

PERFORMANCE AUDIT REPORT

Reviewing the Way State Agencies Collect Delinquent Accounts

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
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OBTAINING AUDIT INFORMATION

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REVIEWING THE WAY STATE AGENCIES COLLECT DELINQUENT ACCOUNTS

Summary of Legislative Post Audit's Findings

The State's accounts receivable system focuses on three basic steps: collection, reporting, and write-off. Collection procedures are used to increase the amount of money collected on delinquent accounts. Reporting procedures are used to determine what agencies' losses are likely to be and to help manage delinquent accounts more effectively. Writing off accounts when they are considered uncollectable provides a more accurate estimate of the amount that can be collected.

Statewide requirements for accounts receivable management have been improved somewhat in the past 11 years, but complete information about State agencies' accounts receivable is just beginning to be collected. The Division of Accounts and Reports has established minimum requirements for agencies' collection efforts and for writing off accounts. The Division of Accounts and Reports also established standard reporting requirements in 1981, but it has only recently begun to enforce those requirements. The six programs in five agencies reviewed by the auditors complied fully with the State's minimum collection requirements, but did not always comply with reporting and write-off requirements. Only two of the six programs were submitting monthly reports of their accounts receivable. Five of the six programs wrote off their uncollectable accounts, but only one of them did so in a timely fashion.

Most of the six programs reviewed were required to follow additional collection procedures that went beyond the State's minimum requirements. Those additional procedures usually relate to State or federal requirements for the specific program. The programs reviewed followed most of their additional collection procedures, but two programs did not appear to be in compliance with federal regulations, two were not timely in making their collection attempts, and one program followed a procedure that would appear to diminish the effectiveness of its collection efforts.

Each of the programs reviewed uses the State's set-off program as a part of its collection procedures. The set-off program was established in 1981 to collect money from individuals who owe State agencies money by setting off the amount owed against any money the State or any State agency is holding for or owes to the debtors. The program has been increasingly successful, reaching a total of \$2.4 million in collections during fiscal year 1987. The number of debts in the set-off program and the number of agencies using the program have also been increasing. However, some State agencies, including the Department of Revenue, have not been using the program.

The report includes recommendations for improving Statewide management of accounts receivable and recommendations for changes in specific agencies' collection procedures. In addition, the report includes three appendixes that provide more detailed information about the actions taken on accounts receivable management recommendations from past performance audits, accounts receivable management in the six programs reviewed by the auditors, and set-off program collections and accounts remaining for fiscal years 1986 and 1987.



REVIEWING THE WAY STATE AGENCIES COLLECT DELINQUENT ACCOUNTS

In 1976, the Legislative Division of Post Audit conducted a performance audit of accounts receivable management in State agencies. That audit reported that \$109 million was owed the State but that agencies had developed few practices to manage the timely collection of the money and lacked reliable information on the amount owed. The audit made many recommendations for changes in the accounts receivable procedures used by State agencies. As a result of the audit, the Department of Administration wrote regulations and policies concerning how agencies were to handle accounts receivable and write-off uncollectable accounts. In addition, a law was passed in 1979 requiring the Department of Administration to implement a system of centralized accounting for accounts receivable.

Recently, legislative concern has been expressed about accounts receivable and the steps agencies have taken to collect money owed to them. To address those concerns, this audit focuses on the following questions:

- 1. What procedures have State agencies established to collect, report, and write off money owed to the State?**
- 2. How well do agencies follow their management procedures for collecting money owed to them?**
- 3. How well does the Department of Administration's set-off program work to collect money owed the State by individuals also receiving State payments?**

To answer these questions, the auditors reviewed State and federal statutes, rules and regulations, and other guidelines. They selected a sample of agencies with large amounts of debts to collect and reviewed their policies, procedures, and collection activities. They interviewed agency personnel and reviewed a sample of cases in each of the sample agencies. They also obtained comparative information about collection activities in other states or in similar types of businesses. Finally, they followed up on recommendations in other performance audits that reviewed collection activities.

In general, the auditors found that Statewide procedures for reporting and managing the collection of money owed to the State have changed somewhat over the past 11 years, but that complete information about the State's accounts receivable is still not available. Statewide requirements currently exist for the collection, reporting, and write-off of delinquent accounts. The State agencies reviewed generally manage their collection activities in compliance with the State's requirements, but they do not always comply with State requirements for reporting and write-off. Most of the six programs examined in this report are also subject to additional agency or federal requirements for their collection procedures. In general the agencies followed most of these additional procedures, but the auditors did find several exceptions. The State also provides a centralized resource for collection: the set-off program. This

program's collections reached \$2.4 million in fiscal year 1987. Several steps should be considered to maximize the collection of money owed to the State. These and other findings are presented in more detail in this report. Because the answers to the three questions tended to overlap, this report is organized by finding, not question-by-question.

The State's Accounts Receivable System Focuses On Three Basic Steps: Collection, Reporting, and Write Off

Accounts receivable are moneys due the State for various purposes. This money represents an important resource to the State or to the program for which it is being collected. The total amount of the State's accounts receivable is unknown, but that amount is likely to be very substantial: the six programs selected for review in this audit collected \$272.8 million in fiscal year 1987, and had more than \$191 million in outstanding debt (both current and delinquent) at the end of the fiscal year. In addition, the Department of Revenue, which was not one of the agencies reviewed in this audit, had \$53.1 million in outstanding tax debts. Although the amount owed the State is a substantial sum, it represents a resource that is not available until it is collected. For that reason, it is important for State agencies to manage their accounts receivable well, and to collect as much of that money as they can with a reasonable use of resources.

The process of collecting money owed to the State begins with the establishment of an account. Accounts are established when a State agency provides a service or product to an individual at a stated cost, or when the State agency becomes responsible for the collection of a debt—such as outstanding taxes, or child support. Amounts then charged to that account become a part of the accounts receivable balance. Other elements in an accounts receivable system include collection procedures, reporting procedures, and an accounting procedure for “writing off” uncollectable amounts.

Collection procedures are used to increase the amount of money collected on delinquent accounts. Collection procedures usually include a number of steps that are designed to maximize collections of the amounts owing. In most cases, payments are made after the initial billing. Other collection procedures generally follow a logical sequence of events, depending on the success in collecting the delinquent amount. Generally, the sooner a collection effort is made, the more likely it is that the account will ever be collected. Some of the basic procedures that can be used are listed below:

Statements: In almost all cases statements are used for initial billings. Often the statements include messages such as overdue payment demands or warnings about the consequences of not paying the amounts owed.

Skip Tracing: This term refers to attempts that are made to locate debtors who have moved without leaving forwarding addresses. This tends to be a very labor-intensive process.

Phone Contacts: Some agencies attempt to contact the debtor by telephone to determine the reason the person is not paying, attempt to work out any problems, and set up a payment plan if possible.

Collection Letters: Letters are often used to alert the debtor that his or her account is past due, to make payment demands, and to give warnings about the consequences of not paying the amount owed. Letters can be sent by certified mail to ensure that the debtor receives them.

Set-off: State agencies can turn debts in to the Department of Administration's set-off program, which matches debts against a variety of State payments. In addition, some agencies have their own limited set-off programs and one has access to a federal debt set-off program.

Collection Agencies or Attorneys: Often, after an agency has unsuccessfully completed all of its regular collection efforts, debts are turned over to a collection agency or attorney. Collection agencies use skip tracing, collection letters, and phone contacts, and often use legal action to collect the debts. They generally charge a fee of 35 percent to 50 percent of the amounts collected.

Legal Staff: Some agencies have their own legal staff that they turn debts over to. This frequently occurs after normal collection efforts are exhausted, but in some cases legal referrals are made earlier in the process. Examples of available legal remedies are judgments, liens, and garnishments.

Reporting procedures are used to determine what agencies' losses are likely to be and to help manage delinquent accounts more effectively. In an accounts receivable system, reporting procedures are important so that agencies have the information necessary to maximize their collections. Generally, those reports would include accounts receivable balances, charges, collections, age of accounts, adjustments, and amounts written off. Aging of accounts divides accounts according to the length of time the payment has been outstanding—less than 30 days, 30 to 60 days, 60 to 90 days, 90 days to one year, and so on. Aging the accounts allows an agency to see how much of its accounts receivable balance is in periods with less likely collections.

Writing off accounts when they are considered uncollectable provides a more accurate estimate of the amount that can be collected. When accounts are considered to be uncollectable, generally accepted accounting principles indicate they should be written off rather than carried on the books as assets, where they are expected as future revenue. Agencies must seek approval from the Department of Administration to write off accounts, but they do so at different points in their collection process.

Writing off accounts is an accounting concept that removes those amounts from the agency's books, but does not cancel the debtor's legal obligation or preclude the State from accepting payment at a later date. The money can still be collected if the

debtor's financial circumstances change. Writing off an account is important because it provides a means of recognizing which accounts cannot be collected. This is useful in a management sense so that collection resources are not wasted on accounts that are never likely to be collected. Writing off accounts also provides a more accurate accounts receivable balance; if an account is later determined to be collectable, the amount can be written back onto the agency's accounts receivable balance.

A practice related to the write-off of an account is that of making adjustments to the balance. When it is determined that a debtor does not have the ability to pay everything charged to his account but can pay some of it, a compromise of the amount owed can be made. The debtor pays part of the balance and is excused from all other liability.

Statewide Requirements for Accounts Receivable Management Have Been Improved Somewhat in the Past 11 Years, but Complete Information about State Agencies' Accounts Receivable Is Just Beginning to be Collected

Statewide control over the management of accounts receivable is important; individual agencies tend to have a more narrow view of accounts receivable. In addition, some agencies do not have a financial incentive to maximize their collections. For example, for agencies that are funded at least in part by State General Fund moneys, their total budget is not affected by the amount of money the agency collects. The money collected by the agency simply offsets funds that would otherwise be received from the State General Fund with less effort.

Collecting Patient Accounts At the University of Kansas Medical Center

In May 1985, the University of Kansas Medical Center treated a homeless person. The final bill was approximately \$1,500. The Medical Center sent two statements with collection messages but were unable to locate the person. In March 1986, the account was sent to a collection attorney and to the set-off program. The attorney was also unable to collect any money. In November 1987, the account was written-off.

In June 1985, the University of Kansas Medical Center treated a woman. Blue Cross paid all but \$190 of her bill. She was sent eight statements with collection messages asking for the amount not paid by insurance but no response was received. In September 1986, her account was turned over to the collection attorney for collection. The attorneys were unable to collect any money and in November 1987 the account was written-off.

The 1976 performance audit of accounts receivable management conducted by Legislative Post Audit noted that the State did not have a clear, Statewide policy for the management of accounts receivable. Instead, each agency developed its own information about its accounts, established its own policies and procedures for collecting unpaid accounts, and reviewed the effectiveness of its own policies. As the audit noted, those practices produced an inflated accounts receivable balance and a distorted picture of collection efforts and results on a State level.

That audit made a number of recommendations for specific agencies' management of their accounts receivable. As a part of this audit, the auditors contacted the agencies involved to determine the current status of those recommendations.

The results of that follow-up work for agency-specific recommendations are reported in Appendix A to this report.

The 1976 audit also made recommendations for actions at the Statewide level. For example, it recommended that the Division of the Budget require State agencies to include information about accounts receivable balances, collection rates, and estimated revenue based on probability of collection in their budget requests. The Division has not required agencies to submit this information to date. However, in its response to the follow-up conducted for this audit, the Division indicated it plans to require agencies to submit this information beginning with the fiscal year 1990 budget cycle. Additional information about this recommendation and the Division's response is also included in Appendix A.

Most of the Statewide recommendations were directed to the Department of Administration and its Division of Accounts and Reports. The 1976 audit recommended that the Division require each State agency with accounts receivable to submit monthly reports of its accounts receivable balances, charges, collections, adjustments, and write-offs; include that information in the Divisions' monthly financial reports; and change its rules and regulations to specify that accounts be written off when they are determined to be uncollectable, rather than after three years of inactivity. Also, legislation passed in 1979 required the Director of Accounts and Reports to establish a central accounting system for receivables.

In 1981, the Division issued a policy on accounts receivable management. It set forth policies and procedures for all State agencies to use in the management and collection of their accounts receivable. It also included a monthly reporting form for agencies to use. In addition, the Division provided agencies with a booklet of administrative aids to help manage their accounts receivable. The booklet described actions that might be taken at various points in the accounts receivable management process, and provided examples of collection letters and telephone techniques agencies could use in their collection efforts.

The Division's specific actions since 1976 in the areas of collection procedures, reporting procedures, and write-off procedures, plus a description of the current accounts receivable system, are described in the sections that follow.

The Division of Accounts and Reports established minimum requirements for agencies' collection efforts. It is not possible for the State to mandate a single set of collection procedures for all agencies to follow because program requirements differ, and many programs must also comply with additional State or federal requirements. Instead, in 1981 the Department of Administration promulgated a regulation establishing minimum collection procedures for agencies to follow. Those procedures are described below. The Director of Accounts and Reports can approve agencies' alternative procedures, and administrative guidelines provide that if other procedures are specified in statutes those procedures should be followed.

-A record shall be kept for each action taken to collect an account.

- At least three documented efforts should be made to collect all accounts over \$25, and one attempt should be made for accounts under \$25.
- All accounts over \$200 must be referred to the agency attorney or the Attorney General for legal review.
- The debt should be turned in to the State's set-off program.
- The agency shall attempt to avail itself of legal remedies available to it, such as cancelling licenses, before beginning any court proceedings.

The Department's Policy and Procedure Manual provides additional guidance for collecting receivables, indicating that all accounts more than 30 days past due should be subjected to collection procedures. When an account is 60 days past due, further credit should be cut off. It also suggests systematic follow-up procedures that agencies can follow as accounts remain unpaid for longer periods of time.

Under the Division of Accounts and Reports' set-off program, established in 1981, State agencies can submit individual accounts receivable to be matched against a variety of State payments. In essence, the set-off program intercepts payments going to debtors so the State agency can recover all or part of that payment to offset

**Collecting Delinquent
Unemployment Insurance Taxes**

Field representatives of the Contributions Unit sometimes must make repeated collection efforts to get results. In June of 1986, a business did not submit its wage reports and its unemployment insurance taxes became delinquent. The field representative made several efforts to contact the employer. When those efforts failed a subpoena was issued, but the employer ignored the subpoena. Next, a tax lien was filed by the legal staff. After additional efforts, the field representative was finally able to establish a payment agreement and the employer began making payments.

An accidental overpayment of unemployment benefits was made in 1984. The Benefit Unit's attempts to collect were not successful. The case was turned over to the legal division, which determined that insufficient evidence existed to prosecute the case as a civil action and put the case on an inactive status.

There is no procedure in place to return the case to the Benefit Unit to make further collection efforts until the legal division releases it. As a result, the only attempt to collect since 1984 has been made through the Department of Administration's set-off program.

the unpaid debt. Agencies are not required to use this program, although the Division has the statutory authority to impose that requirement if it so chooses. The set-off program is discussed in more detail later in this report.

The Division of Accounts and Reports established standard reporting requirements in 1981, but it has only recently begun to enforce those requirements. These reporting requirements would have provided the information called for in the 1976 audit. However, Division administrators indicated they have not had much success getting agencies to report their accounts receivable; the auditors found that only 12 agencies completed that report for November 1987.

Because those reporting requirements have not been enforced, accurate balances for accounts receivable and sound estimates of anticipated collections are still not available for inclusion in the State's financial reports, and the current

system is still not in compliance with generally accepted accounting principles. According to Department administrators, no staff was provided to the Department when the Statute was enacted in 1979, so the Department had no way to get the information into their central records.

On August 4, 1987, the Department notified agencies that they would be required to develop or maintain a receivables system in accordance with the guidelines contained in the Policy and Procedures Manual and to start reporting the required information monthly beginning in January 1988. That reporting form includes the amount of accounts receivable for the agency, as well as an aging analysis and an estimate of the percentage of those accounts that are considered to be uncollectable.

The August memorandum also stated that the Division of Accounts and Reports was actively pursuing the full implementation of a system of reporting for receivables of all State agencies pursuant to the statute and in conformance with generally accepted accounting principles.

The Division has established write-off procedures for agencies to follow. K.A.R. 1-26-1 requires each agency to apply to the Director of Accounts and Reports for authority to write off a receivable when it is past due and the agency has complied with the minimum collection procedures set forth above and determined that the receivable is uncollectable. Those procedures do not specify how long an agency must attempt to collect an account before writing it off.

Agencies the Auditors Reviewed Complied Fully With the State's Minimum Collection Requirements, but Did Not Always Comply With Reporting and Write-Off Requirements

For this audit, the auditors chose a sample of six programs in five agencies to examine in greater detail. The programs chosen were the National Direct Student Loan program at Wichita State University, the hospital accounts receivable at the University of Kansas Medical Center and Osawatomie State Hospital, the Contributions and Benefits Units of Unemployment Insurance Services of the Department of Human Resources, and the Child Support Enforcement program of the Department of Social and Rehabilitation Services. The table on the next page shows the beginning balance, the amount charged, the amount collected during the year, and the amount still due at the end of fiscal year 1987 for each of those programs.

As the table shows, the six programs reviewed have a total of more than \$191 million in outstanding debt. More than \$92 million of this amount is due to the Child Support Enforcement program, and an additional \$73 million can be attributed to the Medical Center, while the other four programs account for a total of about \$26 million. More complete information about Child Enforcement Support accounts receivable, which should be provided by a new computer system that is being developed for that program, may show that the total amount of accounts receivable for that program is significantly higher.

Financial Account of Money Owed the State in Fiscal Year 1987

	Beginning Balance	Charged During FY 1987	Collected In FY 1987	Total Balance Due(a) End of FY 1987
Dept. of Human Resources				
Contributions	\$ 4,055,807	\$157,209,548	\$156,403,223	\$4,275,052
Benefit Payment Control	5,745,582	3,064,947	2,289,535	6,255,190
Dept. of Social & Rehab. Svs.				
Osawatomi State Hosp.	8,958,094	16,437,328	5,670,543	9,451,454
Child Support Enf.	75,250,885(b)	—————	20,047,063(c)	92,104,417(b)
Regent's Institutions				
Wichita State University	5,986,825	876,450	723,060	5,962,092
KU Medical Center	63,204,711	108,351,000	87,680,000	73,141,000
TOTAL	<u>\$163,201,904</u>	<u>\$285,939,273</u>	<u>\$272,813,424</u>	<u>\$191,189,205</u>

- (a) Includes both current and past due amounts owed from fiscal year 1987 and previous years.
- (b) Child Support Enforcement does not maintain a complete accounting of money due. The table shows the amounts the Child Support Enforcement program had in the set-off program at the beginning and end of fiscal year 1987, which represent only a portion of the total amount owed.
- (c) Excludes \$2,425,721 collected for other states.

The auditors examined these agencies' procedures for collecting delinquent accounts, reporting accounts receivable, and writing off uncollectable accounts to determine whether the programs were complying with the applicable State requirements. The results of their examinations are discussed in the sections that follow. Generally, the auditors found that the individual programs complied with the State's requirements for collecting delinquent accounts. However, they did not always comply with the requirements for reporting and write-off.

Only two of the six programs were submitting monthly reports of their accounts receivable. The auditors reviewed the sample programs' reporting procedures to determine whether they complied with instructions in the Policy and Procedures Manual and the Department of Administration's August 4 memorandum. Only the Department of Human Resources had been filing monthly reports of its accounts receivable with the Department of Administration. The Department's monthly reports also included an allowance for uncollectable accounts for both the Benefit Payment Control Unit and the Contribution Unit. Osawatomi State Hospital was filing monthly reports with the Division of Mental Health and Retardation Services, but neither the Hospital nor the Division was forwarding them to the Department of Administration. During the course of this audit, that omission was discovered and corrected. The Department of Social and Rehabilitation Services' Child Support Enforcement program was the only program reviewed that did not age its accounts.

Five of the six programs wrote off their uncollectable accounts, but only Wichita State University did so in a timely fashion. Once an account has been written off it is assigned to the Department of Administration for collection, and the Department retains 100 percent of anything it collects on that account. Despite this disincentive, the auditors found that five of the six programs reviewed wrote off their uncollectable accounts. However, Wichita State University was the only program that wrote off accounts in a timely fashion.

At Osawatomie State Hospital, accounts were being written off only when officials determined they were no longer collectable; for example, when bankruptcy occurred. Hospital officials said their policy was to write off accounts after they had been in the set-off program for three tax years without a collection, but in their review the auditors did not find any accounts that were being written off for that reason. Those officials said many of the accounts currently in the set-off program were nearing the end of their three-year period, and write-offs would increase in fiscal year 1988.

Osawatomie State Hospital also forgives a portion of some patients' accounts. The actual charge to the patient is based on ability to pay. The difference between the daily charge and the patient's obligation is considered to be uncollectable. In fiscal year 1987 at Osawatomie State Hospital more than \$10 million was forgiven. This procedure is outlined in the Division of Mental Health and Retardation Services' Policy and Procedure Manual and does not require approval from the Division of Accounts and Reports.

The University of Kansas Medical Center's policy is to write off delinquent accounts when they are returned from the collection attorney. The auditors' review showed that delinquent accounts sent to collection attorneys remained an average of 12 months longer than they should have under the Hospital's policy. This delay resulted in accounts not being written-off in a timely way. Medical Center officials reported that they have had a problem getting accounts back from attorneys in the past and they have been working on improving this situation.

The Benefit Payment Control Unit's policy is to write off accounts five years after the last action by the debtor, but the auditors found that no accounts were written off in fiscal year 1987. Unit officials said they have already written off 1,300 accounts in fiscal 1988 and will write off more during the period. Finally, the Contributions Unit has a policy of writing off accounts when collections personnel judge them to be uncollectable. Department officials told the auditors that because of staffing problems they were behind in writing off accounts and were in the process of trying to catch up.

Collecting Student Loans At Wichita State University

At Wichita State University, a student was to begin loan payments in August 1985 but made no payments. In February 1986, the Collections Department mailed three collection letters to the debtor with no results. In April 1986, the University declared the total amount of the loan due and turned the account over to a collection agency and the set-off program. The collection agency was able to collect the loan and it was paid in full in August 1986.

At Wichita State University, a student was to begin loan payments in March 1983 but made no payments. In February 1984 the Collections Department made phone calls to try to locate the debtor and was unable to do so. In May 1984 the debtor was mailed a notice stating that if he did not pay, the account would be turned over to a collection agency. Later that month the staff was able to reach the debtor and he promised to pay and gave a new address that later proved to be false. In September 1984 the staff tried to call the debtor and sent another collection letter but were unable to locate him. In November 1984, the University declared the total amount of the loan due and turned the account over to a collection agency and to the set-off program. The collection agency was never able to collect the loan. In November 1985, the debtor came into the Collection Department and asked the staff to release the hold on his transcript. They refused. In March 1987, the University turned the loan back to the Department of Education.

Most of the Six Programs Reviewed Were Required to Follow Additional Collection Procedures That Went Beyond the State's Minimum Requirements

Many of the programs reviewed must also comply with additional State or federal requirements. For example, the procedures used by the Department of Social and Rehabilitation Services' Child Support Enforcement program are almost wholly dictated by federal regulations. Wichita State University's National Direct Student Loan program is bound by federal regulations but those regulations allow latitude in developing specific procedures. Other agencies such as the University of Kansas' Medical Center are only required to follow State regulations and have developed most of their own procedures. While most procedures were common to several programs, no two programs used the same combination of procedures, as the accompanying table shows.

Collection Procedures Used by the Six Programs Reviewed

	<u>State-</u> <u>ments</u>	<u>Skip</u> <u>Tracing</u>	<u>Phone</u> <u>Contacts</u>	<u>Let-</u> <u>ters</u>	<u>Set-</u> <u>off</u>	<u>Collec.</u> <u>Agcys/</u> <u>Attys</u>	<u>Legal</u> <u>Staff</u>
<u>Dept. of Human Resources</u>							
Contributions	x	x	x	x	x		x
Benefit Payment Control	x	x		x	x		x
<u>Dept. of Social & Rehab. Services</u>							
Osawatomie State Hospital	x			x	x	x	x
Child Support Enforcement	x	x	x	x	x	x	x
<u>Regents' Institutions</u>							
Wichita State University	x	x	x	x	x	x	
KU Medical Center	x		x		x	x	

Generally, the procedures listed above are followed in a sequential order. For example, agencies would send statements before making phone contacts or sending collection letters. However, skip tracing can be done at any point in the process to help find debtors who have moved. Further, agencies may send a debt to the set-off program and to a collection agency or attorney at the same time, and agencies may send unpaid debts to their own legal staff earlier in the collection process. In addition, debtors who pay irregularly may go through various steps of the collection process several times.

The programs reviewed followed most of their additional collection procedures, but the auditors did identify several problems. To determine if the six selected State programs were following their additional State or federal collection procedures, the auditors reviewed a sample of approximately 50 accounts from each program. More complete information about the characteristics of those programs, the procedures they followed, and the auditors' findings are presented in Appendix B to this report. Briefly, the auditors found that most of the programs reviewed had good collection procedures and generally followed them. However, some programs did not always follow the applicable procedures, and in one case, the program followed a procedure that would appear to diminish the effectiveness of its collection efforts.

•Two programs did not appear to be in compliance with federal regulations. Federal regulations for both the Child Support Enforcement program and the National Direct Student Loan program emphasize early and aggressive collection efforts.

The regulations for the Child Support Enforcement program require that an income withholding order be filed immediately after a child support payment is missed. An income withholding order is similar to a garnishment but does not have to be renewed each month. Although income withholding is an extremely powerful collection tool, it can only be used for absent parents who have an established Kansas court order and a known employer or other source of income. The Department must also be able to serve notice of the delinquency to the parent. After

the delinquent amount is collected, the order remains in effect for at least one year to ensure continued payment of child support.

The auditors reviewed 10 delinquent accounts and found that only one had an income withholding order. The files did not contain the information necessary for the auditors to determine if the cases met the criteria for income withholding orders. Department officials told the auditors that, Statewide, income withholding orders are filed in only 20 percent of the applicable cases. The Department cited several reasons for its noncompliance: the system is a manual one, and it did not have sufficient staff to complete the paperwork and legal work required. To address those problems, the Department is implementing a new automated system, and the Governor is recommending 88.5 new positions for the program for fiscal year 1989.

Federal regulations for the National Direct Student Loan program require three collection attempts by the time a payment is 60 days past due, the first occurring within 15 days of a missed payment. However, Wichita State University's procedures do not require that the delinquent account be submitted to the University's collection unit until approximately 60 days after an account becomes delinquent. The University has been sending out regular monthly statements within the required time schedules. Although monthly statements are collection efforts, the auditors do not think that the statements the University was sending out during fiscal year 1987 constitute the "contact...by telephone or in

Collecting Delinquent Child Support

In 1985, a parent stopped paying child support. In January 1986, the Child Support Enforcement staff referred the account to the legal staff. In June and July 1986, the staff made several attempts to locate the parent through the court system and by checking with past employers and the post office. Finally, the parent was located and his employment confirmed. In April 1987, an income withholding order was filed. Child support payments from April on were deducted from the parent's payroll checks by his employer. In July 1987, the account was also submitted to the federal debt set-off program.

A parent was to begin making child support payments in April 1987 but made no payment. In May, the child support enforcement staff referred the account to the legal staff. In July, the legal staff entered a court order to appear and show cause to force the parent to reveal information such as the name of his current employer and the amount and location of his assets. It is necessary to have such information in order to obtain an income withholding order. No other legal action has been taken in this case.

writing to demand repayment (overdue notice)" required by federal regulations, because they did not indicate the amount owed was overdue or demand repayment. In its response to the draft audit report, the University indicated that its statements have recently been modified to include messages about the overdue status of the account and a demand for repayment. Those statements would now appear to meet the federal requirements.

- **Two programs were not timely in making collection attempts.** It is important that collection efforts be made in a timely manner because the older an account becomes the more difficult it is to collect.

Wichita State University's practice is to send accounts to the collection unit 60 days after they become delinquent. The collection unit is to make an immediate effort to notify the debtor. However, the auditors' review of the files of 10 currently delinquent accounts showed that, on average, the first contact by the collection unit was not made until more than 120 days after the accounts became delinquent.

Osawatomie State Hospital's procedures require three monthly collection letters starting when the account becomes 30 days past due. However, the auditors found that half the letters were not sent at the appropriate monthly intervals, and that letters sometimes were several months late. Even though collection letters were not sent as required, statements were sent out monthly. Agency officials indicated the inconsistency in timeliness could be explained by the fact that the person responsible for sending the collection letters only works half-time.

- **One program follows a procedure that would appear to diminish the effectiveness of its collection efforts.** In the Department of Human Resources, non-fraud cases that cannot be collected by the Benefit Control Unit are sent to the Department's legal staff. However, there is no provision to ensure that the cases the legal staff decides not to pursue are returned to the Benefit Payment Unit to resume regular collection activities. Nearly half the cases the auditors reviewed that went to the legal staff for collection got hung up in this inactive status, sometimes for years.

Each of the Programs Reviewed Uses the State's Set-Off Program As a Part of Its Collection Procedures

Legislation passed in 1981 gave the Director of Accounts and Reports the authority to set off any amount owed the State against any money held for, or owed to, such debtor by the State or any State agency. It also provided for due process, the disposition of proceeds, and a collection fee in the amount of 15 percent of the amount collected to fund the program's operations.

To use the program, agencies provide the Division with a list of the debtors' names and Social Security numbers (or, for businesses, Federal Employer Identifica-

tion numbers), the amount owed, and the nature of the debts they want to include. The debtor file is matched by computer with other State payments daily, including State employee payrolls, State tax refunds (i.e., income tax refunds and homestead and food sales tax refunds), and other State payments (i.e., vendor payments, other miscellaneous vouchers from the central accounting system that contain Social Security numbers and Federal Employer Identification numbers, Kansas Public Employees Retirement System withdrawals other than retirement, and unclaimed property). Child support enforcement debts are also matched against unemployment insurance payments.

Twice a month the money collected through the set-off program is sent to the agencies participating in the program, along with a bill for 15 percent of the amount. The agency sends 15 percent back to the Division of Accounts and Reports.

Each debt remains in the system as long as the referring agency decides to leave it there. Agencies frequently remove debts from the set-off program when they decide those debts are uncollectable and request permission from the Director of Accounts and Reports to write them off. Once State agency debts are written off, they are assigned to the Division for collection. The Division of Accounts and Reports also includes accounts that State agencies have written off in the set-off program for two years after they are written off, regardless of whether the State agency had the debt in the set-off program earlier. The Division retains 100 percent of its collections for accounts that have been written off.

Set-Off Programs In Other States

To determine how Kansas' set-off program compared with those in other states, the auditors contacted the National Conference of State Legislatures and called surrounding states.

From the National Conference of State Legislatures, they obtained a list that showed that 28 states match one or more types of debts owed the State against State income tax refunds. Only 18 of those 28 states include debts in their set-off program that are owed to any State agency; the remainder are more specific, generally concentrating on child support or student loans. The list was not comprehensive; it did not include Kansas, for example, apparently since Kansas' set-off program is not operated by the Department of Revenue. Other states may have set-off programs as well.

The auditors also contacted the states surrounding Kansas to determine what, if any, set-off procedures they used. They found all of the surrounding states use some computer matching, but only three of them collect money. Nebraska uses its system only as a way of finding current addresses for absent parents so that income withholding or child support orders can be initiated.

Colorado also has a centralized collection function which works in conjunction with the set-off program. Missouri, Colorado and Oklahoma only match debts against state income tax refunds. Nebraska matches child support debts against tax refunds, State payroll, and unemployment insurance payments.

They also found that Missouri and Nebraska have no separate funding for their set-off programs. Operating costs for their programs are included in the general funds budgeted for the agencies that operate them. The Oklahoma Department of Revenue adds a 2 percent surcharge to the debts collected to cover its costs (while the referring agency adds another 3 percent). Colorado funds the set-off program and its central collection unit by keeping 22 cents out of each dollar collected. Colorado agencies are required to submit debts for collection or set-off at 60 days of age, but program administrators indicated agencies found this funding mechanism was a disincentive to refer debts to the program. Missouri, Oklahoma and Nebraska have no measure of program results, but Colorado obtained \$350,000 through its set-off program last year.

**Collection Attempts Through
The Set-Off Program at
Osawatomie State Hospital**

A patient at Osawatomie State Hospital had a series of four admissions to the Hospital. This individual was last released in November, 1986. Only one collection letter was sent because the account was under \$50. The account was sent to the set-off program in March, 1987. To date, no money has been collected.

In March, 1985, a patient was released from the Hospital. Two letters were sent to collect this small account less than \$50. No payments were made and the account was sent to the set-off program in March, 1987. By May 1 the account had been collected in full through the set-off.

To determine how well the Division's set-off program works, the auditors reviewed the accounts submitted for set-off by the sample programs. They interviewed staff of the set-off program and the sample programs. Because the information was available for all State agencies, the auditors also reviewed management reports, expenditures, and receipts from the set-off program for fiscal years 1986 and 1987. They also contacted officials in neighboring states and reviewed the literature to obtain information about similar programs in other states.

In general, the auditors found that each of the six programs reviewed uses the set-off program. The set-off program has been increasingly successful, and accommodates an increasing number of agencies and accounts.

Each of the six programs reviewed used the set-off program. Wichita State University turns names of borrowers over to the set-off program at the same time it turns accounts over to the collection agency. It also has a set-off program of its own for University employees who are delinquent in payments to the University. The Child Support Enforcement program turns in names of absent parents to set-off as soon as their debts are over \$25. Child Support Enforcement officials told the auditors that the program receives a fair amount from the set-off program, especially from unemployment insurance payments. In addition to the State's set-off program, the Department of Social and Rehabilitation Services also submits debts to the federal set-off program through which federal payments to absent parents can be intercepted, when they reach \$150. Osawatomie State Hospital and the University of Kansas Medical Center both referred accounts to the State set-off program concurrently with other collection activities. The Benefit Payment Control Unit also used the set-off program frequently.

Although the Contribution Unit does use the set-off program in some cases, the program's policy is to use the set-off program in a very limited way because of the administrative cost involved. The Unemployment Insurance Contributions Unit must pay the 15 percent collections fee for the set-off program out of its administrative funds, because the entire amount collected must be deposited in the Unemployment Insurance trust fund. The 1986 Legislature limited but did not eliminate this disincentive with the passage of K.S.A. 75-6210, which limits the amount charged for each set-off under the Employment Security Law to \$300.

The auditors reviewed set-off accounts for two of the programs in the sample to determine what results they had obtained. They found that Wichita State University sends cases to the set-off program when they are sent to a collection agency. Nine of

the ten files that were supposed to be in the set-off program during January 1988 were there, and the University had received set-off funds through that program on two accounts totaling \$126. The Unemployment Insurance Benefit Control unit sends cases to the set-off program 60 days after they are established. Of the 50 delinquent unemployment insurance overpayments the auditors examined, 30 were in the set-off program during January 1988. The Benefit Payment Control Unit received payments through the set-off program on seven of these 30 accounts, totaling \$756.

Because the information was available, the auditors also reviewed the set-off programs' reports about collections and the number of agencies and accounts in the system. They found that the set-off program has been increasingly successful in collecting money owed to the State by individuals also receiving State payments. The numbers of debts in the set-off program and agencies using the program have been increasing.

The set-off program has been increasingly successful in collecting money owed to the State by individuals also receiving State payments. Collections under the set-off program have grown from \$197,000 during fiscal year 1982, its first year of operation, to \$2.4 million during fiscal year 1987. The amount collected in 1987 was 20 percent more than in 1986, and the average amount set off was about \$90. As the accompanying table shows, most of the funds collected by the set-off program come from two sources: State tax refunds provided more than 40 percent of the funds collected in fiscal year 1987, and unemployment insurance benefits provided 33 percent. The Division of Accounts and Reports received a total of \$429,713 in collection assistance fees and write-off accounts in 1986, and \$518,831 in 1987. In total, the Division received nearly \$5 for every \$1 spent on the set-off program in 1987.

Set-Off Program Collections

<u>Source of Funds</u>	<u>Fiscal Year 1986</u>	<u>Fiscal Year 1987</u>
State Employee Payroll	\$141,504	\$115,951
State Tax Refunds	701,095	1,034,076
Other State Payments (a)	176,979	128,134
Direct Payments (b)	106,925	157,475
Unemployment Insurance (c)	648,778	798,557
Agency Collections (d)	<u>56,606</u>	<u>179,327</u>
Total	<u>\$1,831,887</u>	<u>\$2,413,160</u>

- (a) These include miscellaneous vouchers that contain Social Security Numbers or Federal Employee Identification numbers.
- (b) These are cash payments received from debtors after they are notified their warrant will be held.
- (c) Unemployment insurance is only matched against delinquent child support payments
- (d) When agencies receive direct payments on accounts that are in the set-off program and have been notified by the Division of Accounts and Reports, they are required to reimburse the Division 15 percent for its collection activities.

At Least One Significant Source of Accounts for Set-Off -- The Department of Revenue -- Is Not Using the Program

The Department of Revenue currently has about \$53.1 million in unpaid tax debts. The Department's accounts receivable have been increasing at a more rapid rate than actual tax collections, and reached 4.5 percent of collections in fiscal year 1986. In an effort to improve its collections, the Department recently established a centralized Division of Collections, with a staff of 121.5 and a budget of about \$2 million for fiscal year 1988. Department administrators indicated to the auditors that the Department has not made many referrals to the State's set-off program in the past. However, the Department does currently use a number of internal set-off procedures.

During the course of this audit, the Department of Revenue and the Department of Administration matched approximately 56,000 individual income tax debts from the Department of Revenue with State employee payrolls from the Regents' institutions and non-Regents agencies. Those computer runs produced about 1,000 successful matches, but most of the actions to collect on those matches were stopped at the Department of Revenue's request. In some cases the amounts were not current. In other cases hear-

ings had been scheduled, and in still other cases the debt had not completed the Department of Revenue's internal collection processes. The two agencies' accounts differ significantly regarding the cause of this problem: the Department of Revenue's staff indicated they were submitting preliminary data for review, and the Department of Administration's staff indicated they understood the debts were being submitted for inclusion in the set-off program. Whatever the cause of the problem, the number of matches that were obtained clearly indicates that the set-off program can be an effective tool for the Department of Revenue's collection efforts.

The Department of Revenue's Division of Collections' administrator indicated to the auditors that the Department sees the Statewide set-off program as useful. With the creation of the new collections unit, the administrator said the Department of Revenue is reviewing the set-off process further to determine the best way to fit it into its collection process. That review may include experimenting with the use of the Statewide program on various types of accounts, and at different points in the process.

The number of debts in the set-off program and the number of agencies using the program have been increasing. When the set-off program was initiated, about 3,000 debts were on file. That number has increased greatly, reaching a total of 70,000 debtors in the system at the end of fiscal year 1987. During fiscal year 1987, 25 agencies had accounts in the set-off program and 16 of them received funds that were collected through the program. This is an increase of two agencies from the 23 that referred debts and the 14 that received funds in fiscal year 1986. (Appendix C provides a list of the amounts collected during 1986 and 1987, by agency, as well as the number and dollar value of debts remaining in the system at the end of each year.)

The major user of the set-off program is the Department of Social and Rehabilitation Services. In 1982 State legislation authorized a set-off of Unemployment Insurance benefits for enforcement of the child support laws. This has greatly increased the number of accounts in the set-off program. Those debts accounted for \$92 million (74 percent) of the \$124 million outstanding in the program at the end of fiscal year 1987, and for \$1.3 million (54 percent) of the \$2.4 million collected that year. Three other agencies—the University of Kansas Medical Center (\$10.9 million), the Department of Human Resources (\$4.8 million), and the Department of Social and Rehabilitation Services (\$4 million)—all have more than \$1 million in set-off.

The Department of Revenue is not using the set-off program. As the box above explains in more detail, the Department of Revenue currently has about \$53.1

million in unpaid tax debts. In an effort to improve its collections, the Department recently established a centralized Division of Collections, with a staff of 121.5 and a budget of about \$2 million for fiscal year 1988. Although the Department's initial experience with the set-off program in late 1987 was unsuccessful, Department officials indicated they are reviewing the set-off process further to determine the best way to fit it into the Division's collection process.

A Number of Steps Should be Considered To Improve the State's Set-Off Program

Most of those steps would build on capabilities that are already present in the set-off program, but some would require new legislation. Steps that should be considered include the following:

- Requiring State agencies to use the set-off program. The set-off program has demonstrated itself to be a cost-effective way to collect money owed to the State. However, some State agencies, including the Department of Revenue, are not using the program. Set-off program administrators indicate they received a number of additional accounts after they visited agencies that were using the program during 1987. However, they have not actively sought additional agencies' involvement, nor have they used their statutory authority to require agencies to use the program, because of limited staff resources. If the number of accounts were to grow significantly, program administrators indicated, they would need additional staff and possibly additional computer capacity.
- Consider new funding mechanisms. Although the current 15 percent charge appears to provide sufficient funds for the set-off program's operations, funding the program's growth has been a management problem because the Department of Administration receives its 15 percent on a reimbursement basis, and because some of the receipts from the set-off program have been used for other purposes. For example, the Division had planned to fund four new positions with a balance of over \$300,000 it had accumulated. However, the agency's 1988 budget required the Division to reallocate those funds to pay for other operations in the Department of Administration. The set-off program obtained only one additional position.

The current funding mechanism can also provide a disincentive for agencies to use the program, particularly at early points in the collection process when the agencies themselves are still making efforts to collect the account. For at least one agency, the Department of Human Resources, the 15 percent comes out of its operating costs, because it is required by statute to return the full amount collected to the unemployment insurance trust fund. Several of the other states the auditors contacted either funded their set-off programs with State General Fund moneys or added the administrative charge to the amount collected from the debtor, thereby eliminating the financial disincentive for agencies to use the program.

- Requiring all vouchers that are processed through the State's central accounting system to have identifying Social Security numbers or Federal Employer Identification numbers. According to administrative staff in the Department of Administration's Pre-Audit Section, they suggest but do not require that agencies put this identifying information on all payment vouchers. They estimate that about 25 percent of the vouchers processed do not have identifying numbers. When payment vouchers do not contain identifying numbers, payments going to individuals or businesses that owe the State money pass through the system undetected by the set-off program.
- Using the set-off program to locate, and possibly contact, State agency debtors. By the time debts are submitted for set-off, they are often quite old and the debtor may have moved. If the Department of Administration had access to more current addresses which may be available for many debtors in various agencies' records, it could make direct efforts to collect the debts referred for set-off, or could furnish those addresses to the referring agency. For the set-off program to perform this function, statutes would need to be clarified to provide the Department of Administration with access to potential sources of addresses. Such sources might include State income tax returns, and the State wage base file.

Applications for various State licenses are another potential source of current addresses. According to Department of Administration officials, other states require Social Security numbers on applications for any state license, such as a real estate license or driver's license. If Kansas were to do that, it would be possible to determine whether license applicants had debts in the set-off program and to contact them regarding that debt at their current address. One neighboring state—Missouri—even requires clearance from its income tax set-off program for individuals who are applying to sell lottery tickets.

Conclusion

Although the total amount of the State's accounts receivable is unknown, that amount is likely to be substantial. The six programs reviewed in this audit had more than \$191 million in outstanding debt (both current and delinquent) at the end of fiscal year 1987. Although the amount owed to the State is a substantial sum, it represents a resource that is not available until it is collected. To collect as much of the money owed the State as possible, each agency must have and follow effective collection procedures. The auditors found that the six agencies generally followed required procedures, but some aspects could be improved. The Division of Accounts and Reports has established guidelines and procedures for agencies to follow in collecting, reporting, and writing off accounts receivable. However, the auditors found it has not followed through to ensure that agencies comply with

those regulations and requirements. Finally, although the State's set-off program has been increasingly successful in collecting debts owed the State by individuals who are receiving State payments, further improvements are possible.

Recommendations for Improving Statewide Management of Accounts Receivable

1. The Department of Administration's Division of Accounts and Reports should continue its efforts to develop a central accounting system for accounts receivable, as required by law, and should enforce the monthly reporting requirements for agencies that are currently in place.
2. The Department and the Division should consider taking steps to increase the set-off program's ability to collect money owed the State. That consideration should include the following:
 - requiring State agencies, including the Department of Revenue, to use the State's set-off program
 - considering new funding mechanisms
 - requiring that all vouchers include Social Security numbers or Federal Employer Identification numbers
 - using the set-off program to locate, and possibly contact, State agency debtors.

If the Department and the Division decide to pursue these or any other steps they may be aware of, they should initiate the necessary regulatory or statutory changes.

Recommendations for Changes in Specific Agencies' Collection Procedures

1. The Child Support Enforcement program should comply with federal regulations by filing all required income withholding orders in a timely fashion.
2. Wichita State University should take steps to ensure that it complies with all aspects of the federally mandated time schedules for collection efforts.

3. The University of Kansas Medical Center should ensure that attorneys return uncollectable accounts on a timely basis.
4. Osawatomie State Hospital should send out its regularly scheduled collection letters on a timely basis.
5. To ensure that nonfraud overpayment accounts do not become inactive, the Department of Human Resources should modify its systems and procedures to ensure that nonfraud overpayment cases the legal unit is not going to pursue are returned to the Benefit Payment Control Unit promptly for further action.
6. The University of Kansas Medical Center, Osawatomie State Hospital, and the Benefit Payment Control and Contribution Units of the Department of Human Resources should write off uncollectable accounts in a timely way.

APPENDIX A

Action Taken On Accounts Receivable Management Recommendations From Past Performance Audits

As a part of this audit, the auditors followed up on recommendations from the 1976 performance audit, Accounts Receivable Management, as well as recommendations concerning accounts receivable from other performance audits since then. Following is a summary of those recommendations and the actions taken by the agencies in response to those recommendations.

THE EMPLOYMENT SECURITY DIVISION

Recommendations . . .

Develop collection rates to assess collection performance and the relative effectiveness of the various collection processes.

Determine costs of collection to find the most efficient and economical means of collecting the accounts.

Age accounts to determine collectability and to predict revenue more accurately.

Establish an allowance for doubtful accounts to predict revenue more accurately.

Periodically review accounts and write them off when they are found to be uncollectable.

Actions Taken . . .

The Division has established numerous management information reports which provide a means of evaluating the effectiveness of the collection process.

The Division has never determined cost of collection in an effort to find the most efficient and economical means of collection; however, it constantly evaluates its collection process and the means available.

The Division's accounts are aged.

The Division uses an allowance for doubtful accounts.

Any time an account is determined to be uncollectable, it is designated as "pending charge-off" and is not considered as a collectable account. Each such account must eventually be submitted to the Department of Administration for write off.

THE DEPARTMENT OF REVENUE

Recommendations . . .

Develop regular accounts receivable management reports that include collection rates, aging of accounts, and an allowance for doubtful accounts.

Determine costs of collection to find the most efficient and economical means of collecting the accounts.

Periodically review accounts and write them off when they are found to be uncollectable.

Improve the identification of businesses required to remit taxes.

Ensure that sales tax accounts are filed in a cost-effective manner as required by law.

Actions Taken . . .

The Department maintains a computerized accounts receivable aging report for sales tax and individual income tax accounts. The Division of Collections has initiated an accounts receivable tracking system to support its operation. In addition, the Department is working on an allowance for doubtful accounts to be used in monthly reporting to the Director of Accounts and Reports.

The Department has used various methods to determine the most efficient means of collecting accounts. Eventually, it would like to compute the cost of each collection step and weigh these costs against the collections generated.

The Department writes off accounts after 7 years.

The Department has established a Business Tax Fair Share Unit, which uses matching techniques and other methods to identify businesses not paying taxes. The Department also plans to increase the exchange of information with the Department of Human Resources and with the Internal Revenue Service.

During 1987, the Department targeted professional licenses, using matching techniques to ensure that all licensees file tax returns properly. Legislation is pending to permit use of this methodology for other professional licenses. Finally, the Audit Services Bureau uses information gathered in the course of audit work to locate non-filing corporations.

The Department regularly compares the sales tax liability of all accounts to specified annual liability criteria to en-

<p>Ensure that interest rates for sales taxes in regulations correspond to those in Kansas law.</p>	<p>sure that the business is filing as often as it is required to.</p>
<p>Ensure that its enforcement actions are more timely.</p>	<p>The Department has modified the regulations to correspond with the appropriate statutes.</p>
<p>Establish a minimum penalty for late business tax returns that owe no tax.</p>	<p>The Department has reviewed and revised its strategy for implementing many legal collection techniques. The most important change has been streamlining the collection process by assigning all collection responsibilities to the new Division of Collections. This division has three attorneys assigned full-time to collecting delinquent taxes who follow up on legal enforcement actions when necessary. In addition, it has requested that an automated warrant system be developed which would drastically shorten the time required to produce tax warrants.</p>
<p>Change its use of jeopardy assessments.</p>	<p>The Department maintains its position that imposition of such a penalty would be detrimental to its overall efforts. The Department's job is to collect taxes owed, not to create penalties.</p>
<p>Ensure that revocations are enforced.</p>	<p>The Department's current procedures provide for jeopardy assessments to be processed on a timely basis in accordance with statutory requirements. This process is intended to ensure that preparing jeopardy assessments does not impede the collection process.</p>
<p>Ensure that revocations are enforced.</p>	<p>The Department has begun to file more injunctions as the primary means of ensuring that revocations are enforced. Many injunctions will be filed "ex parte", a more rigorous legal action which does not require the presence of the taxpayer to be valid. The Department will support this process with increased field work to locate and put on notice those businesses who remain open after their license has been revoked.</p>

Strengthen bonding policies and practices.

In 1986, K.A.R. 92-19-35 was amended to strengthen bond requirements. The regulation now requires new corporations to post bonds in the amount of \$1,000 or six months' estimated sales tax liability, whichever is greater. The same requirement exists for businesses who wish to be reinstated after having been revoked.

Establish procedures for more aggressive, consistent enforcement of the Retailers' Sales Tax Act against delinquent retailers.

The Department maintains its stance that seizing bonds before retailers go out of business is ineffective. The Department believes that the advantage of earlier receipt of the bond is outweighed by the additional legal costs of seeking revocations and injunction that this practice would entail.

In regard to revocations and injunctions, the Department has assigned three attorneys to the Collections Division to provide the timely action and follow-up required.

Systematically pursue enforcement of successor liability.

This tool is very difficult to enforce. Primarily, it is hard to determine when, in fact, a successor has purchased tangible personal property since these individuals may not locate at the same business location or use the same business name as the seller used in conducting his or her business.

Seek legislation authorizing the imposition of personal liability for delinquent sales tax on corporate officials.

The Department sought such legislation in 1986, resulting in the amendment of K.S.A. 79-3643, which provides this authority.

Develop procedures for writing off closed sales tax accounts with insignificant balances.

The Department is currently reviewing its write-off policy to determine whether there are ways to write off accounts without expending significant manpower or computer programming time.

Identify assets owed by delinquent retailers and provide sheriffs with lists of those assets when warrants are filed.

The Department has noticed a vast improvement in the success of collection efforts which require the cooperation of

county sheriffs. In the last year, the Department has issued executions on vehicles and cash-registers, and plans to continue to use these enforcement efforts when necessary within the framework of the Division of Collections.

Provide financial incentives to county officials for collecting tax warrants.

The Department does not advocate exploring this option. Instead, it plans to use special investigators, working in the Collections Division, to obtain evidence against the worst violators of Kansas tax laws.

Require purchasers to pay sales tax on large purchases directly to county treasurers or the Department of Revenue.

The Department opposes this approach for most items because it could lead to sales tax evasion through failure to register and increased delinquencies because of insufficient fund checks. This practice is currently used for vehicles and has recently been implemented for boats. The Parks and Wildlife Commission will refuse to issue a boat permit without proof that sales tax was paid. If the tax was not paid, the purchasers must pay the tax at the County Treasurer's Office.

DIVISION OF THE BUDGET

Recommendations . . .

The Division of the Budget should require each State agency responsible for accounts receivable to submit the following categories of information in the agency's annual budget request: accounts receivable balances, collection rates, and estimated revenue based on probability of collection. The Division should use this information in forming the Governor's recommendations on particular budget requests.

Actions Taken . . .

No action has been taken on the recommendation up to now. The Division feels that current methods used to analyze budgets enable it to estimate agency receipts with reasonable accuracy. However, the Division concurs with the findings and recommendations of the audit and will require State agencies to submit accounts receivable information in support of their revenue estimates in forthcoming budget documents.

WICHITA STATE UNIVERSITY

Recommendations . . .

Develop collection rates to assess collection performance and the relative effectiveness of the various collection processes.

Determine costs of collection to find the most efficient and economical means of collecting the accounts.

Age accounts to determine collectability and to predict revenue more accurately.

Establish an allowance for doubtful accounts to predict revenue more accurately.

Periodically review accounts and write them off when they are found to be uncollectable.

Develop management and accounting information for notes receivable that are in repayment status. This should include an aged trial balance, percentage of loans delinquent, an estimate of uncollectable loans, a summary of current payments due, and collection rates for each type of note.

Actions Taken . . .

The University is developing a computerized Central Accounts Receivable system. Accounts receivable from the various departments will be included in the system as soon as it is completed. The current system is not sufficiently developed to make such a detailed and sophisticated analysis.

See the response to the first recommendation.

Accounts receivable are currently being aged.

An allowance for doubtful accounts has not been established because the University is on a cash basis for receipts.

Accounts receivable are periodically reviewed for uncollectability and written off.

The recommended management and accounting information is maintained on the National Direct Student Loan accounting system.

OSAWATOMIE STATE HOSPITAL

Recommendations . . .

Post the maximum daily charge to each patient's account.

Assess the actual charge to the patient on the basis of ability to pay.

Actions Taken . . .

This is accomplished automatically through the Hospital's computerized billing system.

This is done by a staff member, and the patient or responsible party is notified.

Classify the difference between the maximum daily charge and the patient's ability to pay as charitable services and write that amount off as uncollectable.

The patient's liability is identified on a monthly statement. The amount determined to be uncollectable is written off.

Regularly review the collectability of patients' accounts. Uncollectable accounts should be written-off.

All accounts are reviewed every three months, or approximately one-third each month. Accounts found to be uncollectable are submitted to Accounts and Reports for set-off before going to a write-off category.

Develop collection rates to assess collection performance.

This is not being done.

Determine costs of collection to find the most efficient and economical means of collecting the accounts.

This is not being done.

Age accounts to determine collectability and to predict revenue more accurately.

Accounts are aged and reviewed every three months to determine collectability and further collection work.

Establish an allowance for doubtful accounts to predict revenue more accurately.

This is not being done.

KANSAS SOLDIERS' HOME

Recommendations . . .

Actions Taken . . .

Develop collection rates to assess collection performance and the relative effectiveness of the various collection processes.

The Kansas Soldiers' Home does not develop collection rates.

Determine costs of collection to find the most efficient and economical means of collecting the accounts.

The Kansas Soldiers' Home does not determine costs of collections.

Age accounts to determine collectability and to predict revenue more accurately.

The Soldiers' Home maintains an aging of accounts.

Establish an allowance for doubtful accounts to predict revenue more accurately.

The Soldiers' Home has established an allowance for doubtful accounts.

Periodically review accounts and write them off when they are found to be uncollectable.

The Soldiers' Home requests write off of accounts when: every reasonable effort has been made to collect the balance, the account has been outstanding for more than one year, and the person who has the outstanding account is deceased. On November 17, 1987, the Soldiers' Home requested that accounts totaling \$137,444 be written-off.

For each of the 19 transfer patient accounts showing unpaid balances on charges prior to fiscal year 1979, the Soldiers Home should determine what amount was charged in excess of the legal maximum rate, and take steps to adjust the balances accordingly.

The Kansas Soldiers' Home complied with this recommendation.

APPENDIX B

Accounts Receivable in Six Programs Reviewed by the Auditors

As a part of this audit, the auditors reviewed accounts receivable management procedures and practices at six State programs. Those programs included Wichita State University's National Direct Student Loan program, the collection of patient accounts at the University of Kansas Medical Center and Osawatomie State Hospital, the Child Support Enforcement program at the Department of Social and Rehabilitation Services, and the Department of Human Resources' Employer Contributions and Benefit Overpayment Control units of the Unemployment Insurance program. At each program, the auditors interviewed program administrators, reviewed the procedures used for the collection, reporting and write-off of accounts receivable, and reviewed information about the amount and age of the accounts. To determine whether programs were following their established or required procedures, the auditors reviewed a sample of approximately 50 accounts for each program. The results are reported, by agency, in the sections that follow.

Wichita State University: National Direct Student Loan Program

The National Direct Student Loan program provides low interest long-term loans to qualifying college students. Students can receive a maximum of \$1,200 per year. This program is administered wholly by the University with the loan money coming from the U.S. Department of Education. At the end of fiscal year 1987, Wichita State's program had almost \$6 million in outstanding debts. New loans made during the year were valued at about \$877,000 and collections totaled \$763,000.

In fiscal year 1987, only eight percent of all the balances in the University's accounts that were in repayment status were more than 120 days past due. Borrowers were on schedule in repaying \$2.5 million out of \$3.3 million in loan principal that was in repayment status.

The University needs to ensure that its collection schedule is in compliance with federal regulations. Federal regulations specify a series of telephone and written collection efforts and a time schedule for those efforts. The institution must contact a borrower and demand repayment within 15 days of a missed payment and make two additional collection attempts by the time a payment is 60 days past due. A final notice must be made at 75 days. If these efforts are unsuccessful, the institution then must turn the account over to a collection agency, sue the borrower, or use its own personnel to collect the loan.

Federal regulations for the National Direct Student Loan program require three collection attempts by the time a payment is 60 days past due, the first occurring within 15 days of a missed payment. However, Wichita State University's procedures

do not require that the delinquent account be submitted to the University's collection unit until approximately 60 days after an account becomes delinquent. The University has been sending out regular monthly statements within the required time schedule. Although monthly statements are collection efforts, the auditors do not think that the statements the University was sending out during fiscal year 1987 constitute the "contact...by telephone or in writing to demand repayment (overdue notice)" required by federal regulations because they did not indicate the amount due was overdue or demand repayment. In its response to the draft audit report, the University indicated that its statements have recently been modified to include messages about the overdue status of the account and a demand for repayment. Those statements would now appear to meet the federal requirements.

At the 120-day mark, the staff may decide to turn the account over to a collection agency or continue their own collection efforts. If the account is turned over to the collection agency the entire amount of the loan becomes due.

The University may not always be using litigation as called for in federal regulations. Federal regulations require the University to pursue litigation when all other collection attempts have failed and assets can be identified. However, representatives of one of the University's collection agencies told the auditors that University officials had instructed them not to litigate any more cases. Collection agencies cannot litigate without the University's approval. There is no additional charge to the University for litigation. University officials indicated to the auditors they do not think legal action produces good results. Information the auditors obtained from the collection agency showed that money was collected in eight of 12 cases litigated by the firm. In a follow-up to the University's response to the draft audit report, University officials indicated they intended to clarify the University's position regarding litigation with the University's collection agencies.

**Kansas Board of Regents:
University of Kansas Medical Center**

At the Medical Center, the auditors examined a sample of 48 accounts receivable files of hospital medical bills for outpatient and inpatient care. At the end of fiscal year 1987, the Medical Center had more than \$73 million in outstanding debt. Charges during the year totaled more than \$108 million and collections totaled almost \$87.7 million.

In fiscal year 1987, more than 92 percent of the Medical Center's accounts receivable moneys was in accounts less than a year old. The auditors' review of fiscal years 1985 through 1987 accounts showed that the percentage in these young accounts had increased four percent over the three-year period.

The collection rate for fiscal year 1987 was 80.9 percent. This is attributed to some individuals being unable to pay for necessary medical services. Medical Center officials indicated that a factor that affects the collection rate is contractual agreements with insurance providers. For example, if the charge for a service is \$100 the

provider might have an agreement to pay \$95. This agreement would reduce the collection rate.

The Medical Center has developed its own policies for collecting overdue amounts from former patients. Under those policies, a patient receives three statements before the account is turned over to an internal collections department. The collection department keeps the account for six months. While accounts are in the collections department, another series of statements goes to the patient with increasingly harsh demands for payment. If the bill is still not paid, the account is turned over to one of three legal firms that do collections for the Medical Center, and to the State set-off program. Attorneys may keep the account for approximately a year; if they cannot collect the account, it is submitted to the Department of Administration for write off.

The Medical Center generally appeared to follow its collection policies, but some accounts were held by collection attorneys for years, with few collections resulting. All the files examined appeared to have been sent all required statements. However, the average time between final bill and write-off for the 12 written-off accounts examined by the auditors was 42 months. The average length of time these accounts were held by the attorneys was 24 months, twice the time stated in the Medical Centers policies. There did not appear to be any reason for the attorneys to hold these accounts that long. Only three of the 12 accounts at the collection agency had any collections by the attorneys, and the most collected on one account was \$85. Medical Center officials reported that they have had a problem getting accounts back from attorneys in the past, and that they have been working on improving this situation.

Department of Social and Rehabilitation Services: Osawatomie State Hospital

At Osawatomie State Hospital, the auditors reviewed financial information and a sample of 43 accounts receivable files. At the end of fiscal year 1987, the Hospital had more than \$9 million in outstanding debt. Charges during the year totaled about \$16.4 million and collections totaled almost \$5.7 million.

In fiscal year 1987, Osawatomie State Hospital had 87.5 percent of its accounts receivable money in accounts less than a year old. The auditors' review of fiscal years 1985 through 1987 accounts showed that the percentage of money in the older accounts had increased 16 percent during the three-year period. Hospital officials indicated that there were more older accounts because a growing number of patients did not have insurance or had decreased coverage. These individuals were often unable to pay their debt or did so by making small payments. The collection rate for fiscal year 1987 was 34.5 percent. Hospital officials attributed this to many of the patients having limited funds and some patients being placed in the Hospital by the court.

Most of Osawatomie State Hospital's collection regulations and guidelines are based on the Department of Administration's requirements. Collection letters

begin when the account is 30 days past due and one letter is sent monthly for three months. The exception to this is accounts under \$50, which receive only one collection letter. Hospital officials determine how long accounts stay in the set-off program and when they are no longer collectable.

Osawatomie State Hospital's collection efforts were often behind schedule. To determine if the Hospital was operating within the applicable guidelines and if those guidelines were effective in making collections, the auditors reviewed a sample of 43 receivable accounts. These accounts were divided into four categories: current, collected, in the set-off program, and written-off. Each account was examined to see if the applicable procedures had been followed.

The auditors found that the Hospital did not follow the letter schedule which requires a series of three collection letters to be sent a month apart, beginning when the account becomes 30 days past due. Half the 43 accounts reviewed were not sent collection letters according to schedule; sometimes letters were several months late. Hospital personnel told the auditors that clients received statements on a monthly basis showing the amount owed. Even though collection letters were not sent as required, statements were sent out monthly. Agency officials indicated the inconsistency in timeliness could be explained by the fact that the person responsible for sending the collection letters only works half-time.

Private hospitals used similar collection procedures but the time schedule was accelerated compared to that used by State hospitals. Because both of the hospitals reviewed seemed to have some difficulty collecting their delinquent accounts, the auditors contacted five large private hospitals in Kansas to find out what procedures they use. They found that all the hospitals used phone contacts, collection letters, and collection agencies. All but one used legal methods. Timing seemed to be the largest difference between the private hospitals and the State hospitals. For example, four of the five private hospitals referred accounts to collection agencies when they were 90 days past due and began writing off small accounts as early as 30 to 60 days. In addition, most of the private hospitals did their own skip tracing.

The private hospitals that used collection firms generally used both comprehensive collection agencies and collection attorneys, and they used them for different types of accounts. Administrators generally indicated they received the best results when they sent attorneys the accounts with large balances, where they had located the debtor, and knew where he or she was employed. They sent attorneys those cases as soon as it appeared litigation might be appropriate. They generally referred smaller accounts and debtors who needed to be located to comprehensive collection agencies, and they made those referrals later in the collection process.

Department of Social and Rehabilitation Services: Child Support Enforcement Program

The Child Support Enforcement program provides child support and alimony collection services to recipients of Aid to Families with Dependent Children, and child support services to individuals not otherwise eligible for assistance. It is feder-

ally mandated to locate absent parents, establish paternity, and establish and enforce support obligations for all children who are receiving Aid to Families with Dependent Children because of the absence of a parent. The program collected more than \$20 million for Kansas residents during fiscal year 1987. Other financial information was not available because it is not maintained in the manual case management system the program currently uses.

The Child Support Enforcement program is governed by both federal and State regulations and Department policy. The federal regulations on collection are brief. When an employed absent parent misses one support payment, the State must go to court and implement an income withholding order. An income withholding order is similar to a garnishment. The income withholding order, however, does not have to be renewed each month. Although income withholding is an extremely powerful collection tool, it can only be used for absent parents who have an established Kansas court order and a known employer or other source of income. The Department must also be able to serve notice of the delinquency to the parent. After the delinquent amount is collected, the order remains in effect for at least one year to ensure continued payment of child support. The State must also impose a lien against the absent parent's property, if the parent owns property or lives in Kansas and owes overdue support.

State regulations concerning child support collections generally reflect federal regulations. Department policies expand the list of collection methods to include garnishments, attachments, aid in execution, contempt of court and criminal non-support. Because federal regulations specify that legal measures are to be taken immediately upon a missed payment, there is no Department policy addressing any collection methods such as telephone calls or collection letters.

The Child Support Enforcement program is not making full use of its most powerful collection tool — income withholding orders. The auditors visited the area offices at Topeka and Manhattan, and examined 25 files at each office. Both offices appeared to comply with most regulations and policies. In both Manhattan and Topeka, staff appeared to make efforts to locate absent parents, establish paternity, secure child support orders, and monitor the cases in compliance with the applicable requirements and guidelines.

The auditors found, however, that income withholding orders were also not being used to collect delinquent payments when appropriate. At the Manhattan office, it appeared that two of five delinquent accounts the auditors reviewed should have been considered for income withholding orders. Instead, collection letters were used. In neither case was any legal action taken. Officials at the Manhattan offices told auditors that income withholding orders are used only when an absent parent habitually misses payments. The Manhattan area office has a policy of using collection letters for the first two months a payment is delinquent.

At the Topeka office, only one of the five delinquent accounts had an income withholding order filed. One had a garnishee and the other two had court orders to

appear and show cause. In most cases, the Topeka accounts were referred to the legal department in a timely fashion, but it took three to four months before any legal action was taken.

Department officials stated that Statewide only about 20 percent of the possible income withholding orders are written. The reason given was that the child support system was a manual one and the Department did not have the staff to keep up with the work required to monitor the payments, certify the debt, and complete the paperwork and legal work required to file the income withholding orders. The Manhattan office has only a half-time attorney and contracts out much of the legal work. The official stated that this situation will be improved somewhat as soon as the new automated system is implemented. In his fiscal year 1989 budget, the Governor has recommended an additional 88.5 positions for the Child Support Enforcement program. Twelve of these positions would be attorneys, and the majority of the remainder would be program technicians. Program administrators indicated that the additional technicians would speed up the paperwork needed for legal referrals.

The Department of Human Resources: Unemployment Insurance Contributions Unit

The Division of Unemployment Insurance Services administers the State's Unemployment Insurance Law and related federal programs. Within that Division, the Contributions Unit establishes employer liability under the Kansas Employment Security Law, collects the unemployment insurance tax which is used to pay benefits, processes quarterly contributions and wage reports, collects past due tax liabilities, and establishes experience ratings for payment of employer contributions. At the end of fiscal year 1987, the Unit had about \$4 million in outstanding debt. Contributions due during the year totaled \$157.2 million and collections totaled \$156.4 million.

In fiscal year 1987, Unemployment Contributions had 57 percent of its delinquent account money in accounts less than a year old. (This does not include current liabilities because the amount due is determined by the employers on a quarterly basis.) The auditors' review of fiscal years 1985 through 1987 past due accounts showed that the percentage of money in accounts more than a year past due increased from 24 percent to 43 percent. Department officials indicated that the poor economy is responsible for the increasing collection delays. They said that recent economic problems in the farming and manufacturing industries have continued to affect employers unemployment contributions. Employers are avoiding paying their taxes. Some are doing this purposely and some are looking for loopholes in the law.

The collection rate for fiscal year 1987 was 99.5 percent. This shows that most taxes are collected promptly and that delinquent accounts represent only a small percentage of the total receivables.

The Department of Human Resources provides formal guidelines for the collection of the unemployment insurance contributions tax. A collection schedule is defined for two different types of accounts: those \$100 or less, and those greater

than \$100. The guidelines include when and what types of letters are to be sent and a \$25 minimum penalty for delinquent tax reports.

Smaller accounts are handled by a series of letters and statements. Delinquent accounts over \$100 that become delinquent are turned over to field representatives for collection. Field representatives use a number of collection procedures such as phone calls, personal visits, or legal action. Each field representative uses his or her own judgment as to what action should be taken. When it seems that legal action might be necessary the field representative can call upon the Department's staff of lawyers for advice and action. A law passed July 1, 1976, makes delinquent contributors subject to a levy (after the tax lien has been filed) without the necessity of a court action. This law makes the accounts easier to collect.

Employer contribution collections were generally successful, and no significant problems were discovered. The auditors reviewed a random sample of 68 accounts receivable files of \$100 or less, and 50 delinquent accounts over \$100. Generally, the collection efforts for the files reviewed followed the established procedures.

Department of Human Resources: Benefit Payment Control Unit

The Division's Benefit Payment Control Unit is responsible for fraud prevention, detection, and collection of benefit overpayments. At the end of fiscal year 1987, the unit had more than \$6 million in outstanding debts. Overpayments during the year totaled about \$3 million, and collections totaled about \$2.3 million.

In fiscal year 1987, the Benefit Payment Control Unit had 57.8 percent of its delinquent account money in accounts more than a year old. (This does not include current liabilities.) The auditors' review of fiscal years 1985 through 1987 past due accounts showed that this percentage has remained relatively stable through the three-year period.

The collection rate for fiscal year 1987 was 74.7 percent. This is due in part to individuals being unable or unwilling to pay back unemployment benefits that were overpaid by the State or that they received fraudulently. Unit officials indicated that this rate is expected to improve in the future because of the set-off program and assistance from other states in collecting.

The Benefit Payment Control Unit has no written policies or procedures to guide its collection efforts. This Unit handles two types of accounts: nonfraud and fraud. The guidelines for collection of these overpayments were provided to the auditors through interviews with the staff and a manual from the legal division. Collection methods for nonfraud accounts include a series of letters, the use of the set-off program, and referral to the Department of Human Resources' legal staff if necessary. Fraud cases are handled almost entirely by the legal staff, which does have written procedures. If the case is determined to be fraud, it is sent to the appropriate district or county attorney for prosecution.

A missing step in the Benefit Payment Control Unit's collection process diminishes the effectiveness of that program's collection effort. The auditors reviewed 25 nonfraud and 25 fraud accounts. They found that the Benefit Payment Unit followed the collection schedule in a timely way and that fraud cases usually were prosecuted in an aggressive manner. However, nearly half the nonfraud cases that went to the legal staff for collection got hung up in an inactive legal code which prevented them from being worked by the Benefit Payment Unit.

Nonfraud overpayments generally occur inadvertently when an individual returns to work. When the Unit is unable to collect a nonfraud account, the account is sent to the legal staff for collection and possible prosecution as a civil action. Nineteen of 25 nonfraud cases they reviewed were determined to have insufficient evidence for prosecution. The auditors found that there was no provision in the Department's collections management procedures to ensure that these cases were returned to the Benefit Payment Unit to resume regular collection activities. As a result, in nonfraud cases where the Department's legal staff declined to pursue civil action, the account became inactive often for years.

For example, one of the cases reviewed by the auditors concerned an overpayment of benefits made in June 1982. Collection efforts made by the Benefit Payment Unit during the following 18 months were unsuccessful. In December 1983, the legal staff determined that there was insufficient evidence to prosecute and the case became inactive. In January 1985, the Benefit Payment Unit manually retrieved the case from the computer. Additional collection attempts were unsuccessful and by July 1985 it was again inactive.

APPENDIX C

This appendix contains summaries of set-off program collections for fiscal years 1986 and 1987, by agency, as well as the number and dollar value of accounts remaining in the program for each agency at the end of each fiscal year.

**Summary of Set-Off Program Collections for Fiscal Year 1986
And Accounts Remaining at the End the Year**

	<u>Collections During Fiscal Year 1986</u>			<u>Left at End of Year</u>	
	<u>Set-off Collections</u>	<u>Write-off Collections</u>	<u>Total Collections</u>	<u>Number of Individuals</u>	<u>Amt. in Set-off</u>
Adjutant General	\$0	\$0	\$0	1	\$888
Board of Agriculture	22	0	22	1	38
Department of Administration	0	150	150	4	297
Attorney General	0	0	0	1	555
Corporation Commission	197	0	197	3	958
Fort Hays State University	11,614	1,348	12,962	419	257,709
Department of Health and Environment	0	12	12	0	0
Dept. of Human Res. -- Unemp. Ins. Taxes	0	0	0	275	459,160
Department of Human Resources -- other	340,725	129	340,854	12,484	4,391,834
Kansas Neurological Institute	382	68	450	23	39,138
Ks. Public Employees Retirement System	429	0	429	15	7,716
Kansas State University	16,893	2,486	19,379	1,428	812,208
Emporia State University	25,052	411	25,463	1,035	633,911
Pittsburg State University	34,758	551	35,309	881	795,313
Osawatomie State Hospital	8,602	696	9,298	1,021	297,690
Parsons State Hospital & Training Center	855	0	855	25	13,022
Department of Revenue	27,661	11,881	39,542	9	38,911
School for the Deaf	0	0	0	1	60
Soc. & Rehab. Svcs. - Child Support(a)	1,117,197	0	1,117,197	17,991	75,250,885
Social and Rehab. Services - other	0	0	0	2,297	3,195,146
Kansas Technical Institute	554	0	554	16	3,612
Topeka State Hospital	1,818	790	2,608	123	79,044
Kansas Department of Transportation	2,765	0	2,765	0	0
Judicial Department	0	0	0	1	319
University of Kansas	10,096	2,803	12,899	222	44,218
Univ. of Ks. Med. Center - patient debts	115,765	71,305	187,070	13,076	9,894,027
Univ. of Kansas Medical Center -- other	0	0	0	55	4,921
Wichita State University	23,147	725	23,872	625	646,188
Write-offs	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>10,552</u>	<u>5,624,554</u>
Total	\$1,738,532	\$93,355	\$1,831,887	62,584	\$102,492,321

(a) Child Support Enforcement debts are the only ones matched against unemployment insurance payments for set-off purposes.

**Summary of Set-Off Program Collections for Fiscal Year 1987
And Accounts Remaining at the End the Year**

	<u>Collections During Fiscal Year 1987</u>			<u>Left at End of Year</u>	
	<u>Set-off Collections</u>	<u>Write-off Collections</u>	<u>Total Collections</u>	<u>Number of Individuals</u>	<u>Amt. in Set-off</u>
Adjutant General	\$0	\$0	\$0	1	\$888
Board of Agriculture	0	0	0	4	253
Attorney General	0	0	0	8	8,107
Board of Healing Arts	300	0	300	0	0
Corporation Commission	171	0	171	1	543
Department of Administration	0	66	66	5	1,515
Fort Hays State University	17,931	309	18,240	428	279,245
Department of Health and Environment	0	42	42	0	0
Department of Transportation	83	0	83	2	1,316
Dept. of Human Res.-Unemp. Ins. Taxes	0	0	0	459	822,059
Department of Human Resources	391,684	483	392,167	12,026	4,829,926
Insurance Department	87	0	87	0	0
Kansas Neurological Institute	911	87	998	26	33,939
Ks.Public Employees Retirement System	370	0	370	15	7,805
Kansas State University	15,037	6,347	21,384	714	315,799
Emporia State University	29,490	240	29,730	928	479,388
Pittsburg State University	39,416	1,871	41,287	871	833,171
Osawatomie State Hospital	16,475	1,537	18,012	1,237	443,093
Rainbow Mental Health Facility	0	0	0	68	38,568
Parsons State Hospital	627	181	808	32	14,938
Department of Revenue	5,977	4,903	10,880	31	171,259
School for the Deaf	0	0	0	1	60
Soc. & Rehab. Svcs. - Child Support(a)	1,382,801	0	1,382,801	20,883	92,104,417
Social & Rehab. Services - other	0	0	0	2,986	4,129,208
Kansas Technical Institute	419	0	419	28	5,348
Topeka State Hospital	4,396	571	4,967	160	138,720
Judicial Department	0	0	0	1	319
University of Kansas	29,039	4,588	33,627	1,575	600,429
Univ. of Ks. Med. Center - Patient Debts	275,074	150,704	425,778	13,898	10,937,107
Univ. of Kansas Medical Center - other	0	0	0	33	43,546
Wichita State University	27,652	3,291	30,943	476	485,439
Write-offs	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>14,101</u>	<u>7,355,485</u>
Total	\$2,237,940	\$175,220	\$2,413,160	70,998	\$124,081,890

(a) Child Support Enforcement debts are the only ones matched against unemployment insurance payments for set-off purposes.



APPENDIX D

Agency Responses

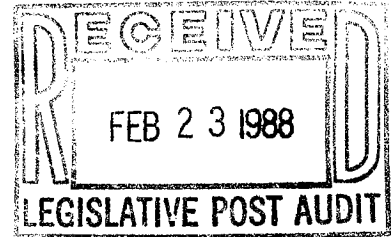
On February 9, 1988, a copy of the draft audit report was sent to the Departments of Administration, Human Resources, and Social and Rehabilitation Services, Osawatomie State Hospital, the University of Kansas, and Wichita State University for review and comment. Those written responses are included in this appendix.

The responses provided by the Departments of Social and Rehabilitation Services and Osawatomie State Hospital included comments or clarifying information in several areas. As a result, minor changes were made in the draft report. Those changes did not affect the conclusion or recommendations.

In its response, Wichita State University took exception to each of the major points made in the draft report that concerned its operations. After reviewing the University's response and meeting with University officials, the auditors made some changes in the recommendation regarding the University, revised their analysis of the aging of accounts, and clarified information presented on pages 11 and 30 of the draft report.

Those clarifications did not change the auditors' conclusions in these areas. Legislative Post Audit and the University continue to disagree on the University's compliance with federal regulations. University officials indicated they would contact federal officials to ensure that their current practices and procedures fully comply with the applicable regulations.

STATE OF KANSAS



DEPARTMENT OF ADMINISTRATION

State Capitol
Topeka 66612-1572
(913) 296-3011

H. Edward Flentje, *Secretary*

February 22, 1988

Meredith Williams
Legislative Post Auditor
109 West 9th, Suite 301
Topeka, Kansas 66612-1285

Dear Mr. Williams:

Thank you for the opportunity to review the draft copy of the performance audit report Reviewing the Way Agencies Collect Money Owed to the State.

The report is well written. We are in general agreement with the report's conclusions and recommendations. We are expanding our efforts within the Division of Accounts and Reports to improve our setoff and collection programs.

Very truly yours,

A handwritten signature in cursive script, appearing to read "H. Edward Flentje".

H. Edward Flentje
Secretary of Administration

HEF:pr

Enclosure



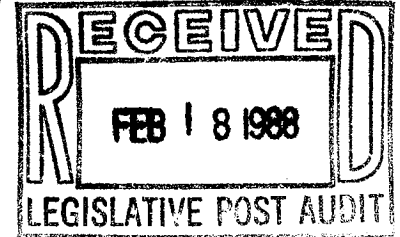
LEGAL

401 S.W. Topeka Boulevard, Topeka, Kansas 66603-3182
(913) 296-4902

Mike Hayden, Governor

Dennis R. Taylor, Secretary

February 17, 1988



Mr. Meredith Williams
Legislative Post Auditor
109 West Ninth, Suite 301
Mills Building
Topeka, Kansas 66612-1285

Re: Audit Report entitled: Reviewing the Way
Agencies Collect Money Owed to the State

Dear Mr. Williams:

Paragraph 1 on page 12 of the above referenced report states:

"However, there is no provision to ensure that the cases the legal staff decide not to pursue are returned to the Benefit Payment Unit to resume regular collection activities."

It should be noted the Benefit Payment Control Unit has exhausted all of its resources prior to the time cases are referred to legal. Therefore, to return said cases to Benefit Payment Control as recommended on page 19 may not be the answer, but rather an exercise in futility. It is much more cost effective to continue to have legal review such files periodically by checking wage files for current employment. In the event information is not obtained which would allow legal to proceed further, such accounts should be charged off after five years, in accordance with the applicable statute.

It should be noted, legal does not pursue those cases in which the individual cannot be found or where there are no assets available to liquidate the overpayment. However, these overpayments remain subject to offset should the individual apply and is found to be eligible for unemployment payments by this Department. In addition, the Department of Administration will offset other monies due the debtor as a result of the unemployment insurance overpayment.

Mr. Meredith Williams
February 17, 1988
Page 2

Therefore, the individual remains subject to administrative collection actions although a lawsuit has not been filed. Such cases are reviewed periodically.

If you have any questions, please contact me.

Sincerely,



A. J. Kotich
Chief Counsel

AJK:kos

cc: Dennis R. Taylor
Ray Siehndel



STATE OF KANSAS

MIKE HAYDEN, GOVERNOR

STATE DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES

OFFICE OF THE SECRETARY

WINSTON BARTON, SECRETARY

DOCKING STATE OFFICE BUILDING

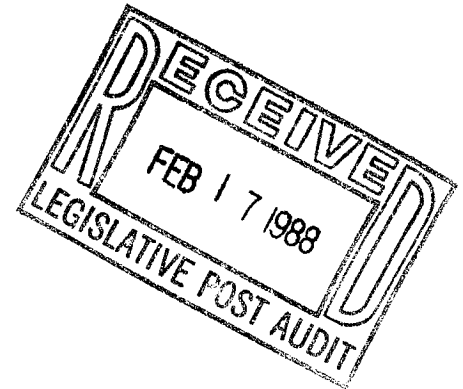
TOPEKA, KANSAS 66612-1570

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KANS-A-N 561-3271

February 16, 1988

Meredith Williams
Legislative Post Auditor
Division of Legislative Post
Audit
109 West 9th, Suite 301
Topeka, Kansas 66612



Dear Mr. Williams:

I appreciate the opportunity to respond to a draft version of your report entitled, "Reviewing the Way State Agencies Collect Delinquent Accounts." Concerning the Kansas Child Support Enforcement Program (CSE), I offer the following comments.

On page eight of your report, you indicate that CSE was "the only program reviewed that did not age its accounts." It is important to note that Kansas laws concerning dormant and void judgments (K.S.A. 60-2403), dictate to a large extent the child support debts we are able to collect. Without payment or certain types of legal action, child support judgments become dormant after five years and void after seven years. However, we do maintain cases in which collection of an eighteen year old debt is possible because appropriate actions were taken to keep the judgment alive.

On page ten, the chart entitled, "Collection Procedures Used by the Six Programs Reviewed," should indicate that CSE uses phone contacts and letters in our collection efforts. In addition, a limited number of low priority cases are referred to G.C. Services, a collection agency.

On page ten, in the box entitled "Collecting Delinquent Child Support", the second example you use may be misleading depending on the income information disclosed by the debtor in the "show cause" hearing of July, 1987. Your example implies that the attorney was able to force disclosure of the income information necessary to file income withholding but did not do so. However, if no employer or income information was obtained at the hearing or if it was learned that the obligor was "judgment proof", it may have been appropriate not to pursue additional legal action. Since you do not provide a case name, it is impossible for us to review the circumstances.

Mr. Meredith Williams
February 18, 1988
Page Two

After reviewing your second full paragraph on page eleven, I think it is important to emphasize that although income withholding is an extremely effective tool, it can only be used in cases where we have an established Kansas court order, a known employer or other source of income, and if we can obtain service of a notice of delinquency on the obligor. You do not state in this paragraph whether the ten delinquent accounts you reviewed had a known income source and a Kansas support order. If the cases reviewed did not meet the criteria for use of income withholding, it may have been appropriate to have only one withholding filed. It is also important to note that income withholding filed in "only 20 percent of the applicable cases" means that we have filed in excess of 20,000 such actions because of the huge CSE caseload.

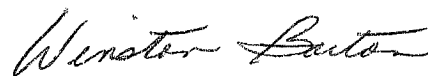
On page thirteen, last paragraph, you report in error that CSE submits debtors to Kansas debt setoff when debts reach \$150. This \$150 figure is the threshold for submittal to the federal debt setoff program. For the Kansas program, CSE submits debts of \$25 or more.

On page nineteen, item number one, it is important to note that federal regulations require that income withholding be used in all cases meeting the criteria the next day after a monthly support payment is missed. The only way CSE can comply with over 100,000 cases to monitor is to have in place an automated system which automatically identifies delinquent payors. Currently, CSE must manually review all cases to make this determination.

On page thirty three, first full paragraph, last sentence, it is an overstatement to say that CSE must impose a lien against the debtor's property. Federal law only requires that liens be used if certain criteria are met. In the last sentence of the second paragraph, you are incorrect when you say that CSE has no policy concerning collection measures such as telephone calls or collection letters. Many of the statements you make in this report seem to imply that the federal requirement for immediate income withholding applies in every case. In reality, income withholding can only be used in cases which meet the criteria discussed earlier. The majority of cases maintained by CSE either have no court order or have no known income source. In such cases, federal regulations do not require the impossible. Since income withholding is not appropriate in such cases, other collection techniques such as phone contacts and letters are used by CSE staff effectively.

If you require additional information as a result of this response, please contact Jim Robertson at 296-4188. Once again, thank you for the opportunity for input.

Sincerely,



Winston Barton
Secretary

WB:JAR:tmd
cc: Sandy Duncan
Jim Robertson



SOCIAL & REHABILITATION SERVICES
DOCKING STATE OFFICE BUILDING
TOPEKA, KANSAS 66612-1570

OSAWATOMIE STATE HOSPITAL
OSAWATOMIE, KANSAS 66064-9757
NORMA J. STEPHENS, SUPERINTENDENT
(913) 755-3151
KANS-A-N 567-3524

February 12, 1988



Osawatomie State Hospital response to draft copy of Legislative Post Audit Report, "Reviewing the Way Agencies Collect Money Owed to the State", February 12, 1988. We offer the following comments:

1. Page 6 comment:
The Division of Accounts and Reports established standard reporting requirement in 1981, but it has only recently begun to enforce those requirements.

Page 8 comment:
Only two of the six programs were submitting monthly reports of their accounts receivable.

Response:

The Monthly Report of Accounts Receivables (Form DA 32) was initiated in 1981. Osawatomie State Hospital has submitted this report each month, as required, since the procedure was established. These reports are submitted to Accounts and Reports through Division of Mental Health and Retardation Services. (Sample report attached.)

2. Page 8 comment:
Five of the six programs wrote off their uncollectable accounts, but only Wichita State University did so in a timely fashion.

Response:

Osawatomie State Hospital does write-offs of uncollectable accounts in accordance with Division of Mental Health and Retardation Services' Commissioner's Letter 1615, dated April 24, 1980. The hospital feels that uncollectable accounts are written off in a timely manner and in accordance with current policy and procedure

Page 8 comment:
At Osawatomie State Hospital, accounts were being written off only when officials determined they were no longer collectable; for example, when bankruptcy occurred. Hospital officials said their policy was to write off accounts after they had been in the set-off program for three tax years without a collection, but the auditors did not find any accounts that were being written off for that reason. Those officials said many of the accounts currently in the set-off program were nearing the end of their three-year period, and write-offs would increase in fiscal year 1988.

Response:

This statement is not correct. Uncollectables are written off as stated above. Accounts in the set-off program are moved to the Accounts and Reports write-off program after three years. Attached is a flow chart from Division of Mental Health and Retardation Services' Commissioner's Letter 1615 which explains the removal of charges from the books.

During 1986/1987 fiscal year, Osawatomie State Hospital wrote-off, as uncollectable, \$10,225,688.17 representing 1244 accounts. This does not include the accounts which Accounts and Reports authorized for write-off; for example, when bankruptcy occurred.

3. Page 19, Item 4 comment:
Osawatomie State Hospital should send out its regularly scheduled collection letters on a timely basis.

Response:

The audit findings are acknowledged. It should be noted: however, we have not found that there is a significant increase in private pay when using the series of collection letters over sending monthly statements and one collection letter. This is not an automated process whereby a collection letter is printed the same time the monthly statement is printed. Our computer system is not capable of producing such letters. This process is a manual tickler system and is assigned to a half-time position which does effect the timely schedule.

4. Page 19, Item 6 comment:
The University of Kansas Medical Center, Osawatomie State Hospital, and the Benefit Payment Control and Contribution Units of the Department of Human Resources should write-off uncollectable accounts in a timely way.

Response:

As previously stated in No. 2 above.

5. Page 31 comment:
Most of Osawatomie State Hospital's collection regulations and guidelines are designed by the Hospital's administration.

Response:

The policies and procedures followed by Osawatomie State Hospital are those set forth by the Department of Administration - Division of Accounts and Reports Policy #8001, dated January 1981, State Director's Letter 1615, dated April 24, 1980, State Commissioner's Letter 355, dated August 15, 1983, and State Commissioner's Letter 374, dated October 20, 1983. Only internal operational procedures have been developed by the Hospital Administration. The Hospital does not independently develop or establish collection policies and procedures.

6. Page 32 comment:
Osawatomie State Hospital's collection efforts were often behind schedule.

Response:

The audit findings are acknowledged. The current computerized Accounts Receivables' System is antiquated and cumbersome. Efforts should be made to update the system.

7. Page 32 comment:
Private hospitals used similar collection procedures but the time schedule was accelerated compared to that used by State hospitals.

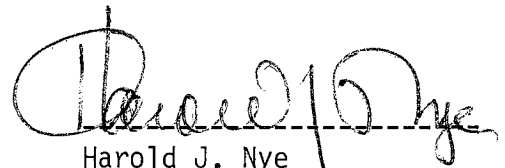
Response:

We do not feel private hospitals should be compared to state hospitals due to many differences such as, organizational structure, manpower, and computerized systems.

The computerized billing accounts receivable system used by the state was out-dated when it was implemented in 1974. Many problems have been identified but are still there. It has been indicated, even if the problems were corrected, we would still have an antiquated system.



Jennie L. Chambers
Reimbursement Officer



Harold J. Nye
Business Administrator

RUN212/SW21309A
RUN DATE 01/12/98

MONTHLY REPORT
ACCOUNTS RECEIVABLES
FOR THE MONTH ENDING DECEMBER 31, 1987

NAME OF AGENCY
OSWATOMIE STATE HOSPITAL

DESCRIPTION
CLASS CODE
SOURCE CODE
CASH FUND/ACCOUNT NUMBER

Dr. A. A. A.
50
306.0
49402079 24444

CURRENT MONTH ACTIVITY
7. BEGINNING BALANCE 10,556,800.29
8. CHARGES (BILLINGS) 1,169,458.67
9. COLLECTIONS OF RECEIVABLES 737,315.37
10. ABATEMENTS 0.00
11. COMPROMISES 356,564.62
12. ADJUSTMENTS 813,863.37
13. WRITE-OFFS 0.00
14. ENDING BALANCE 9,818,515.60

AGING ANALYSIS
15. SPECIAL TERM BALANCES 0.00
16. CURRENT 1,188,359.30
17. 1-30 DAYS PAST DUE 1,211,290.72
18. 31-60 DAYS PAST DUE 977,355.29
19. 61-90 DAYS PAST DUE 913,276.10
20. 91-120 DAYS PAST DUE 781,896.41
21. 121-365 DAYS PAST DUE 3,421,118.13
22. OVER 1 YEAR PAST DUE 1,325,617.84
23. TOTAL RECEIVABLE BALANCE 9,818,913.79
24. EST. AMOUNT UNCOLLECTABLE 7,499,975.09

SIGNATURE _____ DATE 1/24/88
TITLE _____

THIS REPORT IS SUBMITTED IN ACCORDANCE WITH THE REQUIREMENTS OF R.S.A. 75-372B AND COVERS ALL ACCOUNTS/OTHER RECEIVABLES OF THE AGENCY.

Enclosure #1

RUN213/SW21309A
RUN DATE 01/12/88

MONTHLY REPORT
ACCOUNTS RECEIVABLES
FOR THE MONTH ENDING DECEMBER 31, 1987

THIS REPORT IS SUBMITTED IN
ACCORDANCE WITH THE REQUIREMENTS
OF N.S.A. 75-3728 AND COVERS ALL
ACCOUNTS/OTHER RECEIVABLES OF
THE AGENCY.

SIGNATURE _____ DATE 1/23/88
TITLE _____

NAME OF AGENCY OSWATOMIE STATE HOSPITAL

DESCRIPTION *Dr Accts*
CLASS CODE 50
SOURCE CODE 3060
CASH FUND/ACCOUNT NUMBER 9990200930000

CURRENT MONTH ACTIVITY
7. BEGINNING BALANCE 10,556,800.29
8. CHARGES (BILLINGS) 1,169,458.67
9. COLLECTIONS OF RECEIVABLES 737,315.37
10. ABATEMENTS 0.00
11. COMPROMISES 356,564.62
12. ADJUSTMENTS 813,863.37
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22. OVER 1 YEAR PAST DUE 1,325,617.84
23. TOTAL RECEIVABLE BALANCE 9,818,515.79
24. EST. AMOUNT UNCOLLECTABLE 7,499,915.09

Balance #1

V. REMOVAL OF CHARGES FROM BOOKS

Determine type (account receivable, bad debt, deferred charge) by using Computation Chart and appropriate patient's ledger card.

IF DEFERRED CHARGE WITH NO PATIENT'S OBLIGATION

Complete Settlement Form

Send to Fiscal for logging and signing

Fiscal to return one signed copy to Institution

IF DEFERRED CHARGE WITH PATIENT'S OBLIGATION

Complete Request for Compromise form

Send completed form to Fiscal for logging

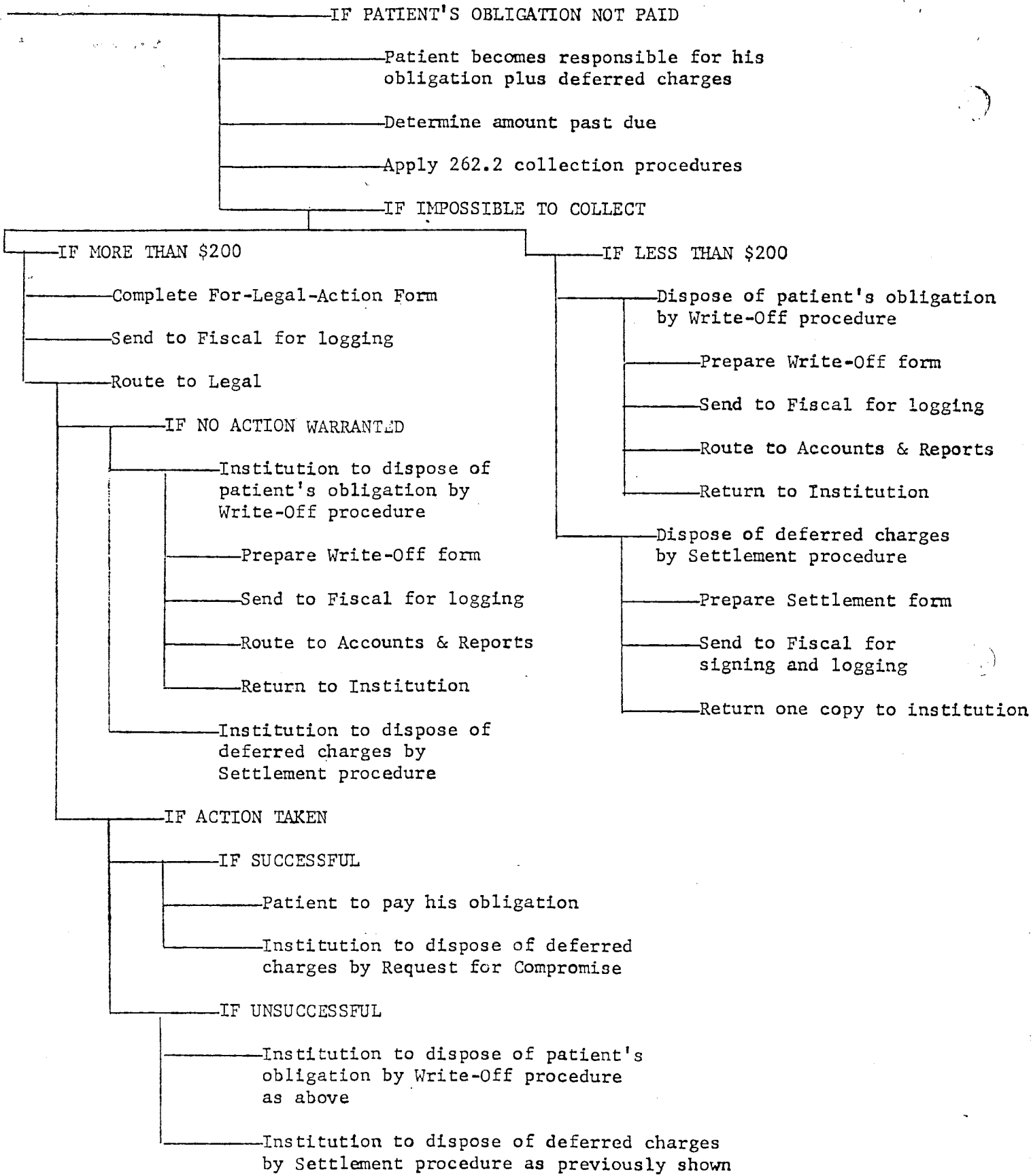
Fiscal to route it to Legal for action

Legal to return it to Fiscal to check against log

Fiscal to return it to Institution

Patient to pay his obligation

Deferred liability to be removed



The University of Kansas

Office of the Chancellor

February 17, 1988

Mr. Meredith Williams
Legislative Post Auditor
Legislative Division of Post Audit
109 West 9th, Suite 301
Mills Building
Topeka, Kansas 66612-1285



Dear Mr. Williams:

Thank you for the opportunity to review and comment on the Legislative Division of Post Audit's findings in its audit of the way selected state agencies collect money owed to the state.

Our hospital administration has studied carefully the section dealing with collection procedures relating to delinquent accounts at the University of Kansas Medical Center.

The audit recommended two changes in collection procedures for the University of Kansas Medical Center. Those recommendations and the University's response are listed below:

Item 3 - "The University of Kansas Medical Center should ensure that attorneys return uncollectable accounts on a timely basis."

The University has approval from the state attorney general's office to request collection attorneys to return automatically the accounts to the Medical Center for further processing if there has been no activity on an account for six months. The University has been asked, however, to give the attorney or firm involved an opportunity to clarify whether or not there is pending action--such as court action or a possible collection procedure being carried out.

Over the past several months the Medical Center has written the attorneys and their firms regarding accounts that it considers inactive and asked that they be returned. These accounts have not been returned in a timely fashion, and, as a result, we have prepared lists of accounts that we are automatically retracting. These letters were mailed February 11, 1988. The individual firms and attorneys have, therefore, been put on notice and the University will proceed to prepare these for write-off at the May, 1988 meeting of the Board of Regents. This will eliminate a large number of small accounts.

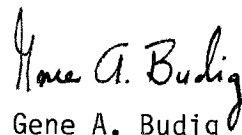
Mr. Meredith Williams
February 17, 1988
Page 2

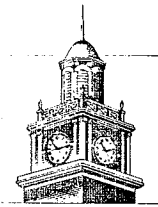
Item 6 - "The University of Kansas Medical Center.....should write-off uncollectable accounts in a timely manner."

With the revamped recall from the various attorneys and firms, the Medical Center will be able to do this in a much more timely fashion. We believe marked improvement in the management of accounts has been shown over the course of the last several years. We believe this action will be the last major step in securing effective management of uncollectables.

If we can provide you with further information, please contact me.

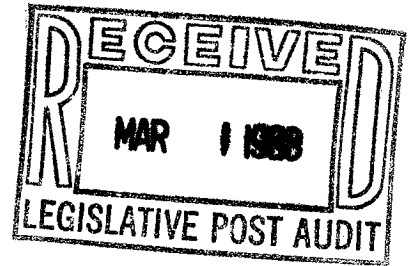
Respectfully,


Gene A. Budig
Chancellor



The
Wichita
State University

Office of the Vice President, Administration and Finance



February 26, 1988

Mr. Meredith Williams, Post Auditor
Legislative Division of Post Audit
109 W. 9th Street - Suite 301
Mills Building
Topeka, KS 66612

RE: Audit Report Concerning Reviewing the Way Agencies Collect Money
Owed to the State

Dear Mr. Williams:

On pages 11, 19, 29 and 30 of the above referenced report, statements are made indicating that The Wichita State University is not in compliance with federal regulations on its National Direct Student Loan (NDSL) collection procedures. These statements are not accurate and are misleading.

The report indicates that the federal regulations require an institution to make contact with borrowers within 15 days of a missed payment, two additional collection attempts by the time a payment is 60 days past due, and a final notice must be made at 75 days.

The Wichita State University NDSL program mails monthly demand statements to the borrowers. These statements demand payments on any current payment due plus any delinquent amounts owing. For instance, on an account which has its first payment due on 10-5-87, a statement demanding payment by 10-5-87, is mailed 9-20-87. If that payment is not paid, another statement is mailed 10-20-87 (within 15 days) demanding the past due payment plus the current payment. Additional statements demanding payment are mailed every 30 days.

In addition to these regular demand statements, approximately 60 days after an account becomes delinquent, the collection department also initiates collection efforts through telephone calls and collection letters. Therefore, The Wichita State University has either met or exceeded the collection requirements proposed by the federal government.

On pages 19 and 30 of the report, statements are made that the University should comply with federal regulations concerning litigation of delinquent accounts.

The University in general approves litigation by a collection agency, if the agency has recommended litigation and if it appears that there is a reasonable chance of making collections through litigation. In all cases where the

Reviewing the Way Agencies Collect Money Owed to the State
Page Two

collection agency has returned the account to The Wichita State University because of uncollectibility, there is documentation from the collection agency stating that in their opinion the account is uncollectible because of certain reasons.

In regard to the 12 accounts that were cited in the report as being litigated, it should be noted that only 4 accounts have made substantial payments toward their principal amount due. In fact, of the \$21,166.98 principal due in these accounts, only \$1,702.93 has been collected for both principal and interest.

We are currently reviewing accounts which have been recommended for litigation by the collection agency and will be forwarding the appropriate accounts for litigation in the near future. Our policy is to litigate when feasible and to pursue accounts vigorously.

On page 29, the report states, "The auditors' review of past due accounts for fiscal years 1985 through 1987 showed a trend toward later collections. The percentage of moneys in accounts more than 120 days past due increased from 24 percent to 32 percent. This statement is misleading. To give an accurate perspective of the outstanding accounts, the following schedule is presented.*

	<u>Balance</u> <u>06-30-1985</u>	<u>Balance</u> <u>06-30-1986</u>	<u>Balance</u> <u>06-30-1987</u>
Borrowers not in Repayment Status	\$2,591,784	\$2,403,341	\$2,641,389
Borrowers on schedule in Repayment Status	2,295,860	2,604,142	2,526,136
Borrowers less than 120 days delinquent	880,870	713,663	539,850
Borrowers more than 120 days delinquent	<u>284,612</u>	<u>265,679</u>	<u>254,717</u>
Totals	<u>\$6,053,126</u>	<u>\$5,986,825</u>	<u>\$5,962,092</u>

*The figures are excerpted from the Fiscal Operation Report submitted to the federal government.

These statistics reflect in accounts less than 120 days delinquent a decrease of \$341,020 from 1985 to 1987 or a 38.7% reduction. It also reflects a larger percentage of borrowers in current status for 1987 than in 1985. Seventy-six percent for 1987 compared to 66% in 1985.

On page 30, a statement is made that none of the twenty five delinquent files examined complied with the time schedule of contacts required by federal regulations. This statement is not accurate. In a review of the 25 accounts selected it was found that only 15 accounts are currently delinquent. The other 10 accounts have either been paid in full or are current. In regard to the 15 accounts which may be considered delinquent, the majority of these had contacts from our collections department within 60 days of becoming delinquent. In addition, regular demand statements were mailed to the debtors according to our time table expressed earlier in this letter.

Reviewing the Way Agencies Collect Money Owed to the State
Page Three

In the review of the monthly demand statements, we do acknowledge that because of software programming adjustments, some special messages on these statements were inadvertently not printed. This item has been corrected and all the special messages are now being printed on the statements.

The Wichita State University wishes to present facts which will reflect the positive image of its collection procedures. In the last five years, we have increased our total collections from \$571,885 in 1982 to \$832,131 in 1987, which computes to a 46% increase in collections. We have also decreased our NDSL default rate from 5.006% in 1982 to 2.025% in 1987. Attached is a congratulatory letter from the National Association of Student Financial Aid Administrators concerning our NDSL default rate.

Enclosed for your information is a copy of the regular monthly demand statement and the type of letter we receive from the collection agency on all accounts returned by them as uncollectable.

We would be most happy to review these items with your staff for clarification and adjustment.

Sincerely,

THE WICHITA STATE UNIVERSITY



Roger D. Lowe

Vice President for Administration
and Finance

Enclosures

cc: Warren B. Armstrong
James R. Decker

1776 Massachusetts Avenue, N.W., Suite 100, Washington, D.C. 20036

Phone (202) 785-0453

Hotline (202) 785-0451

March 6, 1986

Office of the President
Wichita State University
Box 24
1845 Fairmount
Wichita KS 67208

Dear Mr. President:

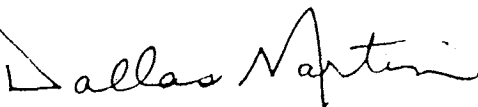
Allow me to take this opportunity to congratulate you and the members of your Financial Aid and Fiscal Office staffs for having a National Direct Student Loan Program default rate of 5% or less, as reflected in the latest Education Department Default Rate Listing.

During these times, when so much of the public's attention is directed towards those few individuals and institutions that have failed to live up to their responsibilities, we believe that equal attention should be paid to those who have performed well. Therefore, NASFAA has reviewed the performance of each of its member institutions, and has sent a listing of all schools that have achieved a default rate of 5% or less to the attention of your state's United States Senators.

A copy of that letter is enclosed for your information. Hopefully, this kind of information will help our elected representatives to understand that the poor performance at a few schools should not jeopardize a program that has been administered well by many others.

We salute your achievements and hope that you will continue to work with us in telling the whole story about an important student aid program that truly helps many needy students obtain their postsecondary education.

Sincerely yours,



Dallas Martin
Executive Director

DM/vm

Enclosure

cc: Director of Financial Aid

THE WICHITA STATE UNIVERSITY
NATIONAL DEFENSE AND NATIONAL DIRECT STUDENT LOAN STATEMENT

SAMPLE

IF APPROPRIATE CHECK ONE OF THE FOLLOWING
AND RETURN WITHOUT REMITTANCE.

- STUDENT MILITARY PERSONNEL
 TEACHER PEACE CORP. MEMBER

SOCIAL SECURITY NO.	LOAN CODE	AMOUNT REMITTED
888-88-8888	06	

B
I
L
L
T
O

JANE DOE
211 MAIN STREET
ANYWHERE, KS 67208

DETACH AND RETURN THIS PORTION WITH YOUR PAYMENT.

STATEMENT DATE 12-20-1987

INTEREST PERIOD		INTEREST AMOUNT	PAST DUE PRINCIPAL	CURRENT PRINCIPAL	TOTAL DUE
11-87 TO 01-88		1.46	8.33	8.33	18.12
TOTAL BORROWED	PRINCIPAL CREDITED	UNPAID BALANCE	SOCIAL SECURITY NO.		DATE DUE
1000.00	708.05	291.95	888-88-8888	06	01-05-88

RECORDS IN OUR OFFICE INDICATE THAT YOUR LOAN IS 30 DAYS PAST DUE. PLEASE PAY THE TOTAL AMOUNT DUE. IF THERE IS ANY REASON WHY PAYMENT SHOULD BE DEFERRED, CANCELLED, OR POSTPONED, PLEASE CONTACT OUR OFFICE IMMEDIATELY.

THE WICHITA STATE UNIVERSITY
NATIONAL DEFENSE AND NATIONAL DIRECT STUDENT LOAN STATEMENT.



CREDIT WORLD SERVICES, INC.

Wichita State University

DATE October 7, 1987

SUBJECT:

BALANCE:

We have stopped all collection efforts and we are closing this account for the following reason(s).

- ✓ 1. Can not litigate - Insufficient assets
2. Can not litigate - Statute of limitations
No activity in more than 5 years
3. Can not litigate - Can not be located
- ✓ 4. Can not litigate - Can not be easily served
5. Can not litigate - Owes less than \$500.00

