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Testimony to Assembly Government Affairs Committee
09 April 2003
By State Controller Kathy Augustine

One of my top priorities has been and continues to be collecting the State's receivables which now exceed \$118 million. We have developed a plan to collect debt owed state agencies and supported SB 500 during the 1999 legislative session which set in motion a concentrated effort to meet this objective. The amount of monies owed the State of Nevada at that time was quite literally anyone's guess. Procedures were developed to implement consistent statewide policies as timely debt collection is imperative to meet future funding requirements and securing the state's financial well being.

In April of 2001, the Board of Examiners, approved contracts between the State Controller and two private debt collection companies, OSI Collection Services, Inc. and RecoverMetrics in association with Nevada based Crisis Recovery, to assist in recovery efforts of monies owed the State. OSI is the largest

provider of accounts receivable management in the United States servicing 26 states. Both Crisis Recovery and RecoverMetrics have extensive experience in the identification of fraud and collection of institutional debt, using forensic loss recovery techniques to recover corporate debts over \$25,000.00. Fees in the contracts are based on a percentage of collections and are passed along to the debtor, except when the debt is under \$200.00.

Studies have shown that it is more cost effective for states to use outside agencies for debt collection and this has also been noted in a Government Finance Officer's Association publication we have included in your packets.

In fact, there is currently a national task force exploring the feasibility of the IRS using private collection companies to recover debt.

The real "nuts and bolts" of our debt collection efforts lie in Assembly Bill 314 of the last legislative session. The State Controller is now authorized to act as the centralized point of collection for all state agencies. Centralizing the revenue

collection function and designating responsibility for collecting delinquent accounts in our office achieve the following goals:

- Uniform and consistent collection efforts;
- Consolidation of accounts that combine debts of one debtor for several agencies;
- Centralization of information on one debtor who may use various names;
- Identification of other responsible parties;
- Reduction of payments to debtors of the State of Nevada through offsets;
- Increased collection when debts include penalties and/or cancellation of permits, licenses or services.

To date, eleven Interlocal contracts have been signed with the State Controller's Office, a list of these agencies, boards and commissions is also included in your packet. AB 314 also mandated the State Controller to prepare and maintain a list of debtors available for public inspection and requires the State

Controller to remove debts designated as "bad debts" from the books of the State. Additionally, it allows contracts with private debt collection agencies to include costs of collection and fees for collecting the debt.

My office has taken the following steps to recover monies:

- In December of 2001, we mailed out over 6,000 letters to citizens whose checks were returned to the DMV for insufficient funds informing them they were being turned over for collection. Their driver's licenses, permits and vehicle registrations were 'flagged' in the DMV system and suspended if restitution was not made by December 31, 2001. The remaining accounts were turned over to OSI for collection. To date, \$1,315,051.00 has been recovered!
- A warrant offset program was also initiated at the beginning of last year in conjunction with the Department of Taxation and the Department of Employment, Training and Rehabilitation (DETR) to flag the accounts of businesses, or individuals, that owe back taxes to the State. This program is

now available to all State agencies. Warrant offset and Vendor holds have resulted in almost \$235,000.00 cost savings!

- We are also involved in Payroll overpayment recovery and have collected approximately \$34,400.00 from former state employees who were overpaid upon their termination from State Service

Recovery efforts have been lax in the past because the State had ample surpluses to cover state expenses. The mandated, rather than permissive, centralization of debt collection for the State in the State Controller's Office will enhance the State's ability to recover outstanding debt.

AB 457 mandates all state agencies, with the exception of the Department of Taxation (who has chosen to recover their own debt using one of our collection agencies), turn over their old debt to the State Controller's Office for collection. Also included in the bill is the repeal of the \$200 restriction for reimbursement of cost and fees. Currently, the State cannot pass on the charges incurred to

collect the delinquent money to the debtor if the amount owed is \$200 or less. Internal auditors have stated that “it seems more equitable to charge the public uniformly for expenses incurred in debt collection regardless of the amount and it benefits the State to recoup all monies expended in this effort”.

The bill also increases the maximum ‘pass on’ charge from \$25,000.00 to \$50,000.00 and eliminates the sunset on our pilot program of suspending licenses and registrations at the DMV and Department of Wildlife.

Finally, AB 457 gives the State Controller the authorization to write off uncollectible debts under \$500 and debts where the cost to collect exceeds the receivables amount.

AB 481 creates a statewide program of withholding licenses and allows the State Controller’s Office to develop consistent statewide standards for fees, fines, statute of limitations and the ability to change a returned check fee.

My Chief Accountant of our Debt Collection Section, Christi Thompson, will now walk you through the bills.