

STATE OF COLORADO

**DEPARTMENT OF PERSONNEL & ADMINISTRATION
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 8, 2002

SUBJECT: *Accounts Receivable Report for the Year Ended June 30, 2001*

According to CRS 24-30-202.4, it is my responsibility to measure the State's performance in the collection of debts owed to the state. The Accounts Receivable Report for FY 2000-01 has been designed to fulfill this statutory responsibility.

The 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. 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: Troy Eid, Executive Director, DPA
 Kenneth Conahan, Joint Budget Committee
 Nancy McCallin, Office of State Planning and Budgeting

Accounts Receivable Report

For the Fiscal Year Ended June 30, 2001

Colorado Department of Personnel and Administration
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. All of the data displayed is as of June 30, 2001 unless otherwise indicated.

Report Format

The format for the Fiscal Year 2001-02 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. 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 Judicial Branch to collect fines and restitutions and 3) the efforts of the Central Collections Services to collect the majority of non-tax related 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

Consistent with overall growth in total revenues in the state, at June 30, 2001, the state's gross accounts receivable increased to \$3.3 billion for all state agencies and funds. The comparable amount for June 30, 2000 was \$2.5 billion. Thus, the state's gross accounts receivable at June 30, 2001 increased by \$800 million or 32% when compared to the previous year. \$683 million of the increase is associated with the inclusion of the Colorado Student Obligation Authority as part of the reporting entity of the state. The remainder of the 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, 2001 was \$233 million which represents a decrease of \$2.5 million or 1% from the previous fiscal year.

Total Receivables by State Fiscal Year

	1997	1998	1999	2000	2001
Gross receivables	\$1,875,209,067	\$2,004,337,689	\$2,239,889,547	\$2,504,908,359	\$3,267,726,000
Less: Allowance	(\$276,663,564)	(\$280,535,435)	(\$234,807,681)	(\$235,407,182)	(\$232,873,212)
Net receivables	\$1,598,545,503	\$1,723,802,254	\$2,005,081,866	\$2,269,501,177	\$3,034,852,788

Taxes Receivable by State Fiscal Year

	1997	1998	1999	2000	2001
Taxes receivable	\$869,214,264	\$941,680,620	\$1,044,379,613	\$1,141,671,621	\$1,243,565,205
Less: Allowance	(\$152,659,583)	(\$158,147,702)	(\$154,672,863)	(\$155,760,694)	(\$138,066,289)
Net taxes owed	\$716,554,681	\$783,532,918	\$889,706,750	\$985,910,927	\$1,105,498,916

Of the state's total accounts receivable at June 30, 2001, \$1.6 billion, or 48%, result from year-end revenue accrual estimates. Revenue accruals are made at the end of each fiscal year in accordance with generally accepted accounting principles and represent revenue recognized in Fiscal Year 2001 for which collection is expected in the following fiscal year. The Department of Revenue's (DOR) year-end tax accrual calculation constitutes the largest part of the state's total year-end revenue accrual estimate. DOR accrued \$1 billion in tax revenues at the end of Fiscal Year 2001. This estimate is based upon historical revenue data and an analysis of selected tax returns filed with DOR during July 2001. This amount will ultimately be paid to the state by taxpayers in the normal course of filing their tax returns during Fiscal Year 2002.

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 has over 160,000 vendors for which it conducts business. 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. Because the Central Collections Service is one of those agencies, the vendor offset program is available to the majority of state agencies. The program compares outstanding 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>.

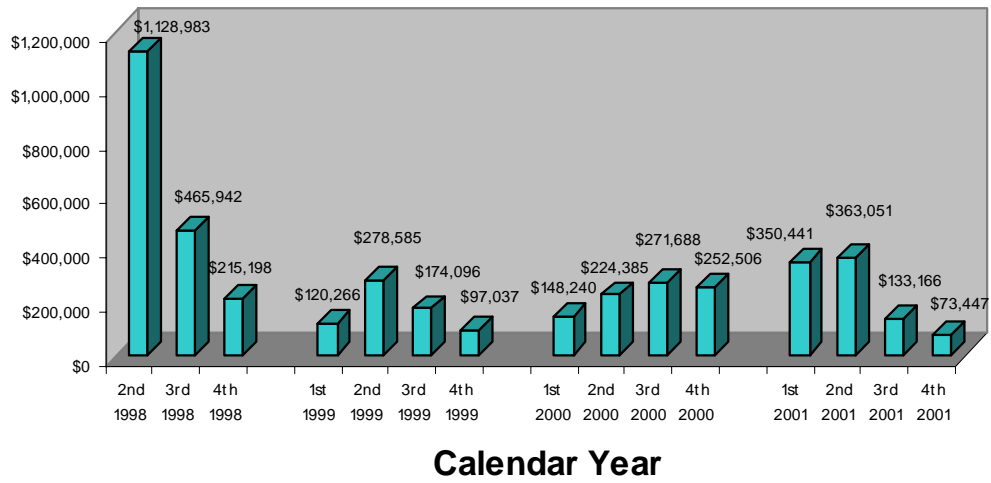
Quarterly Financial Report

Debt collection through the vendor offset system is available to most state agencies through one of the following departments or programs:

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

Through the fourth quarter of calendar year 2001, the total amount collected statewide, since inception of the vendor offset system, was \$4,297,031. The following chart shows collections by each quarter of the calendar year.

Vendor Offset Collections



As indicated in the following table, the majority of collections are received through the Department of Revenue.

Vendor Offset Collections

Calendar Year	Revenue	Student Loan	Central Collections	Human Services	Statewide Total
1998	\$ 1,807,066	\$ 3,057			\$1,810,123
1999	608,302	9,913	\$ 51,769		669,984
2000	863,783	18,848	14,188		896,819
2001	878,580	4,693	21,696	\$ 15,136	920,105
TOTAL	\$4,157,131	\$36,511	\$87,653	\$15,136	\$4,297,031

Spotlight on Judicial Branch - Fine/Restitution Enforcement Efforts

The following information was prepared by the Judicial Department.

Colorado's approach to fine and restitution enforcement represents one of the most proactive statewide efforts in the nation. The Judicial Branch's program was one of three from across the country recently featured in a national audio conference sponsored by the U.S. Department of Justice. Also, it is put forth as a model program in fine collection seminars presented by the National Center for State Courts. The Colorado Judiciary embraces a multi-faceted strategy, utilizing collectors in the courts (collections investigators or CIs), private collection agencies, services available from the state Central Collections office, and cooperative arrangements with various state and local government agencies.

Approximately \$68.4 million was assessed in criminal fines, fees, and surcharges during Fiscal Year 2001, with \$57.8 million being collected. About \$47.2 million was ordered in restitution (monies owed crime victims), with \$18.4 million being collected. The ratio of collections to assessments for restitution naturally tends to be lower than fines and fees because restitution obligations often reach into the tens and hundreds of thousands of dollars in single cases (some as high as the million dollar range) due to extensive damages and losses caused, while the perpetrators typically have very limited or no means of paying these large amounts back.

The courts' frontline mechanism to tackle the collection challenges presented by criminal defendants is the on-site CIs. They instill the sense of urgency and execute strong collection remedies immediately upon sentencing. Working closely with judges, court staff, and probation officers, the CIs ensure that the financial aspects of sentences are monitored and enforced through tools such as financial investigations, collection calls, letters, automatic payroll deductions, citing defendants back into court, probation revocations, and attachments of earnings. This last tool, the earnings attachment, has proven particularly effective in recovering dollars while reducing court hearings for non-payment issues. Nearly fifteen thousand such attachments were issued during FY01, yielding an estimated \$4.5 million in collections.

The Judicial Branch is continually seeking innovative techniques and methods to further strengthen the enforcement and collection of restitution and fines. One such effort currently underway is examining how direct partnerships with private collection agencies will benefit the judicial districts. This concept revolves around capitalizing on the initial efforts of the local CIs, and further augmenting those efforts using private agency resources. The Branch conducted pilot projects along this vein during the last three years, and during 2001 implemented a program to provide the option for any state court to work with a private agency (from an established eligible provider list). Even after the exhaustive efforts made initially by the CIs, additional payments were garnered on otherwise stagnant accounts

through the aggressive skip-tracing and persistent collection action initiated by the private companies. An example comes from one company that was involved in the pilot projects that has since begun serving fifteen of the twenty-two judicial districts. Through November 2001, this company has collected \$932,000 on the \$9.9 million in total placements, generating payments in full on 4,653 court cases. Many of these placements are very recent due to new courts coming on line with the program, therefore the collection tally will continue to grow. For courts such as Arapahoe County Court and Douglas County Court that made placements during the pilot period, returns to date have been 16.8% and 20.4% of dollars placed, respectively. These returns are notable, considering that other collection efforts had previously been made and many of the debtors had "skipped". The compensation structure established for the agencies enables the courts to receive one hundred percent of the "principal" amounts placed by adding the agencies' fees to the amounts owed by the defendants.

The courts appreciate not only the collections generated by the private agencies, but also being able to choose amongst several companies in order to establish a productive partnership that meets their unique needs. Also, the companies realize the existence of competition for the business and therefore strive harder to produce superior results for the courts and provide a high level of customer service.

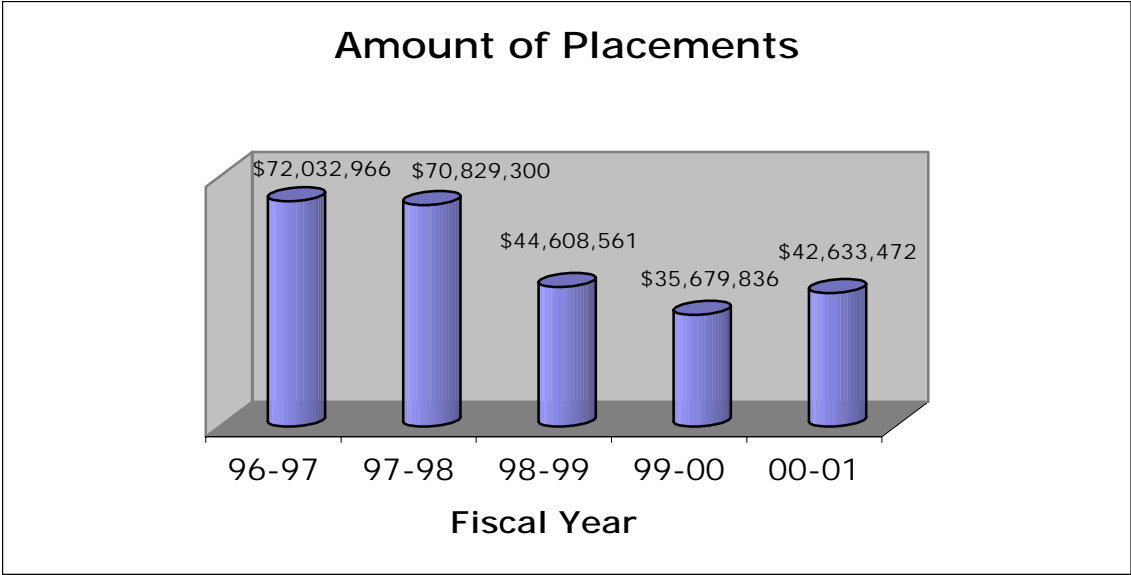
The valuable tool of attaching debtors' state tax returns continues to be used by the courts through an arrangement with state Central Collections. In addition, the Judicial Branch works with the Motor Vehicles Division in suspending driver licenses for non-payment. The Branch also partners with many other state and local agencies in its comprehensive effort to enforce the financial aspects of criminal sentences.

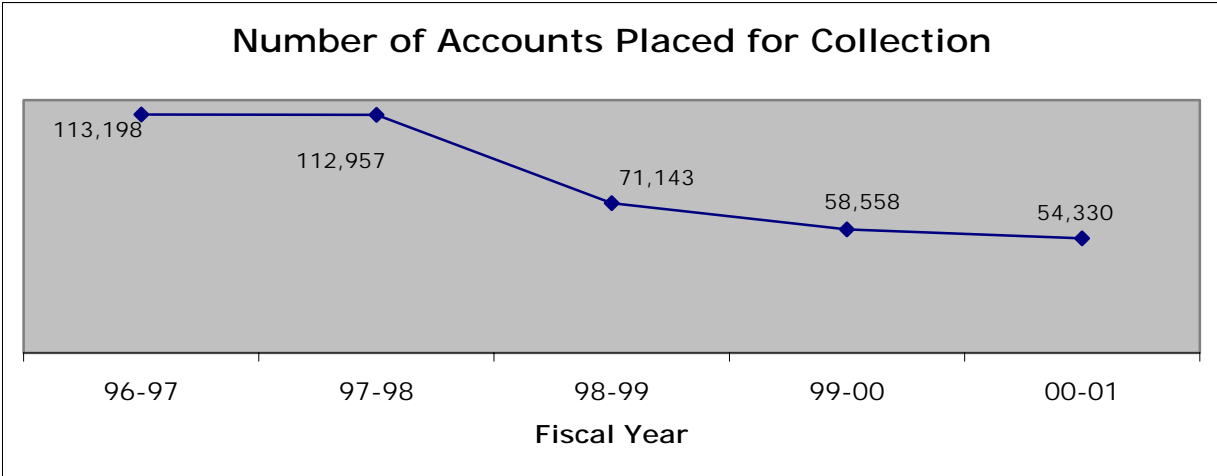
Spotlight On Central Collections Service

The Central Collections Service (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 past due receivable with CCS once the receivable is 31 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 off-set and vendor off-set programs and legal action. Upon the approval of the State Controller, state agencies can request an extension of time before accounts must be placed with CCS

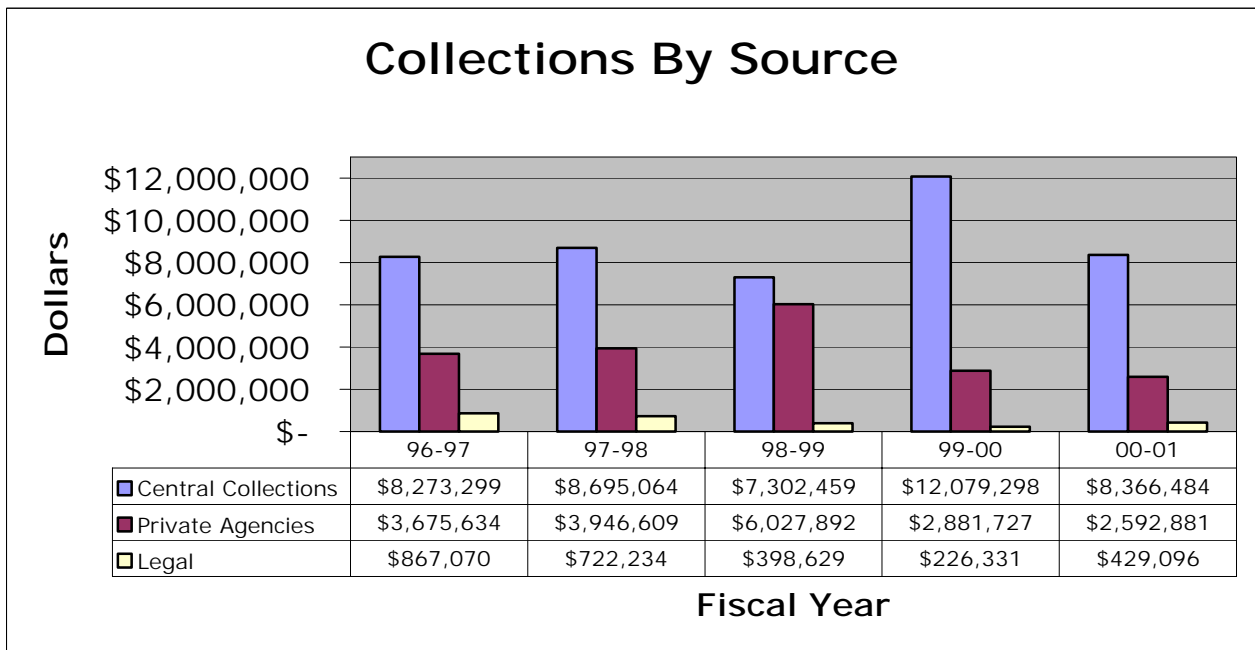
During Fiscal Year 2001, state agencies assigned 54,330 accounts totaling \$42.6 million in past due receivables with CCS for collection. This compares to 58,558 accounts totaling over \$35.7 million for Fiscal Year 2000. The following two charts show the dollar amount of placements and the number of accounts placed with CCS for the past five fiscal years.



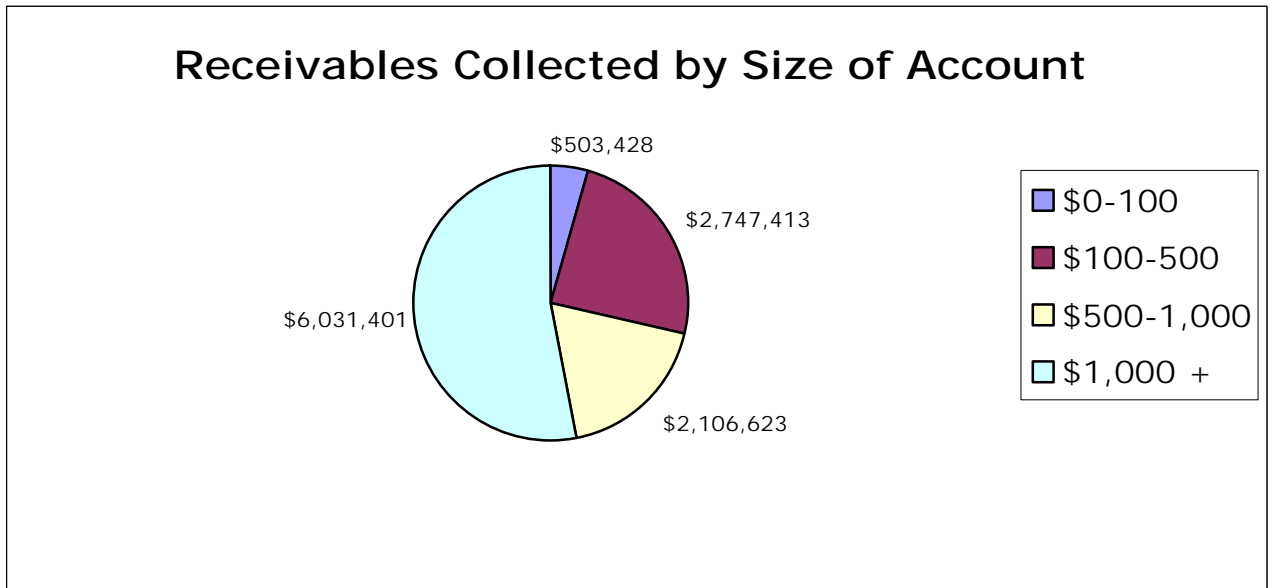


Unlike Fiscal Year 2000, placements from Fiscal Year 2001 remained fairly constant. CCS did not experience any major changes in the amount of placements. The Judicial Department, which placed \$13.8 million in Fiscal Year 2000, placed \$13.3 million in 2001. This was a 4% decrease versus the 37% decrease in the previous year.

During Fiscal Year 2001, CCS and the private collection agencies contracting with CCS collected \$11.3 million off past due receivables. That compares to collections for Fiscal Year 2000 of \$15.2 million. This was a 26% decrease compared to the previous year. Much of this revenue loss can be attributed to the fact that \$34 million in Higher Education debt was released from Tax Offset. The following graph shows a breakdown of the source of collections for the past five fiscal years.



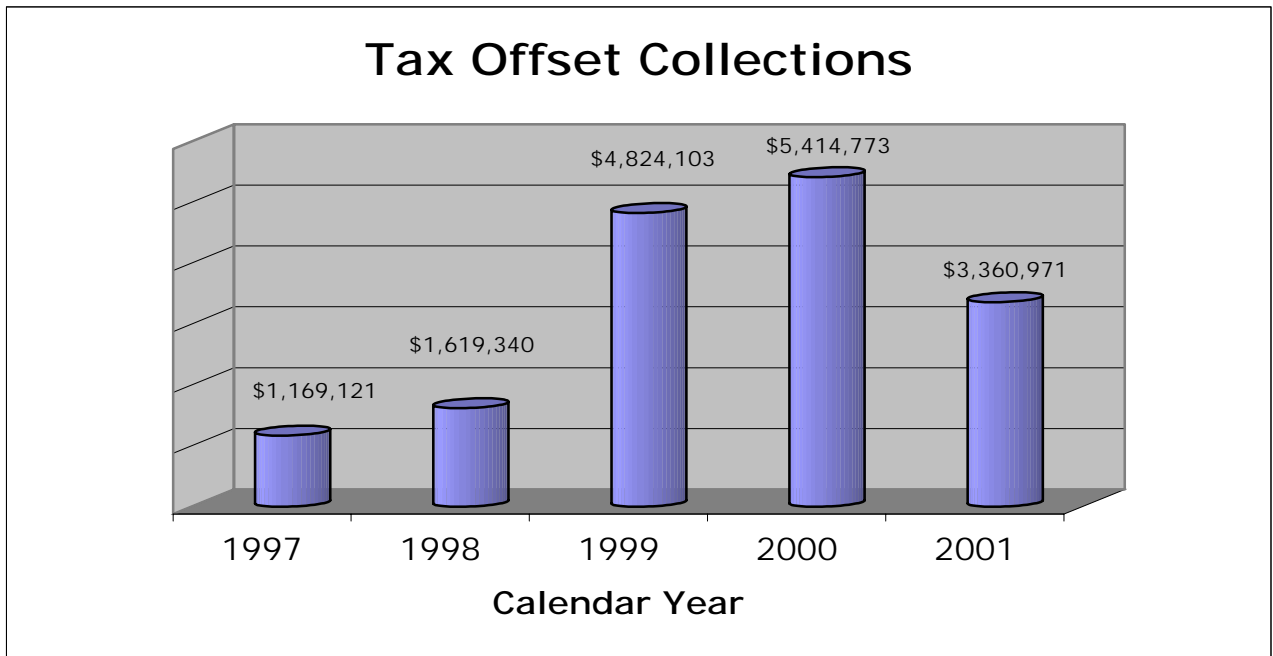
During Fiscal Year 2000, CCS began to monitor the collection of past due receivables based on the balance of the receivable at the time of placement. For FY 2001, the following chart shows a breakdown of collections in four ranges.



Tax Off-Set Program

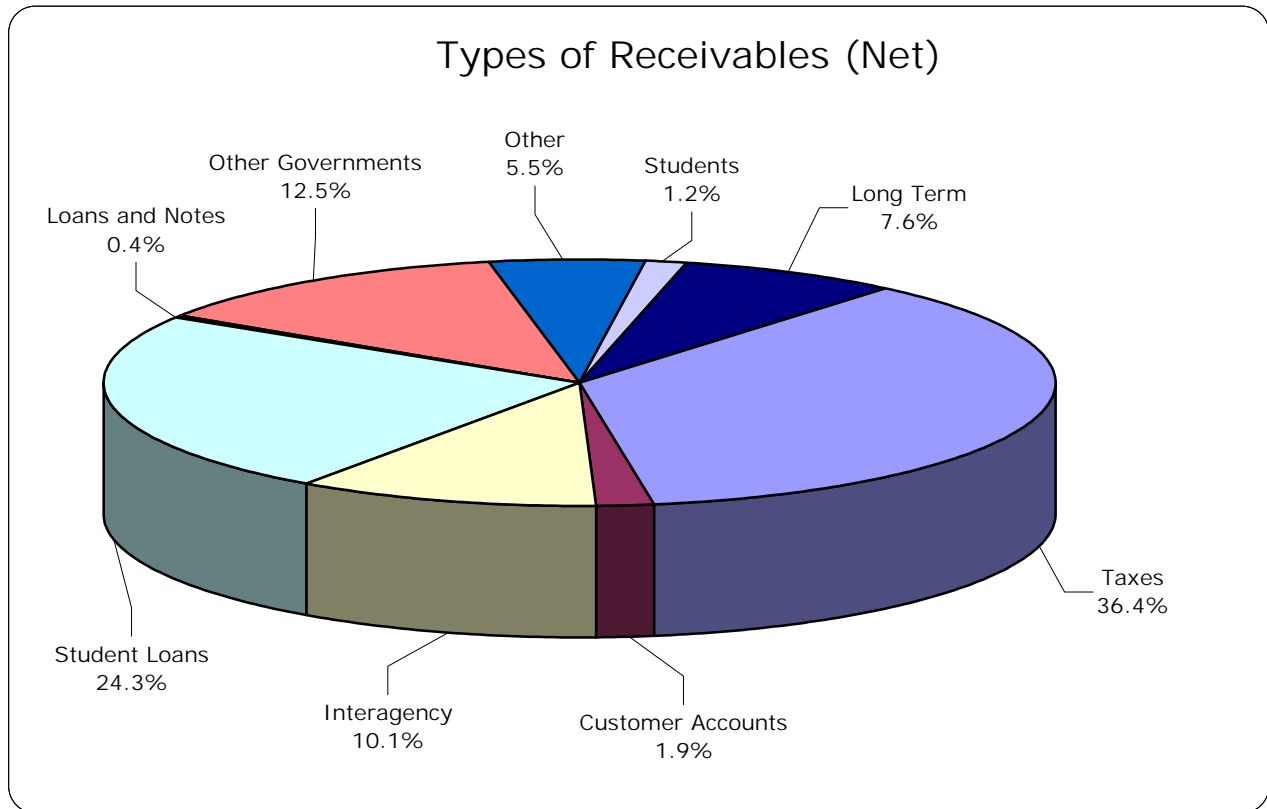
One of the most successful tools used by CCS to collect past due accounts is the tax off-set program run by the Department of Revenue. Through this program, CCS attempts to match debtors with taxpayers receiving an income tax refund. Where a match is made, state regulations allow CCS to intercept the taxpayer's refund and apply it towards past due debts owed the state. The tax-offset program is run on a calendar year basis. For calendar year 2001, tax off-set revenues were \$3.4 million versus \$5.4 million for the previous calendar year. This was a 37% reduction in revenues. The decrease over the prior year's collections was in due in large part to not being able to run higher education institutions' debt through the tax-offset process. Nearly \$34 million in higher education debt was exempt from tax offset for calendar year 2001 due to inconsistencies in the state statute. Legislation is being proposed during the 2002 legislative session to correct the inconsistencies in the statute.

The following chart shows the tax off-set collections for the past five years.



Types of Accounts Receivable

The state tracks amounts owed by several categories. Net accounts receivable represent the amount the state expects to collect. Each state agency or institution of higher education is required to estimate how much of the amount due that agency will not be collected. Net accounts receivable as of June 30, 2001 are divided into the following categories:



Type of Receivable	Net Amount Owed	% of Total
Taxes	\$1,105,498,916	36.4%
Student loans receivable	736,323,667	24.3%
Other Governments	380,447,459	12.5%
Interagency	307,335,776	10.1%
Long Term	231,212,377	7.6%
Other	166,025,296	5.5%
Customer Accounts	59,068,756	1.9%
Student	36,609,906	1.2%
Loans and Notes	12,330,635	0.4%

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.

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 67.9% the receivables in this category.

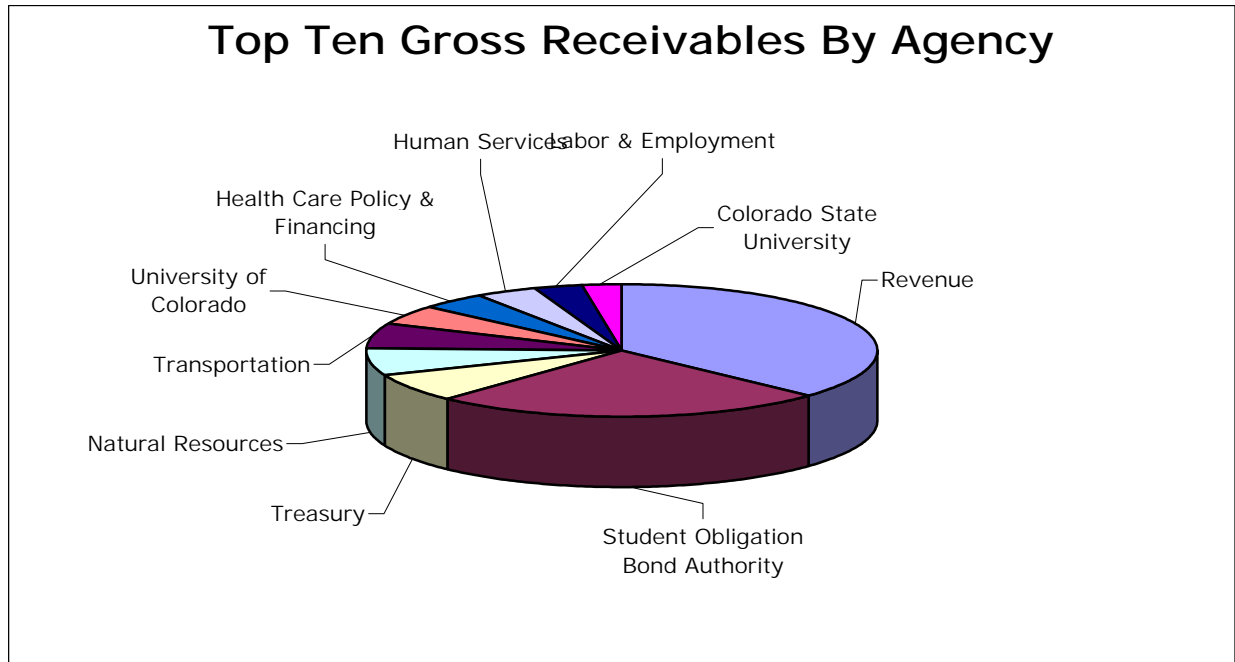
Customer accounts, student receivables and some other receivables represent funds owed to the state where the agencies have more control over whether or not they are collected in a timely manner.

An allowance for uncollectible accounts is established when a state agency determines that an amount owed to the state may not be fully collected. For certain types of receivables, an allowance is not necessary because the collectibility of the receivable is considered good. At June 30, 2001, an allowance for uncollectible accounts of \$233 million, or 7.1%, was established for all types of receivables totaling \$3.3 billion. This indicates that the state expects to collect over 92% of the total amount of receivables due the state. The following table shows, by type of receivable, the total amount due and the amount established as uncollectible.

Type of Receivable	Total Amount	Allowance	Percentage of Total
Customer Accounts	88,491,656	29,422,900	33.2%
Student	53,578,238	16,968,332	31.7%
Other	187,521,297	21,496,001	11.5%
Taxes	\$1,243,565,205	\$ 138,066,289	11.1%
Other Governments	396,327,677	15,880,218	4.0%
Student loans receivable	747,022,585	10,698,918	1.4%
Loans and Notes	12,671,1889	340,554	2.7%
Interagency	307,335,776	0	0.0%
Long Term	231,212,377	0	0.0%

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 gross accounts receivable balances as of June 30, 2001 are listed below. These ten agencies account for 85% of the total gross receivables in the state.



A review of the type of receivables for these top ten agencies indicates the following:

- The majority of the receivables for the Department of Revenue, Student Obligation Bond Authority, and University of Colorado are taxes, student loans, and student tuition and fees respectively.
- The Department of Transportation has \$126.7 million, or 74% of its receivables, due from other governments and other state agencies.
- The Departments of Health Care Policy and Financing and Human Services have 86.5% and 88%, respectively, of their receivables due from other governments. Health Care Policy and Financing's receivables relate to the Federal share of Medicaid payments made by the state to the providers. Human Services' receivables involve amounts due from the federal government for various federal programs such as food stamps, Temporary Assistance for Needy Families (TANF), child care and child welfare services and veteran's administration.

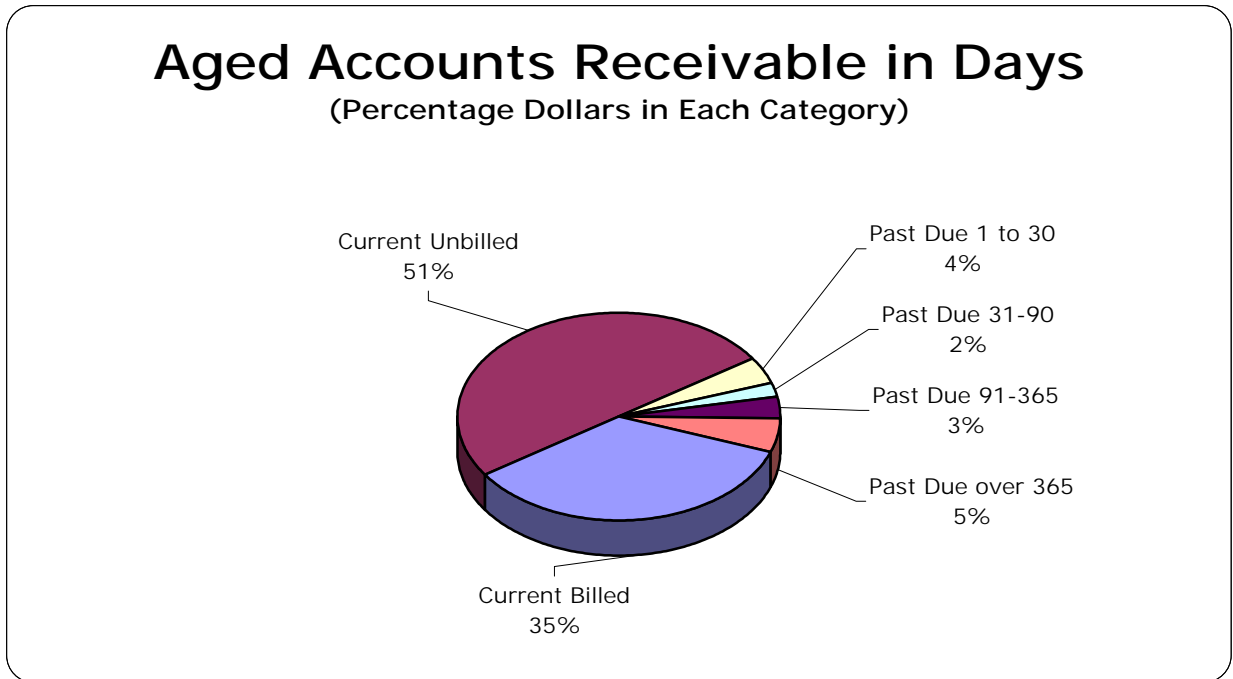
- Within the Department of Natural Resources, the Water Board has long term receivables of \$157 million, representing 86% of the total receivables for the Department. These receivables relate to loans made by the Board to Colorado local governments for various types of water related projects. The department 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 has \$58.6 million, or 69%, due from unemployment insurance taxes.

Aging of Accounts Receivable

The age of a receivable indicates how timely 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, by statute, to turn receivables over to the Central Collections Services (CCS) at 31 days past due unless the agency has received an extension of time by the State Controller. 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, 2001, 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. As the graph indicates, only 10% of the state's receivables are 31 days or older and only 5% are past due by more than 1 year. As stated above, the older the receivable, the less likely that it will be collected. The state's total allowance for uncollectable accounts is 7.1% which is comparable to the percentage of receivables that are past due by more than 90 days.

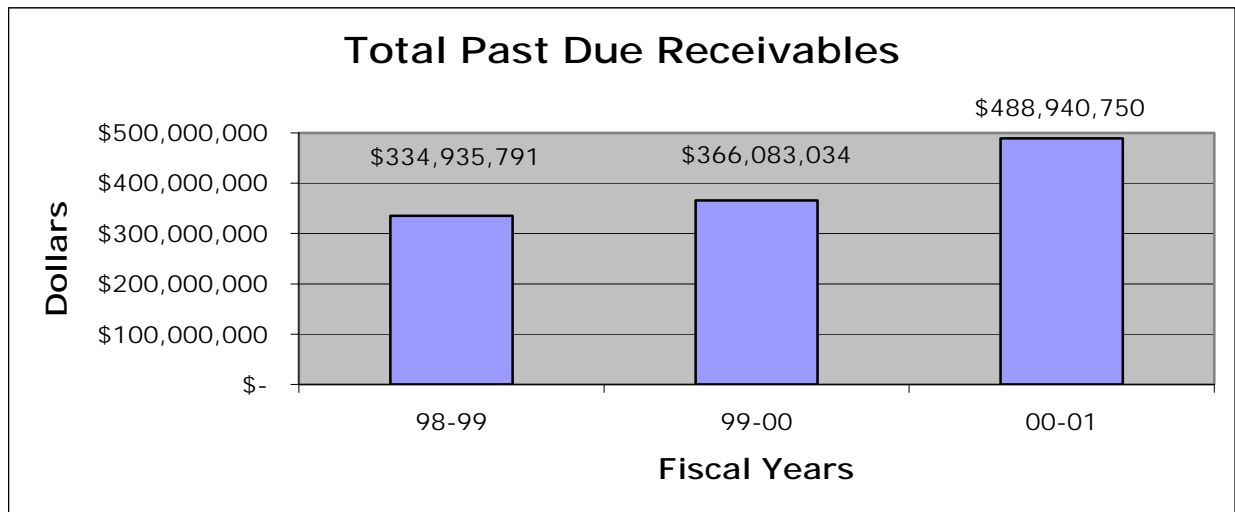


The following table shows the agencies with the highest amount of receivables that are more than one year old. It should be noted that these five departments and institutions also have the largest gross receivables. The Department of Labor and Employment has large amounts of old unemployment insurance receivables. The Department of Human Services old receivables involve the overpayment of child welfare benefits. Both of these department must comply with Federal regulations concerning how past due accounts are managed and collected. 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.

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

Revenue	\$ 60,153,355
Labor & Employment	31,743,556
Health Care Policy & Financing	24,176,812
University of Colorado System	16,999,003
Human Services	15,477,515

A three year history of the state's total past due receivables is shown in the following graph.



As indicated, there is a significant increase from Fiscal Year 99-00 to 00-01. This is the result of the inclusion of the Colorado Student Obligation Authority (Authority) for the first time. The Authority has over \$119 million is past due receivables. Only 4%, or less than \$5.4 million, of the Authority's past due receivables are older than 1 year. Taking into account the addition of the Authority, there has been very little change in the state's total past due accounts receivable balances during the past three years.

Summary

At the end of Fiscal Year 2001, the state had a total amount owed to it from various sources of over \$3.2 billion. Of that amount, 75% is due from three major sources:

- \$1,244 million is due from taxes through the Department of Revenue and Department of Labor and Employment;
- \$747 million is due from student loans through the Department of Higher Education;
- \$396 million is due from other governments, mainly the federal government.

The age of the receivables and the estimated uncollectable amount indicates how well an organization does in collecting amounts owed to it. For the state, 90% of the amount owed at June 30, 2001 is less than 31 days old and the allowance for uncollectable accounts represents only 7% of the total amount due. These statistics indicate the state, as a whole, is doing a good job of its accounts receivable. The state uses a variety of methods to collect amounts owed to it. The efforts of the individual state agencies, institutions of higher education and authorities combined with the Central Collections Services and Vendor and Tax Offset programs result in the state expecting to collect over 92% of the total amount due at June 30, 2001.