which are attached to properties for nonpayment of property taxes or other assessments, may be bundled and sold directly to investors through a bulk-sale process. They also may be sold to a trust, where the payment stream is securitized. Bonds backed by the delinquent taxes are then sold to investors and the proceeds of the issue are paid to the government that sold the tax liens.

The Government Finance Officers Association (GFOA) recommends that governments contemplating the sale or securitization of property tax liens undertake a careful analysis of benefits and risks both in the current fiscal year and over the long-term. They should ensure they have legal authorization to enter into these types of transactions and understand any conditions or limitations imposed by state or local law. When evaluating the sale or securitization of tax liens, governments also should:

1. Be clear about the public policy objectives to be achieved, such as improving collections or avoiding costs associated with the ownership of the property on which taxes are owed.
2. Evaluate whether changes in the collection process could reduce the occurrence of delinquencies.
3. Use sale proceeds for non-recurring purposes, particularly if the amount of the sale or securitization is large. Governments using a tax lien sale or securitization as a one-time mechanism to address a current year budget gap should assess the short- and long-term implications for the government's credit quality. They also should consider how gaps will be closed in later years and whether structural budgetary balance is able to be achieved without future tax lien sales or securitization.
4. Determine that the net return after taking account of transaction costs is acceptable in terms of alternative approaches, including retaining ownership of uncollected receivables.

Once a decision has been made to sell or securitize tax liens, governments should:

1. Examine the lien pool carefully to ensure properties will be acceptable to investors. Lien-to-value ratios of various classes of property, the age of the liens, historical redemption rates in the community, property types, and the number of environmentally impacted properties are among the factors that should be considered.
2. Review statutory cure periods established to permit owners to pay delinquent revenues to ensure that an appropriate balance is struck between government policy objectives and acceptability to investors.
3. Select legal and financial advisors with demonstrated experience with these transactions.
4. Select a servicer with a proven track record if such a firm is being used to collect delinquent taxes. Rating agency approval of the servicer is typically required and will be based, in part, on the record of the servicer. Among the qualifications that should be evaluated are:

- knowledge of state and local law;
- due diligence capabilities in the lien selection process;
- adequacy of the servicing system, including recording, auditing, and financial reporting procedures; and
- historical performance in servicing liens, including procedures for workouts and foreclosures.

5. Recognize the community relations impact of establishing a private collection mechanism. Governments should take steps to maintain good relations among all affected parties, such as designating an ombudsman or instituting a formal complaint process through which problems that may arise are addressed.

Section VII

Existing & Emerging Technology Available for Los Angeles County

There are several key areas of existing and emerging technologies that can be used to streamline the collection and accounting of the County's current revenue streams. Some departments have implemented automated systems that effectively receive and track all sources of revenue, including cash receipts, assessed fees, and payments from billable services. Some departments track revenues manually, while others have a mixture of both. Missing from this scenario is a centralized automated accounting system that could be used by TTC to monitor outstanding debts owed to the County.

It should be the ultimate goal to fully automate all accounting systems and integrate those same systems into a central database available to all departments as well as TTC. Based on the status of the County's current systems, emphasis should be placed on implementing new and existing technology to improve the capture of revenue and data streams at the point of contact with the County's constituents and business partners. Technologies exist currently to assist the County in its move to electronic government.

The object of acquiring emerging technology should be to take advantage of the technological breakthroughs of the twenty-first century in a cost effective manner, not a shopping spree planned around vague system requirements, or bargain hunting for outdated solutions.

Departments are currently using a range of these technologies. They range from the Internet or private networks to interactive voice-response systems to multimedia systems. All these systems should exist to serve the constituencies more cheaply, more quickly, and with a new level of convenience. In partnership with private agencies Los Angeles County can develop Electronic Government applications. A public-private sector partnership can underwrite the capital cost of electronic access systems.

The object of acquiring emerging technology should be to take advantage of the technological breakthroughs of the twenty-first century in a cost effective manner, not a shopping spree planned around vague system requirements, or bargain hunting for outdated solutions.

Improvements and additions to technology for debt collection must fulfill the following requirements to be effective for the County:

- A complete cost benefit analysis.
- Specifications must be carefully crafted to the County's needs.
- Realistic time lines must be strictly adhered to.

- Benefits must be achievable, measurable, and improve existing systems and technology.

A recent survey by the National Association of State Information Resource Executives (NASIRE) and Information Technology Association of America conducted by International Data Corporation revealed the level of Electronic Government being applied in four functional areas: filings, payments, licensing, and information access. The team believes that by going electronic the County can make it easier for both individuals and businesses to conduct transactions. The key benefit is that as the County begins to focus more on the bottom line there is a continual pressure to do things more cost effectively, and often that means self-service access. The following technologies exist and are evolving to do just that.

The Internet & Electronic Commerce

A new and expensive system for the County would not be necessary.

It is simple to put together a flashy Web site and offer products and services on-line. However to achieve E-commerce a very important piece of technology must be present. The County relies on back-end database systems. These repositories of constituent, product, service and transaction data are needed to run the County efficiently. All departments should have access to this data regardless of where that information may reside. The County must still rely heavily on mainframe and mid-range computers, which offer high levels of reliability and security. The challenge of providing "Electronic Government" via E-Commerce requires integrating existing systems and databases with the Web.

Web-based middleware would allow the County to integrate their existing systems with E-Commerce Web sites and TTC's systems for tracking County receivables and delinquencies. Described simply, middleware is software that allows a desktop front end to interact with a database. A new and expensive system for the County would not be necessary.

Citizens and businesses would be able to carry out electronically a host of activities such as renewing licenses, search real estate titles, and file reports for welfare, and search the public record via "For Fee" services.

Using middleware to integrate the Web with existing departmental and ISD-based mainframes and mid-range computers would allow the County to dynamically post information on it's Web sites, creating new Web pages on-the-fly as the underlying data changes. But equally important is the ability for all county employees to access the data they need to do their jobs while providing a centralized data capture and reporting repository.

Web-based services would allow County customers an efficient cost effective access to many routine services. Citizens and businesses would be able to carry out electronically a host of activities such as renewing licenses, search real estate titles, and file reports for welfare, and search the public record via "For Fee" services. For example, homeowners could bring up their current property tax bills, examine the bill for correctness and then pay the bill on-line with a credit card or via electronics funds transfer from their checking account.

Web-based middleware such as *Cool ICE* (Internet Commerce Enabler) allows the user to access data with multiple databases across a range of heterogeneous systems — all while providing advanced features such as dynamic page creation, transaction logging, user profiling, and security.

Indeed, security has been a major impediment to wide-scale acceptance of E-Commerce. While constituents worry about privacy issues, many public agencies are hesitant to open up their secure, protected databases to the freewheeling world of the public Internet. But sophisticated web middleware such as *Single Point Security* software preserves the security controls built into the database and enhances them through advanced security measures.

A truly effective E-Commerce system must make effective use of currently available and emerging Web based technology. A new US government study is revealing just what an economic superpower the Internet has become. In its first major report on the economic effects of the Internet, the US Commerce Department reports that electronic commerce, barely a blip a few years ago, could reach a staggering $300 billion by 2002.

According to the study, over 10 million people in the US and Canada bought something on-line by the end of 1997 -- an increase from 4.7 million six months before. And overall, the digital economy is growing at double the rate of the general economy -- representing more than 8% of the US gross domestic product. In fact, during the last five years, information technologies have been responsible for more than one-quarter of real economic growth in the US.

The Internet is being used to reinvent government and reshape our lives and our communities in the process. As the Internet empowers citizens and democratizes societies, it is also changing classic business and economic paradigms.

In Social Services, government agencies such as Los Angeles County are performing a variety of functions from child protection to benefits transfer and rely on modern technology solutions to manage the paper-intensive, case-management process. The Los Angeles County District Attorney BFSO is an example of technology at work.

Modern technology solutions for the public sector frequently employ key enabling technologies such as imaging, geographic information systems (GIS), self-service kiosks, electronic benefits transfer and fingerprint identification. The following types of products and services presented here are examples of products and services made available to others and reflect solutions that Los Angeles County departments and agencies can take advantage of and are not attended to be specific recommendations.

Paperless E-Commerce

Intelligent Forms Processing Systems is a leading software solution for the automation of manual data entry in the business services, financial, and government market sectors. By automating the data input and verification process, IFPS greatly reduces the need for operator intervention and operating costs, while increasing accuracy and speed of the processing cycle, and improving payment turnaround time.

IFPS does this by extracting information from paper-based forms, which are either scanned or faxed into a system. Using ICR/OCR technologies, IFPS verifies the information for accuracy, perfects information, and then transfers the information to designated database.

Flexible, scalable design architecture enables automation of 1,000 to 100,000 documents per day, perfects handwritten and machine-printed data from forms ICR, OCR, OMR, mark-sense, and is bar code recognition capable.

On-Line Data Access

INSCI Corporation provides an integrated output management solution in high-volume environments addressing those parts of organizations that deal with document management, including electronic document input, storage, retrieval, printing, and archiving.

INSCI's Integrated Output Management (IOM) systems integrate today's leading document management technologies to deliver long-lasting business benefits. This includes computer output to laser disk (COLD) technology, which provides a dramatically less expensive way of managing both paper and microfiche-based documents.

High-performance archive and retrieval, which speeds document access to users, provides additional service benefits and measurable cost savings. Other important capabilities include on-demand viewing and printing, production printing, CD-R production, data mining, imaging, and work flow management.

The NAS2000 is a family of file server based, network attached, storage systems targeted at environments that demand continuous, 7x24 data accessibility. Packed in a single rackmount enclosure, a NAS2000 consists of a two node, active-active cluster connected to a dual loop Fiber Channel Storage Subsystem. A technically innovative, leading edge, Dynamic RAID protection scheme integrated with NT software and protected NT cache, provide clients with a high performance, high availability solution to meet the most demanding requirements for continuous data access.

Centralized Database

Technology of particular interest to Los Angeles County would be the Oracle8 Universal Data Server, a major component of Oracle's Network Computing Architecture (NCA), is designed to meet the performance, reliability, and scalability demands of network-centric computing and object development methods. Oracle-8 and NCA provide the power, performance, robustness, network integration, and flexibility to support the most demanding applications. Oracle8 includes across-the-board improvements in resource utilization and performance. As the first object-relational Oracle server, Oracle8 introduces an object-oriented paradigm providing new capabilities for managing data complexity. Release 8.0 also improves overall availability, performance, manageability, multimedia data type support, and replication functionality.

Single Point Security

Single Point Security includes features to protect the enterprise at two points of vulnerability: access to user workstations and access to the IT environment from user workstations. Administration features facilitate policy-driven administration of user accounts throughout the enterprise.

Single Point Security provides single sign-on features that control access to applications and servers in the enterprise system. The Administrator can create user and group-specific desktops, which limit a user's view to authorized applications and servers only.

At the same time, single *sign-on facilitates* access to the applications and servers that a user is authorized to use. Icons on the desktop provide users with point-and-click access to applications. If an application resides on a remote server, it establishes the communications path to the remote server, logs the user on to the server, and starts the application.

Single Point Security manages the password interactions with all the systems a user is authorized to use. The software creates highly complex, secure passwords for the user and stores them in an encrypted database. The user needs to know only the initial password and/or PIN.

Web Based Services.

The Internet (also known as the World-Wide-Web) is a computer network that connects millions of computers globally and provides worldwide communications to businesses and homes. An Intranet is based on Intemet technology but exists only within an organization and is protected from unauthorized access. Users are attracted to the Internet because it is easy to use and because it combines graphics, text, sound and animation into a rich communication medium.

Cool ICE is a complete environment for creating, organizing, and managing Internet and Internet solutions. Its robustness and scalability allows you to take advantage of the World Wide Web for electronic commerce in a secure and flexible manner. *Cool ICE* allows the user to quickly and easily create dynamic web pages.

The areas where *Cool ICE* can be applied are unlimited: create new Internet-based systems for capturing customers, provide catalog services, take orders and bookings, provide management information/reporting capabilities and so on. It can change the relationship between suppliers and customers by providing on-line services over the Intemet. *Cool ICE* can be used with existing applications, thus expanding the value of otherwise functionally acceptable applications.

Citrix's *WinFrame* allows a Windows NT server to run applications for client computers that might lack the hardware or horsepower to do so for themselves. Like many other organizations, Los Angeles County has a variety of older systems that are very effective in their current usage. With Citrix, older computers such as 286s with 2 Mbytes of RAM and DOS can be made to look and feel as though it is running the latest *Windows 95* application with the zest of a Pentium-based system. The application actually runs on the server, which sends video updates to the lowly client machine to accomplish the illusion. The advantages of the "mainframe simulation" vs. the client/server paradigm include low cost of ownership, greater control over software, easier network management, reduced network traffic, lower hardware-upgrade costs, built-in wide-are-networking support, cross-platform support for software and enhanced security.

In this paradigm, a network's total cost of ownership plummets. Client machines virtually never need hardware upgrades to accommodate newer software. The need to purchase, deploy and administer client-hardware upgrades to support software revisions disappears. While the Web will enhance the county's ability to provide on-line transaction thereby improving revenue billing and collections, it also can provide other "hard-dollar" cost savings. By making information available through the familiar and universal Web browser, the County can save time and resources that it would otherwise take just to retrieve the data in usable form.

A systems development corporate partner to the EEC gave us the following example: The Hillsborough County Sheriff's office, which serves the Tampa, Florida suburbs uses *Cool ICE* to link its Internet to other agencies throughout the region, creating a county and state wide extranet. This enables the Hillborough Sheriff to use its Web site to allow mutual access across agencies, allowing authorized users to view information regardless of where the data is stored.

"We do business with the state attomey, the circuit court, and public defenders -- all of which have different terminals and database systems," explains Cynthia Wall, a manager at the Sheriff's Office. "By establishing a single Web site for these various agencies, we have created a single communications network." That network gives officers up-to-the-minute information about criminal suspects, allowing them to better coordinate investigations. It also lets them access court schedules, so they can spend more time on law enforcement and less time waiting when courtroom hearings are delayed.

Point of Service (POS) or (Point of Transaction) Automation

The implementation of ATM/Debit card POS terminals and on-line check verification systems would be of tremendous use to the County.

Cash/check collection may not be as critical or have the volume in the County as it might be in the private sector. However, many of the same technologies can be used to improve cash flow and collections. Many people can benefit from Web-based services via home computers, library and school based computers, and computer automated Kiosks. Many others prefer human contact cash based transaction. The implementation of ATM/Debit card POS terminals and on-line check verification systems would be of tremendous use to the County.

At the point of contact with various county agencies that process a large number of cash and check based transactions, such as county courts and licensing agencies, POS terminals would allow the County not only to automate these manual system, but the data collected would begin to establish the centralized county-wide data repository we wrote about earlier.

Additionally, the benefits of reduced cash shrinkage, bad check fees, shortened days outstanding balance, and improved customer service are just a few of the tangible cost saving the County should realize.

A number of on-line services could provide the County with check and fee collection services. These systems combine extensive data and customer bases to aid the county is reducing bad check and fraudulent draft processing while preserving the dignity of valued County customers. Because these systems are on-line and interactive, these collection systems can use statistical-based predictive modeling to determine the most effective collection method (letter, agent-contact, check redeposit, for example) for a particular bad check.

Because the County currently uses a number of item processing systems, on-line verification can do more than capture constituent data off the item draft for current and future reference. These systems can process items prior to deposit and reduce bank fees and item processing charges. For example, POS readers can scan a constituents check, read all the pertinent data, verify any outstanding balances owed the County, and subsequently process the charges electronically and return the draft to the client.

Conclusion

Los Angeles County has currently in place a number of viable and effective systems for the collection and accounting of funds, transactions, and constituent data. The technologies outlined here are proposed as a way to bring together the systems and the data contained therein into an effective centralized repository that departments and agency can use to transact business in a efficient and cost effective manner. The total cost of ownership can truly only be assessed if these or other technologies can answer these questions to the satisfaction of County users:

- *Are the systems easy to use?*
- *Is the data current and correct?*
- *Are worker's tasks effectively and efficiently completed as a result of this new technology?*
- *Are clients and constituent better served by use of the technology?*
- *Are there verifiable cost reductions and savings?*

The team feels that these types of solutions can be implemented throughout Los Angeles County's many departments and agencies in a cost effective manner. Much of the cost can be justified and recouped by using Web-based front ends, Year 2000 compliant middleware solutions, integrating on-line data capture and imaging systems, and centralizing data capture and reporting with TTC.

Technology Specific Recommendations for Los Angeles County

Direct the Internal Services Department (ISD), in conjunction with the Auditor-Controller and TTC to establish an on-line database, accessible by all County departments at the customer service level, to enable access to information about debts owed the County by individuals. Such a system should have appropriate safeguards such as password level protection to ensure privacy while enabling useful access. This system should also enable the paperless exchange of debt information to TTC when debts become delinquent.

Direct the ISD in conjunction with TTC to investigate the development of an automatic point of sale system for County departments. This system should integrate a document imaging system for collections to streamline data transfer, speed bank deposits, and reduce paperwork.

Direct the Auditor-Controller with the cooperation of ISD to study and report to the board a plan to increase the use of electronic banking, Intemet commerce, and Electronic Data Interchange (EDI) to streamline the County's debt and revenue collection functions. This study should include the possibility of using existing systems when appropriate, and the collection of data by electronic over manual methods early in the process.

Direct the Auditor-Controller and TTC to develop an electronic credit card and check acceptance guarantee program for payment of County services and debts.

NOTE: An outline of the budgetary estimates for the technology recommendations and additional information may be found in Appendix 4.

Section VIII

Public and Private Sector Best Practices

Background

This section examines debt collection practices in the public and private sectors and compares these methods to those used by the County of Los Angeles Departments. The objectives are to identify practices for further study that may improve County debt collection practices, and make recommendations for immediate implementation based on the research performed.

Benchmarking and identifying best practices are two methodologies being utilized to achieve both of these objectives.

These methodologies provide the best ways of identifying collection practices in complex organizations inside and outside of government...

Benchmarking is described by the American Productivity and Quality Center as *the process of identifying, understanding, and adapting outstanding practices and processes from organizations anywhere in the worm to help your organization improve its performance.*

Best practices takes benchmarking a step further. Best practices is a shorthand term for the process of constantly monitoring the environment for better ways of achieving goals, developing relationships among the stakeholders in the achievement of goals, and adopting a process view of the steps toward a particular objective, as opposed to a series of isolated tasks.

These methodologies provide the best ways of identifying collection practices in complex organizations inside and outside of government that can prove useful in improving the County's debt collection procedures.

Best practices of public sector debt collection were gathered from three sources: *1997 Survey on Revenue Collection Practices in State and Local Governments,* sponsored by the Government Finance Officers Association and MBIA (GFOA/MBIA), a municipal bond insurer and administrator, Congressional testimony, and the Commission's own survey of each of the state government, ten of the nation's largest counties, and the five largest counties in California.

Best practices of private sector collection were gathered through Internet research, periodicals, the Commission's survey of private sector practices, a private sector survey conducted by the Institute of Management and Administration, and the corporate partners.

Public Sector Discussion

Summary of Results

Several states are using outside collection agencies as primary or integral instruments of their collection program in conjunction with the traditional use of state collectors with tremendous success.

Outside Collection Agencies are used by 39 out of 50 states for the collection of delinquent accounts. Several states have used this practice for approximately 10 to 15 years. Initially, these programs were primarily for the collection of debts owed by individuals who left the state's jurisdiction. Increasingly these states are using collection agencies to pursue in-state debtors, and to collect a wider range of debt types. (See Appendix 1 for complete survey results.)

Most states utilize these agencies to perform skip-tracing, issue collection letters, contact debtors by phone, establish payment plans, and payment processing. A smaller number of states use these agencies for asset seizures, placement of liens and levies, garnishments, and to negotiate debt compromises. Several states are using outside collection agencies as primary or integral instruments of their collection program in conjunction with the traditional use of state collectors with tremendous success.

Thirty-two out of fifty states are beginning to use some form of technology to increase collections, reduce staffs, and increase customer satisfaction.

Generally, the use of outside collectors has been viewed as successful by the agencies, and non-objectionable by the public. Protection of taxpayer privacy is assured by compliance with disclosure laws which limit the amount of detailed information given to outside collectors to only essential information to perform their function.

Advanced technology is playing an ever-increasing role in the collection process. Thirty-two out of fifty states are using some form of technology to increase collections, reduce staffs, and increase customer satisfaction. The systems employed include predictive dialers, optical scanners, and off-the shelf and custom software packages for server and mainframe environments.

GFOA/MBIA Revenue Collection Practices Survey

The GFOA/MBIA survey was conducted in March and April of 1997. The questionnaire was sent to 3,500 GFOA member governors in the U. S. and Canada, of which 1,022 responded. Three-quarters of these respondents ranged in size from towns of less than 10,000 populations to over one million. The remainder included special districts, county and state governments.

Appendix 3 summarizes the results of the survey for comparison with Los Angles County. Of the 1,022 respondents:

General Collection Practices

·
44% have established written revenue collection enforcement policies
· 50+% have designated staff to collect delinquent accounts and have centralized the collection process for all departments
· 24% accept credit card payments

20% use a competitive bidding process where public and private agencies compete for collection contracts

Use of Technology

· 66% use computer programs to assist in collections
· 44% have made changes to their collection process in the past 24 months
· 38% accept electronic funds transfers

Innovative Cooperative Efforts - Use of Competition

· 84% impose late fees or interest penalties on past due balances
· 20% use a competitive bidding process where public and private agencies compete for collection contracts
· 73% of respondents who use private contractors for collection were satisfied with their performance, and 48% used credit reporting agencies to collect delinquent accounts within the past 24 months
· 50% indicated that they plan to use credit reporting agencies in the next 12 months

Sale and Securitization of Receivables

· 13% have sold or are considering the sale of securitized property tax liens within the past 24 months
· 25% of *county* respondents have held such sales
· 9% of all respondents have sold these securities

Congressional Testimony - State Use of Collection Agencies

About one-third of the states use outside agencies for income taxes only, while two thirds use them for other types of debts.

The Commission reviewed testimony given by Harley T. Duncan, Executive Director of the Federation of Tax Administrators (FTA), before the Subcommittee on Oversight, U.S. House of Representatives Committee on Ways and Means, April 25, 1996. Mr. Duncan's testimony focused on an FTA survey of all fifty states on the use of non-government collection agents. The points most applicable to the County are summarized below.

Thirty-nine states use private or non-government agents for the collection of delinquent taxes. Many of these programs began in the

1980's, with the oldest program begun in 1975. About one-third of the states use outside agencies for income taxes only, while two thirds use them for other types of debts.

A slightly higher number of states use outside contractors for out-of-state accounts than for in-state accounts, but that gap appears to be shrinking. Fifteen states use outside agents for collecting certain types of debts for both in-state and out-of-state accounts. Four others use them for both in-state and out-of-state individual and business income accounts and receivables.

Some states have rather extensive programs where the outside collection agency functions as a partner to the government and even a collector of first resort

While almost all states contract on a contingency or percentage-of-collection basis, programs for flat fees are also used for the collection of bounced checks. Two states add collection fees to total tax, penalties and interest assessed.

Activities Contracted

The most frequent action taken by an outside collector is phone contact with the debtor. Twenty-seven of fifty states allow these outside agents to negotiate, and sometime approve, payment plans. A small number give their outside agents authority to negotiate compromises, however, final approval by the state government is required. Eight states allow asset seizure, seven grant authority for wage garnishment and more than a dozen allow the outside agency to undertake collection litigation. The undertaking of litigation requires prior approval of the states.
Outside collectors do not have unlimited authority. Extremely important operational details are worked out and included in a detailed contract between the government and the outside contractor. Details such as limitations, tolerances, calling hours, tone of messages, training oversight, supervision, disclosure restrictions, and even employee qualifications are included in these contracts. The state employs the contract as its means of having control over the contractor as it would over its own employees.

The state employs the contract as its means of having control over the contractor as it would over its own employees.

In the majority of cases, debts that are referred to outside agencies tend to be older, smaller dollar accounts that were not being worked or had been unsuccessfully worked. In general the outside contractors are receiving residual debts remaining after a variety of collection actions by the government agency.

However this generalization does not hold in all cases. Some states have rather extensive programs where the outside collection agency functions as a partner to the government and even a collector of first resort. Some states work debts with in-house personnel only after the collection agency has been unsuccessful. States determine the criteria for referring accounts based on law, internal resources, the age of its technology, and the type of debt.

Concerns About Privacy

Contract collectors generally only have access to information necessary to collect the delinquency such as name, address, Social Security number. This information is used for account control and skip tracing. Other information may, but not always, be released to the non-government collector at the debtor's request. Non-government collectors in some cases have access to their contracting agency's entire computer files. In these instances those agencies have typically contracted for a broader scope of services, including problem resolution. States consider the non-government collectors agents, subject to the some disclosure rules as government employees.

Public Reaction

The public appears to have no more problems dealing with contract collectors than they do with dealing with government employees assigned to collections. Seven states reported they have not received a single complaint from a government official. Thirteen states reported that complaints were rare. Five states reported occasional, but not regular, complaints, and one state reported regular complaints.

Results

The wide variety of approaches, debt types, and policies across the population makes it impossible to effectively compare collection rates across the states. The rate of collection is also affected by the quality and age of the debt that is referred. Generally government agencies employing an outsourcing collection strategy in its various forms are pleased with their results, and some are considering expansion of their programs.

E&E Commission Review of Governmental Collection Practices Survey

To supplement the statistical focus of the GFOA/MBIA and FTA Surveys, the Commission conducted a telephone survey of revenue departments of all 50 state agencies, the ten largest counties nationwide, and the five largest counties in California (excluding Los Angeles). This survey was designed to collect experiences, impressions and advice from these revenue departments to add depth and color to the statistical trends indicated in the GFOA/MBIA

Survey. The goal was to learn as much as possible about state and county experiences with non-government contractors, centralized collections, technology and automated systems, privatization and the securitization of receivables.

The majority of the calls were to the revenue departments of each governmental body. Therefore, the results must be considered with the knowledge that there may be other agencies within each agency involved with the collection process for differing revenue streams. The time constraints imposed on the Commission prevented additional information gathering from these agencies. Referrals away from traditional revenue departments were requested. If a referral was made, it was usually to that *government's* version of a collections department or a special child support unit.

The Commission also requested and received copies of systems technology Requests for Proposal (RFPs), flow charts, RFPs for public and private collection agencies, process changes and exchange agreements. The information gathered from this survey was most revealing in the use of computer technology and other strategies by state governments highlighted below.

Idaho performs all work in-house and they have a mainframe accounting system called *Revenue Management System* (RMS). They also use a predictive dialer. A predictive dialer is an automated phone collection system, which integrates computers containing account information with the telephone system. The goal of a predictive dialer is to let the collection professional handle only live contacts. Most outbound telephone contacts are either busy, there isn't anyone answering or is a wrong or disconnected number. The predictive dialer makes the telephone call for the collector. When someone answers the telephone, the call is transferred immediately to the collector working the account. Also, debtor information can be automatically pulled up to the collector's computer screen.

Every jurisdiction believed that the use of modern technology including imaging systems reduced the need for manual data entry by allowing direct scanning of data from documents.

Michigan uses two technology systems, STAR for *State Treasurer Accounts Receivable* and MAC for *Michigan Automated Collection.* MAC is a telephone collection system, which contains more detail than STAR. It is run by an outside collector under a five-year contract. They are thinking of using a mainframe system with a client server for better reporting. They believe it will be a seamless system with more access to field collectors. One of the key differences about Michigan compared with the states discussed so far is that an outside contractor runs their system.

New Hampshire is currently designing a computer debt tracking system. Again, selection was not the result of a formal study, but a result of the problem solving process within the department itself.

Every jurisdiction believed that the use of modem technology including imaging systems reduced the need for manual data entry by allowing direct scanning of data from documents. Additionally, the use of computer-based information sources, such as the Intemet, FASTDATA (an on-line directory assistance product) and at least two credit reporting agencies, Trans Union and TRW (now called Experian) would be helpful to County government.

...publishing the names of the top 100 delinquent debtors on the Internet proved to be a novel way of using technology. They found that "CyberShame works" ...

Lastly, Connecticut found that publishing the names of the top 100 delinquent debtors on the Intemet proved to be a novel way of using technology. They found that "CyberShame works" according to Gene Gavin, the Commissioner of the Department of Revenue Services. In four months of operation, they resolved $17 million in delinquent debts, (i.e., have been brought from a total inactive status into a payment program.)

Other Practices for Consideration

Other states find a centralized database helpful in organizing their receivables for intra Governmental offset. In addition the use of a common identifier for all receivables, such as Social Security Number or Employer Identification Numbers, agencies find information that crosses inter-departmental lines to be helpful for their collections.

Customer focus as opposed to internal focus seems to be a key element among all of the more progressive states in debt collection.

Customer focus as opposed to internal focus seems to be a key element among all of the more progressive states in debt collection. They are turning their focus toward the actual client who has to do the paying. The primary reason for this change in focus is to create a better relationship with the customer. Their needs will be served much more quickly by outside collection agencies that are able to coordinate the payment of their debt.

Through enforcement actions such as the intercepting or revoking of business licenses, wage and payment levies, and refund and payment offset programs; agencies are crossing governmental and departmental lines to collect more outstanding debts owed.

Conclusion-Public Sector

The collection process within governmental jurisdictions involves many different players: legislative bodies that pass laws and ordinances governing the collection process; various departments within each jurisdiction that administer programs; and other stakeholders such as commercial banks, private collection agencies, credit reporting services, legal system, etc. The role that each of these players undertake in the collection process will depend on the type and size of the government and the specific services provided. The revenue collection function must work with each of these in attempting to formulate a cohesive and effective collection program.

The information about who is using outside contractors, the types of debts for which they are used, and the types of activities for which outside contractors were engaged was instructive in public perception regarding the use of outside contractors, eliciting state perceptions on their utility, and highlighting some of the operational concerns that will need to be addressed if they are used at the County level.

Almost all agencies felt that ***a written collection enforcement policy*** that includes payment arrangements for deficiencies, ***a centralized database*** that provided a system to track the age of receivables and time periods in which revenues are considered delinquent, and ***goals for collection*** provided a sense of direction.

All agencies were either using or contemplating ***using computerized programs to assist in collections***. They felt that the program should ***interface with accounting systems, automatically generate collection notices,*** letters, and legal action filings, and have ***on-line capacities with collection agencies and credit reporting agencies.***

In addition to streamlining collections, the use of modem technology provides the ability to increase ***the intercept of refunds and other payments to the debtor.*** Once all systems are integrated, departments can easily intercept participating agencies' receivables before any more refunds are issued to an offender because all information is consolidated. ***Departmental integration*** would allow access to current intercept programs.

"Off-the-shelf" software packages for common applications offer the most cost effective alternative for solving technology problems. Package implementations generally involve less risk than developing custom code and offer a better chance of meeting implementation deadlines. Careful research of the vendor and product should be done to assure the new application is compliant with County needs.

The use of common identifiers would offer these benefits for the County:

- Collection efforts against debtors owing multiple agencies is reduced.
- Integration of delinquent accounts into one system could provide more efficient and effective use of

collections staff and enhance general fund revenue.

- Cooperation with other jurisdictions in the enforcement of collection actions is enhanced.
- Additional interest earnings on County funds would be earned on accounts collected earlier and in larger amounts.

The practice of ***securitization and selling of property tax liens*** is growing at twice the rate of corporate bonds, and should be seriously considered in the overall debt collection process. A large section of the investment banking industry is expanding in this area. The sale of these securities could provide a increase in collections.

Most of the agencies surveyed felt that it is important that ***overall responsibility for collection of delinquent accounts be assigned*** *to a single individual* in the organization. This individual, and the program managed, require ***support from the upper echelons of the organization and cooperation from other departments.*** Debt collection must be recognized as a separate process from the routine invoicing of receivables, requiring special skills and training not typically found in government accounting functions.

Private Sector Discussion

Introduction

The utilization of private sector techniques by the public sector has the potential of providing government with additional robust, dynamic and cost saving alternative solutions to the meet the demands of the collection function. However, it must be realized that obstacles and conflicts exist in applying and implementing private sector practices to the public sector. The primary conflict lies in the diversity of the missions of the public and private sector. The mission of the public sector is to provide service to the public based upon service need rather than profit potential. The objective of the private sector on the other hand is to consider production or service delivery in light of the potential for profit.

Receivables management and collections are recognized by the private sector as being both a critical element of this process and a strategic tool for enhancing shareholder value by improving the cash flow picture.

The current focus within the private sector is on improving customer service and increasing efficiency to enable organizations to produce more using fewer resources. Receivables management and collections are recognized by the private sector as being both a critical element of this process and a strategic tool for enhancing shareholder value by improving the cash flow picture. A quantum leap in the private sector requires consideration of the total customer cycle, beginning at the point of sale and continuing throughout the process. This function, together with all activities within the business, becomes increasingly more important considering the pressures of such factors as downsizing, consolidations, and managerial demands.

A Corporate Example

As compared to the public nature of government, companies are understandably reluctant to disclose their policies and practices in accomplishing specific activities and functions. Sometimes a company will share a success in a particular field of endeavor. This is the case with the cosmetics firm of Elizabeth Arden in effectively revising its receivables system.~

A total overhaul of the domestic credit and collections processes by Arden resulted in savings of more than $20 million. This savings came from a reduction not only in operating expenses, but also in working capital needs. It's the latter that has most often been neglected. When working capital does get attention, the focus typically is on how companies can save cash by speeding up cash collection cycle time and increasing inventory turnover.

In undertaking this reengineering, Arden identified a multitude of problems, including:

- *Ineffective customer account management.* Arden recognized that its efforts should be placed on the 20 to 25 percent of its 3,000 customers that comprised 84 percent of the total accounts receivable balance.

- *Substandard collection management.* Arden's collection activities were not effective. Although credit terms called for payment in 30 days, days sales outstanding often exceeded 70.

- *Poor customer relations.* Arden's collection efforts were driven by the desire to avoid bad-debt write-offs rather than the need to enforce payment terms and generate cash. Customers were contacted only when problems reached a crisis level, and the interaction tended to be confrontational.

- *Poor customer coordination.* Customer contact was spread among different independent Arden personnel. This annoyed customers since it resulted in duplication of effort and the need for rework.

[1] Elizabeth Arden Gets a Makeover, the cosmetics giant has polished up its credit and collections processes--and saved millions, CFO Magazine, December 1994, Stephen Barr

- *Error-prone processes and procedures.* Procedures for returned merchandise, invoice deductions, and other customer-related transactions were lengthy, complex, and manually intensive. This led to deficiencies in servicing customers, as well as inaccuracies in cash collection figures and other financial data.

  Arden ***merged collections into one department with a total-account focus***. The objective of this reorganization was to reduce receivables and improve cash flow by providing better service quality through revised policies, procedures, and systems that would make life easier for the customer and the company. Each person in receivables subsequently became an account manager dedicated to serving a group of customers. This approach eliminated hand-offs that resulted in rework, and delays in completing customer-related transactions. It also gave Arden the foundation for ***more-aggressive collection management*** (telephone calling of larger accounts and letter-driven dunning of smaller accounts before payment is due) and for better account reconciliation.

  By careful ***scrutiny of a customer's deduction and dispute history*** (credit notes helped), Arden has been able to compile better information and collect on more of its invoices in a more timely fashion.

  For the first time, retailers realized Arden was serious about keeping its accounts clean and having a customer focus. They had a person to contact if they couldn't pay or had an issue they needed help on. Whereas before Arden reconciled its accounts on an annual basis, ***each account is now reconciled monthly***, using a receivables software package from British vendor JBA, running on an IBM AS/400 computer.

  Reengineering is about processes, not systems. People make the mistake of thinking that they need new systems. People do the processes; systems are the tool. Two factors in the success of this project were: (1) Explain the reasoning behind the reorganization and ***let people know that senior management was 100 percent behind the change;*** and (2) Constant communication.

By adopting a best practices approach, Bearings has achieved a cost savings of more than 20 percent in receivables management.

There are now fewer people in the department [from 38 to 28], yet now there are mechanisms for tracking invoices, managing disputes and deductions, providing customer service, and improving working capital. In finance, innovation is absolutely their number one goal and their number one product.

Other companies have implemented improvements to their receivables management systems. For example, Eastman Kodak has reported an 80 percent auto-cash rate, which means that there is no need for human intervention with approximately 80 percent of their remittances. Both Eastman and Bearings Inc., a Cleveland based company, which sells and distributes 800,000 different products, have adopted the process of ***scanning remittance documents***. This process saves considerable time and cost for both organizations. By adopting a best practices approach, Bearings has achieved a cost savings of more than 20 percent in receivables management.

Another emerging best practice in the private sector is the ***use of credit cards for payments for up to $10,000***. This process allows companies to facilitate a quicker turnaround on orders by not having to delay the process for a credit check. It also serves to eliminate back-end collection costs and improve a company's cash flow. At the same time, the company benefits from having minimized transactions in the overall customer cycle and can eliminate potential credit concerns.

E&E Commission Review of Private Collection Practices

As you might imagine, attempting to obtain procedures, policies, and/or debt information from private sector organizations was difficult. The response from the private sector was not very generous, and understandably so. There were proprietary and confidentiality issues involved with surveying data of this type. Although we were not able to gain specific information relating to specific company practices or "trade secrets" we were able to glean general information regarding best practices.

The results of our research provided many differing objectives and associated processes within the private sector. Because we discovered a wide range of methodologies employed in debt management/collections, to report in terms of percentages of best practices would not be accurate. Similar to the governmental analysis, we focused on the theme of our project, rather than statistics.

Collections Staffing and Organizational Structure

A focused, trained, and specialized staff will increase collections and allow existing staff to attend to their primary job responsibilities. The mission of public sector departments is to provide services to their clients, not to act as collection agents attempting to collect past due obligations. County department staffs have excellent knowledge and skills for delivering programs, but do not always have the skills or training to track and collect debt in a timely manner.

Employing a group solely dedicated to the collections process enhances the probability of collections. There are varying levels of dedication operating in the collection process; the most successful is a self-contained collection department. All delinquencies are forwarded to the collection center for action. The determination of when debt is forwarded is determined by company/business policy. The collection department itself may have specialized processes such as, locate, collect, customer service and data entry to further enhance the probability of collections. ***Some collectors are specialized*** within the process itself, focusing on a specific account type rather than other common methods, such as alpha split or geographic location.

Training is an integral component of the development of the collections professional. The collections professional must be capable of operating and administering the various tools that are available to them to maximize collections. There are a variety of training methods being utilized, including internal training programs, external seminars, on-the-job training as well as technical and customer service programs.

Collection Improvement Tools

Telephone Contact - This process serves several purposes, primarily to get a commitment to pay from the debtor and/or to establish a payment plan if payment in full is not immediately available. All debtors are instructed that they have an obligation to pay their delinquent account as expeditiously as possible. In addition, as much information as possible is obtained to assist in determining the debtor's ability to pay including, current income, paydays, bank used, current place of employment etc.

Skiptracing - Without the proper address and/or telephone number of the debtor, additional information cannot be obtained and personal contact is impossible. There are numerous databases available to assist in locating debtors. Some are widely used by collectors and some are more specialized. The most common are:

- Telephone number look-up accesses national database of telephone directories
- Neighbor look-up accesses name, address and telephone number of five neighbors of debtor
- Address update searches consumer credit profiles
- National postal address change accesses the official Post Office forwarding address database.

Collection Letters - Notification to the debtor informing them the case has been assigned to a collection agency for collection. Collection letters are an important part of the collection effort. Properly integrated with telephone contacts, letters can increase the collection success ratio considerably. Collection letters usually contain account balance, minimum payment due, payment due date and certain demographic and account identification information. Mailings occur only to those accounts that have a valid or current address. Subsequent letters are sent as deemed necessary.

Predictive Dialer - The goal of a predictive dialer is to let the collection professional handle only live contacts. Most outbound telephone contacts are either busy, there isn't anyone answering or is a wrong or disconnected number. The predictive dialer makes the telephone call for the collector. When someone answers the telephone, the call is transferred immediately to the collector working the account. Also, debtor information can be automatically pulled up on the collector's computer screen. This process allows more quality contacts to be made which in turn increases the potential for collections.

Monitoring of Accounts - Automated Collection Systems are critical to this component of the collection process. Once contact and payment demand is made to the debtor, ensuring proper payment is critical to the eventual resolution of the case. Development of information provides a means to follow-up with the debtor if payment is not received. Automated systems track and prompt actions within each case based upon schedules and/or account activity. This guarantees proper follow-up is completed for each case.

Collection Agencies - Traditionally, companies often resorted to using collection agencies in extreme cases. Reporting debtors to credit bureaus, asset seizures, bank levies, wage garnishments, judgements and liens are also available depending upon the nature of the agreement collection agencies have with their client companies. There is a growing movement in the collection industry to no longer rely on extreme cases, but to become receivables managers. Companies are beginning to outsource their pre-charged off accounts, is the fastest growing part of collections. Some national agencies have seen their percentage of this type of work grow from 2% to 40% of their business *in the last two years.* By expanding their use of collection agencies to these cases, private sector businesses have seen their revenue and cash flow grow.

Reporting - Reports assume an important role in the management of any collections effort. There are a wide variety of reporting strategies used by companies collecting their own accounts as well as collection agencies serving private clients:

- Performance Tracking Reports, details staff efficiency
- Portfolio Management Report, daily, weekly or monthly reports analyzing assignment statistics
- Payment Report, a listing of accounts of which payment has been received
- Cancellation Report, a inventory of accounts returned to the client.
- Acknowledgment Report, this report confirms receipt of assignment from the client. It usually contains an account/case number, debtor demographics and account balances.

In addition to the typical collection tools available, there are more specialized processes, which can undertake to satisfy the debtor's obligation.

Automated Locate and Collection Systems

The general automated collection system provides automation for the collection process. The software application turns collections and skiptracing into a "paperless" operation, by loading accounts via computer media or data entry, generating notices, scheduling telephone contacts, tracking collector activity, acquiring phone numbers and updating/changing addresses.

The following are summary descriptions of key system software features:

Relative collectibility tables allow for queue prioritization. There are specific factors associated with different cases that when evaluated provide an assessment as to the potential collectibility of an account. When systematically evaluated, the cases are then presented to the collector or skiptracer in a manner that allows them to focus on the most collectible case at the appropriate time.

Automated follow-up *strategies* move the cases through the system. They are a list of logically sequenced processes that, based on what occurs, determine the next step the case will take. Strategies bring the accounts to the collectors and skiptracers so they can be worked on a timely basis. No human intervention required in strategy selection and implementation.

Automated telephone contacts are scheduled and rescheduled. *The* system schedules and distributes telephone contacts to collectors. Using schedule alerts, the system is able to maximize the efficiency of collection and, at the same time, reschedule the call at a pre-arranged time. The system can also distribute the contacts based on pre-established strategies, geographic locations, or time restrictions (to ensure calls are made only during allowed hours).

Automated collection systems can be linked to other systems, and numerous locate databases. The system can interface on-line or via tape with collection clients case management and tracking systems. Access to multiple sources of information (locate databases) provides locate data for the account.

A Private Sector Survey

Managing Credit, Receivables & Collections (MCRC), a newsletter published by the Institute of Management and Administration, has attempted to find out where companies have had the most success in improving their operations over the last year. The results have shown that companies of all sizes in all industries have been cracking down on their customers who pay late--and they have been very successful in this venture.

Conclusion - Private Sector

Many private sector practices can be applied to County collection functions. However, besides the profit motive, in collections, the private sector has another important difference from the public sector: the choice to grant credit to customers (or to withhold products and services from customers with delinquencies). Credit policies are among the most effective tools to control the *quality* of receivables held by a company. The better the credit policy, the higher the debt quality, and the higher the collections.

The County can rarely pick and choose the "customers" to whom it will grant "credit" because of the nature of the services provided, the circumstances which give rise to the receivables, or legal and ethical prohibitions against denying services or forgiving the debt. Controlling debt quality through credit policy will work in only very limited cases for the County. The best practices in the private sector which warrant further study (listed below) do not include credit granting considerations because of this limited application, but emphasize collection management and technology.

Overall Recommendations for Los Angeles County Departments

- Direct each County department in conjunction with the Auditor-Controller and TTC to develop a written collection policy. This policy should include guidelines for the early capture of collection related information using common identifiers, reporting to Auditor-Controller the size of its receivables inventory on an on-going basis, and the collectibility of the items in the inventory by class or by account.

- Direct all Departments where appropriate to require advance payments or substantial deposits as a condition of providing service.
- Direct the Treasurer-Tax Collector with the cooperation of other County Departments, to develop a list of debts that are not collectible.

- Direct the Treasurer-Tax Collector, in conjunction with all affected departments to develop and present to the Board of Supervisors an *Annual Report on Debt Collections by Los Angeles County.* This report would include a recap of progress made by County departments on the recommendations adopted from this report.

- Direct the Economy and Efficiency Commission, in coordination with all affected departments to issue a report to the Board of Supervisors each year on the progress made toward adoption and implementation of the recommendations contained in this report. This recommendation includes instructions to the CAO to appropriate funds from undesignated special accounts, not to exceed $100,000, to the EEC for purposes of conducting this study.

- Direct the Auditor Controller to provide offset or intercept capability to all departments for during the licensing process. Direct the Auditor Controller in conjunction with TTC to change the payment standard for government agency accounts to a nerd90 day timeframe to reduce the number of delinquent account notices and provide a more realistic grouping of receivables and their collectibility.

Best Practices for Further Study

- Adopt an overall collections strategy that includes benchmarking and a review of best practices in both the public and private sectors.

- Centralize the collection **monitoring** function (either within County government or outsourced to another government agency or a private contractor) aided by a dedicated, specialized staff, headed by a responsible individual.

- Strong support from the upper echelons of County government in making collections a priority.

- Establish credible performance goals, program measurements, and clearly defined results.

- Design a reporting system designed to reveal the system's successes and challenges in order to promote on-going improvements.

- Use common identifiers for receivables such as Social Security Numbers.

- Explore payment alternatives both voluntary (credit cards, payment plans, compromises etc.) and involuntary (liens, levies, seizures, etc.)

- Cooperate with other government entities in the areas of information exchange, refund and 1099 offsets, garnishments, licensing and other enforcement actions.

- Use of the latest computer and telephone technology in collection.
- Securitization and selling of unsecured debt.

- Use a vendor for the collection function, or for specific tasks within the function (technology management, database maintenance, collection agencies, etc.)

- Inform debtors of collection terms and policies as soon as possible after receivable is incurred

Exhibit A **County Receivables (Thousands)**	**Fiscal Year 1996 (Unaudited)**		**Fiscal Year 1997 (unaudited)**	
	Receivables	**Delinquencies**	**Receivables**	**Delinquencies**
Treasurer-Tax Collector*	$ 6,300,000	$ 278,988	$ 6,300,000	$ 236,666
Department of Health Services**	2,860,901	307,000	1,862,386	307,000
Probation	196,282	170,677	118,090	323,000
Fire	37,744	1,085	34,223	1,417
Sheriff	28,905	138	29,780	269
L.A. Municipal Court	2,182	1,915	27,056	24,792
Administratively Consolidated Municipal Courts	Program not in Operation		26,982	25,053
Pomona Municipal Court	22,045	20,340	22,570	22,065
Registrar-Recorder-County Clerk	3,664	1,166	13,629	2,100
Public Works	8,385	653	9,798	570
Animal Care & Control	7,539	0	7,668	141
Agriculture/Weights & Measures	6,285	37	5,794	43
Library	3,825	1,795	4,359	2,264
Citrus Municipal Court	Not Reported	Not Reported	3,507	1,534
Superior Court	1,840	561	2,535	863
East L.A. Municipal Court	4,890	1,697	2,330	229
Pasadena Municipal Court	2,103	1,259	2,010	1,232
Long Beach Municipal Court	1,762	85	2,007	80
Alhambra Municipal Court	2,270	2,270	1,489	1,489
Internal Services Department	1,031	0	1,131	Not Reported
Burbank Municipal Court	669	1,606	940	1,753
Child & Family Services	614	21	514	39
Chief Administrative Office	243	Not Reported	250	Not Reported
Coroner	124	13	133	22
Natural History Museum	96	Not Reported	116	Not Reported
Beaches & Harbors	3	78	106	4
Community & Senior Services	67	Not Reported	53	Not Reported
Regional Planning	18	Less than $500	18	11
Rio Hondo Municipal Court	Not Reported	1,472	Not Reported	2,078
Newhall Municipal Court	Not Reported	4,215	Not Reported	1,699
Culver Municipal Court	Not Reported	1,482	Not Reported	1,670
Glendale Municipal Court	Not Reported	586	Not Reported	447
Total Reported to EEC	**$ 9,493,487**	**$ 799, 391**	**$ 8,479,474**	**$ 958,530**

*Receivables include approximately $5.58 billion in secured property taxes.
**Includes services to indigent individuals deemed uncollectible at the time service is provided.

Exhibit B

Debt Tracking Process Flowchart Symbol Legend

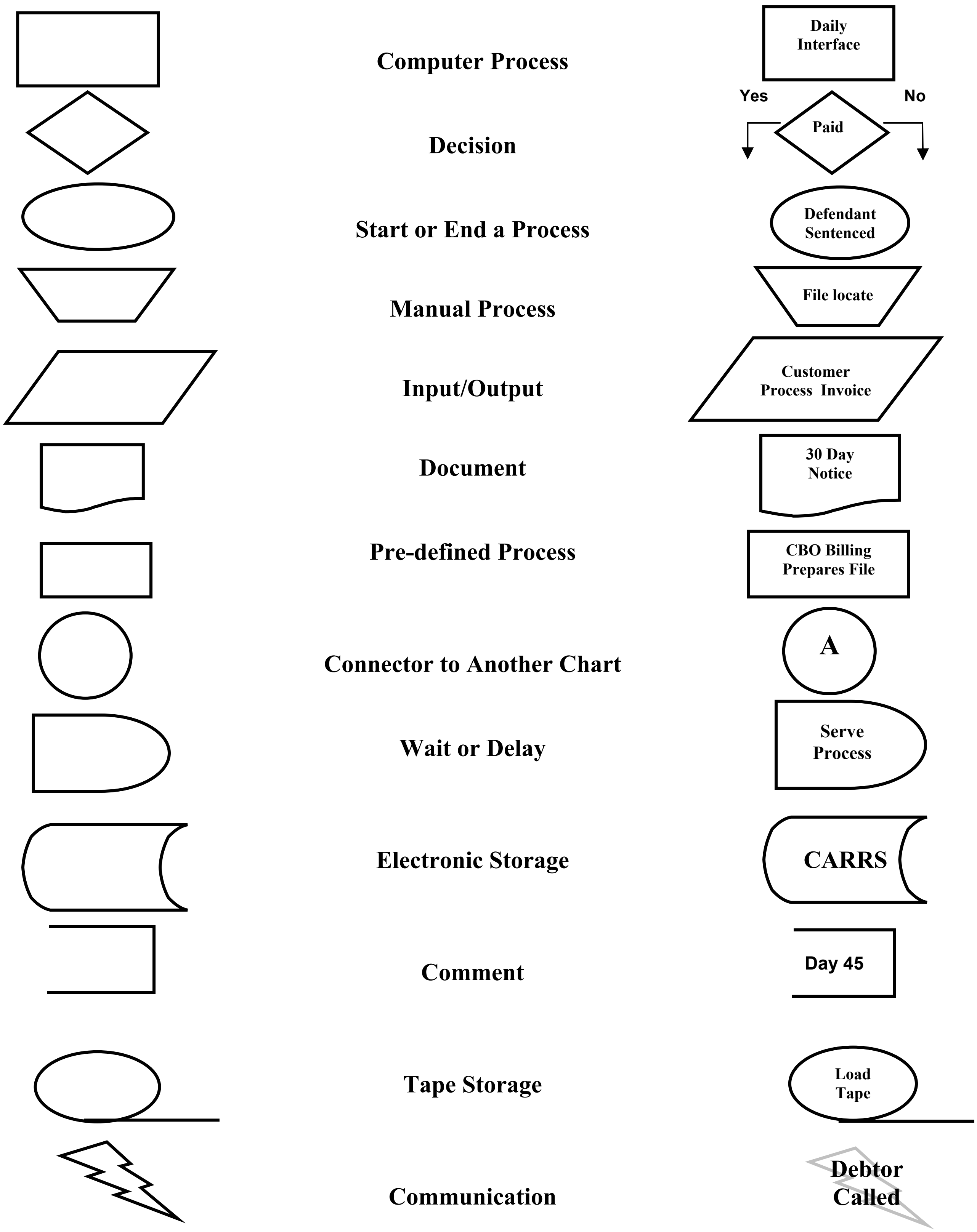

Exhibit C DHS Debt Collection Contractor Recovery Function
County vs. Contractor Revenue Recovery Functions[1]

Document in E&E Commission Reports Folder

Exhibit C DHS Debt Collection Contractor Recovery Function

County vs. Contractor Revenue Recovery Functions[1]

	County				Contractor			
Functions	**DHS/PFS[2]**	**DHS/PA[3]**	**TTC[4]**	**CAO/URD[5]**	**HMS[6]**	**HA & CompSpec[7]**	**USCB[8]**	**CCI[9]**
Financial Screening	Patient interview at IP admission/OP registration to ID known/potential TPR/programs.							
Third Party Resource Identification and Development	Initial IP and <u>OP</u> - TPR ID and DEV including patient contact, and application assistance. 2nd Level IP <u>and OP</u> - Patient contact from inquiries related to PA SP[15] Data Mailer billing.	2nd Level IP <u>and OP</u> - Residual TPR ID from SP Data Mailer billing including patient contact from inquiries related to PA SP Data Mailer Billing.	5th Level IP - Residual TPR ID billing of IP SP classified accounts referrals from HA/CompSpec including patient contact from related inquiries.	4th Level OP - TPR ID from electronic data matching of OP SP classified account referrals from PA in conjunction with HMS and USCB services based on protocols. 6th Level IP - TPR ID from electronic data matching of IP SP classified account]referrals from PA after initiation of services.	4th Level OP - TPR ID from electronic data matching of OP SP classified account referrals from PA in conjunction with CAO/URD and USCB services based on protocols. 7th Level IP - TPR ID from electronic data matching of IP SP classified account referrals from PA after initiation of TTC and CAO/URD services.	4th Level IP - TPR ID and DEV, including inpatient contact for application assistance and advocacy, from IP SP classified account referrals from PFS/PA.	4th Level OP- Residual TPR ID and DEV from billing OP SP classified account referrals from PA including patient contact for application assistance and billing inquiries. 6th Level IP - Residual TPR ID and DEV from billing IP SP classified account referrals from TTC including patient contact for application assistance and billing inquiries.	3rd Level IP & <u>OP -</u> Residual TPR ID from Collection Letter process for IP and OP SP classified account referrals from PA including minimal patient contact on exception basis only.

Exhibit C DHS

Debt Collection Contractor Recovery Function

County vs. Contractor Revenue Recovery Functions[1]

For claims-based MediCal, Medicare, Insurance, and Self-Pay revenue excluding SB 855, SB 1255, and all other revenues not pursued by contractors. "Level" indicates the referral sequence and responsibility thereafter.

DHS Patient Financial Services operations.

DHS Patient Accounting operations including Consolidated Business Office.

Treasurer-Tax Collector

Chief Administrative Office - Urban Research Division

Health Management Systems, Inc.

Health Advocates - A Law Partnership (for LAC/USC, MLK and HDH) and CompSpec (for Harbor/UCLA, OV and RLA)

USCB, Inc.

Computer Credit, Inc.

Inpatient

Outpatient

Third-party resource

Identification

Development

Patient Accounts

Exhibit D L.A.D.A. Bureau of Family Support Operations
Child Support Establishment Process

Document in E & E Commission Office

BFSO Child Support Collection Process

Document in E & E Commission Office

BFSO Child Support Collection Process

Document in E & E Commission Office

Appendix 1:

Survey of Public
Entity Debt
Collection Practices

Document in E & E Commission Office

Appendix 1: Continued
Document in E & E Commission Office

Appendix 1: Continued
Document in E & E Commission Office

Appendix 1: Continued
Document in E & E Commission Office

Appendix 1: Continued
Document in E & E Commission Office

Appendix 2: An Approach To Public/Private Partnerships in Debt Collection

The following template is based on EEC's research of government agencies who have used private contractors to replace or augment debt collection, the input of private sector debt collectors, and the expertise of EEC members who have assisted in "privatizing" debt collection while previously working in government. The template highlights the major characteristics of successful debt collection contracts between government agencies and private sector debt collection firms. The template provides a quick overview of the key elements EEC believes should be included when contracting for collection services. A more in depth discussion of the key elements is found in Section V of this report.

RFP/Contract	Recommendations	Deliverables
Number of Contractors	• Select more than one contractor. The number is dependent on the size of the portfolio, • Select an alternate as standby,	• Ensures healthy competition. • Allows easy replacement for poor performing contractor(s).
Length of Contract	• Two to three years with additional two (1) one year extensions,	• Allows vendors to invest in and recoup costs.
Allowable Work Period	• Upon expiration or non-renewal of a contract, a contractor should be allowed to retain accounts placed for collection a minimum of 12 months from date of placement.	• Ensures all accounts will be worked thoroughly up to the contract termination date.
Retention of Payfile	• Contractor should be allowed to retain all accounts in repayment status for some minimum period from the date of contract expiration or termination for convenience. • Period of retention should be equal to the term for an average balance account to pay off through monthly payments such as thirty-six months.	• Encourages vendors to initially invest funds necessary for a thorough collection effort· • Avoids "creaming" account listings • Provides more negotiation options to settle cases· • Avoids pressure tactics • Results in fewer complaints • Allows vendors to recoup up-front costs

RFP/Contract	Recommendations	Deliverables
Initial Placement of Accounts:	• Each contractor initially should receive a placement of which is based on a random selection, • Accounts should have equal quality and same appropriate average balance.	• Creates a fair and level playing field for contractor performance evaluation.
Pre-Qualifying Experience	• Contractors should have a minimum of 3-5 years of government debt collection experience (local, state or federal). • Contractors should have a proven track record of handling contracts similar in size to the portfolio that is being placed. • Contractor references should also be representative of similar portfolio size.	• Ensures proven track record of performance handling similar sized accounts and volumes. • Understands government requirements and expectations. • Assures resources availability-systems, technology, reporting capability, etc.
Fees, Incentives, and Placement Distribution	• Use multiple contractors in competition with each other, • If using three or more contractors, provide a bonus of two percent (2%) on top of the base fee for the top performer and one percent (1%) to the second place performer • Larger future placements should be awarded to top performers. • Distribution of 50/30/20% if using three contractors. Evaluations should take place every three months • Base collection fee should be fixed to ensure that all contractors are on the same competitive level => *25%contingency fee.	• Creates competitive environment between contractors. • Rewards performance. • Increases net collection return. • Allows contractors to invest the required resources to provide the optimal return. • Avoids "creaming" of accounts.

Performance Evaluation	• Recovery should be calculated using total dollars collected divided by total dollars placed for the entire contract to date.	• Provide a fair and equitable way of evaluating contract performance. • Focuses on what is important, revenue collected. • Ensures clarity and offers opportunity to improve the final product
Request for Industry Comments	• Final draft of the RFP should be provided to the prospective bidders for comments. • Offers no competitive advantage to any bidders as all have the opportunity to comment.	• Ensures clarity and offers opportunity to improve the final product • Reduces questions and speeds the RFP process • Reduces opportunity for a protest

Appendix 3: Review of Revenue Collection Practices

Revenue Collection Practices in State and Local Governments	Respondents with Practice	Applicability to Los Angeles County	
		Countywide	**Selected Department**
General Revenue Collection Practices			
Written Revenue Collection Enforcement Policies	**44%**	**Consider**	**All**
Specific Time Periods for Determining Delinquencies	**88%**	**Consider**	**All**
Specify Payment Arrangements for Delinquencies	**77%**	**Consider**	**All**
Established Write-off Guidelines	**50%**	**Consider**	**All**
Designated Staff to Collect Delinquent Accounts and Centralized Collection Process for Departments	**50%(+)**	**Consider**	**Medium & Large**
Collect at least 99% of Accounts Receivables	**28%**	**NIA**	

Collect at least 95% of Accounts Receivables	71%	NIA	
Collect at least 90% of Accounts Receivables	94%	N/A	
Outstanding Payments Due averaging 60 days or less	80%	N/A	
Impose Late Fees or Interest Penalties on Past Due Balances	84%	Consider	All
Send Collection Letters	88%	Consider	All
Place Collection Calls	64%	Consider	All
Impose Tax Liens	62%	Consider	All
Seize Property	26%	Consider	All
Garnish Wages or Offset Tax Refunds	18%	Consider	All

Use of Technology and Collection Improvements			
Use Computer Programs to Assist in Collections Process	66%	Consider	Medium and Large
Interface with Accounting System	64%	Consider	All
Automatically Generate Collection Notices and Letters	59%	Consider	TTC
On-line Capacities with Collection Agencies	6%	Consider	TTC
Changes to Collection Process During the Past 24 Months	44%	N/A	
Established Methods to Monitor Collection Performance More Carefully	53%	Consider	TTC
Improvements to Computer Systems	45%	Consider	TTC
Greater Use of Credit Reporting Services and Collection Agencies	39%	Consider	TTC
Innovations in Cooperation and Competition			
Currently Use a Process Where Public and Private Agencies Compete to Provide Collection Services	20%	Consider	Medium and Large
Of this 20%, Percentage Awarded	89%	Consider	Medium

Contract to Private Firms, Often to Collect Charges for Service or Fines			and Large
Of those Contracting with Private Firms to Collect Revenues, those Indicating Satisfaction with the Firm's Performance	73%	N/A	
Where Contracted Firms, structured Payment Provisions that are Based Solely on the Amount of Revenues Collected	76%	Consider	Medium and Large
Where Contracted Firms, structured Payment Provisions on the Basis of the Amount of Revenues Collected Plus Incentive Fees for Above Expected Levels of Collection	4%	Consider	Medium and Large
Do Not Use a Competitive Process for Selecting Revenue Collection Services	80%	N/A	
Process Adequately Handled by Internal Staff	47%	N/A	

Option not Cost Effective	31%	N/A	
Concerned Over Loss of Control in Aspects of Collection Process	13%	N/A	
Concern About Adverse Publicity	7%	N/A	
Use of Credit Reporting Agencies and Private Firms to Collect Delinquent Accounts	-	Consider	TTC
Used within the Past 24 Months	48%	N/A	
Plan to Use Within the next 12 Months	50%	N/A	
Sale and Securitization of Receivables			
Considered or Sold or Securitized Property Tax Liens Within the Past 24 Months (County Governments and Northeastern Respondents Most Likely to Have Considered)	13%	Consider	TTC
County Respondents Considered or Sold or Securitized Property Tax Liens	25%	NIA	
Respondents in Northeast Considered or Sold or Securitized Property Tax Liens	27%	NIA	
Planning to Sell or Securitize Property Tax Liens Within the Next 12 Months	9%	NIA	
County Respondents Plan to Sell or Securitized Property Tax Liens	14%	N/A	
Respondents in Northeast Plan to Sell or Securitized Property Tax Liens	25%	N/A	

Source of Survey Results: 1997 Survey of Revenue Collection Practices in State and Local Governments, Sponsored by Government Finance Officers Association and MBIA

Appendix 4 Budgetary Estimates for the Technology Recommendations

A. Introduction:

The technology recommendations were designed to:

- **Build** upon existing infrastructure that is already in place
- Where appropriate, **web enable** existing legacy systems
- **Capture data early** to eliminate manual processes that occur with non-automated systems
- **Support a centralized data base** that allows all departments to access debt & collection data such that every county
- department can see who is delinquent and/or send debtors to the Treasurer-Tax Collector (TTC) Department
- **Incorporate existing Electronic Data Interchange** (EDI) for those departments using or planning to use EDI

B. Specific Recommendations with Estimated Cost Impact:

1. Treasurer -Tax Collector:

a. **Treasurer-Tax Collector** should be the owner of any new systems that are approved for the purpose of reducing debt in Los Angeles County. Consultation support is to be provided by CAO and ISD.
Cost impact $0
Benefit Faster implementation with one department taking the leadership responsibility

b. County departments should begin using Telecheck. **Telecheck** provides a service that will assume the responsibility for bad checks.
Cost impact Fee based upon volume of checks processed (e.g. 5%)
Benefit Telecheck absorbs bad checks.

c. **Upgrade** 10-year-old payment processing system (**four S4000's** in Treasurer-Tax Collector)
Cost impact = $500,000
Benefits

- Reduced maintenance costs
- Reduction in deposit holdover
- Increase in depositable funds
- Year 2000 ready

2. Point of Transaction:

L.A. County needs to build a **Point of Transaction** network where checks are scanned and archived plus original sent to Telecheck. A Source NDP (NT based Document Transport) is be installed where checks/cash is collected. This is a tabletop device that reads and takes an image of the check. Checks are then sent to Telecheck and the image is downloaded to Upgraded payment processing systems in TTC. The processing speed with this table top device is 30 checks per minute. The county can select to install Source NDP l) At each window that receives checks or 2) Two at each site that receives checks.
Cost impact $5,900 per Source NDP
Benefits

- Up front image camera
- Prevents loss of checks
- Data now available for later use

3. On-Transaction Processing (OLTP):

County-Wide Debt Data Base and Revenue Validation

Due to the magnitude of the County owed debt, each department should be tasked with assisting the Treasury Tax Collector in attaining its goal of debt reduction or prevention. In an effort to stem the escalating County owed debt, deparunents must be able to determine early in the revenue cycle if the proceeds from a transaction will be tide of the successfully received, and if a previously owed debt can be collected while the constituent is presently transacting. While performing this important function, it should not add additional work load to the existing departmental specific procedures and responsibilities. If successfully implemented this task may also provide daily, up to the minute, revenue figures to the department and the County, while performing its primary function of debt elimination.

Most departments maintain systems, some on mainframes or mid-range Open systems, which allow them to conduct their day-to-day business. In order not to disturb the familiar procedures of each department a Debt Data Base inquiry system should be able to perform its function transparently and simultaneously with existing on-line transactions.

An NT Server based transaction processing tool should be used. The best would be a premier application development platform that enables developers to create applications that span multiple hardware platforms, databases, and operating systems with the freedom to mix and match those platforms to best fit the application environment. Specifically, one that is well known for its wide array of message-based communication paradigms, distributed transaction processing capabilities, and robust runtime environment, all of which would make it the software of choice for building and deploying mission-critical business applications.

This processing tool should be used at those locations where the Point of Transaction will occur. As the funds for the transaction are being collected, departmental specific information (Dept. name, type of transaction, payment method, amount) will be identified by the processing tool based application programs. In addition, client specific information, such as name, address, license number, and social security number will be collected. As the transaction is being placed on the Revenue Data Base, a search will be conducted against the County-wide Debt Data Base to determine if the constituent/client has been flagged as owing the County funds from a previous transaction (i.e. bounced check, child support, court fines, etc.). If the client is found to be free of County debts, the department's normal processing cycle will continue, transparent to the processing tool. If the client is found to have an outstanding debt, new County procedures would dictate the next course of action.

As with the other recommendations, we recommend that this function be piloted in a department that is experienced in the use of open platform applications. The pilot departments initial analysis, development and implementation of this functionality will be the most costly, with subsequent departments being implanted using variations of the selected programs being used thereafter. It is estimated that the pilot would take 6-9 months. Subsequent departments would require approximately 3-6 months each.

Cost impact: Hardware: NT Server(s): $3,500-$350,000
$25,000 Initial application analysis
$150K-$250K initial development and implementation.
$100K-$200K subsequent departments

SAMPLE Tier 1 PRODUC	**(**	**UNIT PRIC (8X5)**	**MAINT.**
1st SAMPLE Developer Lic		$2,995	$449
SAMPLE RUNTIME - PRODUCTION		$395	$1,185
Subt		$10,895	$1,634

(for I developer and 20 users on a tier I machine, plus maintenance for the first year the total would be $12,529), each additional developer would be $2,500. Tier I is defined as PC servers with 1 or 2 Intel CPUs, entry level RISC Uni-processor workstation. Prices would scale upwards if higher-class tiers were used. Enterprise Architect available at $2,400 per day, plus travel and expenses).

Benefits

- Elimination of repeating fraudulent clients.
- Collection of existing aged bad debts.
- Tracking of revenue by department.

4. Citrix WinFrame Thin-clients:
Thin-client for the County

Numerous departments of the County find themselves with older desktop systems preventing them from utilizing the latest software, thus tying their hands when it comes to participating in the recommendations of this task force. By simply installing a network interface card (NIC) and a relatively small desktop program, these formerly limited desktops can now move into the realm of the latest and fastest desktop systems available. Permitting them to participate equally in the effort of improving the tracking of the County's cash flow and in turn helping in the effort to reduce the debt owed the County.

Desktop technology is progressing so rapidly that the constant changes have caused a leapfrog effect between the software and hardware involved. Creating a vicious circle of hardware speeds and capacities outpacing the software, followed by the software capabilities taxing the capabilities of the hardware. All this creating a constant need to change the desktop (Fat Client), for the sake of keeping pace with new functionality. This constant technology change can be a drain on already burdened budgets, simply to keep pace.

Emerging from this constant turmoil is the Thin-client Instead of constantly replacing the desktop system for every member of the department for the sake of loading the latest software, the Thin-client technology allows older technology desktops (e.g. 386, 486, 586, older Pentium, Macintosh) to use the latest software. Frequently as fast or faster than the latest desktop technology.

Unisys WinFrame provides NT Server based software as a focal point for the older technology desktops to interconnect, by way of the LAN/WAN (NIC required for each desktop). As a desktop signs on to the WinFrame Server, and assuming they are permitted, a copy of the latest business software, licensed to the department, is loaded into a protected area of the multi-user WinFrame Server, specifically for their use. From this point the Thin-client operates at the speed and memory capacities of the WinFrame Server, typically as fast as the latest technology Desktop. Even the older technology 386's will take benefit of the latest MS Window based software, and optionally utilize the mass storage of the Server.

WinFrame is the only Thin-client/server software that provides access to virtually any Windows application, across any type of network connection to any type of client. Based on an innovative technology, WinFrame is a cost-effective and proven solution that provides today's enterprises with centralized management, universal access, exceptional performance and improved security for all business-critical applications and data.

Cost impact for a fifteen user system:	Server Hardware	$3,500
	Server Software	$6,500
	Client NIC	$50/client

Benefits

- Ability to use existing desktop technology for Debt Reduction project, and opening access to other County wide lntranet and lnternet services and environments.
- Defers expense of upgrading County owned assets (PC's).

5. NT Applications, Data Marts, and Oracle Data Base Servers:
a. NT Applications

The team feels competent the following products offering will extend Los Angeles County's ability to leverage it's present installed base of technology while integrating the latest in evolving solutions to improve the County ability to track and account for revenues generated and owed to the County.

The basis of the solution is an integrated Financial and Data Mart based system based Microsoft NT and tiered client/server family of Intel-based Enterprise servers.

Benefits

- The cost of hardware for Microsoft NT is less than that for UNIX
- NT has strong support from third-party vendors.
- NT is easy to administer, and it has a user-friendly graphical interface.
- NT provides strong security features.

Additionally the County would be able to use the Web-deployed Applications in a tiered architecture of applications such a Oracle's Network Computing Architecture (NCA), where the user interface runs on a thin client such as a browser on a PC or a network computer.

b. Enterprise Data Mart Solution

To help the County quickly implement it's system, they could use the Enterprise Data Mart or something similar. A complete tutu-key solution like Enterprise Data Mart should be powerful, flexible, and scalable. The Enterprise Data Mart allows Managers to produce results more quickly because development time is measured in weeks or months, not years.

Cost Impact $200,000*

Benefits

- Quicker, easier access to business results than can be provided by conventional reports from operational systems.
- Rapid assessment of dynamic business and environmental changes.
- Detailed and high-level views of business data the permit management at both micro and macro levels.
- Use of information to add value to products, including using information itself as a new product.
- Historical perspective on business performance.

The Enterprise Data Mart provides all the tools, technology, and services to establish an operational Financial/Data Mart. The system includes: Aquanta XR/6 Enterprise Server.

Data Mart foundation Kit which includes
16-user relational database management system
Gateway to databases from Unisys, Oracle, Microsoft, and others
Data extraction, transfer and transformation tools (ETT)
Microsoft Windows NT operating system
Tools for query and data analysis, or adaptation of the organization's existing front-end tools to work with the data mart.
Installation of the Foundation Kit
Choice of a certified Integration Partner with specific industry experience implementing data mart solutions.

c. Oracle Financial Server

The Oracle Financial Enterprise solution incorporates all the benefits of a larger Oracle Financial solution into a customize pre-configured pelletized solution. The Pallet is designed to cut the start-up process of a typical Financial suite of product by deploying an immediate point of project development and testing the application. The Pallet is completely integrated, staged, and tested prior to arriving at the client site. The system includes: 2 Aquanta NT QS/2 4X servers.

Database server
Citrix Server
Oracle Financial Application
30 User Oracle Development License
Unisys Integration Partner specializing in Oracle integration and support services.

Cost Impact $250,000*

Benefits

- Rapid Deployment - Shorten start-up by at least one month
- Quick Time-to-Benefit
- Certainty of Performance
- Best Value Pricing
- Infrastructure Services
- Investment protection Through Industry Standards

** - The system sizing for Oracle applications depends on several factors, including the number of users, concurrent-manager processes, and other applications running on the server. Sizing a system before implementing is very important - by sizing correctly, the County can design the system to handle the expected number of users and the load on the system. The configuration proposed here a sized to standard not peak load.*

Why Oracle?
Oracle Financial applications are a family of modules within Oracle's suite of Information Driven applications that marry process automation with complete information access. Oracle Financial applications improve operating efficiency and provide managers and directors with information that they can use to make better decisions and be more effective.

Benefits
- Lower Administrative costs
- Close Your Books Faster
- Improve Cash Management
- Manage Total cost of Ownership
- Make Better Decisions

Oracle Financial Applications includes Oracles' Business Intelligence System. This system provides integrated decision support across the entire Oracle Applications suite, giving the County the information it needs to ensure the effectiveness of budget implementations.

The heart of financial planning is the ability to analyze budget and actual amounts, yet traditional finance systems have not provided robust budgeting capabilities. With Oracle General Ledge and Oracle Financial Analyzer, the County can perform powerful top-down, bottom-up, and distributed budgeting and forecasting at both the Headquarters and departmental level.

Financial analysis requires information not only for executives, but also for a broader set of people who want to make better decisions on a daily basis. With Oracle financial Analyzer, all authorized people in any organization can find the data they need, drill down as necessary, and see the results in seconds -- without waiting for MIS or even accounting's involvement. The analysis can be as sophisticated as you want because Oracle's on-line analytical processing (OLAP) tools support full multi-dimensional analysis -- far surpassing conventional reporting tools:

Oracle Financial products include:
Oracle Financial Analyzer
Oracle General Ledger Oracle Purchasing
Oracle Payables
Oracle Receivables
Oracle Cash Management
Oracle Assets

6. Suggested Implementation and Training Timeframe:
We recommend a phased approach to implementing the above new systems/technology by selecting a pilot department within Los Angeles County. If for example, Public Works were selected to be the pilot location, we estimate it would take 6-9 months to implement the above recommendations since Public Works has new servers and Oracle database already in place. Additional departments would require approximately 3-6 months each. With overlap, Los Angeles County could implement these recommendations for all departments in 4-5 years.
Application & Database Servers that would be accessed by other county departments should be installed in ITC.
All costs listed in the document are budgetary estimates only.