

# Performance Audit Report

## Collection of State Debt

Departments of Community, Trade and Economic Development; Ecology;  
Employment Security; Labor and Industries; Revenue and Transportation

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Washington State Auditor Brian Sonntag, CGFM

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# A letter from State Auditor Brian Sonntag



**Brian Sonntag,  
CGFM  
Washington State  
Auditor**

*Employees at the Liquor Control Board recently won a Teamwork Incentive Program award from the Secretary of State's Productivity Board. The employees sent letters to vendors urging them to pay their accounts and to sign up for the agency's Electronic Funds Transfer Program. Their efforts resulted in an additional \$50,000 in collections and the two employees each won a \$6,000 award. For more information, visit <http://www.secstate.wa.gov/productivityboard/tip.aspx>.*

Citizens have an expectation that the State will collect revenue in an efficient and timely manner. This audit reviewed the overdue receivables owed to six state agencies. Receivables are revenue – such as taxes – to be collected from private individuals, businesses, agencies or other governmental entities.

From July 1, 2004 through June 30, 2006, all state agencies' receivable balances rose from \$4.5 billion to \$5 billion, a 10 percent increase. We selected six agencies that represent 70 percent – \$3.3 billion – of the state's total receivables.

We identified eight best practices that greatly improve collection success. We made recommendations to five agencies that mirror best practices and, in most cases, can be instituted with no additional resources.

We commend the Departments of Revenue and Employment Security for their performance in collecting state debt. We would also like to recognize the Department of Labor and Industries for putting our recommendations into practice before the audit was done. The Department improved its collections by 50 percent over the previous year.

If you are interested in following up on the audit resolution or public hearings, please check our Web site at: [http://www.sao.wa.gov/PerformanceAudit/audit\\_reports.htm](http://www.sao.wa.gov/PerformanceAudit/audit_reports.htm).



## About Initiative 900

Washington voters approved **Initiative 900** in November 2005, giving the State Auditor's Office the authority to conduct independent performance audits of state and local government entities on behalf of citizens to promote accountability and cost-effective uses of public resources.

I-900 directs the Office to address the following elements in each performance audit:

1. Identification of cost savings.
2. Identification of services that can be reduced or eliminated.
3. Identification of programs or services that can be transferred to the private sector.
4. Analysis of gaps or overlaps in programs or services and recommendations to correct them.
5. Feasibility of pooling auditee's information technology systems.
6. Analysis of the roles and functions of the auditee and recommendations to change or eliminate roles or functions.
7. Recommendations for statutory or regulatory changes that may be necessary for the auditee to properly carry out its functions.
8. Analysis of the auditee's performance data, performance measures and self-assessment systems.
9. Identification of best practices.

Initiative 900 provides no penalties for auditees that do not follow recommendations in performance audit reports.

The complete text of the Initiative is available at: [www.sao.wa.gov/PerformanceAudit/PDFDocuments/i900.pdf](http://www.sao.wa.gov/PerformanceAudit/PDFDocuments/i900.pdf).



## Mission Statement

*The State Auditor's Office independently serves the citizens of Washington by promoting accountability, fiscal integrity and openness in state and local government. Working with these governments and with citizens, we strive to ensure the efficient and effective use of public resources.*

## Objectives

The audit was designed to determine if state agencies use and share opportunities to improve the collection of state debt. Additionally, the audit addressed the nine elements contained in Initiative 900, outlined on page 1 of this summary.

## Scope

The audit examined outstanding receivables at the six state agencies from July 1, 2005 through June 30, 2006, totaling \$3.3 billion. We excluded amounts that agencies pass from one party to another, such as child support payments, and amounts that would not typically require collection efforts, such as amounts not yet due, amounts collected by another agency and interest or dividends.

The audit cost \$701,882.

# Audit results

## Cost savings

We audited 10 programs at six state agencies and found eight programs that need to improve their collection practices. If the eight programs reduce their delinquent account balances by a modest 5 percent, the state will collect approximately \$15.6 million more per year. If they reduce delinquent account balances by 50 percent, they can collect an additional \$159.7 million.

## Best practices

We found a strong correlation between the use of the eight best practices we identified (see sidebar at right) and collection success. Eight of the audited programs do not use all of the best practices we identified and, as stated can significantly increase the amount of money they collect by using the best practices.

The Department of Labor and Industries indicated that it starting using the best practices we recommended during fiscal year 2007 and experienced a 50 percent increase — \$4.6 million — in collecting claims benefit overpayments over the previous year. We commend Labor and Industries for its recognition of these best practices and its quick action to put them in place.

## Commendations

We commend two programs for excellent performance in the collection of debt. They are:

- Department of Revenue's Tax Collection units
- Employment Security Department's Benefit Overpayment Recoveries Unit

Both programs employ all eight significant best practices identified during the audit and use additional best practices that have contributed to their success. Both programs effectively and efficiently collect debt and have excellent performance measures in place to gauge the effectiveness of their collection efforts. The Department of Revenue has no findings in this report.

Findings and recommendations for the other five agencies follow.

## Best practices for collecting debt

The eight best practices we identified during the audit are:

- Having sufficient written policies and procedures.
- Making contact with the debtor within 30 days.
- Including contact by phone in all collection efforts.
- Sending reminder letters periodically.
- Assigning reasonable case loads to collection staff.
- Providing flexible payment options.
- Taking legal actions, such as requesting court warrants resulting in liens against business property.
- Performing wage and/or bank matching to identify assets that could be used to pay the debt.

Agency	Findings	Recommendations
<b>Department of Community, Trade and Economic Development</b>	<b>Finding 1A</b> – The Housing Trust Fund program at the Department of Community, Trade and Economic Development could improve its timeliness for restructuring loans.	We recommend renegotiated contracts be completed in a timely manner so that loan repayments can resume.
	<b>Finding 1B</b> – The Department could improve collections by implementing more collection best practices.	We recommend the Department: <ul style="list-style-type: none"> <li>• Create written collection policies and procedures.</li> <li>• Send invoices quarterly as required by state law (RCW 80.50.071).</li> <li>• Make contact with the debtor within 30 days after the due date.</li> <li>• Use phone calls and reminder letters to aid in the collection process.</li> <li>• Offer payment plans to delinquent debtors to facilitate repayment.</li> <li>• Create and use accounts receivable aging reports.*</li> </ul>
<b>Department of Ecology</b>	<b>Finding 2A</b> – Ecology does not consistently use collection best practices in the Toxics Cleanup Program when attempting to collect delinquent debt owed to the state.	We recommend the Department: <ul style="list-style-type: none"> <li>• Update the collection policies and procedures to provide more guidance on collection efforts to be taken and to reflect best practices.</li> <li>• Require that the due date is 30 days after the invoice date, rather than the current 90 days.</li> <li>• Begin collection efforts within 30 days after the due date.</li> <li>• Use the phone to aid in collection efforts.</li> <li>• Document all collection efforts.</li> <li>• Consider using collection agencies if the workload is too heavy.</li> <li>• Consider offering other payment options, such as Internet payments.</li> <li>• Consider consulting with legal counsel to use legal means to collect on debt, such as issuing liens on real property and other legal actions.</li> <li>• Consider consulting with legal counsel to use wage and bank matching to identify funds that can be applied to the debt.</li> <li>• Consider a data-sharing agreement with other state agencies, such as Revenue, Labor and Industries and Employment Security, to determine if the debtor is owed a refund that can be applied toward debt to Ecology.</li> </ul>

\* The Department indicated that it is billing before providing services as of June 2007. It indicated invoices totaling \$4.1 million for March, June and September 2007 have been collected except for \$70,345 (1.7 percent). We commend the Department for changing its billing practices to increase its collection success rate.

Agency	Findings	Recommendations
<b>Employment Security Department</b>	<b>Finding 3A</b> – Employment Security could improve the amount it collects from delinquent Unemployment Insurance taxpayers by using more collection best practices.	We recommend the Department improve its collection efforts of delinquent Unemployment Insurance taxes by implementing the following best practices: <ul style="list-style-type: none"> <li>• Make contact with the delinquent taxpayer within 30 days after the due date.</li> <li>• Use and document phone calls as part of the collection process. This should include the use of the automated dialing system that is being used for the collection of benefit overpayments.</li> </ul> The Department indicated it is presently building a new mainframe system that will facilitate use of an automated dialing system. The projected implementation date is February 2012.
	<b>Finding 3B</b> – Employment Security did not retain Unemployment Insurance Tax Collection records in accordance with state records retention laws.	We appreciate that the Department took immediate action to correct this problem in December 2006. The Department indicated it is now retaining copies of the billing statements.
<b>Department of Labor and Industries</b>	<b>Finding 4A</b> – Labor and Industries can improve its collection success if collection efforts are made within 30 days after the account becomes delinquent.	We recommend the Department: <ul style="list-style-type: none"> <li>• For accounts with repeat delinquencies, begin collection efforts within 30 days after accounts become delinquent. This should include sending initial delinquency letters and making phone calls.</li> <li>• Issue court warrants within 30 days after the final order date.</li> <li>• Perform wage and bank matching in a more timely manner.</li> </ul>
	<b>Finding 4B</b> – Consistent use of collection best practices could improve collection results on Industrial Insurance claims benefit overpayments.	We recommend the Department: <ul style="list-style-type: none"> <li>• Send periodic reminder letters on all past due accounts that are in active collections.</li> <li>• Contact debtors by phone when attempting to collect debt. This should include the use of the computer-based system used to collect industrial insurance payments. This may also include adding more staff to handle the volume of calls.</li> <li>• Consider adding additional collection agents.</li> <li>• Ensure all delinquent accounts receive adequate collection efforts.</li> </ul>
	<b>Finding 4C</b> – Collection agents have large caseloads that decrease the effectiveness of collection efforts.	We recommend the Department add collection agents, which will result in each collection agent having a caseload within the range of best practices of 300 to 600 accounts per agent. If the Department cannot add more collection staff, it should consider using a private collection agency for non-complex accounts.
	<b>Finding 4D</b> – Labor and Industries does not use accounts receivable aging reports to monitor the collection of delinquent Industrial Insurance Premiums and Claims Benefit Overpayments.	We recommend the Department use aging accounts receivable reports to monitor the collection of delinquent industrial insurance premiums and claims benefit overpayments, as required by section 85.54.50 of the State Administrative and Accounting Manual. Reviews of these reports should be documented on the reports.

Agency	Findings	Recommendations
<b>Department of Transportation</b>	<b>Finding 5A</b> – Transportation’s Risk Management Office could improve collections by using more collection best practices.	To improve collection efforts, we recommend the following: <ul style="list-style-type: none"> <li>• Written policies and procedures address appropriate legal action to be taken.</li> <li>• Written policies and procedures are consistently followed when collecting debt.</li> <li>• Collection efforts begin within 30 days after the due date.</li> </ul>
	<b>Finding 5B</b> – Transportation’s Risk Management Office does not make collection efforts on its “traffic-control only” accounts, resulting in write-offs.	We recommend the Legislature revise the law to add clarifying language that includes “traffic-control only” costs.
	<b>Finding 5C</b> – Transportation’s Risk Management Office does not process all highway damage claims in a timely manner.	<ul style="list-style-type: none"> <li>• To reduce invoicing delays, we recommend the Regional Offices send completed repair estimates to the Department’s Risk Management Office weekly.</li> <li>• We also recommend that the Risk Management Office’s written policies and procedures be updated to reflect that all repair estimates be made within 20 working days of the incident or discovery of damages.</li> </ul> <p>The Department has indicated as of December 2007 it has electronic access to Washington State Patrol accident reports. This should reduce delays caused by not receiving accident reports in a timely manner.</p>
	<b>Finding 5D</b> – Transportation’s Ferries Division could improve its collection efforts by consistently applying collection best practices.	We recommend the Ferries Division: <ul style="list-style-type: none"> <li>• Modify its policy to address best practices and timing for sending delinquent accounts to the collection agency.</li> <li>• Make contact with the debtor no later than 30 days after the due date.</li> <li>• Contact the debtor by phone.</li> <li>• Send reminder letters.</li> <li>• Consider adding collection agents to result in reasonable caseloads or send cases to collections agencies more timely.</li> <li>• Take legal action.</li> </ul>
	<b>Finding 5E</b> – Transportation’s agency-wide collection policies and procedures should be updated to reflect collection best practices.	We recommend the Department’s agency-wide collection policies and procedures be updated to reflect collection best practices, including the following: <ul style="list-style-type: none"> <li>• Phone calls should be made no later than 30 days after the invoice is past due, instead of the current 60 days past due policy.</li> <li>• Liens against debtor property should be made, with follow-up done by the collection agencies.</li> <li>• Collection agencies should be monitored to ensure all appropriate collection activity has been taken.</li> </ul> <p>We further recommend the Department consider a data sharing agreement with other state agencies to aid in the collection process and identify debtors who are owed refunds that can be applied to amounts owed to the Department.</p>
<b>Department of Revenue</b>	We have no findings for the Department of Revenue.	

## Past-due amounts by agency

Agency	Total past-due receivables	How long uncollected	Why / other information
CTED	\$1,239,701	Unknown	<ul style="list-style-type: none"> <li>One of CTED's programs does not track the age of past-due receivables.</li> </ul>
ECY	\$19,872,222	8%: less than 1 year 18%: 1 - 5 years 74%: more than 5 years	<ul style="list-style-type: none"> <li>One debtor owes Ecology \$14.7 million – 74 percent – of the total past-due receivables.</li> </ul>
ESD	\$196,837,448	6%: 90 days or less 94%: More than 91 days	<ul style="list-style-type: none"> <li>ESD had one of the two best performing programs.</li> <li>ESD categorizes past-due accounts as less than 90 days or more than 91 days.</li> </ul>
L&I	\$231,424,073	24%: less than 1 year 41%: 1 - 5 years 35%: more than 5 years	<ul style="list-style-type: none"> <li>State law does not allow L&amp;I to write off taxes owed.</li> <li>L&amp;I does monitor the age of its receivables.</li> </ul>
DOR	\$191,897,660	65%: less than 1 year 32%: 1 - 5 years 3%: more than 5 years	<ul style="list-style-type: none"> <li>DOR had one of the two best performing programs.</li> <li>State law requires DOR to keep past-due accounts for 12 years. The other agencies can write off accounts at their discretion.</li> </ul>
DOT	\$6,842,386	45%: less than 1 year 48%: 1 - 5 years 7%: more than 5 years	<ul style="list-style-type: none"> <li>DOT is not collecting 99.8 percent of what it bills drivers for “traffic-control only” costs incurred during accidents.</li> </ul>
<b>Total</b>	<b>\$648,113,490</b>		

## What's next?

Initiative 900 requires the legislative bodies for the government agencies in this report hold at least one public hearing to consider the audit findings and to receive comments from the public within 30 days of this report's issue.

The corresponding legislative body must consider this report in connection with its spending practices. A report must be submitted by the legislative body by July 1 each year detailing the status of the legislative implementation of the State Auditor's recommendations. Justification must be provided for recommendations not implemented. Details of other corrective action must be provided as well.

The state Legislature's Joint Legislative Audit and Review Committee (JLARC) will summarize any statewide issues that require action from the Legislature and will notify the appropriate fiscal and policy committees of public hearing agendas. Initiative 900 provides no penalties for audited entities that do not follow recommendations in performance audit reports.

Follow-up performance audits of any state or local government entity or program may be conducted when determined necessary by the State Auditor.

Visit [www.sao.wa.gov/PerformanceAudit/audit\\_reports.htm](http://www.sao.wa.gov/PerformanceAudit/audit_reports.htm) for:

- Full report
- Agencies' responses and action plans
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# Objectives, Scope and Methodology

## Objectives

The objective of this audit was to determine if there are opportunities to improve the collection of state debt.

Additionally, Initiative 900 directs the State Auditor's Office to address the following elements:

1. Identification of cost savings.
2. Identification of services that can be reduced or eliminated.
3. Identification of programs or services that can be transferred to the private sector.
4. Analysis of gaps or overlaps in programs or services and recommendations to correct them.
5. Feasibility of pooling the entity's information technology systems.
6. Analysis of the roles and functions of the entity and recommendations to change or eliminate roles or functions.
7. Recommendations for statutory or regulatory changes that may be necessary for the entity to properly carry out its functions.
8. Analysis of the entity's performance data, performance measures and self-assessment systems.
9. Identification of best practices.

## Scope

This performance audit covered activities from July 1, 2005 through June 30, 2006. State agencies with the largest amounts of receivables after we excluded certain amounts were selected for this audit. We excluded amounts that would not typically require active collection efforts. This includes amounts owed from other governments, receivables not yet due, amounts collected by another entity, pass-through money, interest or dividends receivable and other miscellaneous receivables.

We isolated \$4.7 billion in receivables where we would expect active collection efforts if an account became past due. We selected six agencies that collectively represented at least 70 percent of the total amounts owed to the state as of June 30, 2005, for a total amount of \$3.3 billion. During the planning phase, fiscal year 2006 figures were not available. Therefore, selection of the agencies and receivable types were based on fiscal year 2005 figures.

The receivables selected for this audit and their descriptions are as follows:

**Taxes and Tax Liens Receivable:** Total of uncollected taxes and the value of legal claims against property, including interest and penalty charges.

**Accounts Receivable:** Amounts owed from private individuals or organizations for goods and services furnished by the state, excluding taxes.

**Other Receivables:** Amounts billed or supported by other evidence of indebtedness, such as bills for damage done to state property.

**Loans Receivable:** Total of uncollected loans to individuals or organizations external to the state. It includes notes taken as security for such loans.

Because we could not audit all state agencies with balances in these accounts, we identified six agencies whose receivable balances represent more than 70 percent of the state's receivable balances. Amounts included in the audit are as follows:

Receivable type	State of Washington* Amount Due as of June 30, 2005 (includes delinquent and nondelinquent accounts)	Amounts Included in the Audit	Percentage of Audit Coverage
Taxes & Tax Liens Receivable	\$ 2,598,373,863	\$ 2,510,267,581	97%
Accounts Receivable	\$668,573,059	\$608,007,423	91%
Other Receivables	\$1,430,131,214	\$194,563,455	14%
Loans Receivable	\$7,403,487	\$5,729,885	77%
<b>Total</b>	<b>\$4,704,481,623</b>	<b>\$3,318,568,344</b>	<b>71%</b>

\*With identified exclusions

Agencies selected were:

- Department of Community, Trade and Economic Development (CTED)
- Department of Ecology (ECY)
- Employment Security Department (ESD)
- Department of Labor and Industries (L&I)
- Department of Transportation (DOT)
- Department of Revenue (DOR)

For additional information about agency responsibilities, see Appendix E.

Each agency's portion of receivable balances:

Receivable type	Six Agencies' Account Balances as of June 30, 2005 (includes delinquent and nondelinquent accounts)	CTED	ECY	ESD	L&I	DOT	DOR
Taxes & Tax Liens Receivable	\$ 2,510,267,581						100%
Accounts Receivable	\$608,007,423	<1%	4%	76%	18%	2%	
Other Receivables	\$194,563,455			81%	19%		
Loans Receivable	\$5,729,885	100%					
<b>Total</b>	<b>\$3,318,568,344</b>						

After agencies were selected, we narrowed our audit scope to the largest programs with receivables within the agencies. Programs selected were:

**Department of Community, Trade and Economic Development:**

Housing Trust Fund  
Energy Facility Site Evaluation Council

**Department of Ecology:**

Toxics Cleanup Program

**Employment Security Department:**

Unemployment Insurance Taxes  
Unemployment Insurance Benefit Overpayments

**Department of Labor and Industries:**

Industrial Insurance Tax Premiums  
Industrial Insurance Claims Benefit Overpayment

**Department of Transportation:**

Office of Risk Management  
Ferries Division

**Department of Revenue:**

Tax Collection

**Methodology**

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning our audit, we gained an understanding of internal controls and best practices that relate to the audit objectives. We reviewed and analyzed records at each agency to determine whether the significant best practices were being used. Our work included:

- Conducting interviews with program managers and staff.
- Reviewing policies and procedures.
- Reviewing agency performance measures.
- Analyzing receivable data.
- Searching for opportunities to change, reduce or eliminate programs, services, roles or functions.
- Analyzing whether collection of debt success would be improved by transferring all or part of it to the private sector.
- Searching for gaps or overlaps in processes and policies.
- Reviewing laws to determine whether statutory or regulatory changes could increase the success of debt collection.

- Analyzing information obtained to determine if it was feasible to pool the state's or the entity's information technology systems.
- Searching for opportunities in cost savings by analyzing the efficiencies in the programs as well as opportunities for increased revenue collection.
- Conducting extensive research on proven best practices for collecting debt from a variety of public and private sources as well as other performance audits, the Internal Revenue Service and publications on this subject.

As a result of our best practices research, we identified eight best practices that result in a significant increase in collection success:

- Having sufficient written policies and procedures.
- Making contact with the debtor within 30 days.
- Including contact by phone for all collection efforts.
- Sending reminder letters periodically.
- Assigning reasonable case loads to collection staff.
- Providing flexible payment options.
- Taking legal actions, such as issuing court warrants resulting in liens against business property.
- Performing wage and/or bank matching to identify assets that could be used to pay the debt.

We determined whether each department is using these best practices by selecting some delinquent accounts. We reviewed files and other records to document the collection efforts taken.

## Audit Results

We found a strong correlation between the use of best practices for collection of debt and collection success.

Two programs stood out as being excellent performers in the collection of debt as measured by their use of best practices and the resulting success. They are:

- Department of Revenue's Tax Collection
- Employment Security Department's Benefit Overpayment Recoveries

Both programs employ all eight significant best practices reviewed during this audit and have instituted many additional best practices that have contributed to their success. One such best practice is using autodialing software to help the programs make collection calls more efficiently. This system dials the numbers and routes calls to a live agent when a citizen or employer is contacted. It also leaves messages, freeing revenue agents to assist citizens and taxpayers.

Both programs have streamlined operations that are effectively and efficiently collecting debt. Both departments also have excellent performance measures in place to measure the effectiveness of collection efforts. For example, Revenue measures its reduction of repeat delinquent accounts and Employment Security measures the amount of recoveries of benefit overpayments.

Revenue is responsible for collecting 60 different taxes, totaling approximately \$14 billion each year. It collects 91 percent of the state's General Fund tax revenues and all local sales tax revenues. The majority of taxes collected include retail sales and use tax, and business and occupation tax. During fiscal year 2006, the Department

was responsible for collecting \$191 million in taxes that were not paid on time from approximately 6,400 delinquent accounts. It employs approximately 125 collection agents around the state.

The State Auditor's Office is not the first to recognize the Department for its success in collections. In 2004, the Department received the Governor's Award for Financial Management and the 2005 Outstanding Public Service Award from the American Society of Public Administration for its collection efforts through the creation of its Initial Contact Team. The Governor's award noted the Department collected more than \$20 million during the Team's first 18 months of operation, from July 2002 through December 2003. This exceeded the Department's initial goal of \$3 million.

The Department also shares data with the other two state taxing agencies in Washington: the Department of Labor and Industries and the Employment Security Department. We commend Revenue for its data sharing with these two agencies, because it helps identify problem employers and aids in the collection process.

Employment Security's Benefit Overpayment program recovers overpayments to claimants. Overpayments occur when a citizen receiving unemployment benefits begins earning wages and does not notify the Department, at which time it seeks repayment. The Department assesses approximately \$13 million per year in unemployment benefit overpayments. It has 14 agents collecting on the detected overpayments.

We commend both Revenue and Employment Security for consistently using all of the significant best practices and their success in the collection of debt. We also commend Revenue for having no findings in this report.

Prior to the completion of the audit, Labor and Industries indicated it had begun using many of the identified best practices during fiscal year 2007 and had already experienced a 50 percent increase (\$4.6 million) in the amount of claims benefit overpayments collected over the prior year. We commend Labor and Industries for its recognition of these best practices and its quick action to put them in place.

We identified and confirmed whether best practices were used in the 10 programs audited. The results are as follows:

Best practice	CTED		ECY	ESD		L&I		DOT		DOR
	Housing Trust Fund	Energy Fac Site Eval Council	Toxics Cleanup	Un-employ Tax	Benefit Over-pay	Ind Ins Tax	Claims Overpay	Risk Mgmt	Ferries Division	Taxes
Sufficient Policies and Procedures	√			√	√	√	√	√	Note 1	√
Initial Contact Within 30 Days	√				√	Note 2	√			√
Contact by Phone	Note 3				√	√		√		√
Reminder Letters	√		√	Note 4	√	√		√		√
Reasonable Caseloads	√	√	√	√	√	√		√	√	√
Flexible Payment Options	√			√	√	√	√	√	√	√
Legal Action	√			√	√	√*	√			√
Wage/Bank Matching	N/A			√	√	√*		√	√	√

\* Not Timely

**Note 1:** The Ferries Division did create written policies and procedures after field work was completed.

**Note 2:** Timely contact occurred on accounts with first-time delinquencies, but not on subsequent delinquencies.

**Note 3:** Contact by phone was done only 11 percent of the time in the sampled items. However, written contact was made within 30 days 100 percent of the time. Due to the success in collection, with the exception of the contracts under renegotiation, it appears that the written form is working and additional phone contact will not be recommended for this program.

**Note 4:** Agency personnel indicated that reminder letters were generated by the system, but copies were not kept, therefore, this best practice could not be tested.

### Cost Savings

We estimate that if the audited programs identified as not using best practices consistently use these tools and reduce delinquent account balances by a modest 5 percent, the state will collect approximately \$15.6 million more annually.

We found 10 instances in which there were gaps or overlaps in programs or services and we made recommendations to correct them.

We found two instances in which we identified programs or services that could be transferred to the private sector and one instance where we recommend changes to state law.

The following pages detail each agency's individual results.



# Audit Findings

## DEPARTMENT OF COMMUNITY, TRADE AND ECONOMIC DEVELOPMENT

Findings are grouped into two audit areas:

- Housing Trust Fund
- Energy Facility Site Evaluation Council

### Audit Area 1 – Housing Trust Fund

The Housing Trust Fund was established by the Legislature in 1987 to help communities meet the housing needs of low-income and special-needs citizens. The Department issues loans and grants to organizations, including housing authorities, local governments and not-for-profit organizations that provide affordable housing to these citizens. More than 1,000 projects are in the Housing Trust Fund portfolio and \$4.3 million in loan repayments is collected each year.

The Department's mission is not conducive to following all eight of the best practices we identified. For example, we applied the liens best practice differently, expecting that liens are placed to protect the state's assets, not to foreclose on a low-income housing loan. Foreclosure could defeat the purpose of the program by reducing available low-income housing. We found the Housing Trust Fund program consistently uses many of the remaining collection best practices.

To further ensure the state's assets are protected, the Department also verifies that the properties are insured in case of a fire or disaster.

We commend the Housing Division for recently modifying contract language to require payments on a quarterly basis, rather than annually. We believe this may increase the collection success rate.

During the audit, we found some areas in which the Department can improve its collection efforts.

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### **Finding 1A – The Housing Trust Fund program at the Department of Community, Trade and Economic Development could improve its timeliness for restructuring loans.**

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#### Background

During the life of a housing project contract, which could last 40 to 50 years, market or other conditions could change, making it difficult for the loan recipient to make timely payments. When this occurs, the Department will work with the loan recipient to change the terms and conditions of the contract with the goal of eventually repaying the loan, rather than defaulting on the loan. When loans are in the process of being restructured, they are referred to as being in "workout." During the audit period, the Housing Trust Fund program had delinquent accounts totaling \$828,000. Of that amount, \$510,000 (62 percent) were in "workout." The Department stated the purpose for workout is to avoid foreclosure and keep housing available to serve the low-income population as it was designed to do.

## Condition

Accounts in workout status remain so for too long. Sixteen of 21 contracts (76 percent) in renegotiation during the audit period were in this phase for at least one year, some as long as 3½ years. As a result of renegotiation, a payment schedule may be revised or the interest rate reduced. During this renegotiation period, most payments are deferred.

## Cause

The Department did not have sufficient staff to review the loans in a timely manner. It has taken steps to resolve this issue by hiring a contractor to assist in the review process.

## Effect or potential effect

Delays in renegotiating contracts increase the risk that loans will not be repaid and the Department will not collect money that could be used to aid other housing projects for low-income families.

## Recommendation

We recommend renegotiated contracts be completed in a timely manner so that loan repayments can resume.

## Audit Area 2 – Energy Facility Site Evaluation Council

The Energy Facility Site Evaluation Council is a state regulatory board that is responsible for issuing construction and operating permits and monitoring of major energy facilities in Washington.

The Council monitors large natural gas and oil pipelines, thermal electric power plants that are 350 megawatts or greater and their dedicated transmission lines, new oil refineries or large expansions of existing facilities, and underground natural gas storage fields. Energy facilities of any size that exclusively use alternative energy resources (wind, solar, geothermal, landfill gas, wave or tidal action, or biomass energy) can opt-in to the Council's review and certification process. The Council's authority does not extend to hydro-based power plants or thermal-electric plants that are less than 350 megawatts.

The Council was created in 1970 to provide "one-stop" licensing for large energy projects. The Legislature centralized the evaluation and oversight of large energy facilities in a single location within state government when it created the Council.

The Legislature called for "balancing" demand for new energy facilities with the broad interests of the public. As part of the balancing process, protection of environmental quality, safety of energy facilities and concern for energy availability must be taken into account by the Council. If a project is approved, the Council specifies the conditions of construction and operation, issues permits in lieu of any other individual state or local agency authority, and manages an environmental and safety oversight program of facility and site operations. The Council's annual budget was approximately \$4.4 million during the audit period, mainly funded by energy facility site applicants and energy facility site permit holders. Each applicant and permit holder is required by state law (RCW 80.50) to pay all necessary costs incurred by the Department in reviewing applications for site certification and compliance

monitoring for permitted facilities.

The Department of Community, Trade and Economic Development provides administrative staff support for the Council including accounting and billing functions.

State law (RCW 80.50.175) requires a \$10,000 advance payment fee to accompany an applicant's request for a Preliminary Site Study. During the study, if the Department finds that \$10,000 is insufficient to cover the site study costs, the Department requests additional funds from the applicant. In addition, state law (RCW 80.50.071) requires a \$45,000 advance payment for application processing or certification monitoring. The Department bills approximately \$3 million per year for all costs incurred to perform the studies and to monitor the sites.

The Department has reasonable caseloads for its collection staff and has implemented a best practice of requesting advance payment of costs. However, we found opportunities for improvement in other areas.

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**Finding 1B – The Department of Community, Trade and Economic Development could improve collections by implementing more collection best practices.**

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**Condition**

During the audit, we found:

- The Department does not have written collection policies and procedures to provide guidance on the collection of delinquent accounts.
- Fifty-one percent of the invoices were mailed 34 to 110 days later than the contract between the Department and the energy facility dictated.
- Of the 43 past due invoices reviewed, 21 (49 percent) had no collection activity and 10 (23 percent) had collection activity that started after 30 days.
- Reminder letters were used only 26 percent of the time.
- Phone calls were not used as part of the collection process.
- Flexible payment options, such as payment plans, were not used to assist in the repayment process.
- Aging reports are not used to monitor delinquent accounts in accordance with the State Administrative and Accounting Manual 85.54.40.

**Cause**

The Department did not consider that the use of best practices could improve the collection success.

**Effect or potential effect**

Invoicing late causes delay in the collection process and may decrease the collection success rate. If more debt is collected, more money is available to carry out the Council's mission.

**Recommendations**

We recommend the Department:

- Create written collection policies and procedures.
- Send invoices quarterly as required by state law (RCW 80.50.071).

- Make contact with the debtor within 30 days after the due date.
- Use phone calls and reminder letters to aid in the collection process.
- Offer payment plans to delinquent debtors to facilitate repayment.
- Create and use accounts receivable aging reports.

The Department indicated that as of June 2007 it is billing in advance of providing services. It indicated invoices for March, June and September 2007 totaling \$4.1 million have been collected except for \$70,345 (1.7 percent). We commend the Department for changing its billing practices to increase the success rate of recovering costs.

## DEPARTMENT OF ECOLOGY

### Toxics Cleanup Program

Ecology's Toxics Cleanup program was created to protect human health and the environment by cleaning up contaminated sites. The Department has identified nearly 10,000 contaminated sites in Washington since its inception in 1989. Approximately 6,000 of these are the result of leaking underground storage tanks. The Department works with the organizations and individuals responsible for the contamination to reimburse the state for the clean-up costs.

The Toxics Cleanup Program has 167 employees and a two-year operating budget of \$48 million. The program assesses approximately \$2.4 million in toxic cleanup costs each year. The Department does not use collection agents to collect these debts. Instead, the cleanup project coordinators, in partnership with the Office of the Attorney General, are responsible for collection efforts.

During our performance audit of the Department's collection practices for the Toxic Cleanup Program, we found it is using two of the eight collection best practices we identified:

- Sending periodic reminder letters.
- Having a reasonable caseload for the person doing the collections.

After analyzing procedures and data, we found opportunities for the Department to improve its collection efforts.

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#### **Finding 2A – Ecology does not consistently use collection best practices in the Toxics Cleanup Program when attempting to collect delinquent debt owed to the state.**

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#### **Condition**

We reviewed a random sample of delinquent accounts and found the following:

- Initial contact with the debtor within 30 days of the due date occurred on only 15 of 26 (58 percent) invoices reviewed.
- Contact by phone was made seven percent of the time.
- The Department does offer payment plans, but does not allow other options such as credit or debit cards or electronic payments via the Internet.
- The Department did not take any legal action against the debtors. The Department was recently given the legal authority to file liens, but had not done so consistently during the audit period.
- Wage and bank matching does not occur to identify funds that can be taken from a bank account or employer and applied towards the debt.
- Current collection policies and procedures are inadequate and do not provide sufficient guidance.

#### **Cause**

The Department was not aware of the collection best practices that, if used, could improve success in collection of debt. In addition, the site coordinator is responsible for collection efforts. These efforts may have been made verbally, but efforts generally are not documented.

### **Effect or potential effect**

If the Department improved its collection efforts, more money would be available to carry out its mission.

### **Recommendations**

We recommend the Department:

- Update the collection policies and procedures to provide more guidance on collection efforts to be taken and to reflect best practices.
- Require that the due date is 30 days after the invoice date, rather than the current 90 days.
- Begin collection efforts within 30 days after the due date.
- Use the phone to aid in collection efforts.
- Document all collection efforts.
- Consider using collection agencies if the workload is too heavy.
- Consider offering other payment options, such as Internet payments.
- Consider consulting with legal counsel to use legal means to collect on debt, such as issuing liens on real property and other legal actions.
- Consider consulting with legal counsel to use wage and bank matching to identify funds that can be applied to the debt.
- Consider a data-sharing agreement with other state agencies, such as Revenue, Labor and Industries and Employment Security, to determine if the debtor is owed a refund that can be applied toward debt to Ecology.

## EMPLOYMENT SECURITY DEPARTMENT

### Unemployment Insurance Tax Program

During the audit period, the Department collected approximately \$1.4 billion in taxes. Taxes are due each quarter and can be paid by mail, online or in person in Olympia or at one of its 10 district tax offices. In addition to the taxes, wages paid to each employee during the quarter must be reported to the Department.

During our performance audit of Employment Security's Unemployment Insurance Tax program, we found many good practices in place for collecting delinquent taxes. Written collection policies and procedures exist to provide guidance to collection staff, caseloads for collection staff are reasonable and fall within best practices guidelines for caseload, and the Department gives taxpayers several options for making payments. This includes allowing payment plans if the taxpayer becomes delinquent and is having difficulty paying the tax. The Department also takes various legal actions, such as placing liens on property, to attempt to collect on the debt. Wage and bank matching is also performed to identify funds that can be used to pay the debt. The Department has also established several great performance measures related to the collection of debt.

We commend the Department for the efforts it makes to work with the other two taxing agencies, Revenue and Labor and Industries, to share data. Sharing data allows the agencies to improve their collection success. We also commend the Department for getting the recent corporate officer legislation passed. The legislation helps the Department collect delinquent taxes from employers who attempt to avoid paying by closing the business and restarting it under a new name.

After analyzing procedures and data, we found opportunities for the Department to improve its collection efforts.

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#### **Finding 3A – Employment Security could improve the amount it collects from delinquent Unemployment Insurance taxpayers by using more collection best practices.**

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#### **Condition**

During the audit we did not find evidence that the Department consistently:

- Made initial contact with the debtor within 30 days after the due date.
- Made phone calls as part of the collection process.
- Sent reminder letters to the delinquent party.

#### **Cause**

The Department uses an automated dialing system that results in contact by phone within 30 days in its benefits overpayment program, but believes this system is not appropriate for the tax program. The Department indicated it does not use the system for its tax program because it does not trust that the outdated mainframe system can provide the level of information needed to make effective use of the automated dialing system. Collection efforts may have been made within 30 days, but efforts generally are not documented. The Department may have sent reminder letters, but did not retain them.

### **Effect or potential effect**

Not consistently using the above collection best practices is keeping the Department from fully collecting taxes.

### **Recommendations**

We recommend the Department improve its collection efforts of delinquent Unemployment Insurance taxes by implementing the following best practices:

- Make contact with the delinquent taxpayer within 30 days after the due date.
- Use and document phone calls as part of the collection process. This should include the use of the automated dialing system that is being used for the collection of benefit overpayments.

The Department indicated it is presently building a new mainframe system that will facilitate use of an automated dialing system. The projected implementation date is February 2012.

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### **Finding 3B – Employment Security did not retain Unemployment Insurance Tax Collection records in accordance with state records retention laws.**

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### **Background**

When a taxpayer account becomes delinquent, the Department's accounts receivable system automatically creates a billing statement. This statement is sent to the taxpayer as a notification of overdue taxes. The statement is removed from the system after three months.

### **Condition**

The Department did not retain copies of billing statements that are sent to taxpayers. During the audit period, these electronic statements were removed from the accounts receivable system after three months. We were unable to review them during the audit and therefore could not confirm that they were created and sent.

### **Cause**

The Department was not aware that billing statements had to be retained for six years.

### **Effect or potential effect**

When critical documents are not retained, it is difficult to provide evidence of what has occurred to Department management, citizens, the Legislature and other interested parties.

### **Recommendation**

We appreciate that the Department took immediate action to correct this problem in December 2006. The Department indicated it is now retaining copies of the billing statements.



## DEPARTMENT OF LABOR AND INDUSTRIES

The findings for Labor and Industries are organized by three areas within the Department:

- Industrial Insurance Tax Premiums
- Industrial Insurance Claims Benefit Overpayments
- Agency-wide

### Audit Area 1 – Industrial Insurance Tax Premiums

The Department collects approximately \$1.7 billion in industrial insurance premiums each year from employers which are used to pay benefits to injured workers. The Department has a collections unit with dedicated staff who work on delinquent accounts. The unit uses a computer-based system that makes collection phone calls. The Department has approximately 60 collection agents focused on collecting premiums. During fiscal year 2006, the Department had about 10,000 delinquent premium accounts requiring collection effort.

The Department has many good practices in place for collecting industrial insurance premiums. During our audit, we found the Department consistently uses many of the identified best practices, with the exception of initial contact within 30 days. Additionally, we found the Department is taking legal action and using wage-and-bank matching, but was not doing so in a timely manner at the time of the audit.

We commend the Department for its efforts to improve its collection processes. The Department works with the state's other two taxing agencies, Revenue and the Employment Security, to share collection ideas and provide cross-training for its collection employees. Additionally, the Department shares data with other state agencies, which aids in the collection process.

In addition, the Department has established good performance measures that address collection success.

We also commend the agency for recently pooling its accounts receivable systems into an agency-wide Accounts Receivable and Collection System. This system has allowed the Department to manage its receivables more efficiently.

After analyzing procedures and data, we found opportunities for the Department of Labor and Industries to improve its collection efforts.

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**Finding 4A – Labor and Industries can improve its collection success if collection efforts are made within 30 days after the account becomes delinquent.**

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#### Background

Timely collection efforts are essential to successfully collecting delinquent accounts receivables. Studies indicate that collection efforts on delinquent accounts are more successful the earlier a debtor is contacted. The Department's initial collection efforts include sending delinquency notices and calling debtors.

The Department also uses certain legal actions to aid its collection efforts. It has

authority under state law to file court warrants against employers who have not paid industrial insurance premiums within 30 days of the mailing date of the demand notice. A court warrant results in a lien being placed on the business property. The lien allows the Department to collect the amount due when the property is sold. After a court warrant is filed, the Department can take other legal action, such as garnishing wages and seizing assets. An entity receiving these notices, such as an employer or bank, must remit any known assets to the Department.

### **Condition**

We reviewed a random sample of delinquent accounts and found the following: Contact is not always made within 30 days. Of the 36 accounts reviewed, 13 (36 percent) were not contacted within 30 days after the due date. We found that timely contact occurred on accounts with first-time delinquencies, but not on subsequent delinquencies.

- Although we noted above that legal action is taken, it is not always done in a timely manner. Of the 36 accounts reviewed, 15 (42 percent) had court warrants issued more than 30 days after the final order date. The average number of days between the past due date and the issue date was 124 days, ranging from two days late to 428 days late.
- Wage and bank matching was done, but not in a timely manner, on 14 of 36 (39 percent) of accounts reviewed.

### **Cause**

Procedures only addressed collection timelines for accounts that became delinquent for the first time. These actions were performed in a timely manner. The procedures did not require timely action when a delinquent employer became past due on a subsequent premium assessment. Once we brought this to the Department's attention, policies and procedures were immediately revised to require timely contact for all delinquencies.

### **Effect or potential effect**

Failure to conduct timely collection efforts may prevent the Department from collecting more of the industrial insurance taxes owed to the state. The failure to collect taxes owed to the Department may result in higher premiums being paid by all employers, including those who pay their insurance premiums on time.

### **Recommendations**

We recommend the Department:

- For accounts with repeat delinquencies, begin collection efforts within 30 days after accounts become delinquent. This should include sending initial delinquency letters and making phone calls.
- Issue court warrants within 30 days after the final order date.
- Perform wage and bank matching in a more timely manner.

## **Audit Area 2 – Industrial Insurance Claims Benefit Overpayments**

The Department pays temporary and permanent wage-replacement benefits to workers who are injured on the job. The benefit amount is based on a percentage of the workers' income. In some instances, an injured worker is found to not be eligible for benefits or is paid too much and owes the Department the benefits paid. The

Department issues an order notifying the claimant of the overpayment and provides a 60-day period in which the claimant can appeal.

The Department assesses approximately \$17.5 million annually in benefit overpayments. The Department has seven collection agents focused on collecting benefit overpayments. During fiscal year 2006, the Department had about 9,000 benefit overpayments requiring collection effort.

We analyzed the collection practices for claims benefit overpayments and found the Department is consistently using the following best practices:

- Collection policies and procedures exist.
- Contact is made within 30 days of the expiration of the appeal period.
- Flexible payment options are offered to make repayment easier.
- Liens are consistently issued on delinquent accounts.
- If overpaid injured workers are receiving on-going payments from the Department, deductions from future payments are made to recover amounts owed.

We found opportunities to improve the Department's collection of claim benefit overpayments.

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**Finding 4B – Consistent use of collection best practices  
could improve collection results on Industrial  
Insurance claims benefit overpayments.**

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**Condition**

We reviewed a random sample of 40 delinquent claims benefit overpayment invoices and found the Department did not consistently use the following collection best practices:

- Contact by phone was not made on 38 of 40 (95 percent) invoices reviewed.
- No collection efforts were made on two of 40 (5 percent) accounts reviewed, even though a balance was still owed.
- Reminder letters were not periodically sent to the debtor and sufficient collection efforts were not made on 37 of 40 (93 percent) invoices reviewed. Collection efforts usually consisted of two initial collection letters and then a lien, although several accounts were in delinquent status for several years.
- Wage and bank matching was not consistently done timely on 10 of 40 (25 percent) accounts to identify funds that could be applied to the debt.

**Cause**

The Department indicated it does not have sufficient staffing in its collection division to make full collection efforts on both claims overpayments and delinquent industrial insurance premium accounts. Therefore, it has concentrated its collection efforts on industrial insurance premiums. Additionally, the Department has not used the calling unit to contact those who owe claims benefit overpayments. The calling unit uses a computer-based system that assists the staff in making collection calls more efficiently.

**Effect or potential effect**

If best practices are used, the Department could increase the amount of claims benefit overpayments it collects.

## Recommendations

We recommend the Department:

- Send periodic reminder letters on all past due accounts that are in active collections.
- Contact debtors by phone when attempting to collect debt. This should include the use of the computer-based system used to collect industrial insurance payments. This may also include adding more staff to handle the volume of calls.
- Consider adding additional collection agents.
- Ensure all delinquent accounts receive adequate collection efforts.

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### **Finding 4C – Collection agents have large caseloads that decrease the effectiveness of collection efforts.**

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#### Condition

During our review, we found the average caseload for the each member of the Department's collection staff is 1,300 cases. This is 700 more accounts per person than is recommended by best practices.

#### Cause

The Department indicated it does not have a sufficient amount of funding to hire more collection staff.

#### Effect or potential effect

Because the number of cases per collection staff is too high, the Department has not been able to dedicate sufficient time to make adequate collection efforts on delinquent claims benefit accounts. As a result, the Department has been less effective in collecting these receivables and is collecting less money than it could.

#### Recommendation

We recommend the Department add collection agents, which will result in each collection agent having a caseload within the range of best practices of 300 to 600 accounts per agent. If the Department cannot add more collection staff, it should consider using a private collection agency for non-complex accounts.

## Audit Area 3 – Agency-wide

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### **Finding 4D – Labor and Industries does not use accounts receivable aging reports to monitor the collection of delinquent Industrial Insurance Premiums and Claims Benefit Overpayments.**

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#### Background

The Office of Financial Management's State Administrative Accounting Manual, section 85.54.50, requires all agencies with accounts receivable of more than \$50,000 to produce and use an aging accounts receivables report. This type of report summarizes the number of days an account is overdue, usually by 30, 60 and 90 days, providing the reviewer a picture of the delinquency of its accounts. It helps management monitor delinquent accounts to ensure collection activities are performed in a timely manner.

### **Condition**

We found the Department does not use aging accounts receivable reports to monitor delinquent Industrial Insurance premium accounts and Claims Benefit Overpayment accounts.

### **Cause**

The Accounting Division produced these reports, but the collection staff did not use them to monitor delinquent accounts.

### **Effect or potential effect**

Without the use of aging reports, the Department cannot ensure that accounts are being properly monitored and collection efforts are being made in a timely manner. In addition, the Department cannot determine how successful it is at decreasing delinquent receivables.

### **Recommendation**

We recommend the Department use aging accounts receivable reports to monitor the collection of delinquent industrial insurance premiums and claims benefit overpayments, as required by section 85.54.50 of the State Administrative and Accounting Manual. Reviews of these reports should be documented on the reports.

## DEPARTMENT OF TRANSPORTATION

The findings for Transportation are organized by three areas within the Department:

- Risk Management
- Ferries Division
- Agency-wide

### Audit Area 1 – Risk Management

The Department of Transportation has been given authority by Title 47 of state law to ensure public highways are safe and in usable condition. Part of this responsibility is to ensure highway damage is repaired. The Department's Risk Management Office, under the authority of state law (RCW 46.44), has the responsibility to recover these costs once the responsible party is identified. During fiscal year 2006, the Risk Management program collected \$3.5 million in reimbursements for damage to the highways.

The audit of the Risk Management Office focused on identifying opportunities to improve collection of money owed to the Department for these repairs.

The Risk Management Office has many good collection practices. We found the following best practices are consistently used:

Sufficient written collection policies and procedures exist.

- Debtors are contacted by phone.
- Reminder letters are periodically sent.
- Caseloads for collection staff are reasonable.
- Flexible payment options are provided to encourage repayment.
- Wage and bank matching occur to identify funds that can be used to pay the debt.

During our review, however, we did find some areas in which the Department's Risk Management Office can improve its collection efforts.

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### **Finding 5A – Transportation's Risk Management Office could improve collections by using more collection best practices.**

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#### Condition

We found that the Office is not sending delinquent accounts to the collection agency within 15 days after the due date, as its policy requires. We found that 16 of 36 accounts (44 percent) reviewed were sent to the collection agency an average of 175 days after the due date, one as late as 954 days. This contributed to delays in the collection process and decreased the chances of collecting.

Collection efforts, whether performed by Office staff or the collection agency, were not made within 30 days of the due date for 15 of 36 invoices (42 percent) reviewed. The timeliness of collection efforts ranged from 52 to 342 days after the due date. No collection efforts were made on five of these invoices although a balance was owed.

The Office did not document its consultation with legal counsel and, therefore, it cannot be determined if legal action was taken or contemplated. Further, the Department was relying on its collection agency to initiate legal action, but the

contract with the collection agency requires the Department to initiate legal action, such as placing liens on property.

### **Cause**

Current collection policies and procedures requiring delinquent accounts to be sent to the collection agency within 15 days are not consistently followed.

The Risk Management Office does not always fully document the actions, legal and otherwise, that it takes with respect to attempting to recover its damages. Therefore, it could not be confirmed that legal action was taken or contemplated. Further, the Department has not filed liens against business property because it believed it was up to the collection agencies to do so. However, the contract with the collection agency indicates it is the responsibility of the Department to file any liens and judgments against the responsible party.

### **Effect or potential effect**

If the Department improved its collection efforts, more money could be available to carry out its mission.

### **Recommendations**

To improve collection efforts, we recommend the following:

- Written policies and procedures address appropriate legal action to be taken.
- Written policies and procedures are consistently followed when collecting debt.
- Collection efforts begin within 30 days after the due date.

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## **Finding 5B – Transportation's Risk Management Office does not make collection efforts on its "traffic-control only" accounts, resulting in write-offs.**

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### **Background**

When a public highway, bridge, or elevated structure is damaged by a driver, the driver is liable to the Department for the cost of repairing the structure. The Department collects these costs, along with other incidental costs such as "traffic-control" costs. These are costs related to controlling traffic during an accident, such as directing, flagging and rerouting traffic. If an accident does not involve highway or structural damage, but does incur "traffic-control" costs, the Department sends an invoice to the responsible party for those costs. If the responsible party does not pay, the Department eventually writes off the account with no further collection action.

### **Condition**

During our review, we found the Department wrote off more than \$95,000 in "traffic-control only" accounts during fiscal year 2006 without making sufficient collection efforts.

### **Cause**

The Department has made one-time attempts to collect "traffic-control only" costs since 1961, when the Department was authorized to recover the costs of highway structural damage (RCW 46.44.110). It states one reason it has not pursued these collections is that insurance companies argue state law does not explicitly include

“traffic-control only” costs in what can be recovered by the state, and therefore insurance companies refuse to pay the charges. The Department has attempted unsuccessfully to have the law clarified around traffic control costs.

### **Effect or potential effect**

The Department is not collecting funds to which it may be entitled.

### **Recommendations**

We recommend the Legislature revise the law to add clarifying language that includes "traffic-control only" costs.

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## **Finding 5C – Transportation's Risk Management Office does not process all highway damage claims in a timely manner.**

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### **Background**

The Department's Risk Management Office is responsible for issuing invoices to the responsible party requesting payment for highway damages. The Office must have estimated repair reports and police reports before it can issue the invoice. The Risk Management Manual, Chapter 8, requires estimates for damages outside a construction zone and greater than \$700 be submitted to the Department's Risk Management Office within 20 days of the incident or discovery of the damage.

### **Condition**

During our review of highway damage accounts, we found significant delays in processing the invoices. We found:

- Repair estimates on 26 of 36 (72 percent) invoices reviewed were submitted to the Risk Management Office more than 20 days after the incident date.
- Nineteen of 36 (53 percent) invoices reviewed were issued more than 30 days after the repair cost estimate was approved. The written policies and procedures do not provide timelines for when repair estimates for damages of less than \$700 should be provided to the Department's Risk Management Office and for damages greater than \$700 within a construction zone.

### **Cause**

The Department's Regional Offices are not sending repair cost estimates to the Risk Management Office in a timely manner. Additionally, the Risk Management Office does not receive reports from the Washington State Patrol in a timely manner. Police reports are required prior to issuing an invoice to the responsible party.

The Risk Management Office's written collection policies and procedures do not adequately address the collection of all receivables and are not consistently followed. It has no timelines for when repair estimates for damages of less than \$700 should be provided to the Risk Management office. This may cause unnecessary delays in collections because the collection process cannot begin until the estimate is received.

### **Effect or potential effect**

The Department is decreasing its chances of collecting funds it is entitled to because of delays in damage estimates. The longer it takes to process an invoice, the greater



the chances the responsible party will not be located. Additionally, best practices indicate the sooner collection efforts are made, the higher the success rate of collection.

### **Recommendations**

To reduce invoicing delays, we recommend the Regional Offices send completed repair estimates to the Department's Risk Management Office weekly.

We also recommend that the Risk Management Office's written policies and procedures be updated to reflect that all repair estimates be made within 20 working days of the incident or discovery of damages.

The Department has indicated as of December 2007 it has electronic access to Washington State Patrol accident reports. This should reduce delays caused by not receiving accident reports in a timely manner.

### **Audit Area 2 – Ferries Division**

The Department's Ferries Division provides a link to communities separated by water or longer driving distances and is critical to the movement of goods and people in the Puget Sound region. It is one of the largest auto-ferry fleets in the world, carrying more than 11 million vehicles and 24 million passengers each year. During fiscal year 2006, the Ferries Division collected approximately \$137 million in fares.

Our audit focused on the collection of delinquent ridership fees for commercial and retail accounts. Commercial accounts are set up for customers who regularly use the ferry system for business purposes. After the Ferries Division creates an account for these customers, they are invoiced at the end of the month for ferry use during the month. Retail accounts involve retail stores purchasing passes that are sold to customers at ferry docks. Retail customers are invoiced immediately and receive credit for any returned and unused passes.

The Ferries Division uses a collection agency to aid in the collection of debt. The Ferries Division or its collection agency consistently uses the following best practices:

- Flexible payment options.
- Garnishing wages and seizing money from the debtor's personal bank account.

We found the Ferries Division has opportunities to improve its collection efforts.

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### **Finding 5D – Transportation's Ferries Division could improve its collection efforts by consistently applying collection best practices.**

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#### **Condition**

The Ferries Division's recently established collection procedures do not address:

- When delinquent accounts should be sent to the collection agency.
- When filing liens against debtor property should be initiated.
- How the collection agency should be monitored.

This lack of guidance contributes to delays in the collection process and decreases the chances of collecting.

We reviewed 40 delinquent invoices and found that collection efforts were not made within 30 days of the due date for 25 of 40 invoices (63 percent) reviewed. Nine of these did not have any collection effort.

The Department does not consistently make phone calls, send reminder letters, offer flexible payment options or take legal action.

The caseload for collection is unreasonably high and outside the range of best practices. A single individual is responsible for billing and receivables on almost 2,000 accounts. Her duties include performing collection activity on any accounts that go delinquent prior to them being sent to the collection agency.

### **Cause**

During the audit period, the Ferries Division had informal collection policies and procedures. A lack of formal written policies and procedures in the Ferries Division also may have contributed to the ineffectiveness in collection procedures. Although the Department has agency-wide collection procedures, these were not used by the Division and do not provide sufficient guidance for collection activities related to the Ferries Division.

The lack of using best practices is attributed to a large caseload. The employee responsible for collections has additional duties that have caused a heavy workload and the inability to spend a sufficient amount of time on collection efforts.

The Ferries Division has not filed liens against business property because it believed it was up to the collection agencies to do so. However, the contract with the collection agency states it is the responsibility of the Department to file any liens and judgments against the responsible party.

### **Effect or potential effect**

If the Department improved its collection efforts, more money would be available to carry out its mission.

### **Recommendations**

We recommend the Ferries Division:

- Modify its policy to address best practices and timing for sending delinquent accounts to the collection agency.
- Make contact with the debtor no later than 30 days after the due date.
- Contact the debtor by phone.
- Send reminder letters.
- Consider adding collection agents to result in reasonable caseloads or send cases to collections agencies more timely.
- Take legal action.

## Audit Area 3 – Agency-wide

### **Finding 5E – Transportation's agency-wide collection policies and procedures should be updated to reflect collection best practices.**

#### **Background**

The Department has agency-wide policies and procedures that apply to all divisions. The TRAINS Accounts Receivable User Manual provides guidance for when collection letters should be sent and when phone calls should be made.

#### **Condition**

During our review of the agency-wide collection policies and procedures, we found the following:

- The TRAINS Accounts Receivable User Manual recommends phone calls at 60 days past due. This policy does not follow best practices which indicate phone calls should be made immediately after the due date.
- No guidelines for when filing liens against debtor property should be initiated.
- No guidelines for how collection agencies should be monitored.
- No guidelines for sharing data with other agencies to aid in the collection process.

#### **Cause**

The Department was not aware its policy did not address several best practices.

#### **Effect or potential effect**

When employees do not have appropriate guidance on how best to collect debt, it is likely that best practices are not used.

#### **Recommendations**

We recommend the Department's agency-wide collection policies and procedures be updated to reflect collection best practices, including the following:

- Phone calls should be made no later than 30 days after the invoice is past due, instead of the current 60 day past due policy.
- Liens against debtor property should be made, with follow-up done by the collection agencies
- Collection agencies should be monitored to ensure all appropriate collection activity has been taken.

We further recommend the Department consider a data-sharing agreement with other state agencies to aid in the collection process and identify debtors who are owed refunds that can be applied to amounts owed to the Department.

# Response from the Office of Financial Management



STATE OF WASHINGTON  
OFFICE OF FINANCIAL MANAGEMENT

Insurance Building, PO Box 43113 • Olympia, Washington 98504-3113 • (360) 902-0555

August 6, 2008

The Honorable Brian Sonntag  
State Auditor  
P.O. Box 40021  
Olympia, WA 98504-0021

Dear Auditor Sonntag:

Thank you for the opportunity to provide this coordinated response for the six state agencies involved in the performance audit on collection of state debt.

We are pleased the audit confirmed the excellence of the state's primary collection program. The Department of Revenue (DOR) is responsible for collecting taxes and accounted for 76 percent of the dollars this audit reviewed. The audit found that both this program and the smaller Benefit Overpayment Recoveries Program at the Employment Security Department (ESD):

- Employ all significant best practices identified in the audit.
- Use many additional best practices.
- Have streamlined debt collection operations.
- Have excellent performance measures to measure the effectiveness of debt collection efforts.

These conclusions correspond to other recognition for debt collection efforts that include the 2005 Outstanding Public Service Award DOR received from the American Society of Public Administration for effective collection practices.

Debt collection is only part of a larger set of responsibilities for other audited programs. For example, the Housing Trust Fund provides loans for affordable housing, and the Toxics Cleanup Program is charged with cleaning up contaminated sites. While these programs have taken steps to improve debt collection, it is unclear how much additional money can be collected when dealing with long-term housing loans or cases involving years of litigation.

Attached is our joint response to the report, sent on behalf of the six state agencies involved in the audit, which includes a summary of agency action steps that address the findings. Many of the recommendations have been implemented since initial audit fieldwork was performed in 2006. Additional information about detailed action plans can be obtained from the individual agencies.

Sincerely,

  
Victor A. Moore  
Director

Enclosure



cc: Cindy Zehnder, Chief of Staff, Office of the Governor  
Joyce Turner, Deputy Chief of Staff, Office of the Governor  
Larisa Benson, Director, Government Management Accountability and Performance  
Cindi Holmstrom, Director, Department of Revenue  
Karen Lee, Commissioner, Employment Security Department  
Judy Schurke, Director, Department of Labor and Industries  
Juli Wilkerson, Director, Community Trade and Economic Development  
Jay Manning, Director, Department of Ecology  
Paula Hammond, Secretary, Department of Transportation

**Official Agency Response to the 2008 Performance Audit Report  
“Collection of State Debt”  
August 2008**

The following state agencies prepared this coordinated management response to the audit report received on Tuesday, July 29, 2008: Department of Revenue (DOR), Employment Security Department (ESD), Department of Labor and Industries (L&I), Department of Ecology (ECY), Department of Transportation (DOT), Department of Community Trade and Economic Development (CTED), and the Office of Financial Management (OFM).

**OVERALL RESPONSE TO AUDIT RESULTS**

**The majority of state’s debt is being collected timely.** We are pleased the audit confirmed the state’s largest collection program is doing an excellent job. The Department of Revenue (DOR) is responsible for collecting taxes, and accounted for 76 percent of the dollars reviewed in this audit. The audit found that both DOR and the smaller Benefit Overpayment Recoveries program at the Employment Security Department (ESD):

- Employ all significant best practices identified in the audit.
- Use many additional best practices.
- Have streamlined debt collection operations.
- Have excellent performance measures in place to measure the effectiveness of debt collection efforts.

**Many best practices are already being used.** Most of the programs used the majority of identified best practices at the time of the audit. Since 2006, all of the audited programs have strengthened their debt collection efforts. Although best practices were used, their consistent use could not always be verified. These programs are focusing on improving documentation and consistently using best practices. Additional activity to further enhancement of debt collection is underway and outlined below in the action steps for each agency.

**The amount of “cost savings,” or additional debt that can be collected by the state, is questionable.** Industry-standard best practices may apply to certain lines of state business, but not all. Therefore, it is unclear how much *additional* debt can be collected by changing collection practices. For example, L&I used this opportunity to take a comprehensive look at their operations to maximize collections. The changes staff made went beyond the audit recommendations, and we are very encouraged that they have since shown an increase in debt collection in the Industrial Insurance Claims Benefit Overpayments program.

However, other lines of business at the state do not lend themselves as well to the same type of success. For example, debtors in other programs such as Toxics Cleanup at Ecology are involved in extensive litigation, and the program will not realize similar collection increases or “cost savings.” The Housing Trust Fund program strives to collect debt while keeping citizens in their homes.

We have included more detailed responses to the findings below, categorized by state agency.

Official Agency Response to the 2008 Performance Audit Report  
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**COMMUNITY TRADE AND ECONOMIC DEVELOPMENT**

**Finding 1A: The Housing Trust Fund program at the Department of Community, Trade and Economic Development should improve its timeliness for restructuring loans.**

RESPONSE: We were pleased the audit found the Housing Trust Fund follows all applicable best practices identified in this audit. We agree that timeliness for restructuring loans could be improved. We are researching best practices in similar programs to determine reasonable expectations of timeframes for different types of “workouts,” such as loan restructuring, transfers of property, sales of property, and contractor’s loan portfolio analysis. We want to ensure we use accurate and appropriate benchmarks for “timely” resolution. These benchmarks will become the basis for measuring performance on our “workouts.”

**Action Steps:**

- Modify contract language to require quarterly, instead of annual, payments. *Completed.*
- Determine benchmarks and set goals for loan in “workout.” **By July 2009.**
- Evaluate options for improving timeliness. **By July 2009.**

**Finding 1B: The Department of Community Trade and Economic Development could improve collections by implementing more collection best practices.**

RESPONSE: CTED department staff have already begun implementing recommended best practices. In June 2007, we began billing in advance of providing services, to ensure all necessary costs were recovered as required by law. As of early July 2008, all outstanding debt had been collected.

**Action Steps:**

- Send invoices in advance of providing services. *Completed.*
- Draft funding and invoicing procedures that address all of the actions listed in the recommendation. *Completed.*
- Fully implement new procedures. **By October 2008.**

**DEPARTMENT OF ECOLOGY**

**Finding 2A: The Department does not consistently use collection best practices in the Toxics Cleanup Program when attempting to collect on delinquent debt owed to the state.**

RESPONSE: Ecology has implemented several best practices, and is actively considering others. Even with the use of these practices, this program will probably not be able to collect more outstanding debt, or collect it more quickly. For example, \$14.7 million, or 74 percent of the audited receivables, is for the cleanup of a severely contaminated former smelter site. Cleanup of the Asarco Superfund site began in the early 1990’s, and the responsible party paid Ecology for eight years. In 2003, Ecology and the Attorney General prepared for additional legal action to force payment of outstanding invoices. In 2005, the company filed for bankruptcy protection. Ecology is currently involved in extended bankruptcy hearings to recover costs incurred.

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**Action Steps:**

- Update receivable write-off policy. *Completed.*
- Begin collection efforts 30 days after the due date. *Completed.*
- Document collection efforts by site managers. *Completed.*
- Evaluate recommendations and add new policies and procedures as appropriate.  
**By October 2008.**
- Fully implement new policies and procedures. **By December 2008.**

**EMPLOYMENT SECURITY DEPARTMENT**

**Finding 3A: The Employment Security Department could improve the amount it collects from delinquent Unemployment Insurance taxpayers by using more collection best practices.**

RESPONSE: We are pleased this program employed six of the eight identified best practices at the time of the audit in 2006. Since then, we have started using the other two practices: documenting collection calls, and making contact with delinquent employers within 30 days after the employer's debt is established. Additionally, as we work to develop a new tax system, we will determine the feasibility of using automated dialing.

**Action Steps:**

- Issue revised policy clarifying documentation requirements for UI Tax Collection activities, including all phone contacts. Incorporate into new Collections Manual. *Completed.*
- Send billing statements and make phone contacts with delinquent employers within 30 days. *Completed.*

**Finding 3B: The Department did not retain Unemployment Insurance Tax Collection records in accordance with state records retention laws.**

RESPONSE: As noted in the audit, the ESD took immediate corrective action in December 2006, and now retains copies of the billing statements.

**DEPARTMENT OF LABOR AND INDUSTRIES**

**Finding 4A: Collection success could be improved if collection efforts are made within 30 days after the account becomes delinquent.**

RESPONSE: We agree, and have addressed this best practice. As of July 1, 2008, we issued a revised collections timelines policy directing that accounts already in collections be contacted within 30 days of each new delinquency. This policy also requires that in most situations, we will file a tax lien within 30 days of the final assessment. Supervisors have additional monitoring steps in place to ensure timeline requirements are met.

**Action Steps:**

- Issue revised collections policy. *Completed.*
- Add automated computer reminder that will alert staff when an already overdue account receives an additional debt. **By October 31, 2008.**



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- Change our computerized legal exception report to notify supervisors if a warrant is not issued within 45 days of final assessment. **By October 31, 2008.**

**Finding 4B: Consistent use of collection best practices could improve collection results on claims benefit overpayments.**

RESPONSE: Beginning January 1, 2007, we revamped our entire claim overpayments unit and processes. Initial phone contact with all new debtors is required within 30 days of assignment. Collection letters and filing warrants are issued timely. Increased monitoring by supervisors ensures compliance. We also use an automated review of data from DSHS and reporting to Employment Security for wage matching and garnishment and analyze banking data for similar action when unable to secure payment or a voluntary payment agreement. Finally, we established guidelines for shorter-term payment agreements.

Following these changes, we experienced an increase in claim overpayment collections of approximately \$2 million each year from fiscal years 2006 to 2008.

We also have begun a clean-up effort on all claim overpayment caseloads. Initial analysis shows more than 1,000 debtors that owe less than \$100. The majority of those debtors owe less than \$60. It is not cost-effective to pursue full and active collection activity for these cases. Therefore, we are triaging cases to determine those that need warrant filing, reminder letters and release from caseloads. Similarly, we are working to close older cases that already have warrants in place, and should be removed from active status because the debtors are insolvent without employment, have left the state or are in similar situations.

**Action Steps:**

- Revise claims overpayment procedures, and collections and training manuals. *Completed.*
- Triage cases owing less than \$100. **By September 30, 2008.**
- Close older cases as appropriate. **By October 31, 2008.**
- Assign additional staff from another collection unit to assist with older case review. See also response to finding 4C. **By August 31, 2008.**

**Finding 4C: Collection agents have large caseloads that decrease the effectiveness of collection efforts.**

RESPONSE: We have analyzed available data and implemented a plan to reduce caseloads without adding staff. We are reassigning staff to assist in claim overpayment collections over the course of a six-month review period, with initial analysis after the first three months. During this time, case review triage efforts on claim overpayment debts will be completed, and we will be able to determine the effects of both the additional staffing on claim overpayment collection efforts and assignment of additional premium cases to field agents. After the full caseload review is complete, we will determine how best to allocate resources for collection of current debt.

**Action Steps:**

- Make final decisions on permanent assignment of staff to various debt types, as well as overall needs for collection staffing. **By March 2009.**

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**Finding 4D: The Department does not use accounts receivable aging reports to monitor the collection of delinquent Industrial Insurance Premiums and Claims Benefit Overpayments.**

RESPONSE: We have started using aging reports as part of our overall analysis of collections as of July 1, 2008. We have also used more complex data and analysis programs as part of our analysis of caseloads of claim overpayment collections.

**Action Steps:**

- Use accounts receivable aging reports. *Completed.*
- Use more complex aging data and analysis programs to help analyze caseloads of claim overpayment collections. *Completed.*

**DEPARTMENT OF TRANSPORTATION**

**Finding 5A: The Risk Management Office could improve collections by using more collection best practices.**

RESPONSE: We are pleased this program employed six of the eight identified best practices at the time of the audit in 2006. We are already in the process of incorporating the remaining best practices by updating collections policies and procedures, including legal actions. We also will coordinate to ensure the office's policies and procedures are consistent with agency-wide policies and procedures.

**Action Steps:**

- Complete update of Enterprise Risk Management's policies and procedures. **By December 31, 2008.** See also response to finding 5E.
- Document collection efforts, especially for collection efforts beyond the Enterprise Risk Management Office (i.e., Attorney General's Office, collection agency). **By December 31, 2008.**

**Finding 5B: The Risk Management Office does not make sufficient collection efforts on its “traffic-control only” accounts, resulting in unnecessary write-offs.**

RESPONSE: DOT and their Attorney General's representative believe the law is unclear regarding our authority to collect costs for traffic control “only” claims, following incidents when no highway damage occurred. Traffic control “only” claims also tend to be lower value, and the cost to litigate would likely be more than the recovery itself.

**Action Steps:**

- We will follow legislative direction regarding possible revisions to the law.

**Finding 5C: The Risk Management Office does not process all highway damage claims in a timely manner.**

RESPONSE: We agree the recommendations will strengthen the office's collection program. We have already made significant strides in reducing claims delays by implementing electronic submittal of repair cost estimates.

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**Action Steps:**

- Update policies and procedures to reflect that repair estimates should be submitted weekly. **By March 31, 2009.** See also response to finding 5E.
- Obtain accident reports from the Washington State Patrol via electronic access. *Completed.*

**Finding 5D: The Ferries Division could improve its collection efforts by consistently applying collection best practices.**

RESPONSE: We agree, and will ensure the recommendations are incorporated into the division policies and procedures and followed by Ferries Division staff. We also will coordinate to ensure division policies and procedures are consistent with agency-wide policies and procedures.

**Action Steps:**

- Update Ferries Division policies and procedures. **By December 31, 2008.** See also response to finding 5E.
- Evaluate options for reducing caseloads. **By December 31, 2008.**

**Finding 5E: The Department's agency-wide collection policies and procedures should be updated to reflect collection best practices.**

RESPONSE: We agree with the majority of recommendations, and will update our agency-wide collection policies and procedures. However, unlike other agencies covered in this multi-agency audit, DOT does not have the legal authority to use collection practices such as filing liens on property. Like most other claimants, DOT must first receive a judgment from the courts to determine liability. Since court involvement is necessary, it is not always cost-effective to proceed with legal action, since the cost of litigation often would outweigh the collection.

**Action Steps:**

- Incorporate best practices, as applicable, to agency-wide policies and procedures. **By December 31, 2008.**
- Evaluate current use of collection agencies and opportunities to maximize value of this resource. **By December 31, 2008.**

Finding	Action Step	Lead	Due Date	Completed with Current Resources	Budget Impact	Needs Legislation
F-1A	Modify contract language to require quarterly, instead of annual payments.	CTED	Completed	✓		
F-1A	Determine benchmarks and set goals for loan in "workout."	CTED	July 2009			
F-1A	Evaluate options for improving timeliness.	CTED	July 2009		Possibly	
F-1B	Send invoices in advance of providing services.	CTED	Completed	✓		
F-1B	Draft funding and invoicing procedures that address all of the actions listed in the recommendation.	CTED	Completed	✓		
F-1B	Fully implement new procedures.	CTED	Oct 2008			
F-2A	Updated receivable write-off policy.	ECY	Completed	✓		
F-2A	Begin collection efforts 30 days after the due date.	ECY	Completed	✓		
F-2A	Document collection efforts by site managers.	ECY	Completed	✓		
F-2A	Evaluate recommendations and add new policies and procedures as appropriate.	ECY	Oct 2008			
F-2A	Fully implement new policies and procedures.	ECY	Dec 2008			
F-3A	Issue revised policy and incorporate into new collections manual.	ESD	Completed	✓		
F-3A	Send billing statements and make phone contacts with delinquent employers within 30 days.	ESD	Completed	✓		
F-4A	Issue revised collections policy.	L&I	Completed	✓		
F-4A	Add automated computer reminder that will alert staff when an already overdue account receives an additional debt.	L&I	Oct 2008			
F-4A	Change computerized legal exception report to notify supervisors if a warrant is not issued within 45 days of final assessment.	L&I	Oct 2008			
F-4B	Revise claims overpayment procedures, and collections and training manuals.	L&I	Completed	✓		
F-4B	Triage cases owing less than \$100.	L&I	Sep 2008			

F-4B	Close older cases as appropriate.	L&I	Oct 2008			
F-4B	Assign additional staff from another collection unit to assist with older case review. See also response to finding 4C.	L&I	Aug 2008			
F-4C	Make final decisions on permanent assignment of staff to various debt types, as well as overall needs for collection staffing.	L&I	Mar 2009	Possibly		
F-4D	Use accounts receivable aging reports.	L&I	Completed	✓		
F-4D	Use more complex aging data and analysis programs to help analyze caseloads of claim overpayment collections.	L&I	Completed	✓		
F-5A	Complete update of policies and procedures. See also response to finding 5E.	DOT	Dec 2008			
F-5A	Document collection efforts, especially for collection efforts beyond the Risk Management Office (i.e., Attorney General's Office, collection agency).	DOT	Dec 2008			
F-5B	Follow legislative direction regarding possible revisions to the law.	n/a	At legislative discretion			▼
F-5C	Update policies and procedures to reflect that repair estimates should be submitted weekly.	DOT	Mar 2009			
F-5C	Obtain accident reports from the Washington State Patrol via electronic access.	DOT	Completed	✓		
F-5D	Update Ferries Division policies and procedures.	DOT	Dec 2008			
F-5D	Evaluate options for reducing caseloads.	DOT	Dec 2008	Possibly		
F-5E	Incorporate best practices, as applicable, to agency-wide policies and procedures.	DOT	Dec 2008			
F-5E	Evaluate current use of collection agencies and opportunities to maximize value of this resource.	DOT	Dec 2008	Possibly		

## Appendix A: Cross-reference of Initiative 900 Elements to Audit Findings

<b>Initiative 900 Elements</b>	<b>Audit Findings</b>
1. Identification of cost savings.	1A, 1B, 2A, 3A, 3C, 4A, 4B, 4C, 5A, 5B, 5C, 5D
2. Identification of services that can be reduced or eliminated.	No recommendations
3. Identification of programs or services that can be transferred to the private sector.	4B, 4C
4. Analysis of gaps or overlaps in programs or services and recommendations to correct gaps or overlaps.	1A, 1B, 2A, 3B, 4C, 4D, 5B, 5C, 5D, 5E
5. Feasibility of pooling information technology systems.	No recommendations
6. Analysis of the roles and functions at the agencies and recommendations to change or eliminate roles or functions.	No recommendations
7. Recommendations for statutory or regulatory changes that may be necessary for the agencies to properly carry out their functions.	5B
8. Analysis of the agencies' performance data, performance measures and self-assessment systems.	No recommendations
9. Identification of best practices.	1A, 1B, 2A, 3A, 3C, 4A, 4B, 4C, 5A, 5C, 5D, 5E

## Appendix B: Recommendations for the Washington State Legislature

### Legislative Recommendation 1

We recommend the Legislature revise RCW 46.44.110 to add clarifying language that includes “traffic-control only” costs.

#### Background

When a public highway, bridge, or elevated structure is damaged by the operator of a vehicle, the driver is liable to the Department of Transportation for the cost of repairing the structure. The Department collects these costs, along with other incidental costs such as “traffic-control” costs. These are costs related to controlling traffic during an accident, such as directing, flagging and rerouting traffic. If an accident does not involve highway or structural damage, but does incur “traffic-control” costs, the Department will send an invoice to the responsible party for those costs. If the responsible party does not pay, the Department eventually writes off the account with no further collection action.

During our review, we found the Department of Transportation wrote off more than \$95,000 in “traffic-control only” accounts during fiscal year 2006 without making sufficient collection efforts.

The Department has made one-time attempts to collect “traffic-control only” costs since 1961, when the Department was authorized to recover the costs of highway structural damage (RCW 46.44.110). It states one reason it has not pursued these collections is that insurance companies argue state law does not explicitly include “traffic-control only” costs in what can be recovered by the state, and therefore refuse to pay the charges. Advice from our legal counsel has indicated this law applies to incidental costs related to highway damage and would include “traffic-control only” costs. The Department has attempted unsuccessfully to have the law related to traffic control costs clarified.

#### Effect or potential effect

The Department is not collecting funds to which it is entitled.

#### Criteria

RCW 46.44.110 gives the Department authority to collect from individuals who caused highway damage. It states in part:

“Any person operating any vehicle or moving any object or conveyance upon any public highway in this state or upon any bridge or elevated structure that is a part of any such public highway is liable for all damages that the public highway, bridge, or elevated structure may sustain as a result of any illegal operation of the vehicle or the moving of any such object or conveyance or as a result of the operation or moving of any vehicle, object, or conveyance weighing in excess of the legal weight limits allowed by law. This section applies to any person operating any vehicle or moving any object or contrivance in any illegal or negligent manner or without a special permit as provided by law for vehicles, objects, or contrivances that are overweight, overwidth, overheight,

or overlength. Any person operating any vehicle is liable for any damage to any public highway, bridge, or elevated structure sustained as the result of any negligent operation thereof. When the operator is not the owner of the vehicle, object, or contrivance but is operating or moving it with the express or implied permission of the owner, the owner and the operator are jointly and severally liable for any such damage. Such damage to any state highway or structure may be recovered in a civil action instituted in the name of the state of Washington by the department of transportation. Any measure of damage to any public highway determined by the department of transportation by reason of this section is prima facie the amount of damage caused thereby and is presumed to be the amount recoverable in any civil action therefor.



## Appendix C: Full List of Best Practices

In addition to the significant best practices in Appendix D, we found the following best practices:

Create a statewide collection committee to discuss and share strategies to improve collections throughout the state.

*Source: State of Oregon*

Monitor bankruptcy cases to ensure claims are processed in a timely manner.

*Source: State of North Carolina*

Provide a toll free number to receive tips and create a system for follow-up.

*Source: State of Kansas*

Use a vendor payment offset program where agencies share information so that a refund owed to a customer by one agency is used to pay a debt owed to another agency. This would include lottery winnings and working with federal agencies, such as the Internal Revenue Service, to apply any refunds to state debt.

*Source: States of Arizona, Maryland, Michigan and Oregon*

Use information from different state databases to locate debtors. For example, the licensing database from the Department of Licensing can be used to identify the address of a debtor. There is also a “new-hire” national database which provides information on newly hired employees. Agencies can subscribe to this service to identify debtors’ who may have new employment.

*Source: States of Arizona, California and Oregon*

Use an in-house collection unit as the primary means of collecting on debt. This would include a collections manager and highly trained collection staff. Having an in-house collection unit provides the agency with first hand knowledge of why certain debts have gone bad and will allow the agency the opportunity to correct any issues caused by the agency, such as bad invoice data. Collection agencies don't have an incentive to share this information because they want the business of collecting on overdue accounts.

*Source: State of North Carolina*

Create a Collections Policies and Procedures manual. This will provide consistency of collection efforts and is particularly important because collection staff turnover can sometimes be high because of the nature of the job.

*Source: Billing and Collections Best Practices by Steven Bragg*

Use summary aging reports to aid management in collection activities.

*Source: State of Oregon*

Use individual account files that electronically record collection steps performed and other account history information.

*Source: State of Oregon*

Use software designed specifically for collection activities. For example, auto-dialing software, such as the Predictive Dialer System (PDS), enables collectors to call more debtors with less effort. Some states are also using an Automatic Call Distribution System (ACDS) which manages and processes incoming calls and provides computer-generated responses to basic questions, such as account balances. They also use a Simon Board which reflects information from PDS and ACDS such as the number of incoming and outgoing calls, and hold and wait times.

*Source: State of Arizona, North Carolina and Oregon*

Provide field collectors with handheld computers which contain specific taxpayer information. This will allow them to initiate payment plans and log case activity while in the field.

*Source: State of Arizona*

Create an online document management system. This will allow collection staff immediate access to pertinent documents and make collection efforts more efficient.

*Source: State of North Carolina*

Increase collection staff to increase the amount of collections if it is determined to be cost effective.

*Source: State of Kansas*

Analyze collection to cost ratios (the amount collected for each dollar spent) to determine the efficiency of collecting on debt.

*Source: State of Maryland*

Use automated systems that prioritize collection efforts. Efforts should be targeted at those accounts that will provide a higher chance of success with the highest balances. For example, an analysis could be done to identify 20% of the accounts which make up over 80% of the total amount to be collected. Additionally, accounts should be analyzed to more accurately target the amount of collection activity per account. For example, serious collection efforts should be targeted to those accounts that have a history of negligence. Automated letters can be sent to those who have a good payment history.

*Source: General Accountability Office, States of Arizona, Maryland and North Carolina*

Provide incentives to collection staff to increase their collection efforts.

*Source: General Accountability Office*

Assign the most difficult cases to the best collection staff because they often are very skilled at defining the underlying reason for the delinquency and helping to resolve it. This will work only if a group of "elite" collectors is created and provided higher pay for their efforts.

*Source: Billing and Collections Best Practices by Steven Bragg*

Monitor collection efforts. Establish realistic performance goals and follow-up on goals not met with an action plan.

*Source: States of California and Maryland*

Clearly define account ownership. Assign accounts to specific collection staff rather than circulating the account among collectors. This allows the collection staff to become more familiar with the accounts, to create relationships with the debtors and increases the chance of successful collection.

*Source: Billing and Collections Best Practices by Steven Bragg*

Maintain regular contact with the debtor until the debt is resolved.

*Source: State of Kansas*

Set up a periodic payment schedules.

*Source: State of Michigan*

Use collection agencies only to supplement collection efforts, such as when staffing is low and the agency has determined accounts are uncollectible.

*Source: General Accountability Office and States of North Carolina and Oregon*

Monitor collection agencies by reviewing reports showing the amount of money collected and the percentage of accounts successfully collected.

*Source: State of Michigan*

When using collection agencies, monitor when the collected funds are remitted from the collection agency to the hiring agency. Funds remitted several days after the due date could be an indicator that the collection agency is having cash-flow problems.

*Source: Billing and Collections Best Practices by Steven Bragg*

Prescreen customers before taking legal action. Because of the high cost of legal action, a customer should be analyzed to determine their ability to pay. This may include running a credit report to determine the number of judgments and tax liens already against the customer.

*Source: Billing and Collections Best Practices by Steven Bragg*

Consider implementing an "Offer and Compromise" program where a debtor can negotiate paying a smaller amount of the debt owed to encourage some payment on the debt. If this program is used, a standard set of procedures and guidelines should be created to ensure uniformity of implementation.

*Source: State of North Carolina*

Perform account reviews before they reach their statute of limitations to allow sufficient time to conduct thorough collection efforts.

*Source: State of Arizona*

Allow electronic filing of returns.

*Source: State of North Carolina*

Provide a toll free number for taxpayers seeking assistance or information.

*Source: State of North Carolina*

Consider participating in joint tax collection projects with other states.

*Source: General Accountability Office*

Monitor businesses to ensure they are using the correct tax filing schedules.

*Source: State of North Carolina*

Use information from other local and state agencies to identify unregistered businesses.

*Source: State of Kansas*

Use information from third parties to identify unregistered businesses. For example, the construction industry has a report called the "Dodge Report" which identifies transient employers that may not be remitting withholding tax.

*Source: State of Kansas*

Do automated cross-checking to identify businesses that are not registered for all applicable taxes. This is also known as a "tax clearance."

*Source: State of Kansas*

Develop a system to determine if businesses and/or individuals are remitting the trust taxes they owe. For example, match report of sales taxes remitted to monthly reports showing individual sales and taxes collected.

*Source: State of Kansas*

## Appendix D: Criteria

**Section 8.1** of the Billing and Collection Best Practices, by Steven M. Bragg, 2005 states, in part:

"Create a collections policies and procedures manual: 'Many tasks are involved in the collections process, ranging from how to file a shortage claim with a freight carrier to the process used to issue dunning letters or turn over an invoice to a collection agency. This body of knowledge can be lost if a considerable amount of turnover occurs within the collections department, resulting in gradual changes in how procedures are completed. Eventually, the alterations can result in less efficient or incorrect activities within the department.....The solution is to capture the correct way to process transactions in a policies and procedures manual.'"

**Section 85.54.50** of the State Administrative and Accounting Manual states, in part:

"Written procedures are to be developed and followed to ensure that past due receivables are followed up promptly and in a manner that is cost-effective for the overall collection program. These procedures are to provide for the full range of collection procedures to be used as appropriate, including issuance of statements and dunning letters, phone and personal interviews, filing of suits and liens, referral to private collection agencies or letter services, etc."

**Pages 17 and 22** of Performance Audit Report 04-24, State of Kansas, Legislative Division of Post Audit, October 2004, state:

"When taxes first become delinquent, acting quickly to collect them increases the likelihood they'll be paid. Those chances diminish as time goes by."

"A good system for collecting delinquent taxes should include such elements as making quick contact once a business becomes delinquent, maintaining regular contact until the debt is resolved, and using legal actions when necessary to bring a business into compliance."

**Page 28** of State of Kansas Performance Audit Report 04-24 entitled Tax Enforcement: A K-GOAL Audit Determining Whether the Department of Revenue Is Collecting the Delinquent Trust Taxes Owed the State, states, in part:

"Because the Department stands a better chance of collecting delinquent taxes the more quickly it acts, the Department should take a number of steps to speed up its processes, as follows: a. reduce the amount of time an account waits to enter collections after it is identified as delinquent. ... the Department should attempt to reduce this period to a maximum of 30 days ..."

**Page 5** of the United States General Accounting Office's Report entitled New Delinquent Tax Collection Methods for IRS, May 1993, states:

"... the sooner telephone contact is made, the better the chances are of recovering past due money. According to private and state collectors, early telephone contact is cost-effective and allows the collector to determine why payment has not been made, establish future payments schedules, and update information on the debtor's status."

**The State of Oregon's** Secretary of State Audit Report entitled Debt Collections: Progress Made But Opportunities for Improvement Still Exist, page 4 states, in part:  
"As part of our audit, we researched effective collection procedures as described in professional literature. Our research suggested the use of one tool, the telephone, to strengthen collection programs. ... This study also found that the sooner telephone contact was initiated, the greater the chances were of collection."

**Section 8.13** of the Billing and Collection Best Practices, by Steven M. Bragg, 2005 states, in part:

"The automatic issuance of dunning letters is a cost-effective method for establishing continual communication with customers regarding overdue invoices. It is particularly suitable to those situations where it is impossible to create personal relationships with customers through more expensive collection calls."

**The State of Oregon's** Secretary of State Audit Report entitled Debt Collections: Progress Made But Opportunities for Improvement Still Exist, page 3 states, in part:

"... units with higher revenue agent activity and collection rates had much lower collection agent caseloads. ... Agency reported workloads for collection agents ... were about 600 accounts per agent. ... We recommend that agencies with collection units .. review the costs and benefits of their collection activity and take steps to reduce caseload, or increase staffing, or both, with the goal of improving the frequency and timeliness of collection activities."

**The best practices** for accounts receivable, credit and collections management section of the Global Best Practices resource provided by PriceWaterhouseCoopers recommends the use of electronic payments. It states:

"... companies find electronic payment mechanisms effective. Such mechanisms include monthly debits to bank accounts and credit cards. Sales and collection efforts are usually more successful when customers know they can make payment conveniently."

**Page iii** of the State of Arizona Office of the Auditor General's Report to the Legislature entitled Department of Revenue – Collections Division Performance Audit, states:

"The Division can encourage taxpayers to pay their tax debts by making it easier to do so. Auditors identified three potential approaches to improving payments options: Accepting credit card payments, expanding the use of automatic withdrawals and establishing payment plans by phone and Internet. ..."

**Page 25** of Performance Audit Report 04-24, State of Kansas, Legislative Division of Post Audit, October 2004, state:

"A good system for collecting delinquent taxes should include such elements as ... using legal actions when necessary to bring a business into compliance. ... Filing a tax warrant secures the Department's claim to the debt and allows it to initiate more aggressive collection actions. ... Filing a tax warrant is the essential first step for pursuing other legal actions."

**Page 5** of the State of Arizona Office of the Auditor General's Report to the Legislature entitled Department of Revenue – Collections Division Performance Audit, states:

“... the Division should consider improving the [bank and wage] matching program that is used to identify wage levy sources and consider new matching opportunities ...”

**Section 85.54.50.a** of the State Administrative and Accounting Manual states that: "Agencies with more than \$50,000 in past due receivables are to prepare aging reports at least monthly. Aging reports are required to be reviewed by management and such review documented on the report."

**Section 85.54.50.d** of the State Administrative and Accounting Manual states, in part, that:

"RCW's 19.16.500 and 82.32.265 allow the use of collection agencies for the purpose of collecting public debts. Agencies are encouraged to use collection agencies whenever they determine that this will be more cost effective than internal collection efforts."

**Section 85.54.50.f** of the State Administrative and Accounting Manual states that: "Agencies are to document all efforts made toward the collection of receivables."

**RCW 51.48.140** gives the Department of Labor and Industries authority to issue court warrants for non payment of premiums due. It states in part:

"If a notice of appeal is not served on the director and the board of industrial insurance appeals pursuant to RCW 51.48.131 within thirty days from the date of service of the notice of assessment, or if a final decision and order of the board of industrial insurance appeals in favor of the department is not appealed to superior court in the manner specified in RCW 34.05.510 through 34.05.598, or if a final decision of any court in favor of the department is not appealed within the time allowed by law, then the amount of the unappealed assessment, or such amount of the assessment as is found due by the final decision and order of the board of industrial insurance appeals or final decision of the court shall be deemed final and the director or the director's designee may file with the clerk of any county within the state a warrant in the amount of the notice of assessment."

**RCW 51.48.150** gives the Department authority to issue notices to withhold and deliver property due to an employer. It states in part:

"The director or the director's designee is hereby authorized to issue to any entity, a notice and order to withhold and deliver property of any kind whatsoever when he or she has reason to believe that there is in the possession of an employer, property which is or shall become due, owing, or belonging to any employer upon whom a notice of assessment has been served by the department for payments due to the state fund."

**Industrial Insurance** Collections Policy Manual, Policy 72.01 states in part:

"Revenue officers will file a warrant in the appropriate county no later than 30 days after expiration of the NOA (Notice of Assessment) appeal period." Chapter 46.29 RCW, known as the Financial Responsibility Law, allows the Department to seek a suspension for a driver's license to aid in the collection of debt owed to the Department.

**RCW 46.44.110** gives the Department authority to collect from individuals who caused highway damage. It states in part:

“Any person operating any vehicle or moving any object or conveyance upon any public highway in this state or upon any bridge or elevated structure that is a part of any such public highway is liable for all damages that the public highway, bridge, or elevated structure may sustain as a result of any illegal operation of the vehicle or the moving of any such object or conveyance or as a result of the operation or moving of any vehicle, object, or conveyance weighing in excess of the legal weight limits allowed by law. This section applies to any person operating any vehicle or moving any object or contrivance in any illegal or negligent manner or without a special permit as provided by law for vehicles, objects, or contrivances that are overweight, overwidth, overheight, or overlength. Any person operating any vehicle is liable for any damage to any public highway, bridge, or elevated structure sustained as the result of any negligent operation thereof. When the operator is not the owner of the vehicle, object, or contrivance but is operating or moving it with the express or implied permission of the owner, the owner and the operator are jointly and severally liable for any such damage. Such damage to any state highway or structure may be recovered in a civil action instituted in the name of the state of Washington by the department of transportation. Any measure of damage to any public highway determined by the department of transportation by reason of this section is prima facie the amount of damage caused thereby and is presumed to be the amount recoverable in any civil action therefor.

**Revised Code of Washington 80.50.071** requires quarterly billing by the Energy Facilities Site Evaluation Council:

"The council shall submit to each applicant a statement of such expenditures actually made during the preceding calendar quarter which shall be in sufficient detail to explain such expenditures. The applicant shall pay ..."

**Guidance for** the retention of public records is provided in RCW 40.14.060(1). It states in part:

“Any destruction of official public records shall be pursuant to a schedule approved under RCW 40.14.050. Official public records shall not be destroyed unless:

- (a) Except as provided under RCW 40.14.070(2)(b), the records are six or more years old.”



## Appendix E: Agencies' Background Information

### **Community, Trade and Economic Development**

The Department of Community, Trade and Economic Development states its mission is to "invest in Washington's communities, businesses and families to build a healthy and prosperous future." It works closely with an array of state and local partners to provide services that advance the economic, social and physical well-being of citizens in the form of loans, grants and contracts. The Department's Director is appointed by the Governor.

The agency administers about 200 programs with state, federal, local and private money. These programs support state and local efforts to:

- Attract, retain and expand business activities.
- Provide sound policies for managing growth and better managing energy resources.
- Increase international trade and tourism.
- Develop affordable housing, community facilities and infrastructure.
- Provide support services for vulnerable populations to assist them in times of crisis and help them achieve self-sufficiency.

The Department has eight divisions:

- Community Services
- International Trade and Economic Development
- Energy Policy
- Housing
- Public Works Board
- Local Government
- Administrative Services
- Financial Services

Its headquarters are in Olympia and it has regional offices in Seattle, Elma, Tukwila, Mount Vernon, Wenatchee, Shelton, Kennewick, Walla Walla and Spokane. It has trade representatives in Mexico, South Korea, Japan, China, Taiwan and Germany. The Department has approximately 360 employees and had an operating budget of \$463 million for the 2005-07 biennium.

### **Department of Ecology**

The Department of Ecology was established by the state Legislature to oversee Washington state's environmental stewardship. The Director is appointed by the Governor. The Department states its mission is "to protect, preserve and enhance Washington's environment and promote the wise management of air, land and water for the benefit of current residents and future generations." The Department headquarters, located in Lacey, is supported by four regional offices and nine satellite offices across the state.

The Department's activities are accomplished through 10 environmental programs. The Toxics Cleanup program was created to protect human health and the environment by cleaning up contaminated sites. The Department has identified nearly 10,000 contaminated sites in Washington since its inception in 1989. Approximately 6,000 of these are the result of leaking underground storage tanks. The Department works with the organizations and individuals responsible for the contamination to

reimburse the state for the clean-up costs.

## **Employment Security Department**

The Employment Security Department was established in the 1930s and is responsible for collecting unemployment insurance taxes from employers and paying unemployment benefits to those who become unemployed by no fault of their own. The Department states its mission is to "Help Washington's workers and employers succeed in the global economy by delivering superior employment services, timely unemployment benefits, and a fair and stable unemployment insurance system." The Commissioner, the head of the Department, is appointed by the Governor.

The Department pays Unemployment Insurance benefits to eligible Washington citizens. There are instances in which a citizen receiving unemployment benefits begins earning wages and does not notify the Department. This results in overpayments that the Department seeks to recover. The Department assesses approximately \$13 million per year in unemployment benefit overpayments. It has 14 agents collecting on the detected overpayments.

The Department employs 1,900 people. The headquarters is in Olympia, with 10 district tax offices and multiple WorkSource offices throughout the state.

## **Department of Labor and Industries**

The Department of Labor and Industries was established in 1911 to provide industrial insurance to the citizens of Washington. Prior to the establishment of the program, business and labor in the state were engaged in costly lawsuits that resulted in higher costs to businesses and fewer benefits to injured workers. After the program was established, workers gave up their right to sue employers for a work-related injury or illness in return for guaranteed medical treatment and wage replacement.

The Department states its mission is to "support the state's economic well-being by protecting the safety of Washington's workers, providing benefits to injured workers and ensuring fair wages and quality industry services." The Director is appointed by the Governor.

Occasionally, overpayments of benefits will occur when an injured worker begins to work again and does not notify the Department. Since the Department gets wage information from the Department of Employment Security quarterly, it will not be immediately aware of employment if the individual does not report it directly to Labor and Industries. When overpayments occur, individuals are assessed for all amounts overpaid.

The Department employs approximately 2,600 people at its Tumwater headquarters and in 22 service centers across the state.

## **Department of Transportation**

The Department of Transportation is responsible for planning, building, and operating complex highway, ferry, freight and passenger rail systems. The Department's mission is "to keep people and business moving by operating and improving the state transportation systems vital to our taxpayers and communities." On July 1, 2005, the Department became a cabinet agency and, therefore, the Secretary of Transportation is appointed by the Governor.

The Department maintains more than 20,000 lanes of highway and 3,555 bridges and tunnels. The Ferries Division includes a fleet of 28 vessels as well as terminals throughout the Puget Sound transporting more than 23 million people annually. The Department also helps local transit agencies throughout the state providing bus, vanpool, and other transit services. Additionally, the Department runs 89 freight railroad cars that carry grain in Eastern Washington and operates 16 emergency airfields.

## **Department of Revenue**

The Department of Revenue is the primary tax collection agency for the state. The Department states its mission is "to fairly and efficiently collect revenues and administer programs to fund public services, and advocate sound tax policy." It is responsible for collecting 60 different taxes, totaling approximately \$14 billion each year. It collects 91 percent of the state's General Fund tax revenues and all local sales tax revenues. The majority of taxes collected include retail sales and use tax, and business and occupation tax.

During fiscal year 2006, the Department was responsible for collecting \$191 million in taxes that were not paid on time from approximately 6,400 delinquent accounts. It employs approximately 125 collection agents around the state.

