

# STATE OF COLORADO

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DIVISION OF FINANCE AND PROCUREMENT  
OFFICE OF THE STATE CONTROLLER**

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TO:           Controllers and Chief Fiscal Officers of State  
              Departments and Higher Education Institutions  
              and Boards

FROM:       Arthur L. Barnhart *ALB*  
              State Controller

DATE:       February 14, 2000

SUBJECT:    *Accounts Receivable Report for the Year Ended June 30, 1999*

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According to CRS 24-30-202.4, it is my responsibility to measure agency performance in the collection of debts owed to the state. The Accounts Receivable Report for FY98-99 has been designed to fulfill this statutory responsibility.

Although the information collected from each state agency was the same, the report itself has changed significantly from the format sent to the Governor and Legislature in prior years. The new format is designed to help everyone better understand how the state collects its debts.

In future years it is my desire to continue to develop this report to highlight individual agency performance as well as how Colorado as a state performs in collecting its debts.

I encourage any of you who have feedback or additional ideas to send them to me. My goal is to improve the report each year as we all work to improve our performance in collecting the funds owed to the state. Thank you to all of the agencies and individuals who have contributed to this report.

cc:    Larry E. Trujillo, Sr., GSS, Executive Director  
      Kenneth Conahan, Joint Budget Committee  
      Nancy McCallin, Office of State Planning and Budgeting  
      Rick Malinowski, GSS, Division of Central Services  
      Verneeda White, GSS, Central Collections Service

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# **Accounts Receivable Report**

**For the Fiscal Year Ended June 30, 1999**

General Support Services  
Division of Finance and Procurement  
State Controller's Office

Arthur L. Barnhart, State Controller

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# Overview

## Introduction

The state controller is required by CRS 24-30-202.4 to, "establish specific performance policies and standards for measuring the state agency performance in collecting debts due the state." This report shows the current status of accounts receivable in the State of Colorado and how the state is collecting on the debts it is owed. All of the data displayed is as of June 30, 1999, the end of last fiscal year.

## Report Format

The format for the FY98-99 Accounts Receivable Report is changed significantly from previous years with the goal of making it easier for readers to understand. The report is divided into three sections. The first section, Overview, provides statewide accounts receivable information and statewide initiatives to reduce the outstanding debt due the state. The second section, Spotlight, highlights programs within the state that have had a significant impact on collecting past due receivables. These three Spotlights are 1) the success of the vendor offset program, 2) the efforts of the Department of Revenue to collect the past due taxes owed to the state and 3) the efforts of Central Collection Services to collect all other debts owed the state. The third section, Accounts Receivable, provides detailed information regarding the state's accounts receivable balances, looking at them from the standpoint of the state agencies with the highest volume or measure. This includes the types of receivables, agencies with the largest balances and an aging of the state's receivables. By focusing on these agencies we may better identify changes to the debt collection process that have the greatest statewide impact.

## Website

The State Controller's Office has a website on which this report is posted ([http://www.sco.state.co.us/acct\\_rec/acct\\_rec.htm](http://www.sco.state.co.us/acct_rec/acct_rec.htm)). In addition, this website has additional information on vendor offset and Central Collection Services.

## Total Accounts Receivable As of June 30, 1999

Consistent with overall growth in total revenues in the state, at June 30, 1999, the state's accounts receivable increased to \$2.24 billion for all state agencies and funds. The comparable amount for June 30, 1998 was \$2.0 billion. Thus, the state's accounts receivable at June 30, 1999 increased by \$240 million or 12% when compared to the previous year. Approximately 43% of this increase relates to taxes receivable.

The allowance for doubtful accounts represents the dollar amount of accounts receivable that is estimated by state agencies to be uncollectible. The state's allowance for doubtful accounts at June 30, 1999 decreased by \$45.7 million which represents a decrease of 16% from the previous fiscal year. The Department of

Human Services' effort to write-off fully allowed receivables greater than two years old is the primary reason for this positive decline.

### Total Receivables by State Fiscal Year

	1995	1996	1997	1998	1999
<b>Gross receivables</b>	\$1,730,446,076	\$1,739,554,290	\$1,875,209,067	\$2,004,337,689	\$2,239,889,547
<b>Less: Allowance</b>	(\$223,685,966)	(\$263,965,676)	(\$276,663,564)	(\$280,535,435)	(\$234,807,681)
<b>Net receivables</b>	\$1,506,760,110	\$1,475,588,614	\$1,598,545,503	\$1,723,802,254	\$2,005,081,866

### Taxes Receivable by State Fiscal Year

	1995	1996	1997	1998	1999
<b>Taxes receivable</b>	\$728,470,069	\$793,773,803	\$869,214,264	\$941,680,620	\$1,044,379,613
<b>Less: Allowance</b>	(\$118,370,785)	(\$150,654,494)	(\$152,659,583)	(\$158,147,702)	(\$154,672,863)
<b>Net taxes owed</b>	\$610,099,284	\$643,119,309	\$716,554,681	\$783,532,918	\$889,706,750

Of the state's total accounts receivable at June 30, 1999, \$1.4 billion or 63% result from year end accrual estimates. Accrual estimates are prepared at the end of the fiscal year in accordance with generally accepted accounting principles and represent revenue recognized in fiscal year 1998-99 for which collection is expected after June 30th. The Department of Revenue's (DOR) year end tax accrual calculation constitutes the largest part of the state's total year end accrual estimate. DOR accrued \$772 million in taxes at the end of FY98-99. This estimate is based upon historical revenue data and, in some cases, an analysis of selected tax returns filed with DOR during early July 1999. This amount will ultimately be paid to the state by taxpayers in the normal course of filing their tax returns during fiscal year 1999-2000.

### Current Year Accounts Receivable Improvements Planned

During this current fiscal year, the Office of the State Controller continues to pay careful attention to the collection of debts due the state. During fiscal year 1999-2000 the state controller intends to issue a credit policy for the state. It will be the first time the state has a written policy identifying the specific circumstances under which the state will allow purchases or fees to be paid after the goods or services have been delivered rather than collection ahead of time or at service delivery.

# Spotlight On the Vendor Offset Program

## Program Information

The State of Colorado actively pursues delinquent receivables for a variety of debts. They include such items as unpaid taxes, unpaid student loans, and unpaid fees and fines. The state has implemented several programs to collect these delinquent amounts. The state's newest collection program is vendor offset. This program has increased the collection of delinquent debts for several agencies by offsetting payments to vendors who owe the state money. The state pays over 160,000 vendors; collection of delinquent debts through an offset of payments to those vendors is an efficient method of collecting debts. The vendor offset process applies only to those individuals and companies paid from the Colorado Financial Reporting System (COFRS). Payments required by statute or enforceable by entitlement are exempted from the offset program.

The vendor offset subsystem within the state's accounting system is a tool used to collect debts owed to the state. State statutes currently allow five state agencies to input their state debts into the vendor offset program. The program then compares those debts to payments made to vendors. If a match is found, the vendor is notified by mail that any payments from the state to the vendor will be applied towards the debt owed by the vendor to the state. Disputes are directed to the claiming agency. If the vendor does not respond, or in responding is unable to successfully dispute the debt, future payments to that vendor will be offset until the debt is satisfied.

For more information on the vendor offset program, see the State Controller's Office website, <http://www.sco.state.co.us/vendor/vendor.htm>.

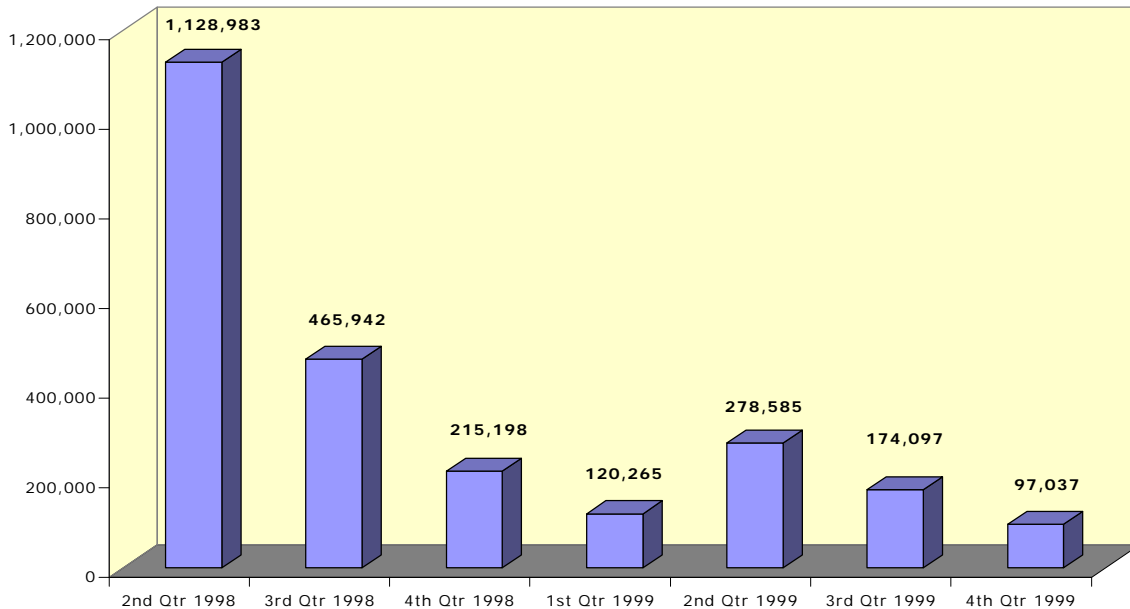
## Quarterly Financial Report

Three departments are currently collecting debts through the vendor offset system: The Department of Revenue, Colorado Student Loan Program, and Central Collection Services (CCS). The Department of Human Services is working toward an implementation date in FY00-01. Unemployment compensation insurance payments from the Department of Labor and Employment go through vendor offset via CCS.

## Vendor Offset Quarterly Financial Report

	Revenue	Student Loan	Central Collections	Statewide Total
2 <sup>nd</sup> QTR 98	\$1,128,983			\$1,128,983
3 <sup>rd</sup> QTR 98	\$465,942			\$465,942
4 <sup>th</sup> QTR 98	\$212,141	\$3,057		\$215,198
1 <sup>st</sup> QTR 99	\$117,567	\$2,699		\$120,265
2 <sup>nd</sup> QTR 99	\$243,979	\$3,834	\$30,772	\$278,585
3 <sup>rd</sup> QTR 99	\$160,574	\$2,738	\$10,784	\$174,097
4 <sup>th</sup> QTR 99	\$86,182	\$642	\$10,213	\$97,037
TOTAL	\$2,415,367	\$12,970	\$51,770	\$2,480,107

**Vendor Offset Statewide Collections  
Inception To Date (as of Dec. 31, 1999)  
\$2,480,107**



## **Spotlight On Taxes Receivable/Collections Effort**

One of the Colorado Department of Revenue's major functions is to collect taxes for the state and local units of government. In FY98-99, the department collected over \$7.5 billion in tax revenues. The department also reported \$200 million in delinquent tax receivables.

The department has developed an efficient tax collection program to help control the size of the state's tax receivables. It is also important to ensure that the law-abiding citizens of Colorado are not forced to shoulder the burden of taxes not paid by other Colorado citizens. The efficiency of the department's collection effort can be indicated by its cost per dollar collected, which is only \$0.03.

The department has a multi-pronged collection effort using 59.5 FTE. It has developed a staged effort toward collection of owed taxes. Stages one and two consist of sending dunning letters to delinquent taxpayers. In stage three, the department attempts to contact the taxpayer by telephone using sophisticated auto-dialer techniques. Stage four results in a citation to pay and appear, and if a taxpayer enters stage five, a distraint warrant is issued for the owed taxes. This collection effort returned \$151 million in FY98-99, up 14% from the previous year.

Collection techniques include garnishments, filing of judgements and liens, agreements to pay, on-site visits by compliance agents and if all else fails, seizure and sale of the assets of a taxpayer who has refused to pay their proper amount of tax. The department has a highly automated bankruptcy unit to protect the state's assets. It also refers out-of-state delinquent accounts over six months old and in-state delinquent accounts over one year old to private collection agencies.

A recent collection effort that the department has instituted in coordination with the state controller is the vendor offset program. This program has collected \$1.1 million in FY98-99 the first full year of its existence.



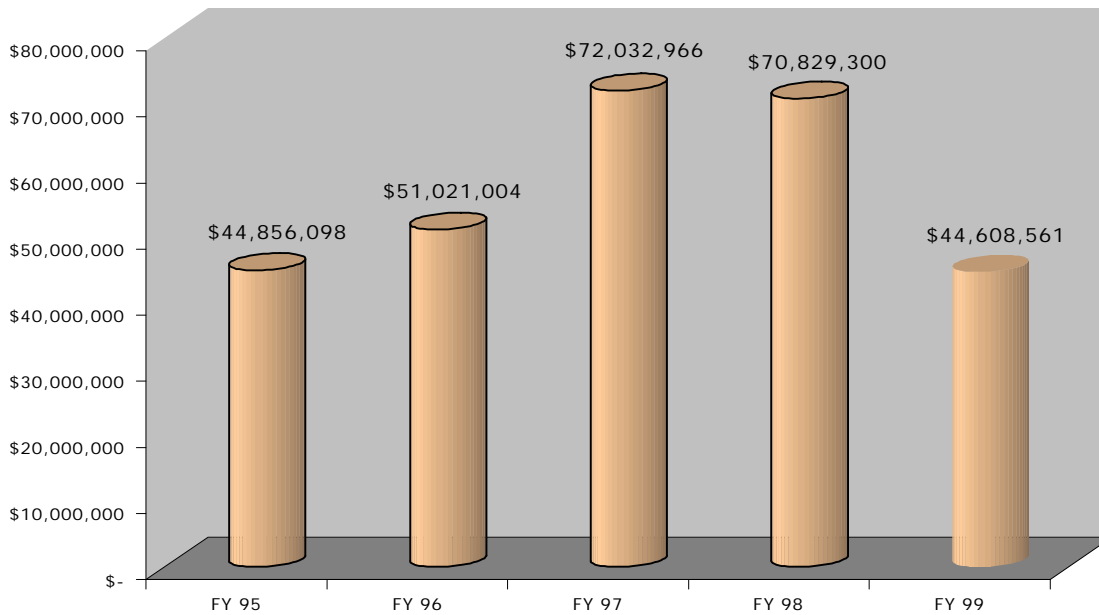
## Spotlight On Central Collection Services

The Central Collection Services (CCS) provides debt collection services for state agencies that are required by CRS 24-30-202.4 to place past due accounts with the service. This includes all departments and agencies of the executive branch except the Departments of Revenue and Labor and Employment. However, both of these departments use CCS to collect a portion of past due receivables. In addition, CCS provides collection services for the Judicial department, district and county courts, and county departments of social services.

By statute, state agencies must place a receivable with CCS once the receivable is 30 days past due. CCS then has 90 days to obtain payment or secure a repayment arrangement with a debtor before the account must be assigned to a private collection agency. The procedures used by CCS to collect debts owed the state include telephone calls, dunning letters, credit reporting, skip tracing, tax offset and vendor offset programs and legal action. Upon the approval of the executive director of the department of personnel, state agencies may request a waiver from using CCS or an extension of time before accounts must be placed with CCS.

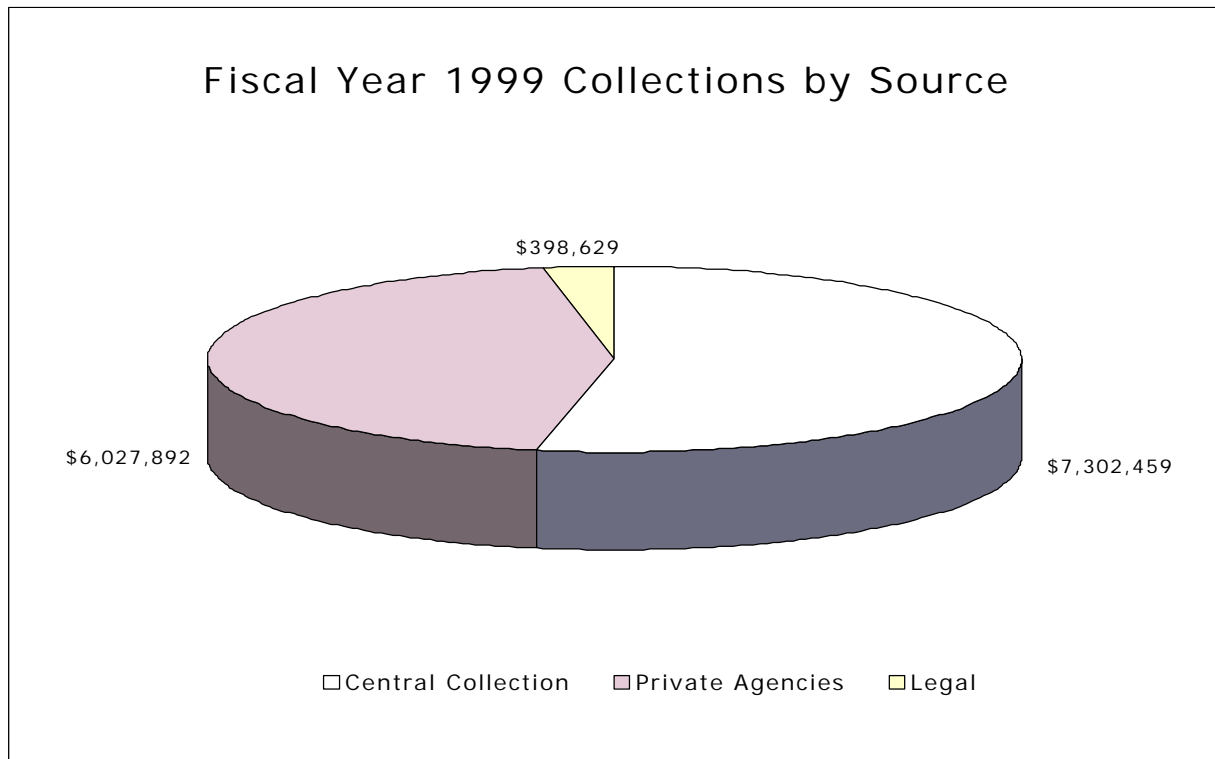
During fiscal year 1999, state agencies assigned 71,143 accounts, representing over \$44.6 million in past due receivables, to CCS for collection. For FY97-98, 112,957 accounts totaling \$70.8 million were placed with CCS for collection. The following chart shows the dollar amount of placements with CCS for the past five fiscal years.

Account Placements with CCS by Fiscal Year



The decrease in placements from FY97-98 to FY98-99 is primarily the result of the Judicial Department choosing to use an outside collection service in FY98-99. By statute, the Judicial Department is not required to use Central Collection Services to collect on past due receivables.

During FY98-99, CCS and the private collection agencies contracting with CCS collected \$13.7 million past due receivables. That compares to collections for FY97-98 of \$13.3 million. The following graph shows a breakdown of the source of collections for FY98-99.

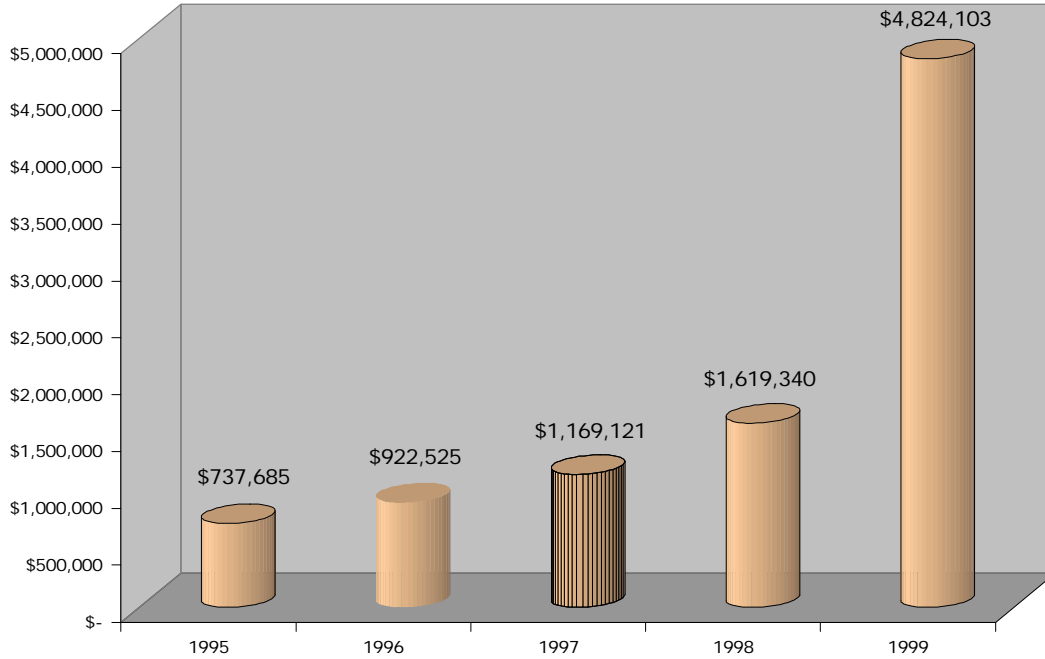


### Tax Offset Program

One of the most efficient and effective tools used by CCS to collect past due accounts is the tax offset program run by the Department of Revenue. Through this program, CCS attempts to match debtors with taxpayers receiving an income tax refund. Where a match is made, state regulations allow CCS to intercept the taxpayer's refund and apply it towards past due debts owed the state. Because of the strong economy and the resulting refunds required by the amendment to the state's constitution known as TABOR, CCS collected over \$4.8 million through the tax offset program during the last calendar year. That is more than had been collected through the program in the last four years combined.

The following chart shows the tax offset collections for the past five years.

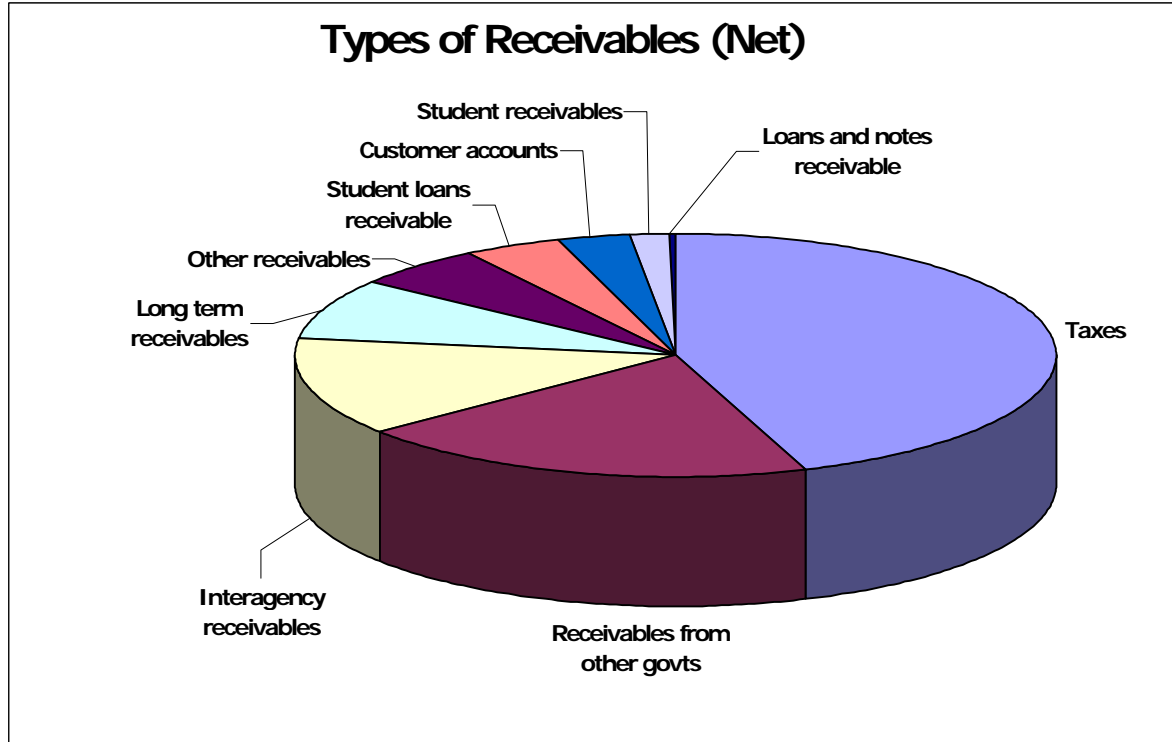
Tax Offset Collections By Calendar Year



For more information about Central Collection Services, there is a link to its website from the State Controller's Office website, <http://www.sco.state.co.us>.

## Types of Accounts Receivable

Net accounts receivable as of June 30, 1999 in the state are divided into the following types:



Type of Receivable	Amount	% of Total
Taxes	\$889,706,750	44.4%
Receivables from other govts	\$396,004,880	19.8%
Interagency receivables	\$263,558,559	13.1%
Long term receivables	\$160,778,465	8.0%
Other receivables	\$112,006,767	5.6%
Student loans receivable	\$82,935,778	4.1%
Customer accounts	\$63,449,816	3.2%
Student receivables	\$30,123,764	1.5%
Loans and notes receivable	\$6,517,087	0.3%

Most of the accounts receivable categories are self-explanatory such as taxes, customer accounts, loans and notes receivable, other, student loans and student receivables. Interagency receivables represent money owed from another state agency. Receivables from other governments are monies owed to Colorado by the federal, other state or local governments. The primary source of these receivables is the federal government.

Because the risk of a receivable from another state agency or another government being uncollectible is low, an allowance for doubtful accounts is not necessary.

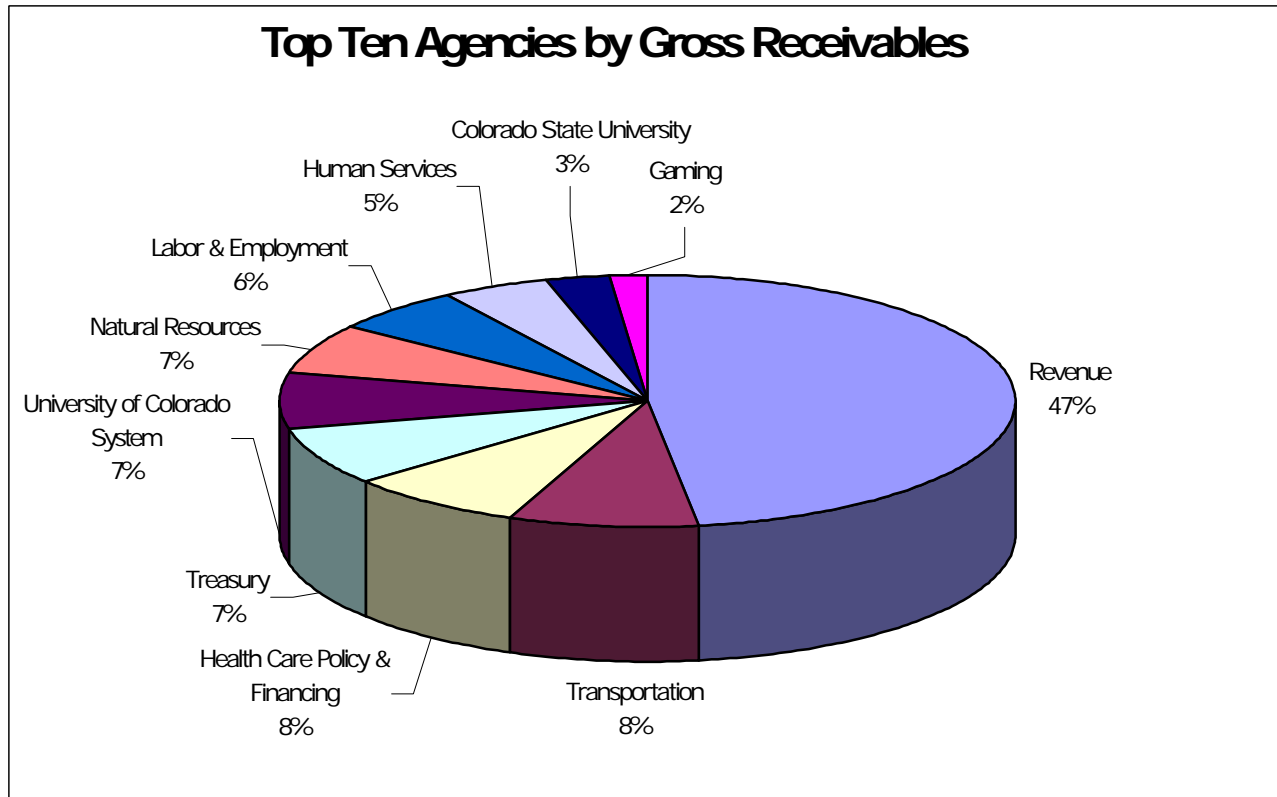
Taxes receivable are assessed by the Department of Revenue which also has responsibility for their collection. At year end, the accrual of taxes by the Department of Revenue represents 79% of the total tax revenues recognized.

Long term receivables are ones that are not anticipated to be collected within the next year. The largest example of long term receivables is the water board loans in the Department of Natural Resources.

Customer accounts, student receivables and some other receivables represent funds owed to the state where the agencies have more control over whether or not they are collected in a timely manner.

## Ten Agencies with the Largest Accounts Receivable

Gross accounts receivable represent the total amount due the state regardless of the collectibility of these amounts. The allowance for doubtful accounts is the estimated amount of the receivables that will not be collected. The net receivables reflect the amount the agency expects to collect. The ten state agencies with the largest accounts receivable balances as of June 30, 1999 are listed below. These ten agencies account for 87% of the total gross receivables in the state.



Agency	Gross Receivables	Less Allowance for Doubtful Accts	Net Receivables
Revenue	\$935,929,343	\$141,977,628	\$793,951,715
Transportation	\$161,933,789	\$314,607	\$161,619,182
Health Care Policy & Financing	\$152,090,116	\$4,505,156	\$147,584,960
Treasury	\$146,584,890	\$1,287,723	\$145,297,167
University of Colorado System	\$138,330,181	\$23,735,940	\$114,594,241
Natural Resources	\$128,301,136	\$0	\$128,301,136
Labor & Employment	\$114,345,238	\$24,010,519	\$90,334,719
Human Services	\$90,857,549	\$21,192,209	\$69,665,340
Colorado State University	\$51,317,109	\$5,332,362	\$45,984,747
Gaming	\$35,230,991	\$0	\$35,230,991

Several of the identified departments have large gross accounts receivables balances with relatively small allowances for doubtful accounts. An analysis of the various departments provides some explanations.

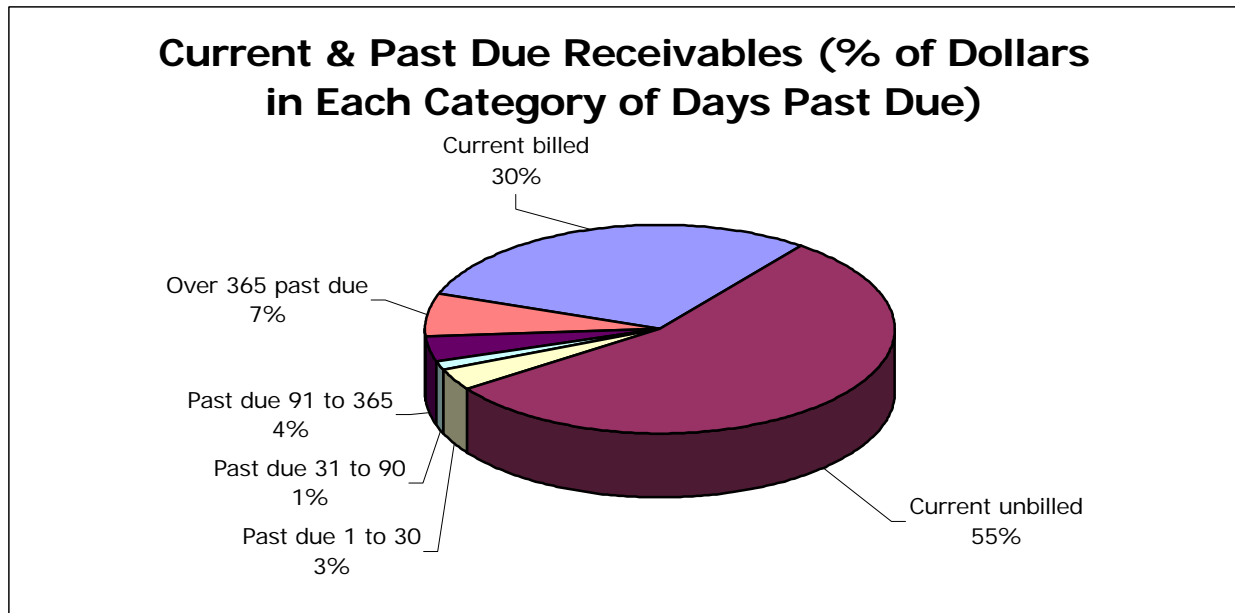
- For the Department of Transportation, \$97.5 million, or 60% of its receivables are due from other governments.
- In the Department of Health Care Policy and Financing, \$124.2 million, or 82% of its receivables, are due from other governments.
- For the Department of Natural Resources, the Water Board has long term receivables of \$110 million, or 86% of its accounts receivable. The department does not calculate an allowance on the long term receivable because adjustments to the loan occur through the legislative process.
- The Department of Labor and Employment ranks second to the Department of Revenue in taxes receivable. The amount of unemployment insurance receivables in this department is \$70 million or 77%.
- Both the Treasury and Division of Gaming in the Department of Revenue have large amounts of interagency receivables (61% and 99% of total gross receivables, respectively). Because almost all of its receivables are interagency receivables, gaming does not have an allowance amount.

## Aging of Accounts Receivable

The age of accounts indicates how successful the state and/or agencies are in collecting their accounts receivable. Collection statistics show that the older the receivable, the less likely it is to be collected. In addition, the state spends more resources in the collection effort with a diminishing return for the effort spent. Therefore, it is important for collection efforts to begin as soon as possible on past due accounts receivable.

All state agencies are required to turn receivables over to the Central Collection Services (CCS) at 30 days past due unless the agency has received a statutory exemption or an exemption from the state's director of the Department of Personnel. CCS uses its collection techniques for 90 days after the receivable has been turned over to them. After 90 days, uncollected receivables are forwarded to a private collection agency.

The aging of the state's receivables as of June 30, 1999, as shown in the pie chart below, reflect the total amount of gross receivables in each of the following categories: 1-30 days, 31-90 days, 91 days-1 year, and over 1 year.



The following table shows the agencies with the highest amount of receivables that are more than one year old. It should be noted that these four agencies are also agencies with the largest gross receivables. Both the Department of Labor and Employment and the Department of Human Services have large amounts of old receivables because of unemployment insurance and welfare benefit overpayments. Both of these agencies must also comply with federal regulations concerning how past due accounts are managed. The University of Colorado system includes all

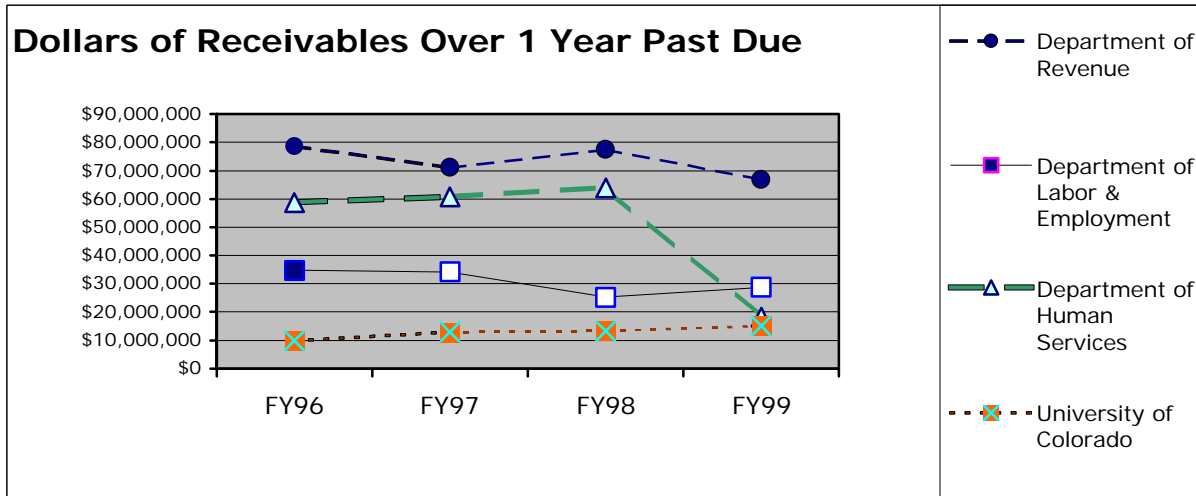


four of the schools under the direction of the Board of Regents. These receivables in excess of one year old are primarily student receivables and federal student loans receivable.

**Agencies with the Highest Amount of Receivables Over 1 Year Past Due**

Department of Revenue	\$66,743,093
Department of Labor & Employment	\$28,706,656
Department of Human Services	\$15,590,563
University of Colorado System	\$15,075,161

When a four year history of these agencies' receivables is analyzed, the amount of receivables greater than one year old remains fairly constant. This is shown in the table below. The Department of Human Services had a sharp decline in FY98-99 because they developed an incentive program with counties to suspend collections of older receivables from Aid to Families with Dependent Children and Food Stamps and write these receivables off for financial statement purposes.



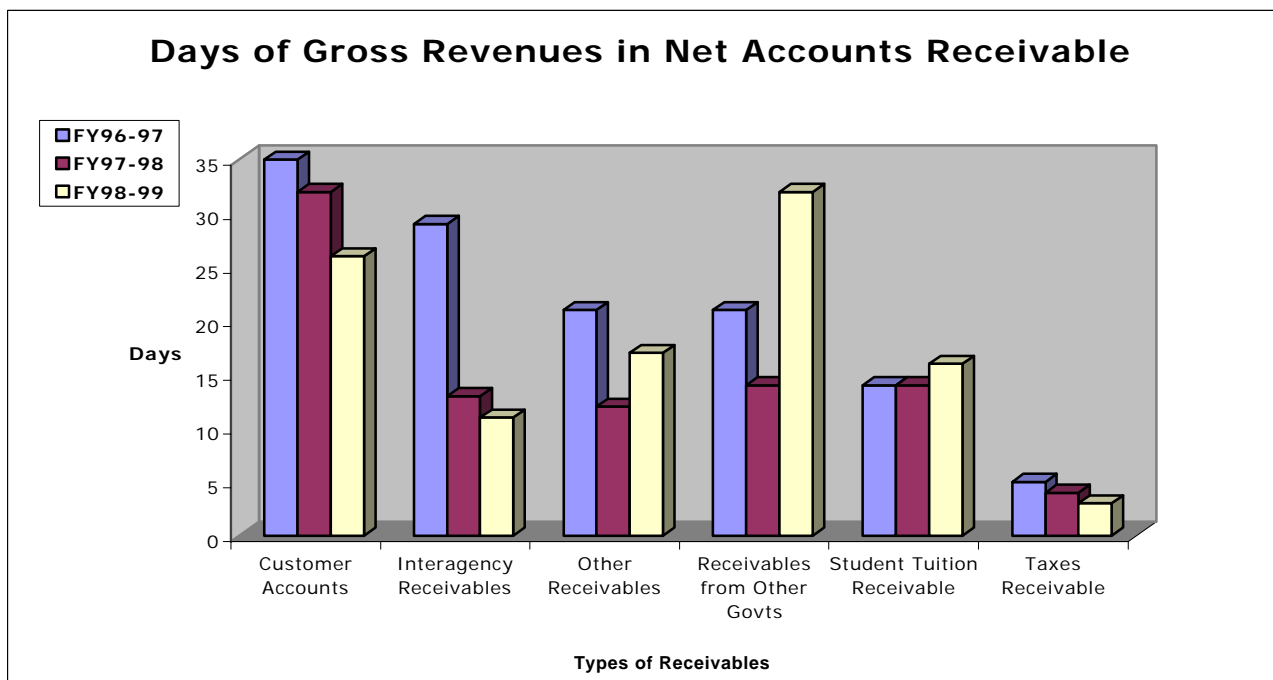
## Days in Accounts Receivable

The state has measured performance in accounts receivable collection by measuring the number of days of revenue in its net accounts receivable for certain types of receivables. The formula divides net receivables by daily revenue. Year end accruals are not included in the calculation. This measure is more often used in business than in government.

The number of days of receivables in net accounts receivable has been fairly consistent over the past three years within each type of receivable. Taxes receivable has the fewest days of revenue in its receivable. This is good because taxes represent the largest source of revenue to the state. It would be of concern if the number of days of revenue in taxes receivable were either a high number or increasing significantly. For example the number of days in Receivables from Other Governments increased significantly. This was primarily due to an increase in the federal portion of Medicaid receivables in the Department of Health Care Policy and Financing which was not received until the subsequent fiscal year so at year end it was a receivable.

The state's target for this measure across all receivables is 20 days. In the past, this target was 30 days as is common for many businesses. However, the state was so successful in meeting this target, the decision was made to lower it to keep the focus on improvement. As of June 30, 1999, the actual days of gross revenue in net accounts receivable across all of the types of receivables was 13 days. This is well below the target and represents continued consistent performance in this area.

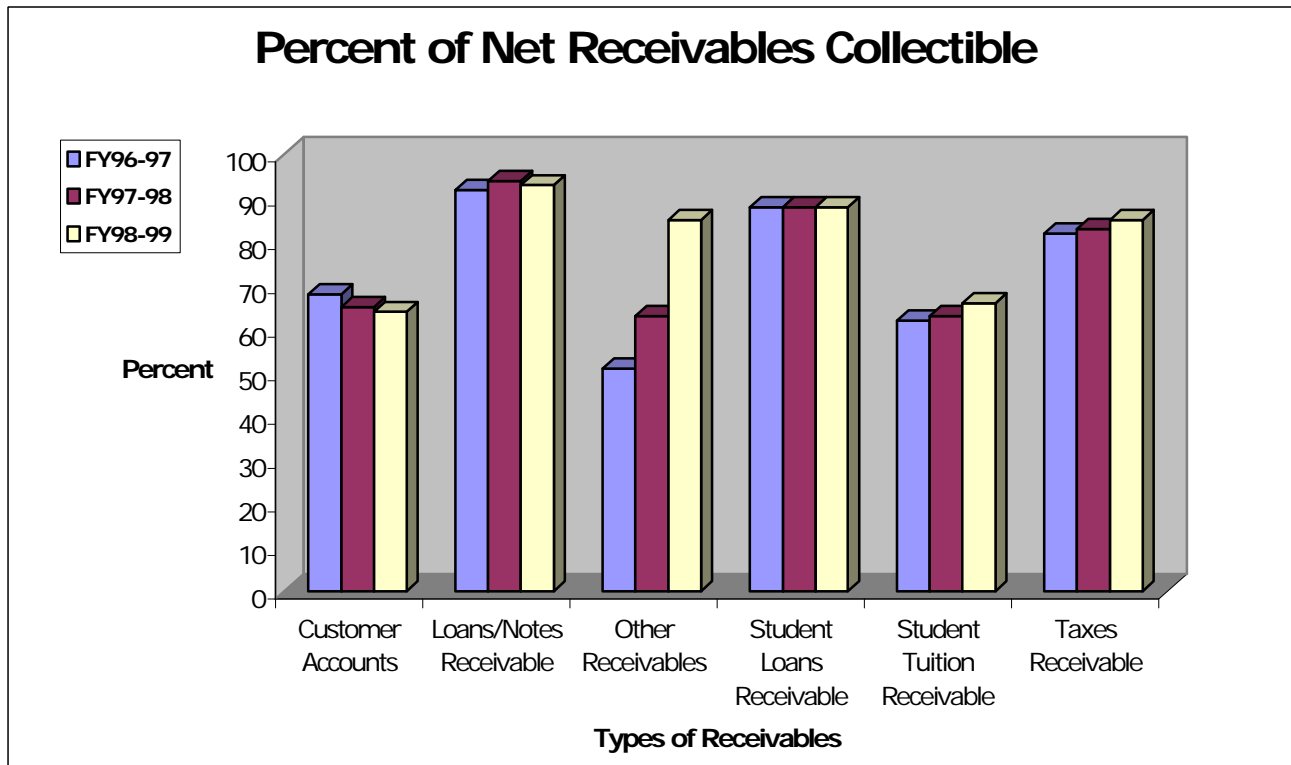
The following table illustrates the days of receivables in net billed accounts receivable by type of receivable for which the measure is relevant.



## Percent of Net Collectible Receivables

The gross receivables that the state estimates to be collectible are called its net receivables. Net receivables divided by gross receivables gives the anticipated collection percentage. The statewide target for this percentage across all of the receivable types is 95%. As of June 30, 1999 the actual percent across all of the types was 90%. There was a 4% improvement from last fiscal year when the percentage of receivables expected for collection was 86%.

The graph below shows the anticipated collection percentage for each type of receivable over the past five years. The percentages have remained relatively stable over time with the exception of other receivables. The expected collection percent of other receivables increased in FY98-99 because the Department of Human Services which had a large number of receivables in its allowance for doubtful accounts in this category wrote them off for financial statement purposes.



## Summary

Because accounts receivable in the State of Colorado are over \$2 billion, it is an important area for attention. This accounts receivable report helps us focus on some of the characteristics of the states receivables. Four general statements summarize the report.

- In addition to the collection efforts by the agencies, the state has programs in place that focus on collection of past due receivables.
- The majority of the amounts owed to the state are concentrated in ten agencies within the state.
- Most of the receivables in the state are not past due.
- Taxes receivable account for almost half of all the receivables in the state.

The accounts receivable program in Colorado compares favorably to other states. A combination of effective collection methods including a centralized collection process and vendor and tax offset programs helps ensure that the state collects amounts owed to it. The planned addition of a statewide credit policy and the encouraged use of alternate payment methods such as credit cards will increase the state's ability to actively manage its accounts receivable balances in the future.