

STATE OF COLORADO

**GENERAL SUPPORT SERVICES
DIVISION OF FINANCE AND PROCUREMENT
OFFICE OF THE STATE CONTROLLER**

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

FROM: Arthur L. Barnhart *ALB*
 State Controller

DATE: January 31, 2001

SUBJECT: *Accounts Receivable Report for the Year Ended June 30, 2000*

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 FY99-00 has been designed to fulfill this statutory responsibility.

This Accounts Receivable Report follows the same format as last year. I am pleased with the amount of information available on our receivables and how we, as a state, are doing collecting them. In addition to the format you are receiving with this letter, the report is available on the State Controller's Office website at:

http://www.sco.state.co.us/acct_rec/acct_rec.htm

My goal is to improve the report each year as we all work together to improve our performance in collecting 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, 2000

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

Arthur L. Barnhart, State Controller

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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, 2000 unless otherwise indicated.

Report Format

The format for the FY99-00 Accounts Receivable Report is similar to last year's report, continuing 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 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 the Central Collections 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). This website also has additional information on vendor offset and the Central Collections Service.

Overview

Total Accounts Receivable As of June 30, 2000

Consistent with overall growth in total revenues in the state, at June 30, 2000, the state's accounts receivable increased to \$2.5 billion for all state agencies and funds. The comparable amount for June 30, 1999 was \$2.24 billion. Thus, the state's accounts receivable at June 30, 2000 increased by \$265 million or 12% when compared to the previous year. Approximately 37% 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, 2000 increased by \$600,000 which represents a increase of only .2% from the previous fiscal year.

Total Receivables by State Fiscal Year

	1996	1997	1998	1999	2000
Gross receivables	\$1,739,554,290	\$1,875,209,067	\$2,004,337,689	\$2,239,889,547	\$2,504,908,359
Less: Allowance	(\$263,965,676)	(\$276,663,564)	(\$280,535,435)	(\$234,807,681)	(\$235,407,182)
Net receivables	\$1,475,588,614	\$1,598,545,503	\$1,723,802,254	\$2,005,081,866	\$2,269,501,177

Taxes Receivable by State Fiscal Year

	1996	1997	1998	1999	2000
Taxes receivable	\$793,773,803	\$869,214,264	\$941,680,620	\$1,044,379,613	\$1,141,671,621
Less: Allowance	(\$150,654,494)	(\$152,659,583)	(\$158,147,702)	(\$154,672,863)	(\$155,760,694)
Net taxes owed	\$643,119,309	\$716,554,681	\$783,532,918	\$889,706,750	\$985,910,927

Of the state's total accounts receivable at June 30, 2000, \$1.4 billion or 56.4% result from year end accrual estimates. Accrual estimates are made each fiscal year in accordance with generally accepted accounting principles and represent revenue recognized in FY99-00 for which collection is expected until the next fiscal year. 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 \$883 million in taxes at the end of FY99-00. This estimate is based upon historical revenue data and an analysis of selected tax returns filed with DOR during July 2000. This amount will ultimately be paid to the state by taxpayers in the normal course of filing their tax returns during FY00-01.

Accounts Receivable Improvements

During this past fiscal year, the Office of the State Controller continued to pay careful attention to the collection of debts due the state. The state controller added a credit policy for the state to the Fiscal Procedures Manual. It is the first time the state has had 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 prior to or at service delivery. Included in the credit policy is a more clear definition of cancellation of debt, adjustments and when it is appropriate to have the state controller and state treasurer consider the forgiveness of debt. By statute, approval of both of these officials is required to compromise a debt.

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 outstanding taxes, student loans, and various fees and fines. The state has implemented several programs to collect these delinquent amounts. One of the state's successful collection programs 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), the state's accounting system. 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. However, because the Central Collections Service uses this program, it is available to all state agencies. The program 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

Debt collection through the vendor offset system is available to all state agencies through one of the following:

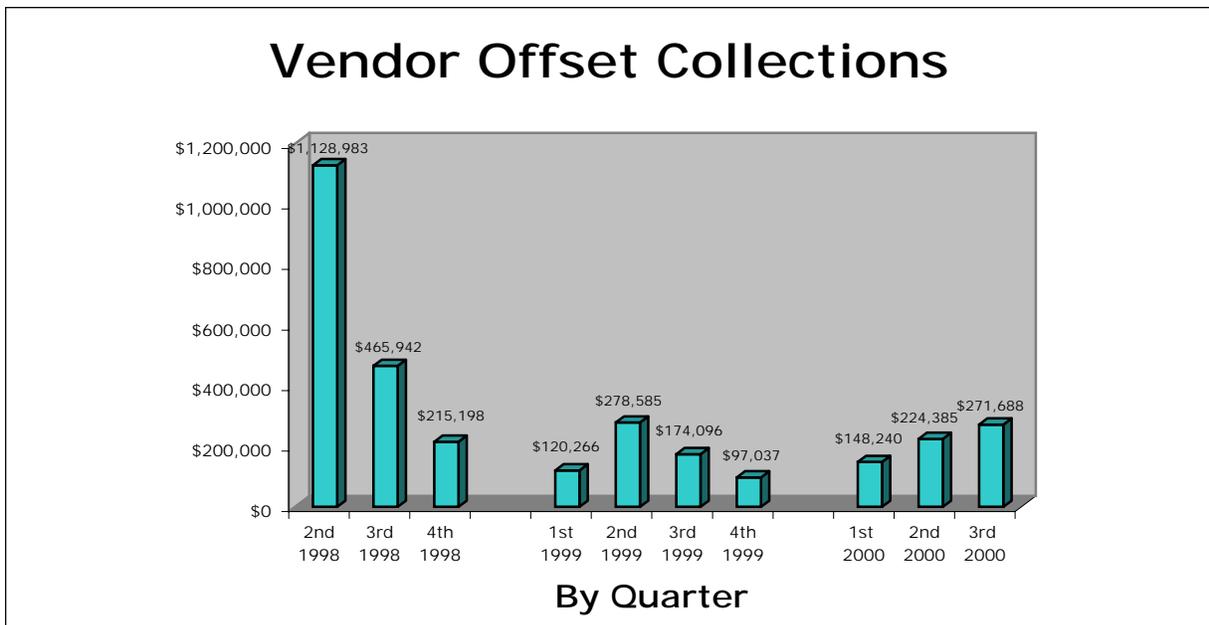
- Department of Revenue
- Colorado Student Loan Program
- Department of Personnel, Central Collections Services
- Department of Human Services, Child Support Enforcement

The Department of Human Services added child support enforcement debtors to the system in late November and began offsetting in late December. The total amount collected statewide by the vendor offset

system as of the end of the third quarter of calendar year 2000 was \$3,124,419.

Vendor Offset Quarterly Financial Report

Inception To Date	Revenue	Student Loan	Central Collections	Statewide Total
2 nd QTR 98	\$1,128,983			\$1,128,983
3 rd QTR 98	\$465,942			\$465,942
4 th QTR 98	\$212,141	\$3,057		\$215,198
1 st QTR 99	\$117,567	\$2,699		\$120,266
2 nd QTR 99	\$243,979	\$3,834	\$30,772	\$278,585
3 rd QTR 99	\$160,574	\$2,738	\$10,784	\$174,096
4 th QTR 99	\$86,182	\$642	\$10,213	\$97,037
1 st QTR 2000	\$135,993	\$5,828	\$6,419	\$148,240
2 nd QTR 2000	\$220,382	\$1,017	\$2,986	\$224,385
3 rd QTR 2000	\$263,655	\$5,195	\$2,838	\$271,688
TOTAL	\$3,035,398	\$25,010	\$64,012	\$3,124,420



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 FY99-00, the department collected over \$8.1 billion in tax revenues. The department also reported \$201 million in delinquent tax receivables or approximately 3% of total collections for FY99-00.

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 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 \$177 million in FY99-00, up 17% from the previous year.

Collection techniques include garnishments, filing of judgments 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 collected approximately \$1.7 million in the first two years of its existence.

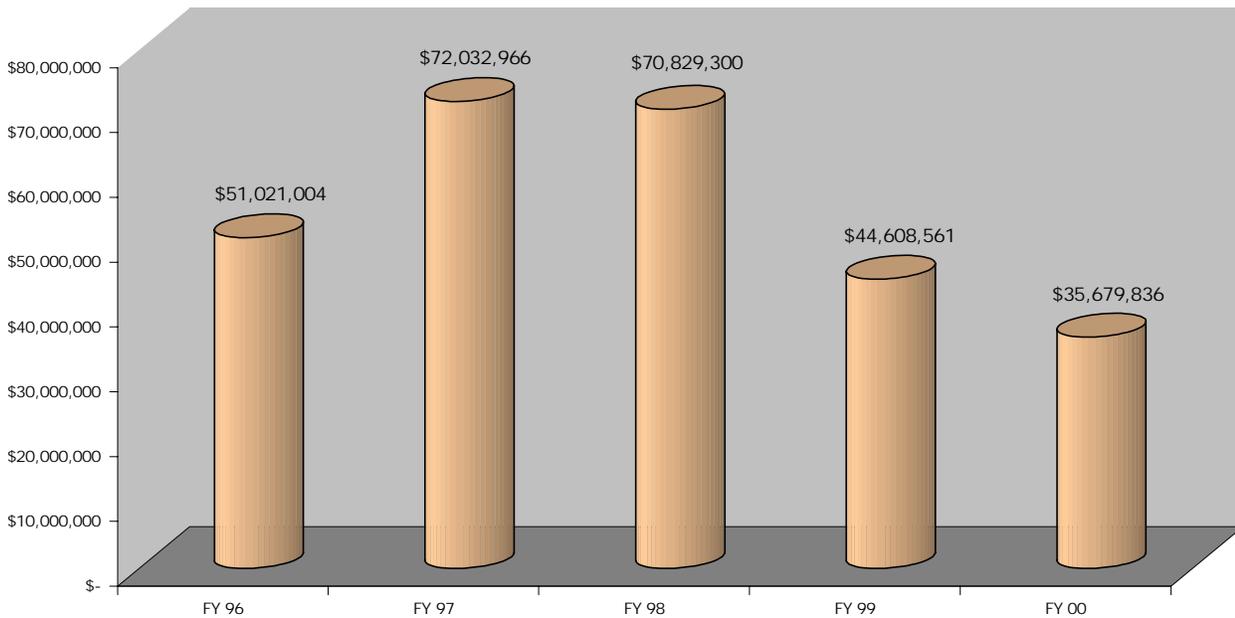
Spotlight On Central Collections Service

The Central Collections Service (CCS) provides debt collection services for state agencies that are required by CRS24-30-202.4 to place past due accounts with the state controller. This includes all departments and agencies of the executive branch except the Departments of Revenue, the collection of delinquent unemployment taxes and overpaid unemployment benefits managed by the Department of Labor and Employment, and Medicaid overpayments managed by the Departments of Humans Services and Health Care Policy and Finance. 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 past due 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 can request a waiver from using CCS or can request an extension of time before accounts must be placed with CCS.

During FY99-00, state agencies assigned 58,558 accounts totaling \$35.7 million in past due receivables with CCS for collection. This compares to 71,143 accounts totaling over \$44.6 million for FY98-99. The following chart shows the dollar amount of placements with CCS for the past five fiscal years.

Account Placements with CCS by Fiscal Year

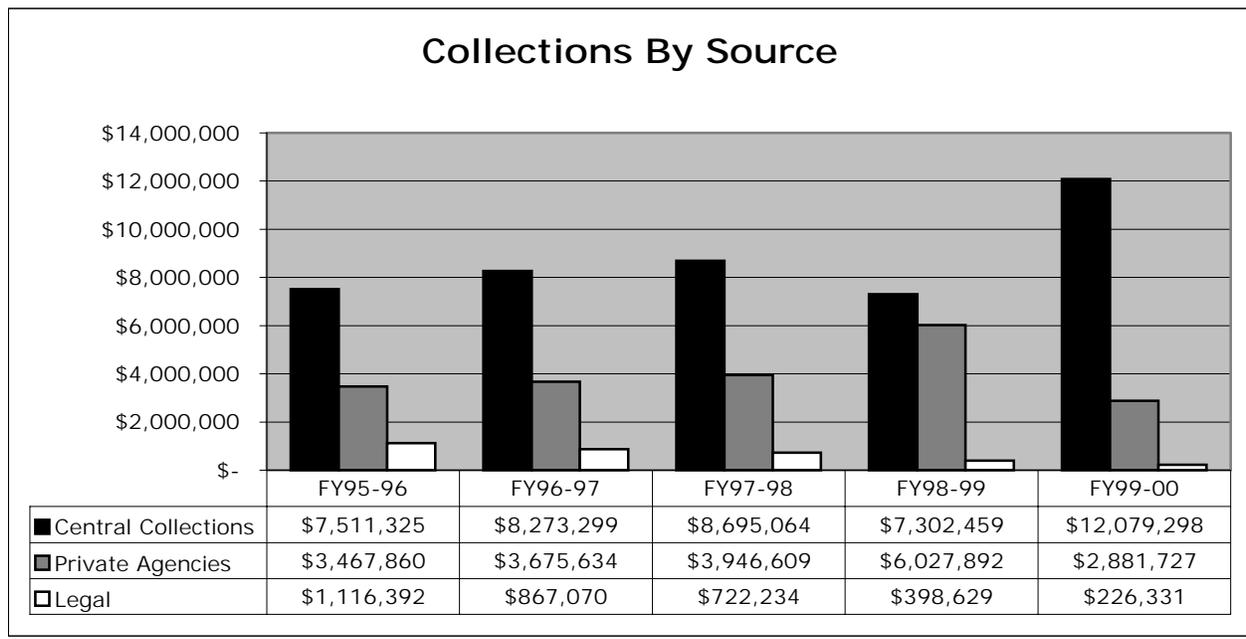


The decrease in placements from FY98-99 to FY99-00 is primarily due to the loss of receivables from the Departments of Revenue (DOR) and the Judicial Department. In 1999, DOR decided to contract the collection of their receivables with a private collection agency. Also, the Judicial Department started a pilot program for the collection of its receivables, which included its top five courts.

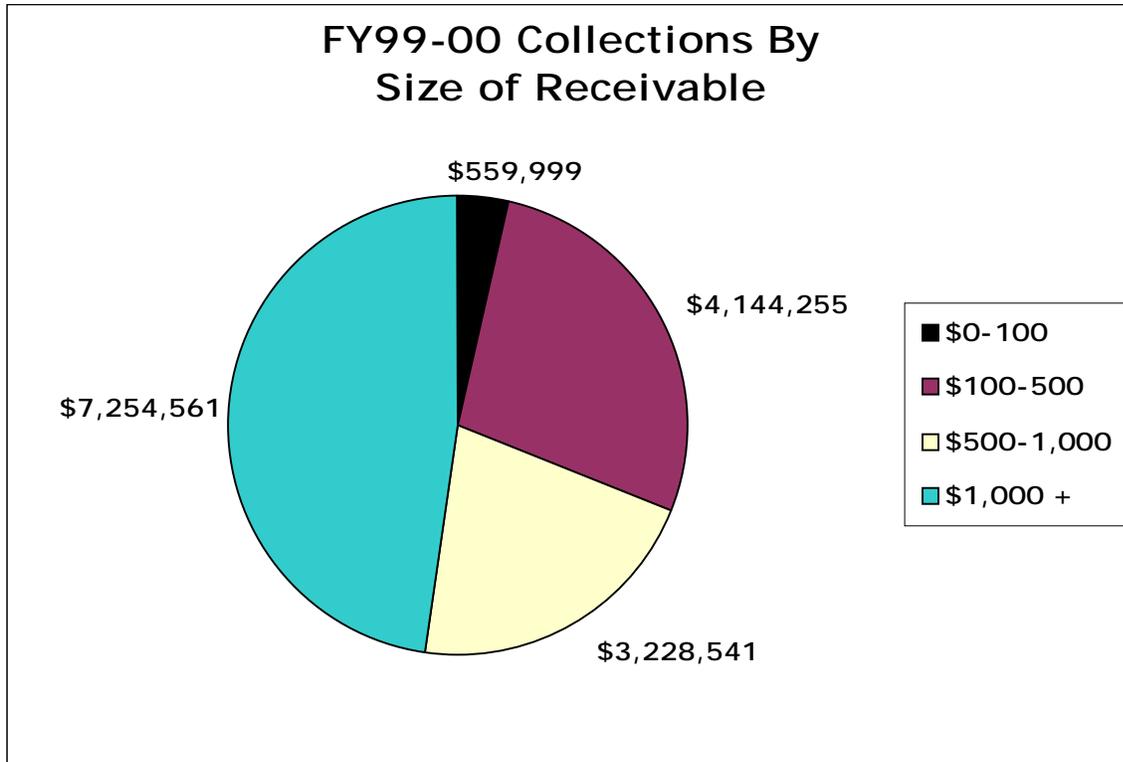
In FY97-98, DOR placed accounts totaling \$21.8 million and Judicial Department placed \$22.1 million in receivables with CCS. In FY99-00, DOR placed only \$5 million in receivables, which was a 77% decrease over the previous year. The Judicial Department placed only \$13.8 million, which was a 37% decrease over the previous year. The total percentage of placements lost was 58% over the previous year.

To mitigate the reduction of placements and loss of revenue, CCS has made significant technological changes. First, a predictive dialer was installed in November 2000 to increase the amount of revenue collected by the unit. The dialer automates the process of calling debtors. More calls are made therefore more debtors are reached to discuss payment arrangements. Other efficiency measures include the installation of a new phone system to handle the higher call volume as well as placing interactive forms on the Internet for clients to send their placements more effectively.

During FY99-00, CCS and the private collection agencies contracting with CCS collected \$15.2 million off past due receivables. That compares to collections for FY98-99 of \$13.7 million. The following graph shows a breakdown of the source of collections for the past five fiscal years.



During FY99-00, CCS began to monitor the collection of past due receivables based on the balance of the receivable at the time of placement. For FY99-00, the following chart shows a breakdown of collections in four ranges.

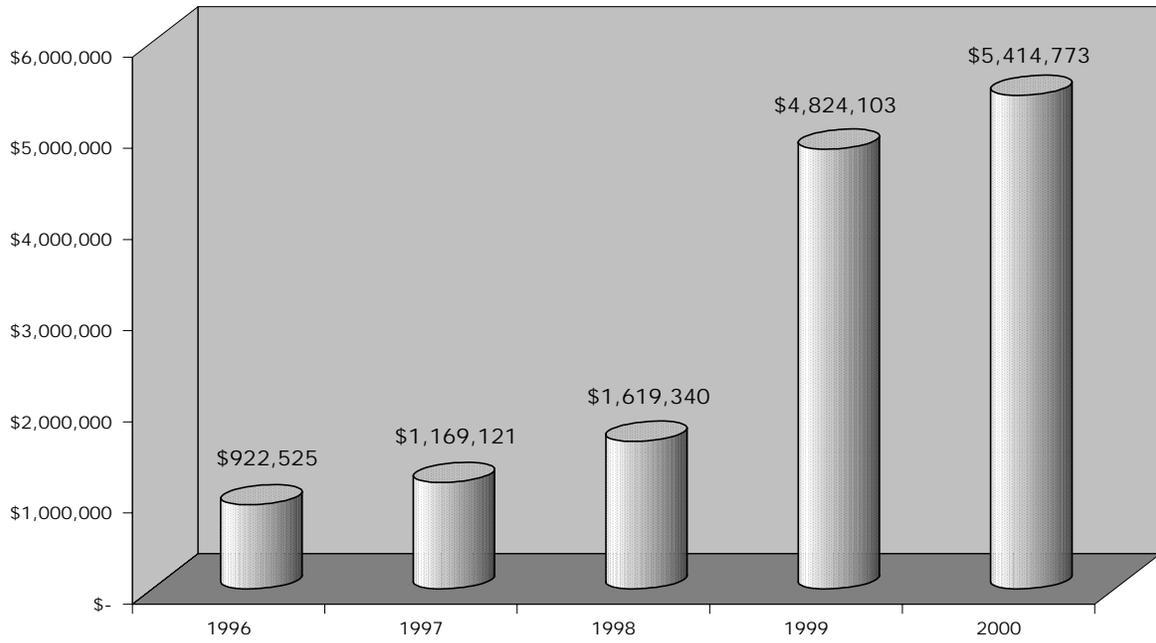


Tax Offset Program

One of the most successful 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 allows CCS to intercept the taxpayer's refund and apply it towards past due debts owed the State. In prior years, this offset was done if the balance of the past due receivable was at least \$100. Because of the strong economy and the resulting refunds required by the amendment to the state's constitution known as TABOR, CCS collected over \$5.4 million through the tax offset program during the last calendar year. That represents a 12 percent increase over the prior year. The increase over the prior year's collections was in part due to lowering the amount for which a tax offset occurs from \$100 down to \$0.

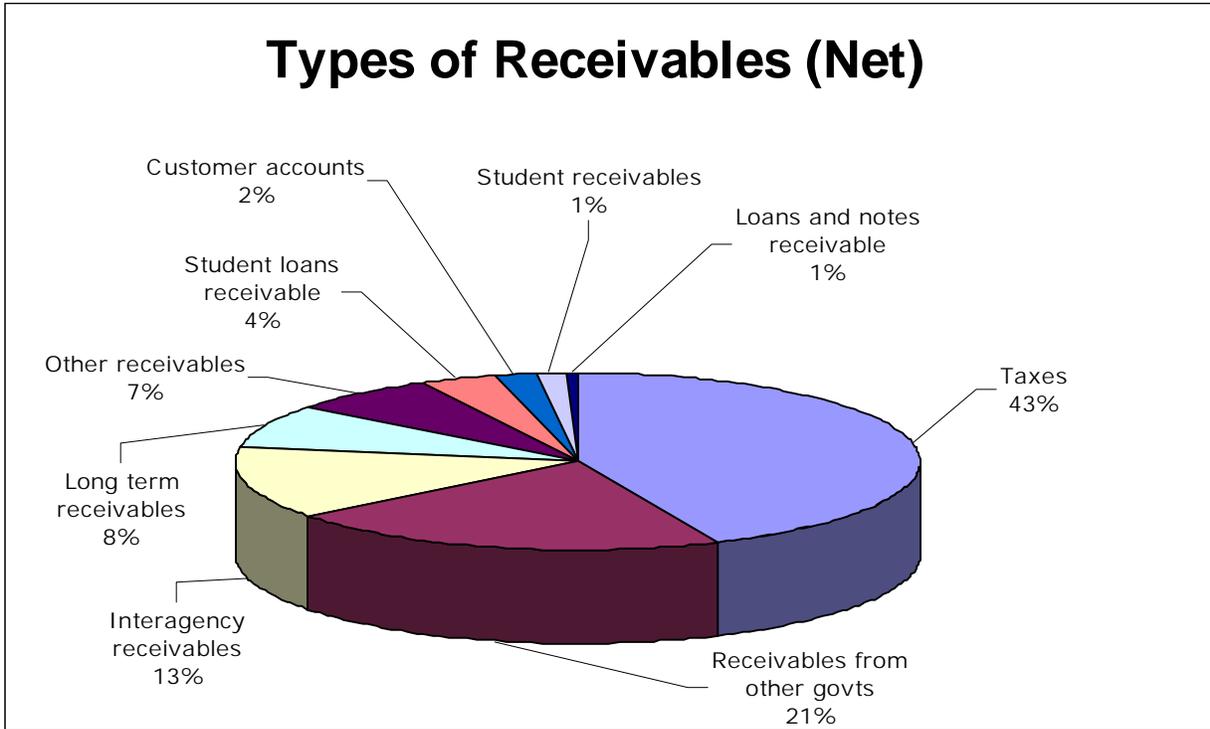
The following chart shows the tax offset collections for the past five years.

Tax Offset Collections By Calendar Year



Types of Accounts Receivable

Net accounts receivable as of June 30, 2000 in the state are divided into the following types:



Type of Receivable	Amount	% of Total
Taxes	\$985,910,927	43.5%
Receivables from other gov'ts	\$475,018,907	20.9%
Interagency receivables	\$297,982,294	13.1%
Long term receivables	\$179,950,676	7.9%
Other receivables	\$159,114,870	7.0%
Student loans receivable	\$84,603,818	3.7%
Customer accounts	\$41,860,106	1.9%
Student receivables	\$33,487,934	1.5%
Loans and notes receivable	\$11,571,645	0.5%

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 Federal, other state or local governments. The primary source of these receivables is the Federal government.

An allowance for doubtful accounts is not necessary for receivables from other governments or interagency receivables, because the collection of these accounts is assured. This represents 34% of the state's total receivables.

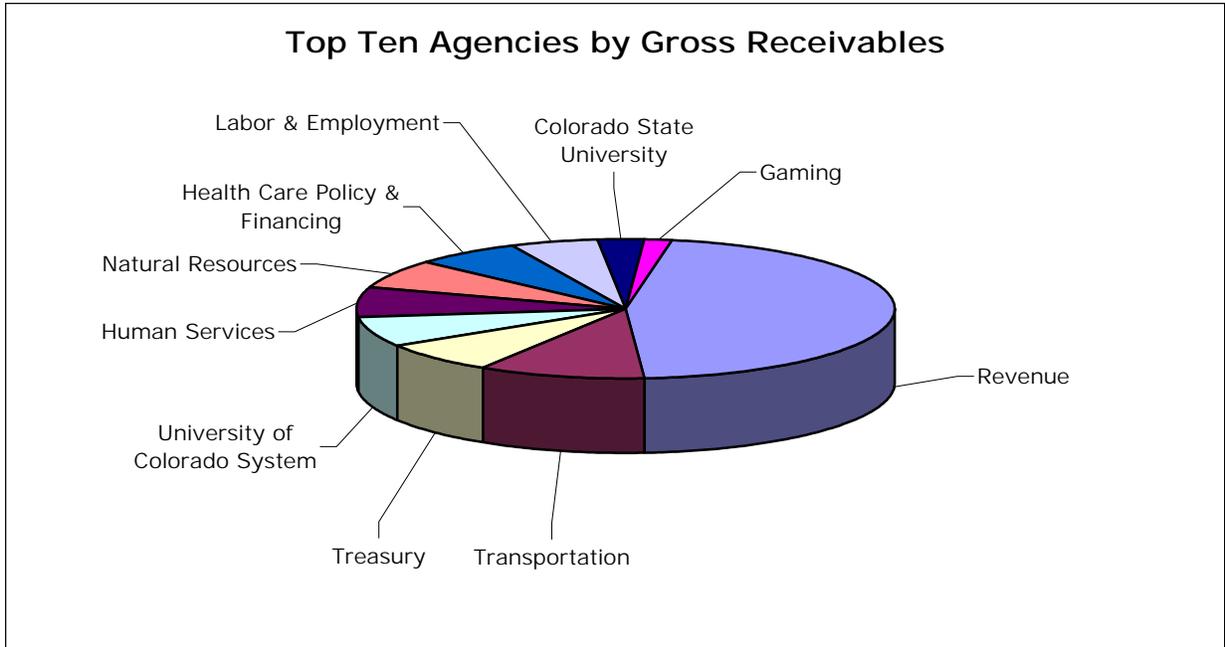
Taxes receivable are primarily assessed by the Department of Revenue which also has responsibility for their collection. At year end, the accrual of taxes by the Department of Revenue represents 80.3% of its gross accounts receivable.

Long term receivables are ones that are not anticipated to be collected within the next year. The largest amount of long term receivables is the water board loans in the Department of Natural Resources. These loans account for 67.2% the receivables in this category.

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, 2000 are listed below; these ten agencies are the same ones as in FY98-99. These ten agencies account for 88.8% of the total gross receivables in the state.



Agency	Gross Receivables	Less Allowance for Doubtful Accts	Net Receivables
Revenue	\$1,026,627,963	\$142,597,351	\$884,030,612
Transportation	\$220,563,640	\$200,932	\$220,362,708
Treasury	\$162,041,508	\$0	\$162,041,508
University of Colorado System	\$156,029,120	\$25,305,075	\$130,724,045
Human Services	\$154,765,918	\$17,697,515	\$137,068,403
Natural Resources	\$149,763,426	\$0	\$149,763,426
Health Care Policy & Financing	\$140,587,637	\$4,289,262	\$136,298,375
Labor & Employment	\$118,382,592	\$27,326,216	\$91,056,376
Colorado State University	\$59,033,107	\$5,653,130	\$53,379,977
Gaming	\$37,710,729	\$0	\$37,710,729

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.

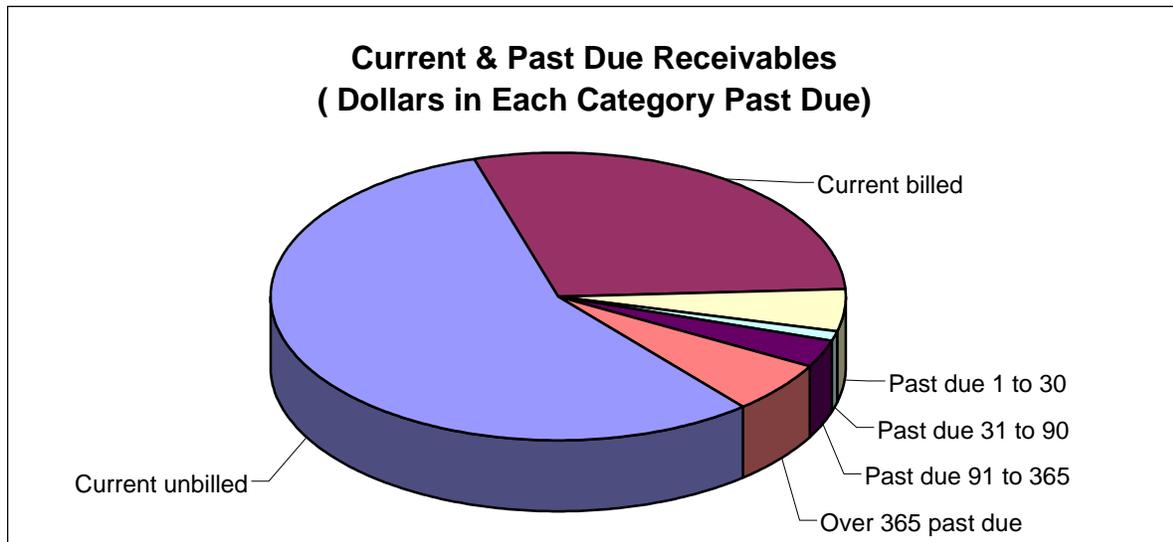
- For the Department of Transportation, \$147.7 million, or 67% of its receivables are due from other governments.
- In the Department of Health Care Policy and Financing, \$102.7 million, or 73% of its receivables, are due from other governments.
- The Department of Human Services has \$120 million in its receivables from other governments. This is 78% of its total receivables.
- For the Department of Natural Resources, the Water Board has long term receivables of \$121 million, or 81% 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 \$72 million or 61%.
- Both the Treasury and Division of Gaming in the Department of Revenue have large amounts of interagency receivables. (62.1% and 99.9% 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 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 Collections Services 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, 2000, as shown in the pie chart below, reflect the total amount of gross receivables in each of the following categories: Current (billed and unbilled), 1-30 days, 31-90 days, 91 days-1 year, and over 1 year. Current unbilled receivables relate to revenue accrued at year end for services that were delivered, taxes that were owed, etc., but the billing cycle for these receivables had not yet occurred.



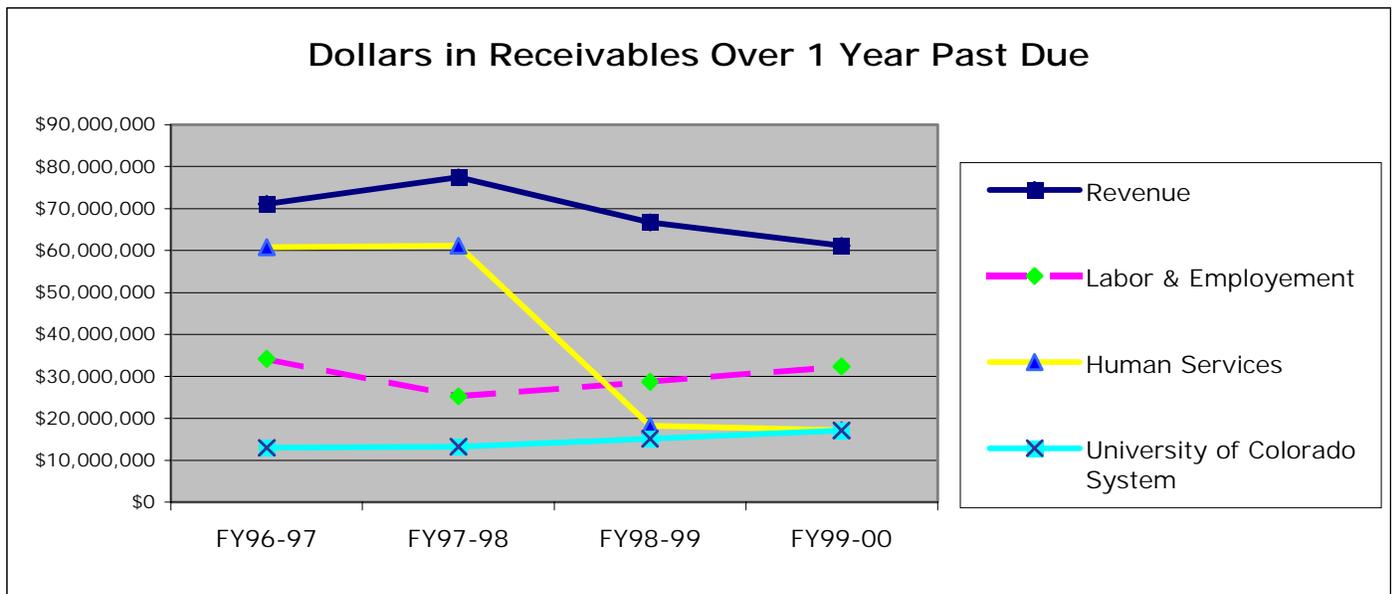
The following table shows the agencies with the highest amount of receivables that are more than one year old. It should be noted that these four agencies are also agencies with the largest gross receivables. Both the Department of Labor and Employment and the Department of Human Services have large 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	\$61,120,844
Department of Labor & Employment	\$32,338,761
Department of Human Services	\$17,191,799
University of Colorado System	\$17,129,958

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 beginning 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.



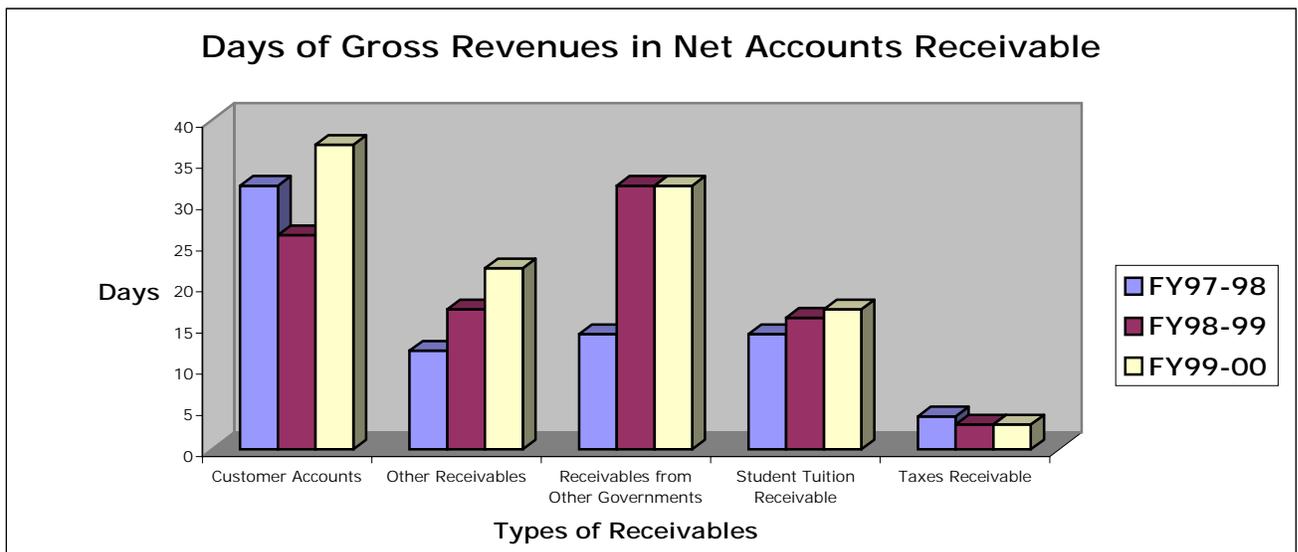
Days in Accounts Receivable

The state has measured performance in accounts receivable collection by measuring the numbers 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, 2000, 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.

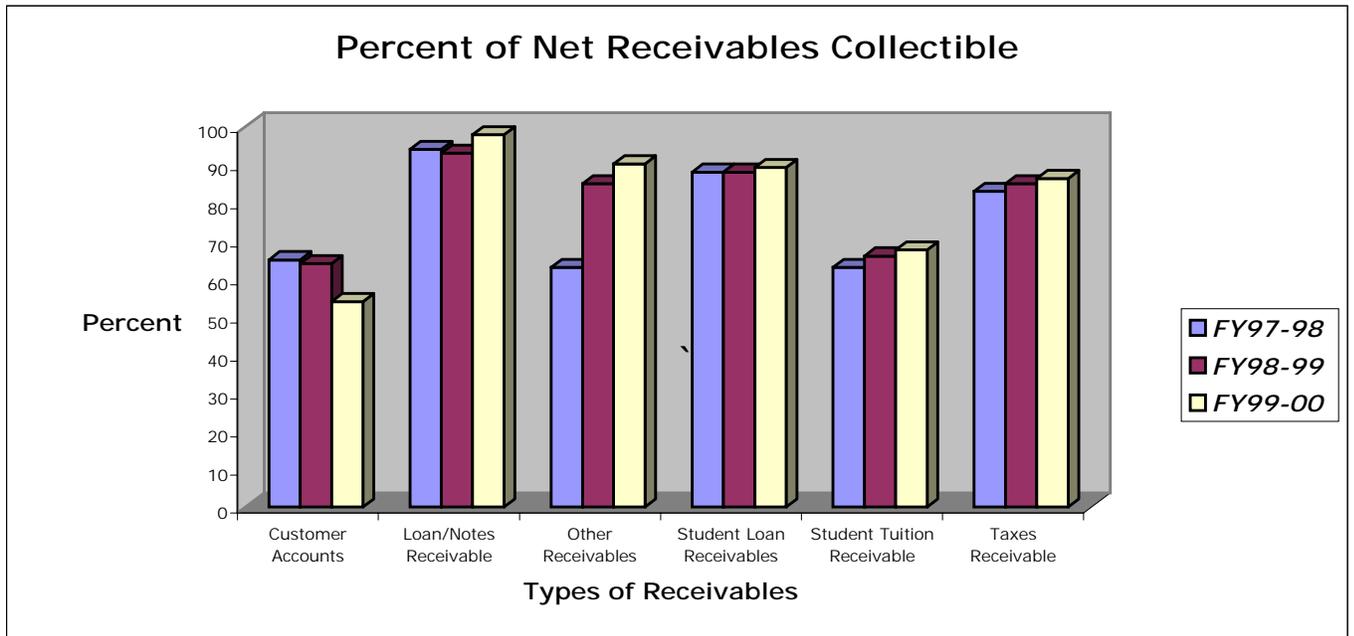
The following table illustrates the days of receivables in net billed accounts receivable by type of receivable for which the measure is relevant.



Percent of Net Collectible Receivables

The 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%. The actual percent across all of the types was 91%. There was a 1% improvement from last fiscal year when the percentage of receivables expected for collection was 90%; this continues the trend from the previous year when the percent was 86%.

The graph below shows the anticipated collection percentage for each type of receivable over the past three years. The percentages have remained relatively stable over time with the exception of other receivables. The expected collection percent of other receivables increased beginning 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 many of 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 state's 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 addition of the statewide credit policy and the encouraged use of alternate payment methods such as credit cards increase the state's ability to actively manage its accounts receivable balances in the future. Focus will be maintained on receivables through development of an automated write-off process and updating the Accounts Receivable Rule in the Department of Personnel (General Support Services).