



IT and Government Debt Collection: an Untapped Source for Increased Resources

November 4, 2010

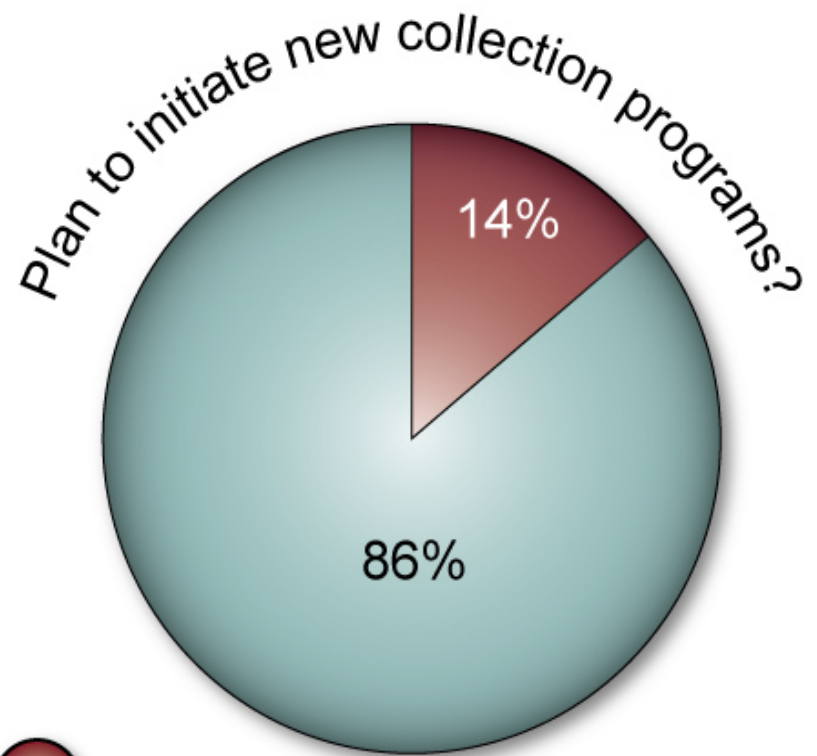
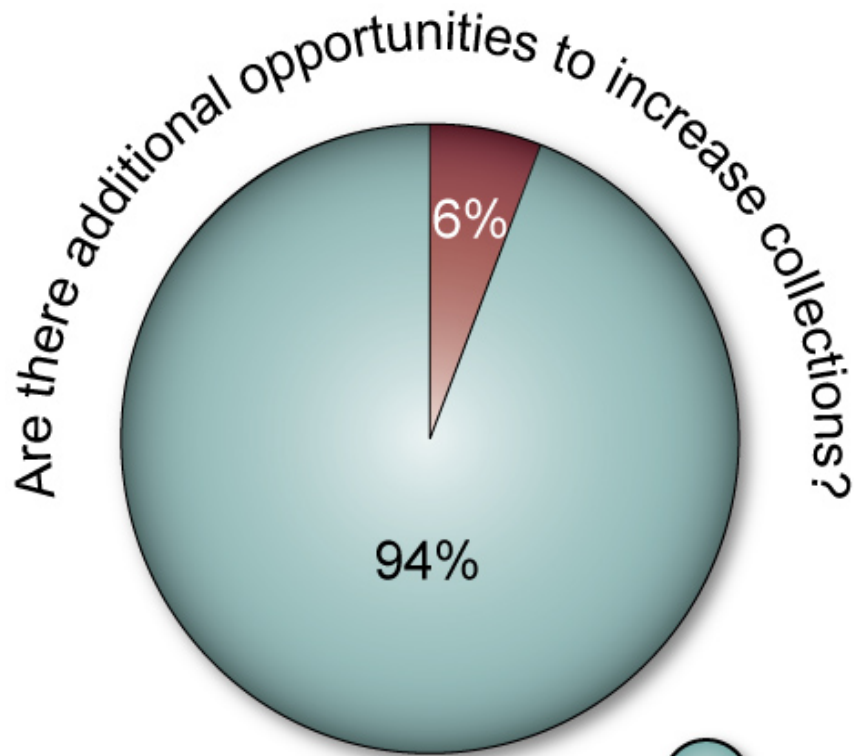


_experience the commitment™

Agenda

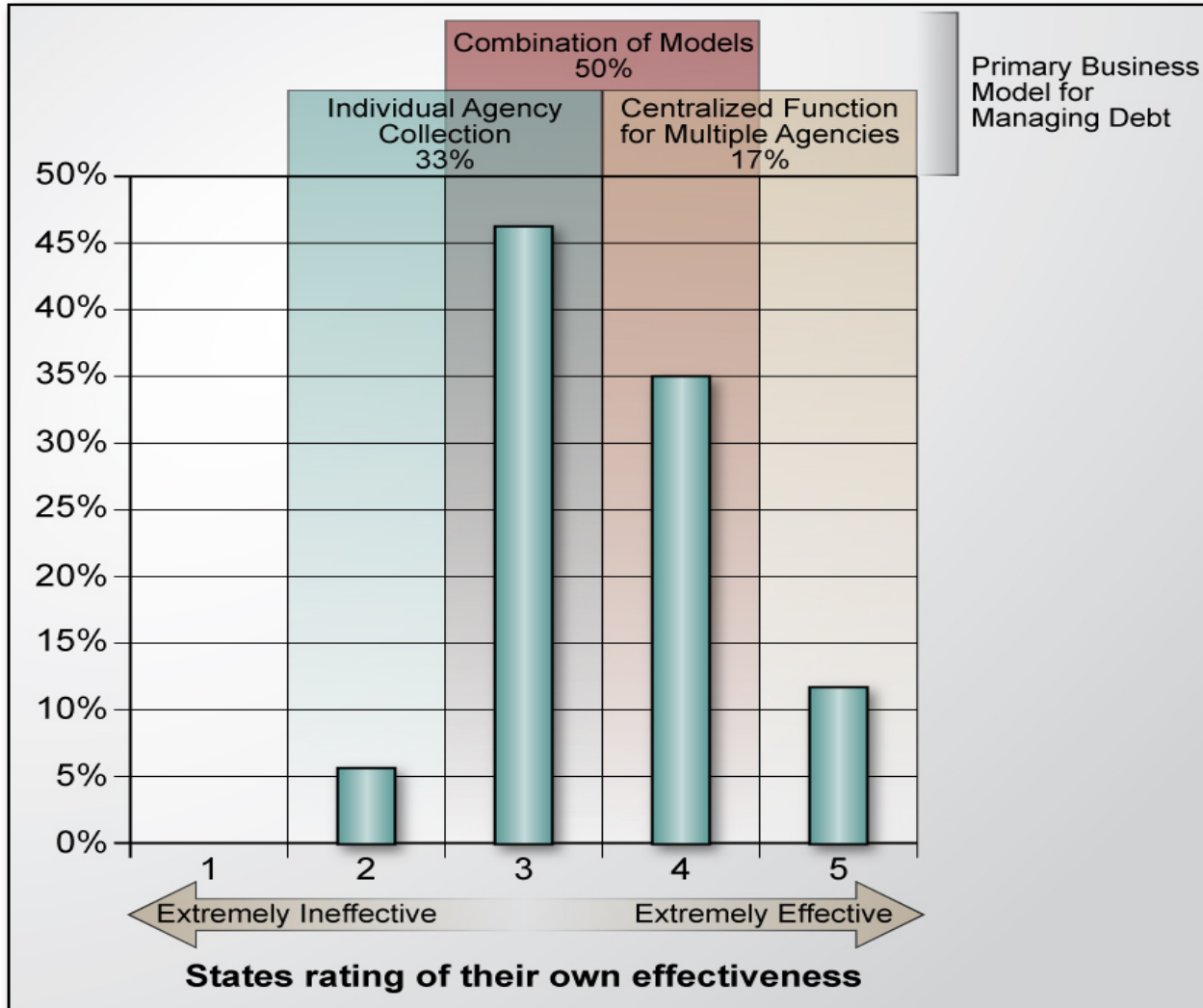
- NASACT Study
- Collections Management Systems
- Improving Data
- Decision Analytics
- Case Studies
- Q&A

Our object was to determine whether government entities thought there was a collections issue



Yes No

We found 83% of respondents collections were not centralized, limiting their programs' overall effectiveness



High correlation between states with effectiveness collections process and centralized collections

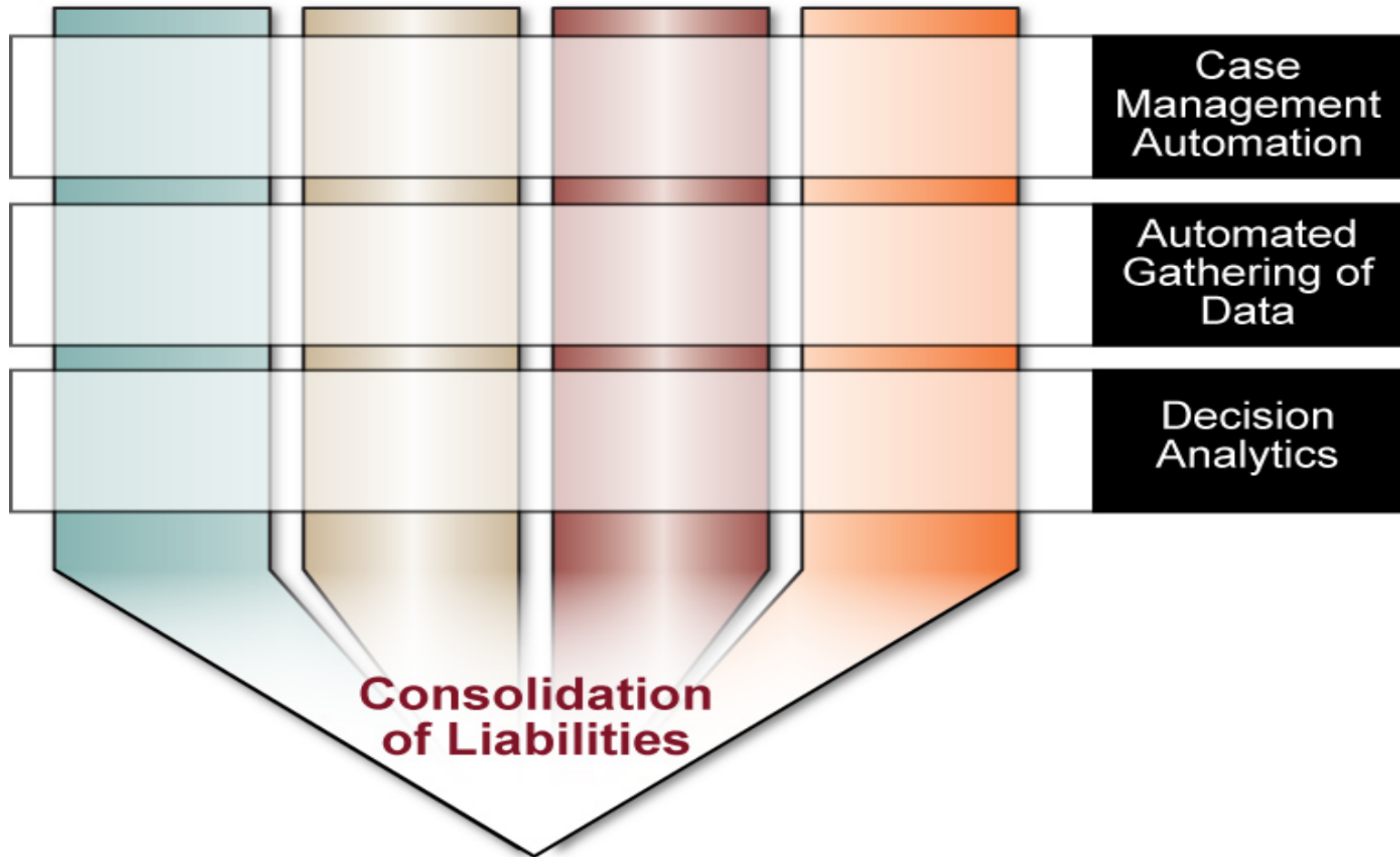
There are many reasons survey respondents gave as advantages of debt collection centralization

- Economies of scale truly move the needle
 - Automated notices
 - System generated levies, garnishments and liens
 - Gather critical data through automation
 - More effective private collection agency contracts
- Automated gathering of bank and employer information can be used to issue levies and garnishments
- The resulting change in public perception will generate additional voluntary compliance

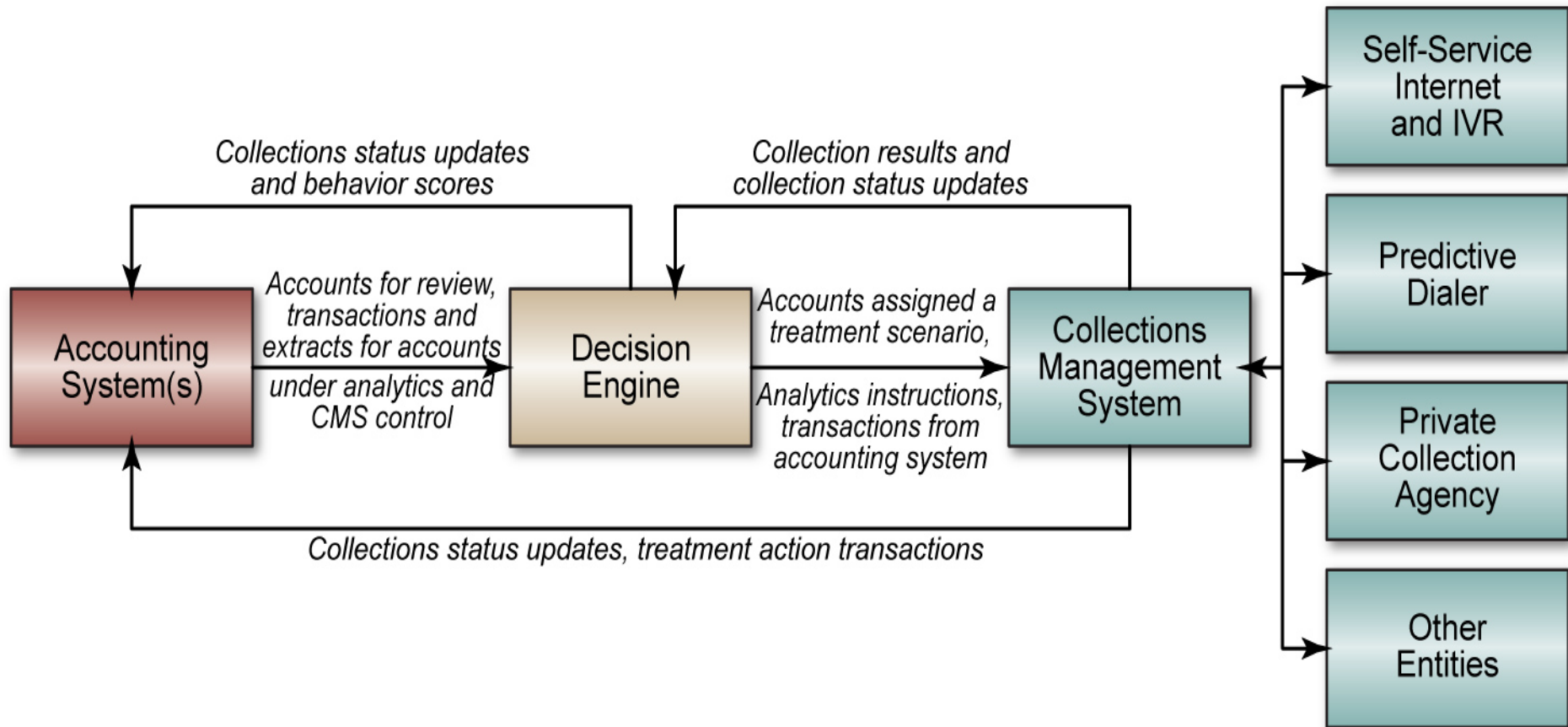
How did the various collections strategies rank among our survey respondents?

1. Offsets
2. Liens, levies, garnishments and license holds (if available)
3. Automated notices and correspondence
4. Centralized collections
5. Better use of private collection agencies
6. Collections management software
7. Electronic payments
8. Imposition of penalties and interest
9. Increased staffing

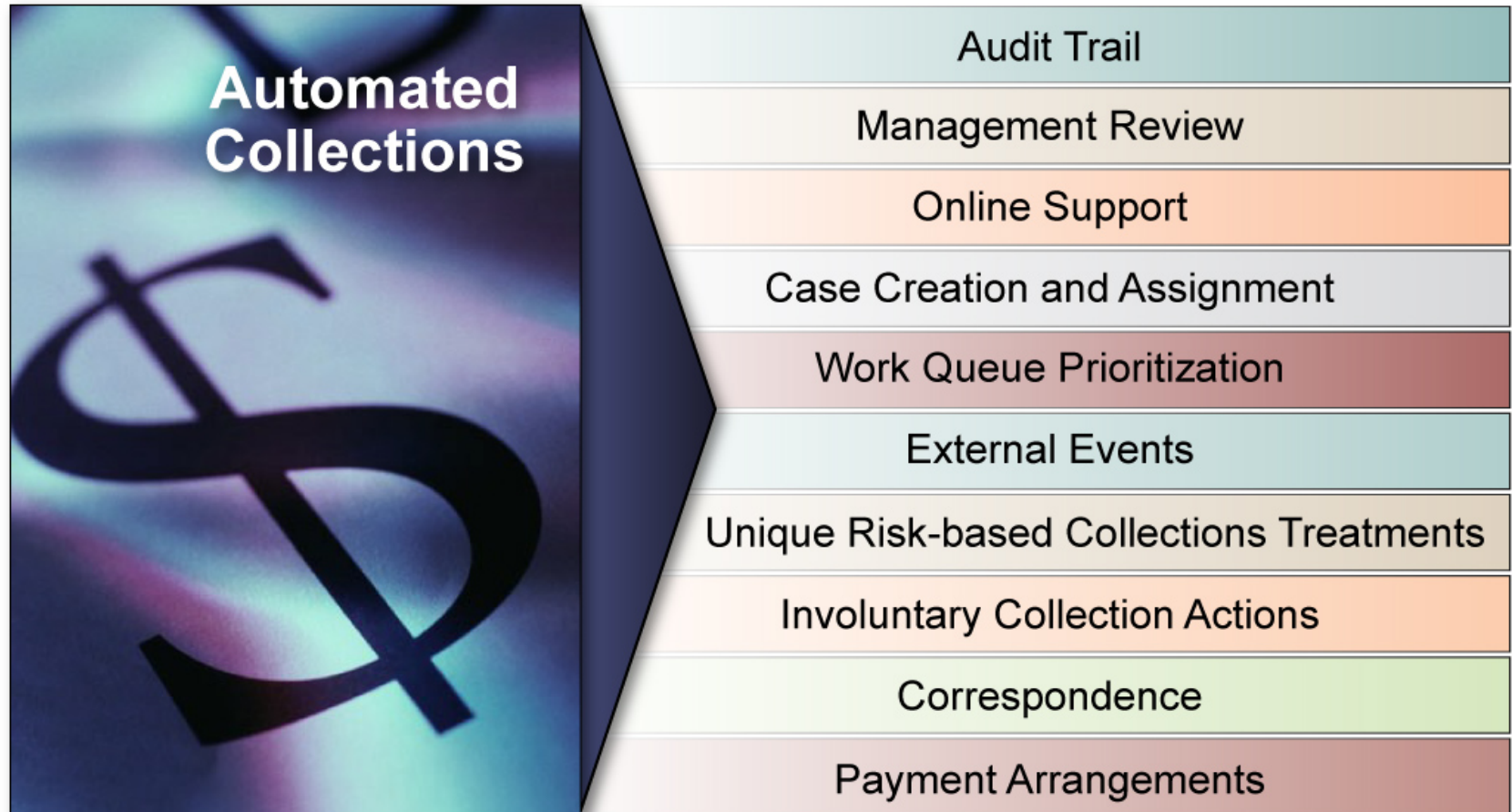
There are ways to use technology and processes to more effectively leverage collections tools



Integration of analytics and automated collection management tools



When considering case management tools, make certain they support critical collection software functionality

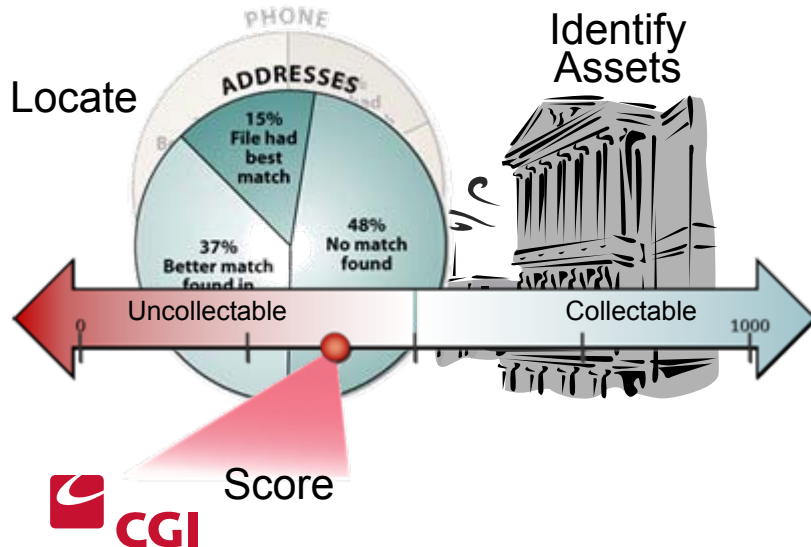


Optimizing data utilization significantly improves collections

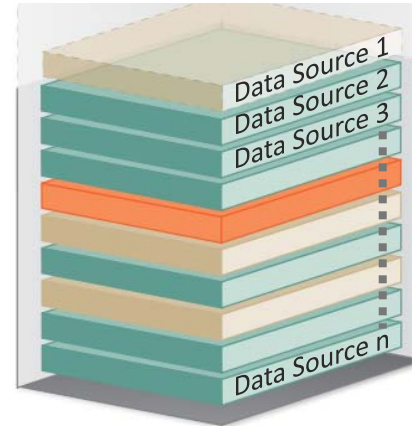
Automate the capture of debt and debtor data



Expand use of third party information including other agency data



Centralize the management and storage of data in a data warehouse



- Linked accounts
- Debtor location
- Improved debtor analysis
- Coordinated enforcement
- Asset identification
- Flexible reporting

Invest in decision analytical tools



Continuous segmentation and treatment strategy improvement and adaptation based on real-life experience

Collections using decision analytics

- Managing diverse debt portfolios requires **prioritization** of cases:
 - How many and what type of scarce resources do I allocate?
 - At what point in the collection lifecycle do I execute a given collection treatment?

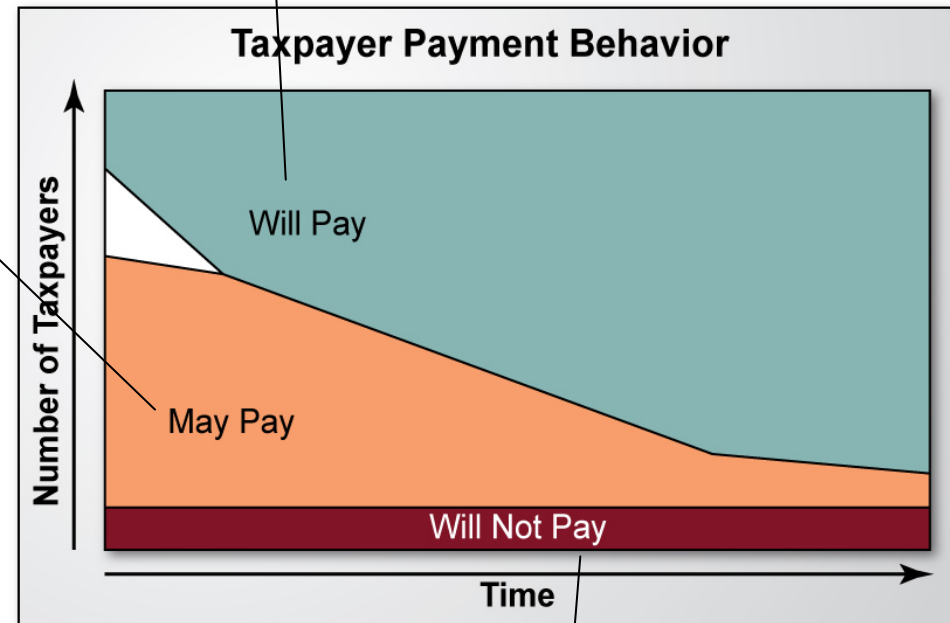
Medium Risk Case Strategy

Assign these cases earlier in the process, especially justified by the yield

- The answer depends on the perceived debtor **“risk”**
- Identify opportunities to reducing postage costs
 - “Bill often” can be expensive
 - Identify the right balance to maximize next revenues

Low Risk Case Strategy

Give them more time to Self-Cure before assigning them to a collector



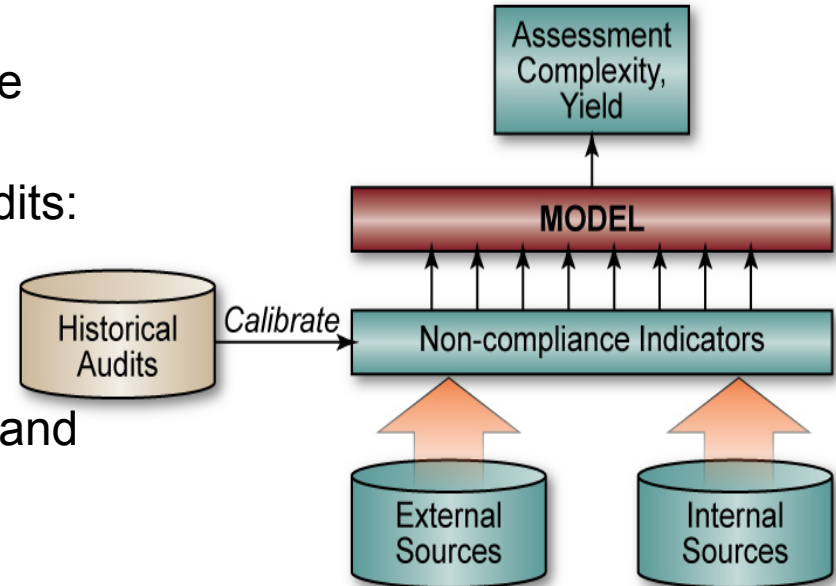
High Risk Case Strategy

Don't assign these to collectors unless balance amount requires it

There are many examples of how decision analytics can improve collections

Decision Analytics to Improve Audit

- There will always be more cases that can be selected than audit hours available
- The goal is to maximize the value of the audits: Compliance, Coverage and Revenues
- Models – if an audit is performed, what is the expected Revenue, Complexity and Yield
- Challenges
 - Modeling requires an initial sample of leads with outcome

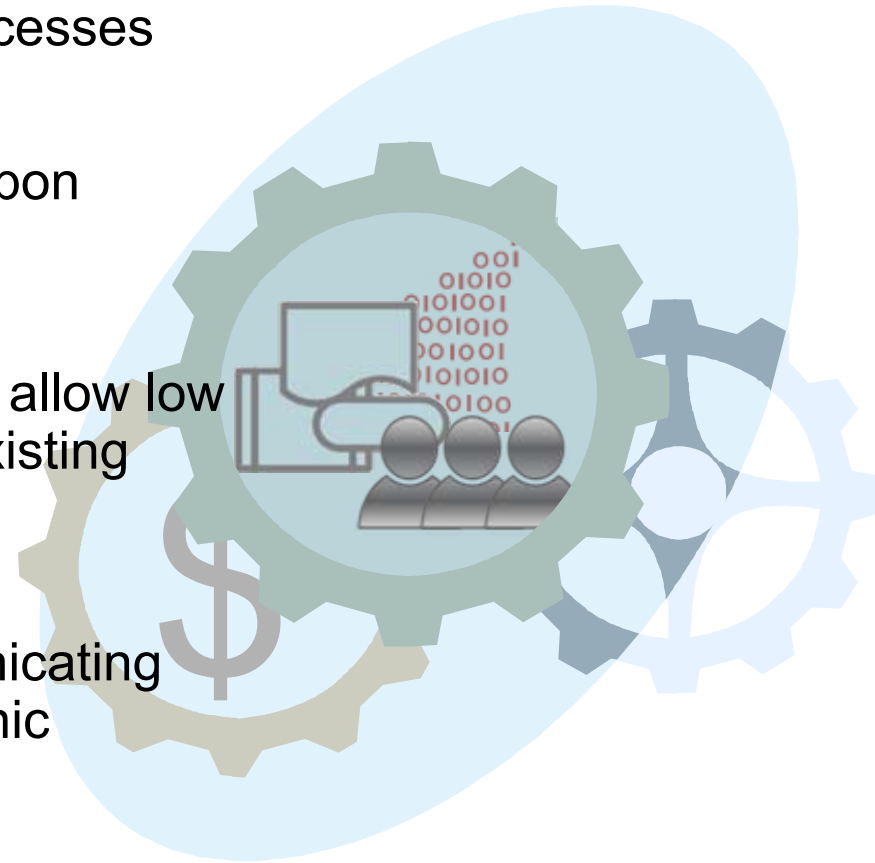


Business Process Design and Automation

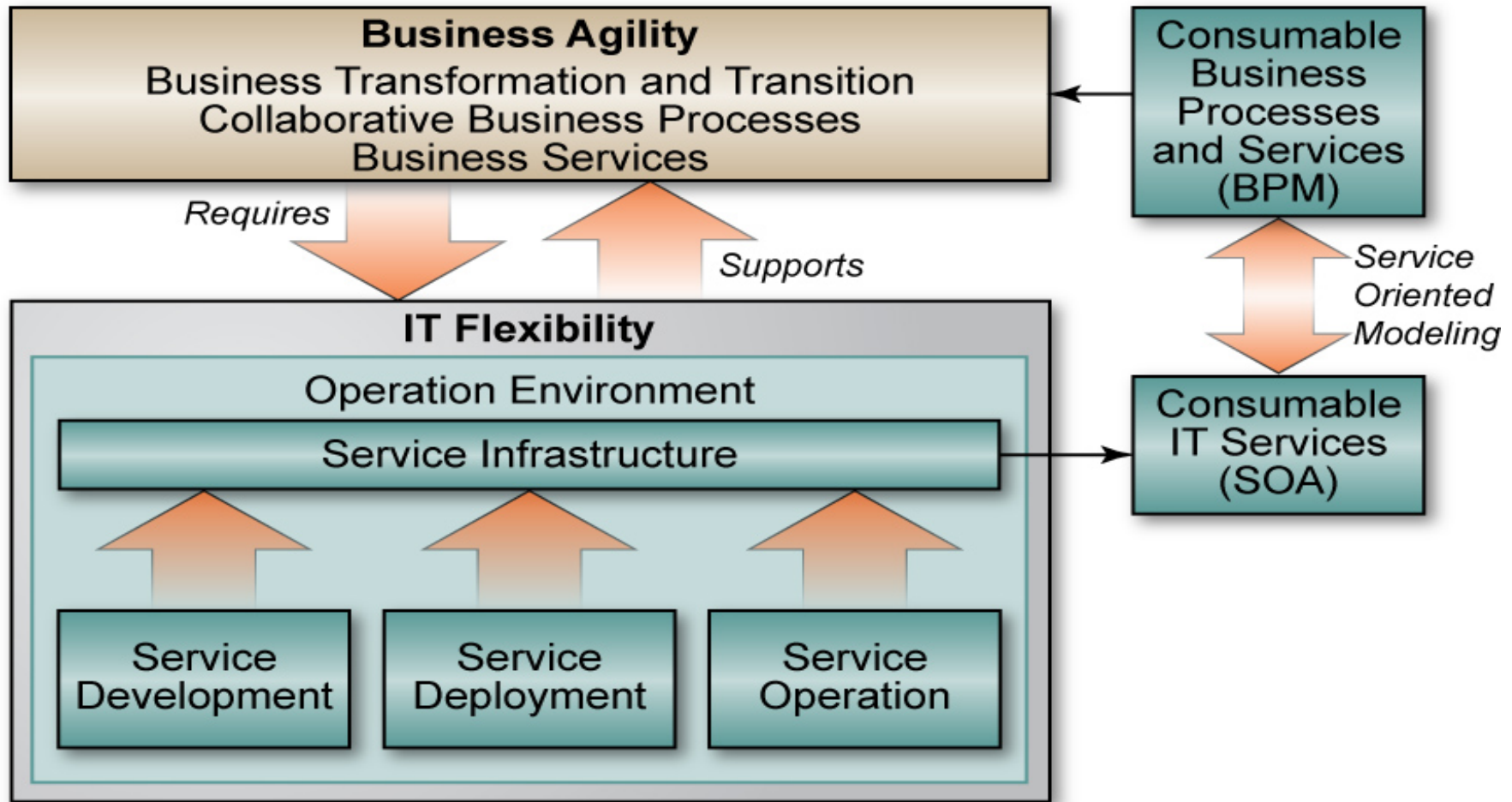
- Many business processes were designed around the processing of paper
- Automating and re-designing manual processes results in many advantages:
 - Reducing the transactional costs of business processes
 - Better alignment of higher priority activities to the right resources
 - Increasing the number of issues resolved on the first contact
 - Increasing capacity without staff augmentations

Sample initiatives to redesign business processes

- Investing in new workflow systems that can centrally manage multiple business processes
- Designing business processes based upon debtor compliance characteristics
- Implementing streamlined processes to allow low risk debtors additional time to pay off existing debts
- Providing debtors the option of communicating with the agency through secure electronic channels

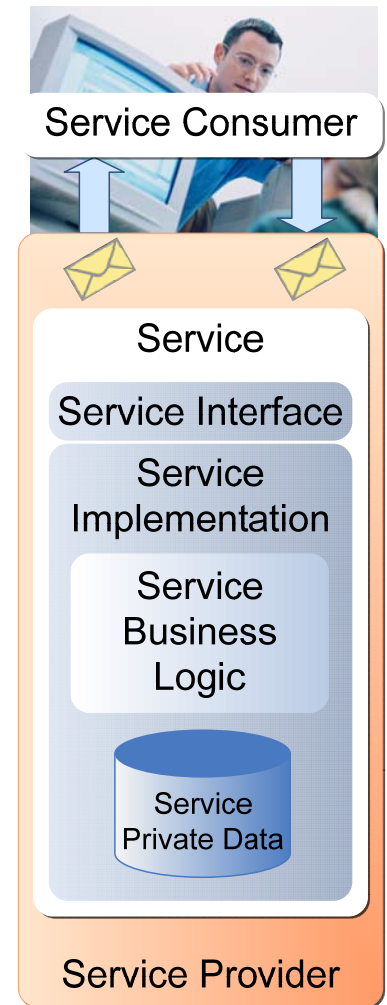


Service oriented architecture and BPM leads to ...



Enterprise Collection Services

- MDM Master Data Management
- Contact
- Locate
- Offset
- Debt Clearance
- Sources of Assets
- Call and Email Management
- Correspondence
- Centralized skip tracing (address and phone numbers)
- Consolidated management reporting



Case Study

California Franchise Tax Board



State Challenges

- Significant budget gaps
- Aging technical infrastructure
- Need to re-engineer collection processes to achieve the following goals
 - Be more taxpayer-centric
 - Allow taxpayers to more easily comply with tax laws
 - Treat taxpayers fairly and consistently
- Budget constraints

State Approach

- Install Decision Analytics and Collections Management System

Outcomes

- Collections projects dramatically increased revenues collected
- **Benefits achieved within 4 months** of project start
- New systems successfully implemented:
 - Risk-based collection strategies
 - Supports more than 1,700 staff
 - Provides automated liens, levies and garnishments
 - Uses data from multiple agencies to make collection decisions
- Project benefits: **\$570 Million**. Benefits no longer being tracked, but continue to accrue daily

Case Study: *Virginia Department of Taxation*

State Situation

- Critical state auditor report
- Aging infrastructure
- Lack of efficiency
- Inflexible, obsolete tax admin software tools
- Severe budget constraints

Unable to support customer-centric vision for revenue and collections management

End State Vision and Strategy

- 7-year program to reengineer all business processes, applying IT where appropriate
- Integrated end-to-end program strategy:
 - Internet and channel management
 - Budget, financial, revenue mgmt systems
 - Org. design, change management, & training
- Risk/behaviour modelling and development of decision analytics
- Implemented collections case management tool

New customer-centric practices reinforced with next generation technology

VA Progress Date

- Over **\$231 million** in recovered revenues and continue to accrue
- More than **50%** of all new businesses register on-line
- **\$4.5 billion** in payments received on-line
- **96%** of refunds issued in 12 days or less (99% of electronic returns)
- **11** national and state awards, incl. FTA, NASCIO, and Governor's Technology Award

Case Study: Hawaii Department of Taxation



State Challenges

The State faced aging hardware and software, increasing delinquencies and decreasing personnel and budgets. Its goal was to:

- Improve taxpayer and taxpayer representative services
- Apply fair and equal treatment
- Improve cost-effectiveness of processes and collections
- Meet increasing service demands within restrained budgets
- Optimize staffing

State Approach

The State implemented a comprehensive business systems architecture to achieve DOTAX objectives.

Results Achieved

In less than three years Hawaii tax officials have **collected more than \$105** million in delinquent taxes. The project is expected to generate over \$120 million by the end of June 2011. Other results include:

- Streamlined operations
- Improved agency performance
- Reduced manual processing of paper, which resulted in more accurate data input into legacy systems

Key Takeaways

- Government entities across the country recognize that there is significant opportunity to improve collections programs
- Centralizing collections allows governmental organizations to take advantage of economies of scale and share data
- Leveraging collections management and decision analytics tools can provide continuous returns on investment
- Redesigning and automating business processes can drive operational efficiencies

Contact Information

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About the Presenter

- CIO Kansas DOR 11 Years
- FTA/IRS State Co-Chair TAG 2005-2007
- FTA/IRS State Co-Chair TAG Security Committee 2006-2008
- MTC Technology Committee Chair 2000-2008
- FTA National Service and Leadership Award in State Tax Administration 2008
- Experience with Local, State, Federal, and International tax agencies
- 32 Years in Information Technology Development, Management, and Leadership in State Government

