New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor

Statewide Collections

July 1, 2004 to March 31, 2005

Richard L. Fair
State Auditor
The Honorable Richard J. Codey
Acting Governor of New Jersey

The Honorable Richard J. Codey
President of the Senate

The Honorable Albio Sires
Speaker of the General Assembly

Mr. Albert Porroni
Executive Director
Office of Legislative Services

Enclosed is our report on the audit of the Statewide Collections for the period of July 1, 2004 to March 31, 2005. If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair
State Auditor
July 12, 2005
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Statewide Collections

Scope

We have completed an audit of statewide collection efforts for the period July 1, 2004 through March 31, 2005. Our audit was limited to non-current receivables that the state is responsible for collecting excluding child support, Judiciary receivables, and normal collection efforts by the Division of Taxation. For the purposes of our review we have defined accounts receivable as being any amount owed to the state by an individual or entity (corporation, partnership, government, or other organization) that refuses to comply with efforts of the state to collect said debt. State records indicate outstanding receivable balances for agencies within our scope to be in excess of $2.9 billion dollars as of December 31, 2004.

Objectives

The objectives of our audit were to review policies and procedures related to accounts receivable in order to determine the extent and effectiveness of collection efforts statewide.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and receivable policies of agencies having responsibility for delinquent debt collections. We also read department regulations and interviewed responsible personnel to obtain an understanding of the programs and internal controls.
Since no one location has a summary of the accounts receivable throughout the state, it was necessary for us to utilize receivable amounts from various sources, including agency responses to our requests, quarterly receivable reports submitted to the Department of the Treasury, Division of Administration, amounts recorded in the Set Off of Individual Liabilities (SOIL) program, data supplied by the Division of Revenue Accounts Receivable Collections Bureau, and the Division of Law Treasury Section. Information provided to us from these sources was not tested for accuracy.

Background

Departments have individual policies and procedures for the collection of their accounts receivable. The following three organizations have statewide responsibilities for the collection of delinquent accounts receivable, gathering receivable information, and writing off of receivables.

The Division of Revenue is responsible for the SOIL program and contract management. The SOIL program was established in 1981 and was designed to collect outstanding debt owed by taxpayers to state, county, and local agencies, and the Internal Revenue Service. The program offsets Gross Income Tax refunds or property tax rebates against outstanding receivables reported to the Division of Revenue. The division also has an Accounts Receivable Collections Bureau which serves as a liaison between vendors contracted to perform debt collection activities and state agencies. The unit ensures that the vendors’ activities comply with the provisions of the contracts and monitors collection activities of the vendors. The vendors receive a percentage of the amount collected which is paid from a Division of Revenue appropriation.

The Division of Law, Treasury Section provides various legal services to agencies who refer their outstanding receivables. In addition, the division provides investigative services to locate debtors and their assets.
The Special Administrative Services in the Department of the Treasury, Division of Administration has the responsibility of approving the write-off of state receivables. The unit also requests and maintains receivable data from state agencies on a quarterly basis.

Conclusions

The state does not have a coordinated, comprehensive statewide process for the reporting and collection of delinquent accounts receivable. Although the state has three agencies responsible for the reporting and collection of accounts receivable, there are no executive orders or legislation requiring departments to utilize these services. As a result the state cannot accurately determine the amount of receivable balances or the adequacy of collection efforts. Our review of the statewide collection effort revealed the following:
Lack of Statutory Authority

There are no statutes, regulations, or executive orders that require departments to utilize the SOIL program, the collection tools offered by the Division of Revenue, or the Division of Law's collection services. We further noted that there are no requirements that delinquent accounts be forwarded to the Division of Revenue or Law. In addition, there are no requirements that address the reporting of collection activity and receivable balances by departments, which would enable an assessment of the effectiveness of the states overall collections efforts for delinquent receivables. Our review of departmental usage of available collection efforts disclosed the following:

- A review of the SOIL program disclosed that 42 state agencies utilized the program. These agencies reported 644,000 cases with a total debt of $1.1 billion. Our further review of receivable debt processed by Division of Law disclosed that 69 percent of the division's case load currently eligible for SOIL did not appear on the SOIL database.

- A review of the Accounts Receivable Collections Bureau data disclosed that as of July 1, 2004 only nine departments were using the debt collection contractors.

- Department of the Treasury, Division of Administration received accounts receivable information from 27 agencies in ten departments for the quarter ended June 30, 2004. There were no specific instructions on the format or structure of the receivable data that should be submitted by an agency or department. No analysis is performed on the information received and Department of the Treasury, Division of Administration has no means to determine if the data is complete.
The above conditions affect the state’s ability to collect outstanding amounts in an effective manner. Analysis of collection rates for fiscal year 2004 revealed that contract vendors collected $1.9 million resulting in a collection rate of less than one percent, the Division of Law collected $9.7 million resulting in a 1.2 percent collection rate, and SOIL collected $20 million resulting in a collection rate of 1.8 percent.

**Computer Systems**

The SOIL computer system was developed in 1981 and has not been updated. The system lacks the ability for real-time interaction by user agencies. Attempts to update the system to the Computerized Automated Revenue Management System (CARMS) were abandoned.

The computer system currently in use at the Division of Law was developed for the banking industry and does not provide adequate functionality as an accounts receivable system. There are no requirements as to the format of data being received from departments which contributes to the system’s inability to generate meaningful management reports, including an aging of receivable balances.

**Garnishments and Other Collection Methods**

While contract language of the vendors collecting debts for the Department of Revenue permits the garnishment of wages, bank levies, real estate liens, and asset seizures, none of these collection tools are currently being utilized.

Analysis of SOIL data for potential garnishments disclosed that there were over 68,000 individuals who had wages in excess of $466 million. The debt for these individuals exceeded $127 million.
Potential garnishments are not always initiated by the Division of Law and garnishment data is not updated to reflect the debtor’s change in employment status. Analysis of 2,300 cases with quarterly earnings of $5,000 or more disclosed that 79 percent had not made a payment in the six months prior to our review. Even though 600 of these cases had garnishment designations, 405 had no reported payments for the same period.

**Recommendations**

We recommend collection efforts be centralized within the Department of the Treasury. The agency should have mandate and authority to collect all delinquent receivables. It should establish a consolidated record of the state’s delinquent receivables and require that all departments report receivable balances and collection activity periodically.

The centralized agency should establish policies and procedures to define accounts receivable and establish processes for their collection based on the nature of the amounts due. This requires the development of a collection methodology which may include the use of correspondence, garnishment of wages, bank levies, real estate liens, retaining tax refunds or rebates, asset seizures, and the use of debt collection agencies. In addition procedures should include an evaluation and aging of receivables to determine amounts deemed uncollectible. An assessment should be conducted to determine the computer needs of the agency and provide assurance that any application selected will provide adequate ability to interface with user agencies.
July 8, 2005

Mr. James B. Patterson  
Assistant State Auditor  
Office of Legislative Services  
Office of the State Auditor  
PO Box 067  
Trenton, NJ 08625-0067

Re: Departmental Audit Response - Statewide Collections  
Audit Report July 1, 2004 to March 31, 2005

Dear Mr. Patterson:

The Department of the Treasury appreciates the efforts of your staff in their review of Statewide Collections. We are working to resolve the findings noted in the audit report and we would like to thank you for giving us an opportunity to comment on the report prior to its official release. The departmental response to the audit team’s recommendations follows:

**Audit Recommendations**

The auditors recommended that collection efforts be centralized within the Department of the Treasury, and that the Department should have the mandate and authority to collect all delinquent receivables. It should also establish a consolidated record of the state’s delinquent receivables and require that all departments report receivable balances and collection activity periodically.

The auditors further recommended that the centralized agency should establish policies and procedures to define accounts receivable and establish processes for their collection based on the nature of the amounts due. This requires the development of a collection methodology which may include the use of correspondence, garnishment of wages, bank levies, real estate liens, retaining tax refunds or rebates, asset seizures, and the use of debt collection agencies. In addition, procedures should include an evaluation and aging of receivables to determine amounts deemed uncollectible. An assessment should be
conducted to determine the computer needs of the agency and provide assurance that any application selected will provide adequate ability to interface with user agencies.

**Response**

We concur with the audit team’s recommendations and we have already made significant policy changes to comply with them. First, Reorganization Plan No. 004-2005 will provide for the transfer of responsibilities for certain debt collection functions from state departments and agencies to the Department of the Treasury. This plan is designed to further consolidate in a single organization all responsibility for revenue management, and particularly, debt collection. Centralizing debt collection responsibility in the Department of the Treasury allows the department to define and control the policies and procedures governing the processing of collections and to approach collections in an organized, systematic way. The reorganization plan will mandate that state departments and agencies transfer the account records for all debts to Treasury three months after the debt is due and owing. This reorganization will more efficiently direct, administer, and control the state’s collection functions. The reorganization plan is currently in the Legislature for final approval.

Secondly, revised regulations under Circular Letter 06-03, Statewide Non-Tax Debt Collection and Write-Off, will also help address some of the concerns noted in the audit report. The new circular will now require state departments and agencies to have computerized databases for accounts receivable and standardized account information and collection procedures. Additionally, like the reorganization plan, the circular letter will also require agencies to transfer all debts to Treasury three months after the debt is due and owing. The new circular letter has already been approved and will be distributed to the agencies within the next few days.

And finally, to further address debt collection, Senate Bill S3002 was recently signed into law. This law enhances the collection of certain debts owed to the State by authorizing the Department of the Treasury, on behalf of a state department or agency to whom a debt is owed, to obtain a certificate of debt that is docketed by the Clerk of the Superior Court. Following the issuance of the certificate of debt, the law allows the State to take further collection action including referral of the matter to the Attorney General; setoffs against any State tax refund or homestead rebates that may be owed to the person; and wage garnishments of up to 25 percent of the debtor’s gross earnings.
As time goes on, the department intends to build on these initial actions taken and pursue additional strategic initiatives such as the institution of enhanced debt collection computing systems and continued consolidation and streamlining of state government billing/revenue-capture systems.

I trust this is sufficient to address the findings cited. As always, the Department of the Treasury appreciates the constructive recommendations offered by the Office of the State Auditor. If you require anything further, please let me know.

Sincerely,

Charles Chianese  
Associate Deputy State Treasurer &  
Director and Chief Financial Officer

c: John McCormac  
Carol Ehrlich  
Charlene Holzbaur  
Jim Fruscione  
Albertha Hyche