

PUBLIC TESTIMONY SUMMARY

I-900 STATE AUDITOR'S PERFORMANCE AUDIT:

Collection of State Debt (August 12, 2008)

As Heard by the Joint Legislative Audit & Review Sub-Committee on I-900 Performance Audits
on August 27, 2008

The performance audit being discussed at this hearing was conducted solely and independently by the office of the State Auditor, under the authority of legislation approved by the voters in Initiative 900. The State Auditor is elected directly by the people of the State of Washington and operates independently of the Legislature and the Joint Legislative Audit & Review Committee. Staff to the Joint Legislative Audit & Review Committee prepare a summary of public testimony on State Auditor reports. These summaries are for informational purposes only, and do not serve as an assessment by committee staff of the findings and recommendations issued by the State Auditor nor do they reflect a staff opinion on legislative intent.

Title: Collection of State Debt Departments of Community, Trade and Economic Development; Ecology; Employment Security; Labor and Industries; Revenue and Transportation	
Audit Scope and Objectives: This performance audit was designed to determine if state agencies use and share opportunities to improve the collection of state debt. Additionally, the audit addressed the nine elements contained in Initiative 900. SAO audited 10 programs at six state agencies. The audit examined outstanding receivables at the six agencies from July 1, 2005 through June 30, 2006, totaling \$3.3 billion. The audit excluded amounts that agencies pass from one party to another, such as child support payments, and amounts that would not typically require collection efforts, such as amounts not yet due, amounts collected by another agency, and interest or dividends.	
SAO Findings:	SAO Recommendations:
Overall, the audit found eight programs that need to improve their collection practices. SAO found a strong correlation between the use of eight best practices and collection success. The report commends two programs (one at the Department of Revenue; one at the Employment Security Department) for excellent performance.	The report has specific recommendations for the departments of Community, Trade and Economic Development; Ecology; Employment Security; Labor and Industries; and Transportation. There is one recommendation to the Legislature as part of the review of debt collection by the Department of Transportation (see below).
Agency Responses in Audit Report?	Yes, on pages 26 – 35.

Legislative Action Requested?	Yes. With regard to the Department of Transportation’s collection of costs associated with traffic accidents, the audit recommends that the Legislature clarify RCW 46.44.110 to include “traffic-control only” costs as part of the costs to be recovered by the state. These are costs related to controlling traffic during an accident, such as directing, flagging, and rerouting traffic.
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Staff Summary of Testimony from Audited Agencies:

- Vast majority of best practices are in place by the audited agencies or being adopted by them.
- For the Department of Ecology, 75% of overdue debt is related to litigation with the Asarco company. There is a tentative settlement being negotiated which the Department believes will allow them to collect most of this debt.
- For the Housing Trust Fund, the Department tries to carefully weigh the goals of keeping housing available to low income residents with collecting as much as debt owed as possible.
- The audit notes the Department of Transportation needs clarifying legislation so it can collect debt owed for all the traffic control costs that result from traffic accidents.

Staff Summary of Testimony from Other Parties:

- Performing collections in-house at state agencies is a best practice for debt received in a timely manner. It is also a best practice to contract out for collections as soon as in-house efforts are exhausted.
- Private collection agencies are willing to share information about debtors with state agencies, but these requests are rarely received.
- Private collection agencies are governed by the Fair Debt Collection Practices Act, and they follow it very closely.
- Private agencies perform debt collection for many agencies, use the best practices identified in the audit, use liens and garnishments as techniques, and have special technologies available.
- Departments are allowed to add a collection fee to the debt, so that debtors can bear the entire cost of using a private collection agency.
- The audit failed to identify opportunities to use the private sector, as required by I-900.
- No analysis or cost efficiency comparison is available in the audit to identify when state agencies should collect debt in-house or use private contractors.
- State agencies should be evaluated on ability to maximize collections, and after six months they should have private contractors pursue delinquent accounts.

Agencies Testifying:

The Office of Financial Management (Victor Moore, Director)

Other Parties Testifying:

Susan Jensen, Alliance One
 Brian Zapotocky, Evergreen Freedom Foundation