

Management Audit of the Department of Revenue

Prepared for the
Board of Supervisors of the
County of Santa Clara

Prepared by the

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August 31, 2010

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August 31, 2010

Supervisor Ken Yeager, Chair
Supervisor Dave Cortese, Vice Chair
Board of Supervisors Finance and Government Operations Committee
70 West Hedding Street
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Dear Supervisors Yeager and Cortese:

We have completed a management audit of the County of Santa Clara Department of Revenue. This study was conducted pursuant to the authority of the Board of Supervisors in accordance with the Board's power of inquiry, as provided in Article III, Section 302 (c) of the County Charter. The audit was conducted in conformity with the United States Government Accountability Office (GAO) Audit standards.

The scope of the audit included a review of all operations, ranging from cashiering and other support functions, to collections methods and tactics. A draft report was issued July 14, 2010, and exit conferences were held with the Department of Revenue and Valley Medical Center Administration on July 27, 2010. This audit report includes six sections, and presents findings and recommendations related to payment methods and the contract that facilitates on-line and telephone payments, collections tactics, and particular issues with regard to collection of medical debts. The report also provides recommendations related to Collection Officer duties, workload and procedures, as well as management information.

In addition, 12 comparable entities were surveyed, including the 10 most populous counties, to obtain information on specific areas of operations, and to identify specific policies and procedures utilized by these other jurisdictions. Responses were received from eight counties, including the County of Santa Clara Department of Revenue. The report includes 20 recommendations, including three recommendations directed to Valley Medical Center and 17 recommendations directed to the Department of Revenue. Valley Medical Center and DOR agreed or partially agreed to all of the 20 recommendations.

Implementation of the recommendations in the report would:

Supervisor Ken Yeager
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- (1) improve the ability of debtors to reach a Collections Officer;
- (2) improve the convenience and reduce the expense of making debt payments, likely increasing revenues;
- (3) reduce fees to the debt-paying public, improve compliance with County policies, and reduce the lag time between when medical debts become delinquent and when collections begin;
- (4) significantly reduce the volume and age of accounts on Collection Officers' caseloads, and expand the availability of collections options available to the Department, and
- (5) improve the information available to management regarding collections rates and the age of accounts.

Each 1 percent increase in gross revenue collections resulting from implementation of these recommendations would increase County revenues by approximately \$550,000 per year.

We would like to thank all of the staff and management of the Department of Revenue for their tremendous assistance throughout the audit process. Their cooperation is greatly appreciated.

Respectfully Submitted,



Roger Mialocq
Board of Supervisors Management Audit Manager

c:

Supervisor Gage
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Executive Summary

This *Management Audit of the Department of Revenue* was authorized by the Board of Supervisors of the County of Santa Clara, as part of the County's FY 2009-10 Management Audit Program, pursuant to the Board's power of inquiry specified in Article III, Section 302 (c) of the County of Santa Clara Charter. The purpose of the management audit was to examine the Department's operations broadly to identify opportunities to increase efficiency, effectiveness and economy. A synopsis of this report's six findings and recommendations is presented below. It is difficult to estimate the potential net new revenues that would be generated by implementation of recommendations in the report. However, for each one percent increase in gross overall collections, the Department would generate an estimated \$550,000 annually.

Section 1: Improving Payment Methods

The County of Santa Clara Department of Revenue (DOR) could make it easier for debtors to make payments, thus potentially increasing net revenue receipts. Potential improvements include allowing debtors to accept default payment plans by mail, facilitating credit-card payments by mail, enabling debtors to pay online or by telephone without incurring convenience fees, and making online payment options more accessible, among other potential improvements.

Section 2: Contract for Online and Telephone Payments

The existing contract with an outside vendor for the Department to accept online and telephone payments is contrary to County policies and results in debtors being charged excessive fees when they make payments. The Department should ensure that fee rates are appropriate, and that the selected vendor and fees are approved by the Board of Supervisors.

Section 3: Improving Medical Debt Collections

The largest portion of outstanding debt in DOR's accounts system is medical. In addition, \$391 million worth of medical bills were deemed uncollectible in FY 2008-09. Medical account collections could be improved by Valley Medical Center gathering better information about patients to determine eligibility for third-party payment, billing the patient share more quickly, and requiring patients to sign reimbursement agreements for future use when appropriate. In addition, DOR could improve its collections by writing off aged bad medical debts more quickly to facilitate improved focus on accounts more likely to be fruitful.

Section 4: Improving Collections Tactics

The Department could employ or expand certain collections tactics to potentially improve its collection rates and thus net revenue receipts. These include - where appropriate - levying bank accounts, reporting delinquent debt to credit bureaus, and making greater use of existing predictive/auto dialer technology.

Section 5: Collections Officer Duties, Workload and Procedures

The Department's active caseloads are very large and populated with very old accounts, the Department provides insufficient direction to staff regarding prioritization of accounts, and many Collections Officers and Supervisors are engaged in duties that are outside the scope of their job descriptions. By eliminating old accounts, improving prioritization of remaining accounts, hiring additional collections staff, and ensuring that collections staff are not engaged in non-collections tasks, the Department is likely to experience a net increase in revenue receipts.

Section 6: Improving Management Information

Despite the large amount of reports produced by the Department, management lacks detailed, routine management-level information reports related to collection rates and the age of accounts. The Department should develop this information for use in guiding the development of caseload management policies and their implementation.

Introduction

This Management Audit of the County of Santa Clara Department of Revenue was authorized by the Board of Supervisors of the County of Santa Clara, as part of the County's FY 2009-10 management audit program, pursuant to the Board's power of inquiry specified in Article III, Section 302 (c) of the County of Santa Clara Charter.

Purpose and Scope

The purpose of the management audit was to examine the operations and practices of the Department of Revenue, and to identify opportunities to increase the Department's efficiency, effectiveness and economy. This audit report includes findings related to the Department's collections tactics, payment methods, medical debt collections, contract for online and telephone payments, Collections Officer duties, workload and procedures, and management information.

The recommendations pertaining to these findings present potential strategies for revenue enhancement, many of which cannot be quantified. Nonetheless, for every 1 percent increase in gross overall collections generated by implementation of these recommendations, the Department would generate an additional \$550,000 annually. Many recommendations in this audit relate to implementing changes that have benefited collections in other counties.

Audit Methodology

Auditors interviewed Department employees throughout all levels and divisions of the organization, as well as representatives of other County departments that provide collections services, and other Counties' in-house collections functions. Auditors also interviewed staff in or obtained data from relevant County departments, including Procurement, the Controller-Treasurer, County Counsel, Social Services, the Tax Collector, the Department of Child Support Services and Valley Medical Center. In addition to the interviews, auditors sat with selected cashiers and collectors to gain a first-hand understanding of the activities and tasks involved in their duties. Auditors reviewed and analyzed documents, reports, policies and procedures, spreadsheets, and datasets and electronic records provided by the Department, and surveyed collections functions in other California Counties to enhance our understanding of collections operations. In addition, auditors interviewed and obtained data from key Patient Billing Services managers of Valley Medical Center who oversee the billing and internal collections efforts that occur prior to medical accounts being referred to the Department of Revenue.

The audit was conducted in accordance with generally accepted government auditing standards issued by the United States Government Accountability Office. Pursuant to these requirements, we performed the following management audit procedures:

- Audit Planning – The management audit was selected by the Board of Supervisors using a risk assessment tool and estimate of audit work hours developed at the

Board's direction by the Management Audit Division. After audit selection by the Board, a preliminary management audit work plan was developed and provided to the Department.

- Entrance Conference – An entrance conference was held with senior Department management to introduce the management auditors, describe the management audit program and scope of review, and respond to questions. A letter of introduction from the Board, a management audit work plan, and a request for background information were also provided at the entrance conference.
- Pre-Audit Survey – A preliminary review of documentation and interviews with managers were conducted to obtain an overview understanding of the Department, and to identify areas of operations that warranted more detailed assessments. Based on the pre-audit survey, the work plan for the management audit was refined.
- Field Work – Field work included: (a) interviews with management and line staff of the Department; (b) a further review of documentation and other materials provided by the Department and available from other sources; (c) analyses of data collected manually and electronically; (d) surveys of other jurisdictions to measure performance and to determine organizational and operational alternatives that might warrant consideration by the Department, and (e) observations of cashing and collections activities.
- Status Report – Auditors provided the Department management with an overview of the audit's main general findings and conclusions on May 27, 2010.
- Draft Report – A draft report was prepared and provided to the Department on July 14, 2010. The draft report was also provided to County Counsel to obtain input regarding legal and labor issues that surfaced during the course of the study. Other departments described or discussed substantively in the draft report were provided applicable sections of the report for their review and comment.
- Exit Conference – An exit conference was held on July 27, 2010 with Department managers and supervisors to collect additional information pertinent to the report, and to obtain their views on the report findings, conclusions and recommendations.
- Final Report – A final report was prepared after review and discussion of the report content with responsible managers and the Department. Management was requested to provide a written response, which is attached.

The Nature of Debts Collected by DOR

The Department of Revenue (DOR) is the County's central collections agency for both current and delinquent account collections. Delinquent debt accounts in departments across the County organization are referred to DOR, except for the Tax Collector, Department of Child Support Services, and Social Services, which collect their own delinquent debts. Senate Bill (SB) 940, effective January 2004, required counties to provide a collection program for delinquent court-ordered debt, and this requirement is

met through the Court's collections arrangement with the Department of Revenue. Additionally, the Department collects delinquent debts for the Health and Hospital System, including Valley Medical Center.¹ It also collects current and delinquent debts for the Department of Probation.

The Department also collects small amounts of money for a variety of other County entities, including Animal Control, the Assessor's Office, the Clerk-Recorder's Office, the Communications Department, the Information Systems Department, the Sheriff's Office, the Public Defender's Office, the County Library, the Department of Agriculture and Environmental Services, the Controller-Treasurer's Department, the District Attorney's Office and the Employee Services Agency. In addition to collections, the Department processes "non collections" receipts, as described later in this introduction.

Based on a sample of 3,004 accounts housed in the accounts receivable system, the status of accounts on the date that the sample was drawn in late December, 2009 was as follows:

- 27.4 percent had been worked by staff and were referred to an outside collections program such as Court-Ordered Debt or Bay Area Credit
- 25.5 percent had been worked by staff and were paid in full
- 21.8 percent were still being actively worked by in-house Collections Officers
- 27.4 percent had been worked by staff and were referred to an outside collections program such as Court-Ordered Debt or Bay Area Credit
- 25.5 percent had been worked by staff and were paid in full
- 21.8 percent were still being actively worked by in-house Collections Officers
- 15.4 percent had been worked by staff and were referred to the Tax Intercept program²
- 5.5 percent had been worked by staff and were deemed uncollectible
- 4.4 percent had been worked by staff and sent to litigation or were in some other status that was not part of the active Collections Officer caseload

Of the 21.8 percent of sampled accounts that were still in an active status the vast majority of outstanding debt for these accounts was for medical bills. Based on the sample, the estimated total number of accounts still in an active, in-house status and their value as of late December 2009, is shown in Table I.1 on the following page.

¹ At the commencement of this audit, the Department's agreement with the court had expired, but the business partnership continues, following the terms of the original agreement.

² This program enables the Department to intercept State income tax refunds to apply to unpaid debts owed the County, if such refunds exist.

Table I.1**Estimated Number and Value of Accounts in Active Status
at the Department of Revenue as of Late 2009**

Type	Estimated Number of Active Accounts	Estimated Value of Active Accounts	Percent of Value	Average Account Value
Civil Assessments ³	6,592	\$ 5,910,683	2%	\$897
Traffic Tickets	7,367	\$ 5,566,680	2%	\$756
Other	10,275	\$ 12,549,739	4%	\$1,221
Probation and Court ⁴	44,784	\$ 60,859,371	19%	\$1,359
Medical	55,640	\$233,820,687	73%	\$4,202
Total	124,658	\$318,707,160	100%	\$2,557

Source: Department of Revenue

Collections Officer Caseloads and Account Balances

There are 37 Revenue, Senior Revenue, and Supervising Collection Officers, for an estimated average 3,369 active accounts per collector, as of late 2009. The number of accounts per Collector varies considerably, with a range from a few hundred accounts for Supervisors to 6,500 accounts for “Justice” unit staff. Based on a review of one day’s “work in progress” (WIP) reports, outstanding account values on those reports ranged from one cent to \$521,335 on that day. The Department has individual outstanding accounts in excess of \$1 million. In addition to the “active” collections cases, the Department staff is also ultimately responsible for a wide variety of additional accounts that have been referred to the next appropriate level of collections efforts, such as litigation.

Non-Collections Receipts

These accounts and their approximate revenues in FY 2008-09 are shown in Table I.2. These types of accounts generally are handled by the Department’s accountants, and do not involve the collections staff. The only exception to this is that collections supervisors

³ These Civil Assessments are for informal probation, or “muni” accounts only. Civil Assessments are also imposed on delinquent traffic violations.

⁴ This includes Victim Restitution accounts.

may become involved when a retiree fails to pay medical insurance premiums. Such circumstances are estimated to make up less than half of one percent of the department's total accounts with balances due.

Table I.2

**FY 2008-09 Non-Collections Receipts
Processed by the Department of Revenue**

Receipt Type	Gross Receipts
Retiree medical insurance premium payments	\$9,555,748
Parking citation payments	\$3,683,840
Franchise fee payments	\$1,489,631
Transient occupancy tax payments	\$ 406,809
Total Non-Collections Receipts	\$15,136,028

Source: Department of Revenue

Collections Accounts and Receipts

The Department engages in collections activities, such as skip tracing and establishment of installment payment plans, primarily for debts such as traffic fines and fees, formal and informal probation fines and fees, other Court-imposed charges, unpaid medical bills incurred by patients at Valley Medical Center and the Health Department, and miscellaneous accounts, including Family Court debts. All of these accounts are maintained in the Department's Columbia Ultimate Business Systems (CUBS) accounts receivable system. Excepting 5,273 retiree medical premium accounts that were generally non-collections accounts but that also were processed through the CUBS system, there were an estimated 616,294 collections accounts in the CUBS system in FY 2008-09.⁵

Of this total number of accounts, 413,694 (or 67 percent) were accounts that:

- Had no charges posted during FY 2008-09;
- Had no adjustments⁶ posted during FY 2008-09; and
- Had no payments posted during FY 2008-09.

⁵ This count is based on a report generated by the Department on April 11, 2010, inclusive of 46,800 accounts purged during FY 2008-09.

⁶ Adjustments include any type of change to the account, other than a payment, that changes the amount due. For example, a judge might issue an order to reduce a probationer's fines or fees.

The remaining 202,600 accounts had at least one type of monetary posting during the year, in the form of charges, adjustments, payments or some combination of these. Table I.3 shows the gross collections on these *fiscally active* accounts.

Table I.3

**Estimated Gross Receipts by Type for 202,600
Fiscally Active Collections Accounts in FY 2008-09**

Type of Debt	Estimated Payments on Fiscally Active Accounts	Estimated Collections Rate	Number of Accounts	Estimated Average Annual Payment
Probation and Court Accounts	\$27,985,732	57.2%	92,454	\$302.70
Traffic Tickets	\$18,812,539	88.0%	62,103	\$302.92
Medical Bills	\$ 7,364,848	8.7%	44,049	\$167.20
Miscellaneous	\$ 592,305	53.1%	3,994	\$148.30
Total for Fiscally Active Accounts	\$54,755,425	35.1%	202,600	\$270.26

Source: Department of Revenue

It should be noted that these amounts are not matched to accounts, meaning that receipts do not necessarily relate to account charges. Receipts may have been posted to accounts in FY 2008-09 for charges incurred many months or years earlier. In addition, the number of medical accounts figure is inclusive of “boomerang” accounts that were referred to DOR but then referred back to the hospital for billing to the responsible insurer. The dollar value of these accounts is excluded from the payments column.

In addition to the medical receipts shown in Table I.3 above, the Department of Revenue and Valley Medical Center also identified at least \$12.3 million worth of accounts receivable in FY 2008-09 that had not been billed to applicable third-party payers, such as Medi-Cal, Medicare, or private insurance, by the Health and Hospital System. This amount is for the hospital only and does not include similar types of “boomerang” accounts for physician fees and health department debts. Such amounts are estimated to be much smaller. An undetermined amount of these bills were subsequently paid by private insurance, Medi-Cal, Medicare or other programs, thus resulting in an undetermined but material additional amount of revenue to the County. Such receivables are described in detail in Section 3 of this report.

The sum of the revenues in Table I.2, the revenues in Table I.3, and the unbilled medical account receivables identified by the Department of Revenue in FY 2008-09, is \$82.2 million. This is more than \$1 million in revenues for every DOR employee.

Overall Net Collection Rates

As previously shown, the majority of the Department's accounts were not *monetarily* active in FY 2008-09, in the sense that there were no charges, adjustments, or payments on those accounts. The lack of fiscal activity on the accounts does not imply or equate to a lack of *collections* activity on the accounts. Collections activity carried out in FY 2008-09 will result in revenue received in subsequent years that is not reflected in the FY 2008-09 collections amounts. Table I.4 on the following page provides an overview of all gross debt and receipts that were in the Department's accounts receivable (CUBS) system as of December 5, 2009. The time period for these transactions is unknown.

Table I.4

Total Collections on 578,258 Accounts as of Dec. 5, 2009

Debt Type	Debt Amount	Collections	Percent
Court and Probation	\$362,572,827	\$117,241,331	32.3%
Traffic Tickets	\$ 98,152,625	\$ 50,250,296	51.2%
Medical	\$354,655,605	\$ 43,292,099	12.2%
Miscellaneous	\$ 7,144,256	\$ 2,208,280	30.9%
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DOR Total	\$822,525,313	\$212,992,006	25.89%
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Private Agency Total	\$ 43,901,613	\$ 2,856,267	6.51%
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Grand Total	\$866,426,926	\$215,848,273	24.91%

Source: DOR system balance verification report, Dec. 5, 2009

Office Hours

The Department of Revenue's office is located at 1555 Berger Drive, Building 2, in San Jose. It is open most weekdays from 8:00 a.m. to 5:00 p.m., with the last payment accepted at 4:45. In an effort to provide better customer service and increase telephone contact with debtors, beginning on September 1, 2009, the department began a pilot program in which the office is open from 8:00 a.m. to 7 p.m., on Tuesday evenings, with the last payment accepted at 6:45. Half of the department staff works late every other

Tuesday to facilitate public access in the evening hours. The office is closed on weekends.⁷

Organizational Staffing, Structure and Functions

As of November 2, 2009, the Department, which was within the County's Finance Agency, had 80 authorized positions.⁸ These positions included a Director and support staff, an Information Systems Unit, staff responsible for general collections, staff responsible for justice system collections, and support staff. Each of these units is further described below.

Excluding extra help staff, half of the Department's authorized positions are in administrative or support roles; the other half serve in collections units. Of the 42 positions in collections functions, there was one Office Specialist with time split between the two collections units, four Collections Clerks, 30 Collections Officers, including two vacancies, five Senior Collections Officers, and two Collections Supervisors. According to the Department, 12 support staff also engage in an hour of collections activities per day.

Director's Office

The Department has a Director who is supported by an Executive Assistant, an Administrative Services Officer I/II and an Office Specialist III. The following activities are carried out in this unit: policy development; program planning and implementation; legislation review; budget development, monitoring, reporting and planning; management analysis; personnel; labor relations; procurement; contracts; payroll; facilities; safety; training coordination; forms management; travel coordination; accounts payable; and performance of overall clerical tasks for the department.

Information Systems Unit

The Department has an Information Systems Unit, which is staffed by two Information Systems Managers and two Information Systems technicians. The unit maintains the Department's data and communication systems, network, workstations, and web site, and resolves processing problems. It is responsible for processing automated payment interfaces and issuing monthly billing statements and delinquent notices.

The Unit develops new systems solutions to enhance production and efficiency capability and in response to legislative changes regarding fines, fees, new mandates and programs. Oversight of Department security and HIPAA requirements resides in this Unit.

⁷ It should be noted that private collections agencies generally operate during non-standard business hours during the week and on the weekends.

⁸ On April 13, 2010, the Board of Supervisors approved the addition of 12 new unclassified positions for expansion of traffic collections (known as the Traffic-2 program.) At the time of the issuance of this report in September 2010, these staff had not yet been hired.

Fiscal Services Units

Fiscal Services consists of units for cashiering, accounting control, input/legal, and reconciliation/special projects. All of these units are overseen by the Department Fiscal Officer and are further detailed below. Fiscal Services oversees incoming revenues from Transient Occupancy Tax and Franchise Utility -Fees and prepares DOR's portion of the County cost allocation plan and other required fiscal reports. This area of the Department administers the San Jose State University Student Internship agreement. Fiscal Services also administers the County parking violation collections service, including the 2nd level Parking Appeals Board. Staff in the Department serve as hearing officers for these appeals.

Fiscal Services - Cashiering

As of November 2009, the Cashiering Unit was staffed by a Supervising Account Clerk, four Account Clerks, and five cashiers, including two vacancies.

This unit is responsible for receiving and posting payments to the accounts receivable system (CUBS). The daily business fluctuates, based on the time of month. It is busiest about the second week after bills are received (half are generated on the 7th of the month, half on the 21st). Staff members receive and post payments made in person (150-400 people per day), by mail (500-3,000 pieces per day), and through the Internet payment web site and EDS telephone payment option.

The Cashiering Unit is responsible for the timely posting of all payments. Most payments are processed using a BancTec automated payment processor located at the Tax Collector's Office. The DOR public counter is staffed by cashiers who receive and post payments and direct clients to collection staff for interviews and related account concerns. Cash and checks, as well as money orders, credit cards and payment via the telephone and internet are balanced daily and forwarded to the bank for deposit. Unidentified payments or overpayments are researched, applied to outstanding debts or refunded by the staff in this unit.

Fiscal Services - Accounting Control

As of November 2009, the Accounting Control Unit was staffed by one Supervising Account Clerk, a Sr. Account Clerk, and six Account Clerks. This unit is responsible for initiating and posting financial adjustments, payments and refunds to existing accounts, reinstating purged accounts, consolidating charges, and the daily internal balancing of accounts receivable on CUBS. The unit also audits the automated transfer of new court accounts. Staff review Court minute orders which identify the financial obligations for each case, and they calculate the appropriate allocation to myriad recipient entities. This unit is the contact point for inquiries from and communication with victims of crime.

Fiscal Services - Legal / Input

As of November 2009, the Legal/Input Unit was staffed by one Supervising Account Clerk, four Account Clerks, and five Office Specialists. Legal Support staff prepare legal documents for Court action, including Small Claims applications, Order and Judgments, Summons and Complaint documents, Writs of Execution, Abstracts of

Judgment, Satisfactions, and Memoranda of Cost. These documents are required to support legal actions to collect on accounts. The unit manages the coordination of process service and certified mailing for legal documents. This unit also conducts Bankruptcy research. Input staff perform data entry set-up of all non-electronically processed accounts (e.g., Victim Restitution, Weekend Work, Electronic Monitoring Program, Family Court Services, County payroll wage overpayments). They also transcribe accounts receivable recap detail and provide data entry of any additions to existing electronically processed accounts, i.e., new hospital and court accounts which are processed through automated file transfers. This unit provides telephone receptionist support for the Department (1,200-1,500 calls per week), handles the processing of mail as well as mail returns (700-1,000 per week), and the entry of address changes to existing accounts (100-400 per week).

Fiscal Services – Reconciliation and Special Projects

As of November 2009, the Reconciliation and Special Projects Unit was staffed by three Accountants. Staff in this unit reconcile all financial activity to all funds, prepare County and Court revenue distributions to numerous dispositions, issue restitution payments to victims, prepare refunds of overpayments, and post all Franchise Tax Board (Tax Intercept Program and Court Ordered Debt Program) and Bay Area Credit payments. Bay Area Credit is a local private collection agency that provides contracted outside collection services. DOR refers cases to Bay Area Credit after it has exhausted its efforts with the cases.

Collections Units

General Collections

Collections units are divided between General Collections and Justice Collections. General Collections primarily provides services for medical accounts for care provided at Valley Medical Center, but also includes miscellaneous other accounts. General Collections is overseen by a Supervising Revenue Collections Officer, and divided into two units, each of which is headed by a Senior Revenue Collections Officer, plus a third unit for probate and lien accounts that is staffed by a single collector. Including the supervisor and all direct support staff, the General Collections function was authorized in November 2009 for 17.5 positions.

Revenue Collection Officers and Clerks assist debtors by explaining new accounts, providing itemized charges, interviewing to determine ability to pay, negotiating payment arrangements, establishing payment plans, verifying eligibility for Medi-Cal, and so forth. Collections staff conduct “skip tracing” by using a variety of sources to determine a debtor’s whereabouts, employment, earnings, property, liabilities, assets and ability to pay, and they recommend disposition of accounts when collection of the account cannot be realized at DOR.

General Collections is responsible for researching probate and lien accounts, filing Small Claims actions and coordinating lawsuits with County Counsel. Collection

activity also includes attachment of wages, interception of tax returns, and recordation of Reimbursement Agreements. By practice, DOR does not levy bank accounts or report accounts to credit agencies, however, accounts referred to DOR's outside collection services may be subject to these actions. Worker's Compensation - cases are referred to an outside attorney firm that specializes in this area. The firm confers and coordinates collection actions with the Supervising Revenue Collections Officer of this division.

Justice Collections

Justice Collections is overseen by a Supervising Revenue Collections Officer. Including the supervisor, authorized staffing in Justice Collections as of November 2009 was 24.5 collections staff, including two vacancies. Justice Collections is divided into three units – formal probation, traffic, and informal “muni” probation, each of which is overseen by a Senior Revenue Collections Officer. Justice collectors explain Court Orders and criminal as well as civil judgments and return delinquent accounts to the Court for issuance of bench warrants, as an Order to Show Cause or for referral to civil collection processes. For Probation cases, the Department attempts to collect full payment from probationers prior to the expiration of the probation period. An important distinction between general and justice collections is that a large share of the County's cost of justice collections is paid for by cost recovery from collections, and the majority of the revenue is not retained by the County. California Penal Code Section 1463.007 allows costs for the collection of delinquent court-ordered debt to be offset against collected fines, penalties and fees. In FY 2008-09, cost recovery for collecting justice accounts was almost \$3.9 million, - and this equated to almost 47 percent of the Department's total expenditures of \$8.3 million. Because of this cost recovery, justice collections are less expensive for the County General Fund; however, the General Fund payoff is also less, as most of the net justice funds collected flow to the court and other agencies, whereas most of the general collections dollars are retained by the County.

Department of Revenue Accomplishments

Management audits typically focus on opportunities for improvements within an organization. To provide a broader perspective on operations, this section summarizes some of the most important accomplishments of the Department. In addition, pursuant to our request, the Department Director provided a memo, incorporated herein as Attachment I.1, highlighting those accomplishments she feels are most important.

Some of the Department's self-identified accomplishments are briefly summarized below:

- Long-term collection of \$9 to \$10 for every dollar spent
- Identification of new revenues, and development of new collections programs
- Recovery of about half of costs from non-General Fund sources
- Efficiency improvements in the management of staff and work processes

- Maintaining office hours until 7 p.m. on Tuesday evenings

Topics Requiring Additional Review

During the course of a management audit, certain issues may be identified and brought to the attention of the department being audited and the Board of Supervisors, even though a specific finding is not included in the report. Discussed below are topics for further review.

Departmental Space Constraints

The space allowance for both employees and files at the Department's Berger Drive office is poor, and may become worse to the extent that the Department adds staff as authorized to expand the traffic collections program. Although Auditors have no recommendations for resolving the space shortage, the possibility of re-configuring the space to make better use of the existing offices, expansion into nearby space in the building, or re-location to a larger space, should be explored. Department management has indicated an interest in hiring an office space designer within its existing budget to explore its options regarding use of space.

Printing of Unnecessary Reports

The Department of Revenue prints at least 238 copies of paper reports for informational purposes every four weeks, primarily for use by its staff. Some of these reports are lengthy and some copies may be unnecessary. For example, the Department has a report that lists the approximately 39,000 actively worked general accounts that have been overdue for more than six months. Two copies of this report, which is approximately 795 pages long, are printed every four weeks. One copy is split apart and distributed to collectors. The other is provided to a staff person who updates a delinquency report. At the end of the week, the employee shreds it. This one - report therefore results in approximately 10,335 pages annually that are unnecessarily printed and destroyed.- The Department should review its regularly published reports to ensure that all copies are necessary, and convert as many as possible to electronic format for online use As of late July, 2010, the Department reported that it had begun converting most of its reports to electronic format, and that it was undertaking a review to determine whether some might be able to be reduced.

Internal Control Improvements

The Department could improve its compliance with the County's cash handling policy and its internal controls by:

- Posting signs at its cashier counters informing customers that they should request receipts. The absence of such signage is counter to the County's cash handling policy.

- At present, Collections Officers may deem accounts with unpaid balances of \$2,500 or less as uncollectible. This means that an average account could be deemed uncollectible without supervisory review. At present, the Department reports that a supervisor conducts an annual review of uncollectible designations. Producing regular reports to enable managers to track who is classifying which accounts as uncollectible and how often would improve controls.
- Ensuring that the key to a drawer where cash is held is not left near the drawer but kept by a supervising or lead cashier.
- Using a locked bag to transport mailed payments from the Department's offices to an offsite processing machine.

Survey of Other Jurisdictions

To gain an understanding of distinctions and similarities across California Counties' collections departments, auditors attempted to survey 12 agencies. Eight responses were received, including a response from the County of Santa Clara Department of Revenue.

Where appropriate, information from the surveys has been included in the body of the audit report. It should be noted that the survey responses are self-reported information. Auditors did not verify the accuracy of the information reported by other agencies. A summary of survey responses from each agency is incorporated as Attachment I.2. Copies of the full response by each jurisdiction are available upon request.

Highlights from the survey responses, and follow up interviews where possible, include:

- The County of Santa Clara is the only responding County with a hospital that does not require patients to sign agreements to reimburse the County for the expense of their hospital treatment;
- Responding counties other than Santa Clara have a greater share of their collections staff in direct collections positions (56 percent vs. 46 percent);
- The County of Santa Clara is the only responding county except Contra Costa to assign caseloads to Supervising Collectors;
- Other counties report higher typical payment plan amounts than Santa Clara (\$62.5 on average, vs. \$50);
- All responding counties except Santa Clara report accepting credit cards by phone with their in-house staff, usually without charging a fee. County of Santa Clara charges a variable fee. In addition, most also accept credit card payments by mail, which County of Santa Clara does not.

- Except for the County of Santa Clara, all responding counties report using bank levies to obtain money from debtors who have yet to pay by other means.
- Santa Clara is the only county that reported not having account-based criteria for prioritizing accounts for Collections Officers to work. Most other agencies prioritize accounts based on the dollar amount and/or age of accounts. It should be noted that the Department's accounts system (CUBS) does generate work lists for Collections Officers based on dollar amounts and age of the account and identifies "first" priority accounts as those with over \$5,000 in unpaid balance; however, there is no written policy regarding which of accounts should be worked first and in practice Collections Officers use their discretion to prioritize the workload.

Acknowledgements

The Management Audit Division would like to thank the Department of Revenue for their cooperation and assistance throughout this audit. All staff were cooperative, courteous, knowledgeable and generous with their time. Some recommendations are the result of interviews with Department staff, and the majority of the data contained in the report was provided by Department personnel, who often went out of their way to make information available and to assist auditors in understanding and interpreting that information. In addition, Valley Medical Center Patient Business Services and County Counsel provided invaluable assistance.

County of Santa Clara

Department of Revenue

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May 24, 2010

TO: Management Audit Division

FROM: Susan Ping Wong, Director of Revenue Collections
Department of Revenue

SUBJECT: Accomplishments of the Department of Revenue

In 1980, when the Department of Revenue (DOR) was formed, the County recognized that the collection of recalcitrant debt is a specialized function, requiring specific tools and skill sets, and following industry standards that prescribe professional and ethical conduct, organized and efficient protocols, transparent business processes, and adherence to legal requirements. The department was created to support the County's goal to maximize, preserve, maintain and strengthen the County's safety net of services for the community.

Over these 30 years, DOR has lived up to its charter, providing a clear, focused and dedicated effort for the collection of monies owed to the County, as well as to other public entities. DOR's total collections since its beginning reached **one billion dollars** in 2008, and shortly after, our **3 millionth account** was processed. Today, DOR collects for approximately 40 public entities.

Professional debt collection is a challenging and rigorous calling that can be artful at its best and disastrous at its worst. At DOR, we strive to provide a service that is beneficial for the debtor as well as the creditor. We see our job as one that provides help: we help recover funds rightfully owed to the County so that it can better provide essential services to the public; we also help debtors to accept responsibility for their obligations, to take positive action, to recover financial standing, to be informed and understand options, and to avoid unfavorable consequences of poor choices. DOR consistently lives this service ethic day in and day out, and this is one of the most important accomplishments we can achieve.

DOR employees' unique skill of blending firmness with empathy results in services that are productive, efficient, and appropriate. By design, we do not fit into the category of "hard core" collections, but nonetheless, DOR's job is well done and powerfully effective.

Collections and Revenue

In FY09, DOR total collections were **\$79M**, doubling in the last decade from \$41M in FY00. For every dollar spent by DOR, between \$9 and \$10 is collected; this ratio has remained constant for years. **In FY09, we collected \$9.52 for every dollar spent.**

Department of Revenue (DOR) – Accomplishments, May 24, 2010

Board of Supervisors: Donald F. Gage, George Shirakawa, Dave Cortese, Ken Yeager, Liz Kniss
County Executive: Jeffrey V. Smith

1

New Revenue Streams

DOR actively seeks to identify new revenue sources and enhancement possibilities by continuously exploring potential business partnerships, monitoring statute provisions and changes, investigating new statutes, updating fees/penalties, and reviewing existing processes and protocols for alternatives that would improve revenue streams.

Examples from recent years include: ▫ add interest charges where applicable ▫ new and increased fees (Adult/Juvenile Victim Restitution Admin fee, Non-Sufficient Funds fee, Retiree Health fee) ▫ new account types (Adult Traffic, Juvenile Traffic, Criminal Civil Assessment, Mental Health, delinquent business transfer tax, Valley Medical Center Professional fees [DOR's competitive RFP proposal was selected by VMC]) ▫ penalty updates (parking) ▫ add delinquency collections service (parking) ▫ change in cost allocation methodology which allows additional cost recovery per statute.

Revenue research and development efforts that are currently in progress or under discussion include: ▫ Additional Medi-Care coverage for specified unpaid Medi-Care debt ▫ Boehm Data Base Scrub ▫ Regional Partnering ▫ Pre-Trial Services fee ▫ Booking fees ▫ TIP (Tax Intercept Program) Recall Project ▫ TIP Re-sequencing Pilot ▫ Bank levies and credit bureau reporting for traffic debtor pool.

Cost Recovery

DOR's goal is to maximize its collection power within budget allocations, as the payoff is multifold. With a collection ratio of \$9.52 to \$1, careful management of staff to maximize collection activities can have significantly positive revenue results. As a consequence, we monitor expenditures closely, and to the edge. Within this context, staff are frequently deployed to different units to reduce cost or increase productivity, depending on the available work volume, the status of available funds for expenditure, and cost recoupability. At DOR, 49% of dollars collected are cost recoupable directly from collections, based on statute provisions for the collection of court ordered debt. When deploying staff, cost recovery options are taken into account to protect the General Fund as much as possible.

Resource Management

Work Process Effectiveness

Certain work processes have been broken down into tiers and segments, and then assigned to various staff, depending on the necessary expertise, process requirements, and appropriate classification. Accordingly, we have been able to reduce overall costs, speed processes, expand training, and extend coverage capacity.

Staffing Management

We employ numerous strategies to protect and improve DOR staffing depth and flexibility in order to prepare for long-term organizational strength and flexibility. Special focus is placed on cross coverage and training for the protection of institutional knowledge and staffing needs during peak/emergency periods and absences (supervisory as well as general staff).

Strategies include: ▫ Work-Out-Of-Class Program ▫ Assignment Rotation within same-class groups ▫ Succession Planning ▫ Bolstered Ancillary Staffing Where Appropriate: (Extra Help, Work Study, Student Intern Program, Stimulus Funding [CalWorks], Youth 4-Future) ▫ Duty assignment management ▫ Deployments to alternate work units ▫ Maximize production through full staff usage within budgeted appropriation ▫ Maximize Provisional and Sub-Provisional assignments, where appropriate ▫ Mentor staff seeking to enter County permanent work force, promote or advance; support and provide study materials ▫ Encourage 1:1 personal mentoring ▫ Conferences and training for both front line collection and administrative staff to expand exposure to collections profession, emerging issues and networking opportunities ▫ Expansion of parking appeal coverage; creation of hearing teams ▫ Overtime when justified, keeping collection flow strong and steady.

Program Development

Traffic

In 2005, the Court instituted a Civil Assessment (CA) Program in Santa Clara County, i.e., accounts were converted from criminal to civil status, and CA fees applied. 1) The civil status changes collection leverage to civil means such as wage garnishment, bank levy, liens, etc., and transfers enforcement to the collection industry. 2) The CA fee creates substantial discretionary revenue for Courts and Counties, originally intended to support funding of the construction of a new County Courthouse. 3) All costs of collection are recoverable from collections. 4) This system achieves greater defendant compliance accountability.

DOR and the Court formed a partnership to develop a collection program for delinquent traffic accounts under the CA Program. Over the 4.5 years since inception, the program has done very well. Collections and recovery rates have consistently climbed each successive year. Typically, delinquent collections take a number of years to reach full stream, and this program has followed that pattern.

	YEAR 1	YEAR 4
Total Traffic Collections (underlying fine and fees)	\$ 1.1M	\$ 18.5M
Civil Assessment Collections (net of cost and MOE)	0	\$ 4.0M
Success Rate (SR) AOC formula*	13.5%	88.0%
Recovery Rate after 18 months	14%	54%
See also graph showing historical Traffic Recovery Rate – last page		
*AOC consultant Gartner has established 30% as SR goal benchmark for California counties		

The Criminal Civil Assessment Program (CCA), started 2 years later, and has also done quite well, with net CA collections increasing from \$66K in the first year, to 293K in the 2nd (FY09).

In FY08, a Court-DOR Committee was formed to evaluate and analyze Traffic Program effectiveness, costs and revenue, collection practices, comparison models, and goals/objectives. Work sessions covered a broad spectrum at philosophical and overarching levels, as well as comprehensive detail.

Through this process, the DOR Traffic Program was reorganized to a more aggressive collection model, and collection techniques were tailored and/or improved. This model is distinct from a "softer" collection style that is normally practiced on our other accounts. The new model included shorter time frames, fewer notices, tougher language in letters and notices, and generally less leniency. Work processes and staffing assignments were reconfigured. Wage garnishment activity was accelerated.

The committee developed ad hoc and ongoing data reports, cost and revenue collection models, performance indicators and monitoring reports. Numerous tracking devices and reporting mechanisms were established to monitor performance. DOR prepared a Traffic Program Business Plan document.

Results: DOR overall traffic collections increased from \$11.8M in FY08 to \$18.5M in FY09. In this time period, net CA yield increased from \$2M to \$4M. All backlogs were eliminated. As of FY10, new accounts are consistently worked within 15-30 days. Unless on productive payment plan or garnishment payment, active cases held at DOR typically remain no more than 60 days before referral to next tier collections. Mail Returns are skipped within two working days. All telephone messages returned within 48 business hours. Telephone response averages 17-20 seconds. Average % calls answered is 85-90%. Wage garnishment activity is at an all-time high.

In FY10, DOR and the Court collaborated to expand the above traffic program to include a Failure to Appear CA in addition to the Failure to Pay CA. This is a more complicated model than prior. Revenues should increase significantly. The County and Court are in discussion regarding who will

be the final collection agency/agencies to collect these accounts. In the mean time, DOR and the Court are moving forward to explore, develop and implement yet another traffic collection option: installment accounts.

DOR has devoted immense effort and commitment to the traffic collection program in Santa Clara County. The task has been large, complex and at times convoluted, starting with the development, implement and stabilization of the original traffic collection program, subsequent significant process re-engineering, followed by the development of an expanded service model while under a cloud of possible loss of the program, and further followed by the development of yet another enhancement with challenging variations to be worked out. This has been a long-term endeavor, requiring patience, determination, creativity, clarity and expertise regarding the collections profession, and the will to be heard. While there have been bumps along the road, we count this journey as one of our proudest achievements.

Parking

In FY08, the department's parking appeals program was reorganized to include 2 teams of 2 management level employees that rotate the assignment (previously 2 individuals worked individually).

For the first time, DOR Appeal Officers received formal training for this duty and became certified (Public Parking Association), a requirement for all future officers.

In FY09, DOR researched County history and statewide penalty schedules and reviewed state and local surcharge requirements regarding parking penalties. The County's schedule was reorganized, updated and approved by the Board. The additional revenues will benefit the General Fund by \$182K annually.

DOR is currently working with the County Executive's Office to conduct an extensive and thorough review of the current County parking system, to include citation and appeal procedures, citation processing, parking lot signage and configurations, and the vehicle permit system. A master plan is to be developed which streamlines and improves current systems, adds new and expanded features such as bicycling options and other potential energy efficient efforts, and pays particular attention to customer service considerations.

DOR monitors the terms of the Stanford Shared Parking Revenue Agreement, determines the revenue share and processes payment. At this time, we are working with the County Executive's Office and County Counsel to develop a renewed agreement.

Customer Service

Complaints and Kudos

In our business, it is expected that there will be complaints, as delinquent debt is often a signal of personal hard times, inattention, poor choices, reduced options and/or strained resources. Dissention and dissatisfaction rise easily from such circumstances. Further, the bad economy has affected more people than ever, and there is a common reaction among all to look ever more closely for oversights, errors, and missteps to protect one's resources as much as possible. It is certainly possible that mistakes and misunderstandings occur in our complex and bureaucratic environment. Thus we see each inquiry as an opportunity to correct or improve our own processes, or at least provide personal clarification and explanation. Sometimes we can offer assistance such as payment plan arrangements, referral to assistance programs, or help in filing exception requests for past-date insurance benefits. The department works closely with Board of Supervisors Aides and County Executive staff when complaints are lodged with them. We take a case-by-case approach, investigate thoroughly, and document carefully. Every effort is made to respond clearly, thoroughly, sensitively and compassionately.

We also receive many expressions of thanks and compliment, and these are greatly appreciated. They are shared throughout the department, and entered into employee files when appropriate.

Late Day

The department now offers a DOR Late Day, which extends business hours in the evening until 7:00 p.m., every Tuesday night. This one-year pilot was created to provide better customer service for the public who find it difficult to visit during the day, and to open evening hours for collectors to make contact telephone calls to debtors. It is well known that direct and personal contact is an essential component of successful collections. We are collecting data to assess the impact of the pilot.

Leadership

Victim Restitution Committee

DOR was a co-founder of the Countywide Victim Restitution (VR) Committee, comprised of 35 members, representing 11 entities involved in VR, both County offices and outside agencies. Since 2005, the committee has convened quarterly to share in communication, address common VR issues, and work to streamline the overall process. DOR chairs this committee and serves as the central coordinator. Committee accomplishments include development of a special VR module in CJIC (the criminal justice information system) to keep track of victim information, an organized training program, development of the CR110 document which tracks important VR information from department to department, and establishment of two VR Court Calendars to hear only VR cases.

Think Tank

In FY08, a DOR task force "Think Tank" was formed, comprised of 9 volunteer line staff throughout the department to review DOR Employee Vision surveys. The group's tasks were to work with the department head to analyze employee issues, discuss them openly and frankly, interpret employee perceptions and concerns, translate these to reasonable, do-able solutions, formulate common and understandable images of success (e.g., What does good "leadership" for the department and agency look like?), serve as liaisons to general staff for communication and input to the effort, provide feedback and recommendations to management, and assist in facilitating change for improvement, where possible. This group met bi-weekly for a year.

A final report was prepared and distributed and was quite controversial due to its frankness and scope. Following issuance of the report, the Think Tank met twice with managers to discuss common ground, interpretations of the report, and ideas for working together to build excellence in the department. This effort was influential in forming a shift in the cultural makeup and managerial direction of the department.

Staff Development

DOR Training Program

The in-house DOR training program was implemented FY09. Acquisition of an additional IT position allowed an in-house IT trainer to be assigned to provide regularly scheduled internal classes and refreshers, focusing on systems applications, collections, and test preparation. (DOR staff regularly use 10-15 different systems and data bases). Additional subject experts may provide other classes as well. An administrative coordinator was assigned to post and notice training opportunities, manage application processes for speedy and maximum access, maintain training tracking and records, and maintain a resource library on DOR-related professions. A training room was set up in newly acquired space.

DOR Open House

DOR hosted an extravaganza Open House Event, with the theme, "The Greatest Show on Earth!!" ALL staff participated to provide an entertaining and fun, yet informational view of what we do here at DOR. The audience was toured through the DOR floor, with each unit representing some aspect of a circus, and reflecting specific DOR functions as Big Top acts (you had to be there). We invited DOR business partners, Berger Drive Bldg. 2 neighboring department representatives as well as all employees of the Finance Agency.

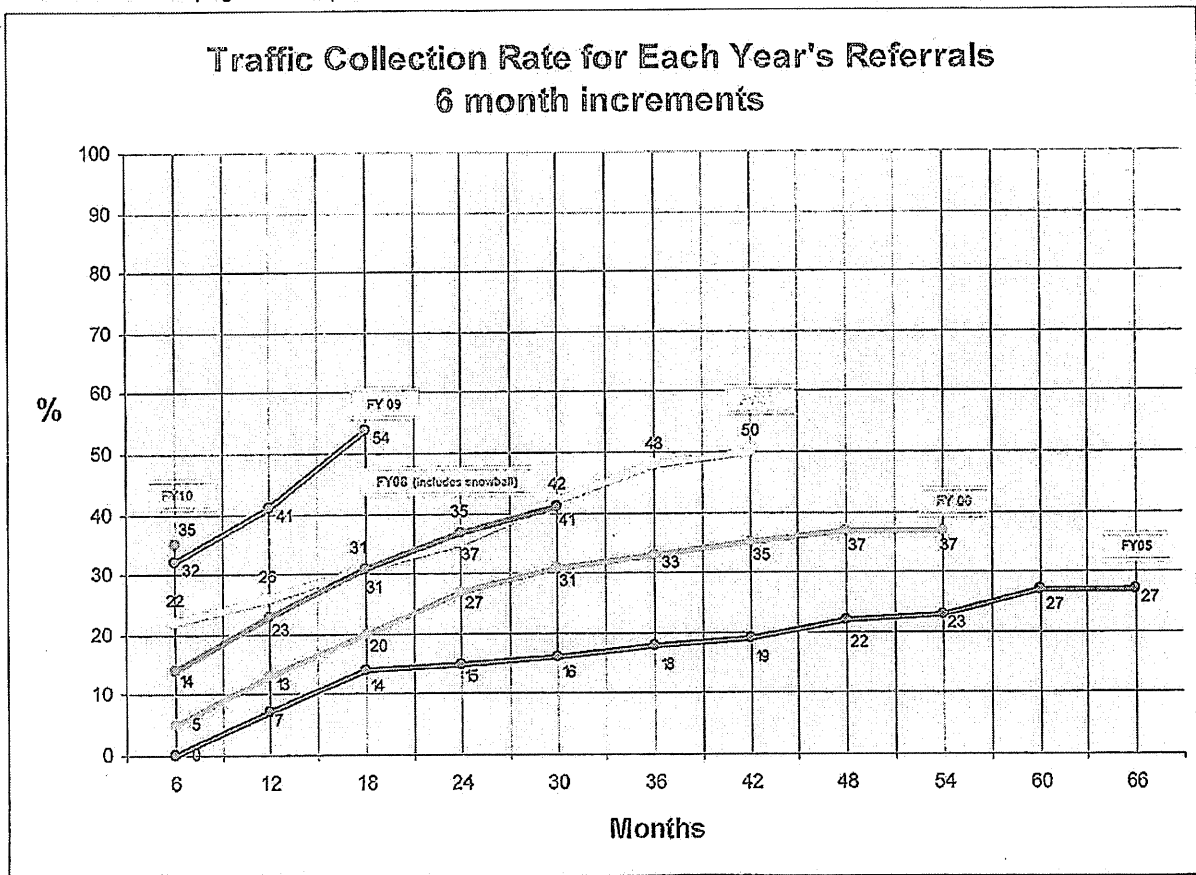
Work Environment

Space

Recognition of the department's substandard facility size and unacceptably cramped quarters for optimum working conditions has made "facility improvement" a high priority goal for the current management. A concerted effort has been made to expand DOR space, alleviate crowding where possible, improve existing space functionality and promote awareness of the need to address DOR's space needs. This goal has met significant, though still incomplete success.

- 2006 - Acquisition of adjacent contiguous space for internal break room and meeting room.
- 2007 - Expansion of new adjacent space to include frontage space by inner courtyard.
- 2008 - Remodel of new DOR space to create training room and cubicles for IT staff.
- 2009 - Design and specifications for DOR Counter and Lobby Remodel.
- 2010 - Support and planning from Property Management for additional space at Berger Drive to accommodate Traffic Unit expansion.

*** GRAPH: Also see page Traffic, page 3 ***



Highlights of Survey of Large California Counties

	Operate Hospital	Collect debts for hospital	Hospital debt referral period	Who helps patients get on programs	RA Required	Total collections office staff	Total Collectors	Percent of Staff who are Collectors	Caseload per collector	FY 08-09 Collection rate	Largest source of revenue	In-house staff take credit cards by phone	Credit card payments by mail	Credit card convenience fee	Bank levies	Highest priority accounts	Max Collector Write Off
Contra Costa	Yes	Yes	90 days	Hospital	Yes	17	10	59%	400-600	9% of assigned	medical bills	Yes	Yes	No	Yes	Defaulted payment plan	Not permitted
Fresno	no	No	N/A	NA	NA	18.5	9	49%	Not provided	Not provided	unsecured taxes	Yes	Yes	No	Yes	High dollar accounts	No limit
San Francisco	Yes	Yes	90 days	Hospital and outside vendor	Yes	65	46	71%	10,000	27% (medical)	taxes	Yes	Yes	Variable	Yes	High dollar accounts	\$ 1,000
Alameda	Yes	No (ceased in 2003)	NA	NA	NA	42	18	43%	Varies by type	27% (overall)	informal probate	Yes	No	\$3 Flat	Yes	Not provided	Not permitted
Orange	Yes	No	NA	NA	NA	12	6	50%	3,000	Not provided	Not specified	Yes	Yes	No	Yes	Accounts on aging reports	No limit
San Bernardino	Yes	Yes	NA	Various	Yes	85	61	72%	Varies	56% for FY 09-10	medical bills	Yes	Yes	No	Yes	High dollar accounts	\$ 2,500
Sacramento	No	No	NA	NA	NA	64	31	48%	All collectors are on a dialer system, no individual caseloads	35%	Traffic fines	Yes	No	Variable	Yes	Newest delinquencies	Not permitted
Santa Clara	Yes	Yes	120 days	Hospital and DOR Collection Officers	No	80	37	46%	Varies by type, overall average 3,500	42.7% of charges posted in the year	Traffic fines	No	No	Variable	No	Counter customers	\$ 2,500

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Section 1. Improving Payment Methods

- The County of Santa Clara Department of Revenue (DOR) does not use methods offered by other counties that would make the payment process more convenient for debtors and collection staff. For example, the Department does not permit debtors to set up payment plans by mail¹ or on-line, does not take credit cards directly by phone, mail or on-line, and uses a third-party agency to collect on-line and telephone credit card payments that charges debtors high fees.
- Combined with the Department's limited payment hours (8 a.m. to 4:45 p.m. on most days) and high caseloads for Collections Officers, limited payment options make it more difficult for debtors to pay, particularly in the case of debtors who cannot readily come to DOR's offices, such as non-County residents, debtors lacking transportation, and debtors without the ability to get off work during normal business hours. In addition, academic research and other counties' anecdotal reports indicate that charging fees for processing payments reduces collections. Lastly, limited payment options also result in heavier use of staff-intensive, at-the-counter payment options.
- By allowing debtors to accept default payment plans by mail, and accepting credit card payments by phone, mail and on-line via a vendor without high fees, the Department would make the payment process more convenient and less expensive, and probably increase collections. For each 1 percent increase in gross collections, the Department would receive an estimated \$550,000, an increase in net collections of 1.2 percent. Further, these steps likely would reduce foot traffic to DOR's offices, freeing staff to spend more time on collection activity and to use new collection methods as discussed in Section 4.

Existing Payment Options

Except for certain Probation cases, by the time accounts get to the Department of Revenue (DOR), they are already past due. Once the account is forwarded to DOR, the Department sends notices, such as the one shown as Attachment 1.1, to the debtor. These notices generally give the debtor three choices. Each of these options is described below.

Option 1 – Pay the entire balance in full by mail or in person by cash or check

The DOR Berger Drive office's are open to accept payments weekdays from 8 a.m. to 4:45 p.m., with extended hours to 6:45 p.m. on Tuesday evenings. There is also a Berger Drive drop box provided for drop payments 24/7. However, because the average estimated balance on an account that a debtor would receive a DOR notice on is more than \$2,550 – which is equivalent to more than 8 percent of the estimated 2008 median

¹ If a debtor mails a payment and it is considered "reasonable," DOR staff will set up a payment plan in that amount and issue bills to the debtor in that amount.

per capita gross income of the County of Santa Clara residents – it is likely that most debtors lack the means to pay the entire balance immediately in cash.

Option 2 – Contact a Revenue Collections Officer by phone or in person to establish a payment plan

Unless the debt was assigned by the Court, which established a payment plan by order, the debtor cannot typically establish a payment plan by any means other than speaking with a Revenue Collections Officer. For example, the Department does not provide a default payment plan on its initial bills, nor does it provide a means for debtors to write in or check off potential payment plan amounts on forms, or sign up for payment plans via the internet, email or an automated phone system. The debtor must either contact the Collections Officer by phone, or come to the office to meet with them. If the debtor sends in a partial payment by mail, the Department will credit the account for that payment and begin mailing bills to the debtor in the amount of the partial payment, thereby establishing an informal payment plan. However, the Department does not make this potential payment method known to debtors. In addition, it should be noted, after a payment plan has been established, the Department accepts the installment payments by mail.

Contacting a Collections Officer by Phone

For a variety of reasons, it can be difficult for a debtor to reach a Collections Officer by telephone. First, for court-ordered debt accounts that are considered non-active and which have been sent to the Franchise Tax Board, the telephone number given to the debtor to call rings solely to an un-staffed voicemail box. All of these calls are subsequently assigned to a Collections Officer.

Additionally, there is not enough staff to provide continuous coverage for the line that handles accounts with balances of less than \$1,000, and there is a backlog of call returns for these accounts, which are picked up by clerks and transferred to the appropriate Collections Officer. Court-ordered debt and low-dollar accounts make up a large minority of the Department's accounts.

Clerks transcribe the name and telephone numbers of the callers who leave messages onto lists that are given to Collections Officers. During a January 7, 2010 observation conducted for this audit, a Collections Officer received one of these lists for court-ordered debt. The list contained contact information for 31 debtors who had left messages on the un-staffed line. The oldest call on this list had been left by a debtor five business days earlier, on December 30, 2009. No one had returned any of the listed debtors' calls until the Collections Officer began leaving voicemails for them on January 7. The Department does not have written policies governing the timeframe for returning debtors' calls, either those made to un-staffed voicemail boxes or directly to Collections Officers. Collections Officers assigned to collect traffic fines have a telephone system that, if they do not pick up one call for any reason – such as while they are on break – the system logs the Collections Officer out and the telephone will not ring again until the Collections Officer logs back into the system. Any incoming call will instead go to another Collections Officer in the "traffic" unit that is logged on. The Department

should develop written policies governing log in/off of the Traffic telephone system. There should also be written policies specifying reasonable timeframes – such as two business days – for returning debtors’ calls, whether they are left on general voicemail boxes or Collections Officers’ direct mailboxes. The Department indicates that although it has no written policies to this effect, it is the Department’s well-known expectation of staff that calls are returned within two business days. For instance, it is so described on the Department’s website, and is included in its telephone script.

It may be difficult for callers to reach Collections Officers when they dial their staffed lines as well. Collections Officers have an average of more than 3,500 “active” accounts, plus other accounts that may not be in “active” collections but that may nonetheless require the Collections Officers’ time. Except for its Traffic collections program, the Department does not currently have a mechanism to track telephone answering; however, interviews with collections staff conducted for this audit indicate that there are instances in which Collections Officers fail to answer their telephones, and their voicemail boxes fill up, as illustrated by the letter provided as Attachment 1.2².

Difficulty reaching a Collections Officer occurs with sufficient frequency that the Department provides instructions to debtors who have been unable to contact a Collections Officer by phone. These instructions are on the “frequently asked questions” section of the Department’s website, as shown in Attachment 1.3.

According to the Department, when telephone voicemail boxes are full, calls are taking off of the mailboxes and logged daily. In addition, in the morning and in the afternoon, DOR staff check the mailboxes and write down the calls and give the list to the Collections Officers. Copies of the lists go to the Collections Officer Supervisors. Also, when the mailboxes become full, the supervisors get an email. Supervisors report that they promptly address full mailboxes.

Contacting a Collector in Person

Reaching a Revenue Collections Officer in person requires the debtor to come to the Berger Drive office on weekdays between 8:00 a.m. and 5:00 p.m., except for Tuesdays, when the office is open until 7:00. The office is closed on weekends. Therefore, the available times for a debtor to come into the office generally overlap with standard business hours, when many debtors are likely to be working. In addition, debtors may have difficulty getting to the office due to the distance between the office and their homes or workplaces. In a sample of 3,004 accounts taken in late December 2009 for this audit, nearly a fifth of accounts were for debtors residing out of the County, with almost four percent of debtors residing out of the state. Among traffic accounts, the out-of-County share was 27 percent. Lastly, as evidenced by the number of medical debtors who qualify for various income-based programs and the number of probationer debtors, substantial numbers of debtors have low incomes. Many low-income persons

² This letter related to an account with an outstanding balance of \$58,979, which was subsequently deemed uncollectible. The Department reports that it does “have phone response problems” but that this letter represents an “extreme” case, and is not typical or representative of its telephone response problems.

lack access to transportation. The only public transportation available to DOR's offices is VTA Bus Route 66; the office is not near light rail.

Further, many debtors have had their driver's licenses suspended for non-payment of fines for traffic offenses. There are anecdotal reports of such persons driving on suspended licenses in order to physically pay the bill at DOR in order to avoid the online and telephone payment fees. During the January 7, 2010 observation, debtors who called and offered to make payments were advised to come to the office in person.

Option 3 – View payment options online

The notices that are sent by DOR to debtors also indicate that the debtor may go online to view payment options. A copy of such a notice is provided as Attachment 1.1. The front of the notice does not indicate that the debtor may *pay* online, although this option is provided on the back of the statement. If the debtor goes to the Department's website as directed by the front of the notice, a printout of which is provided as Attachment 1.4, the payment link is not immediately evident.

Under the heading of "Credit Card Payments" is what appears to be a payment link, but that link in fact takes the viewer to a separate payment options webpage, a printout of which is provided as Attachment 1.5. This page has a heading for "Credit Card and Electronic Fund (ACH) Transfer Payments," which describes making a payment with a credit card. The page states that the debtor must pay a "convenience fee" to use a credit card, but does not indicate how much the fee is. In fact, the fees are much higher than any other county contacted for this audit – nearly \$150 for a \$5,000 payment. These fees are not charged by the County, but by a vendor. The fee amounts are shown in Attachment 1.6. These fees are discussed later in this section, and also in Section 2 of this report.

Although the webpage does not indicate the amount of these fees, it states that if the debtor is not satisfied with the amount of the fee, the debtor may cancel the payment and remit "by mail or come to our office to make payment." However, a debtor in fact may not remit payment by mail by credit card. Therefore, a debtor who lacks sufficient cash to pay the debt in full by check, and does not wish to pay large fees for use of a credit card, has no option but to physically come to the office to conduct the transaction.³ With the exception of traffic accounts, non-payment of which may result in suspension of driver's licenses, and very rare instances in which interest expenses may accrue, there are few penalties for non-payment while an account is at DOR. Therefore, debtors may choose to avoid the hassle and expense of immediate payment, particularly those debtors who live outside the County. (In a sample of 3,004 accounts taken for this audit, more than 27 percent of traffic ticket debtors with outstanding balances had a non-County address.)

³ Although never identified by the Department on any of its communications, debtors may make a partial payment by mail. Partial payments are credited to the debtor's account, and subsequent statements are sent for only the balance due.

If the debtor proceeds to try to pay the debt with a credit card, the webpage indicates that to get there, the debtor must follow the “civil assessment payment” link. This description may be confusing for the majority of the Department’s debtors who do not owe civil assessment fees. Nonetheless, if the debtor proceeds to click the “civil assessment” link in an attempt to pay a bill, there is a two-page discussion, as shown in Attachment 1.7, about payment of civil assessments prior to the debtor getting to the internet payment link. Finally, debtors who click that link are able to determine what the credit card payment option will cost, and to actually make a payment. This page is provided as Attachment 1.8. This payment link is directly identified on the back of the debtor’s statement, as shown on the second page of Attachment 1.1. In contrast, San Mateo County’s collections website has a clearly identified online payment link, as shown in Attachment 1.9. Attachment 1.10 shows the link provided under the heading of “payment options.” The County of Santa Clara Department of Revenue should revamp its website and mailings to clearly identify its online payment link. The Department has indicated that it deliberately makes the online payment link challenging to locate in order to encourage persons who are making “civil assessment” payments to understand that if they pay by check or electronic funds transfer, the Department of Motor Vehicles places a hold for at least 30 days on release of their suspended driver’s license. The Department could get around this issue by having a separate link for just “civil assessment” payments that then links to the payment link.

Payment Methods in Use by Other Counties

In general, the County of Santa Clara’s collections approach is to 1) put the onus on the debtor to contact the Department, and 2) to promote in-person payments. This approach is the reverse of that of most other large California counties that provided information about their practices for this audit. For example, most other counties prefer and encourage payments by mail, internet and telephone.

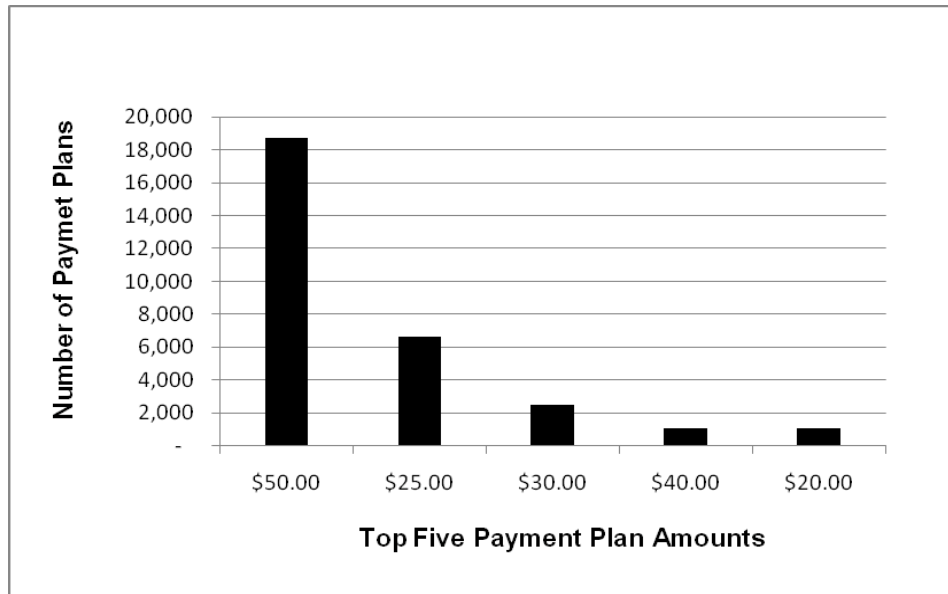
Encouraging Payment by Mail

Pre-Set Payment Plans

In Sacramento County, for example, the installment amounts are pre-set – normally at about \$50 a month – in the initial billing statement, as shown as Attachment 1.11. There is no interaction required between the debtor and the Collections Officer in order for the debtor to begin making monthly payments. So long as the debtor makes the payments, Collections Officers have no need to act on the account. If the debtor does not make the payments, collections activity begins. If additional charges are added, the payment plan automatically increases, as shown in the Sacramento County example mailing that is Attachment 1.12. This process is in stark contrast to the County of Santa Clara’s current practice, in which monthly bills cannot be set up until a debtor personally speaks with a Collections Officer. As previously indicated, it can be difficult for debtors to reach Collections Officers. The Department of Revenue should establish a default payment plan of \$50 a month that is sent out on most of its initial billing statements. Fifty dollars is the Department’s single most common payment plan amount, representing an estimated 37 percent of all payment plan amounts. Of the 50,626 accounts with payment

plans as of April 2010, 63 percent were set at \$50 or less. The top five payment plan amounts are shown in Table 1.1 that follows.

Table 1.1
Top Five Payment Plan Amounts



Source: Department of Revenue

The default payment statements should instruct debtors to 1) either pay the entire debt, either by check or money order by mail or by credit card by mail with an enclosed credit card payment slip; or 2) make the monthly installment payment; or 3) contact the Department to establish a payment plan in a different amount. The default payment plan statements should not be provided for debtors with account balances of less than the default installment payment amount or probationers who must pay off their probation expenses within the three-year probation period. In these instances, the Department should establish policies for setting installment payment amounts, and Collections Officers should adjust as appropriate the default installment payment amount that is mailed to the debtor based on these policies. After two mailings, any debtor that does not either pay the entire bill or begin making payments should not receive further payment plan notices. If, by this method, the Department were to increase the number of debtors with default payment plans by 1 percent (about 500 new payment plans), and those debtors paid the default amount, it would bring in \$300,000 annually in new revenues.

Credit Card Payments by Mail

The County of Santa Clara Department of Revenue does not accept credit card payments by mail. Of the seven largest counties, other than Santa Clara, that responded to a survey for this audit regarding collections practices, five reported taking credit card payments for collections accounts by mail. These counties are Contra Costa, Fresno, San

Francisco, Orange and San Bernardino. As of April 2010, only San Francisco charged a fee for these credit card transactions, although some other counties were considering some type of fee. As previously stated, the Department of Revenue should mail a credit card slip to debtors with their initial bills.

Encouraging Payment by Telephone/Internet

As of April 2010, any debtor calling the collections offices of the counties of Contra Costa, Fresno, San Francisco, Alameda, Orange, San Bernardino or Sacramento could make a payment by credit card to in-house staff. In some cases, these payments are taken directly by Collections Officers; in others, the caller is transferred to a cashier. However, in the County of Santa Clara, in-house staff cannot take any collections payments by telephone. Any payments made to staff must be made in-person to a cashier at the Department's Berger Drive offices. Therefore, if a County of Santa Clara debtor is on the telephone with a Collections Officer and asks to pay the debt with a credit card, the Collections Officer will either request that the debtor come to the Berger Drive office to make the payment, or give the caller the telephone number of an outside vendor. The County contracts with this vendor, CUBS, to take telephone and online payments by credit card and other means. The vendor charges \$2.25 for payment by electronic funds transfer, and a sliding fee for payment by credit card. The credit card fees charged by the County of Santa Clara are substantially higher than fees charged by other counties for this service. Most large counties as of April, 2010 charged no fees. Many other counties charge either no fee, a small flat fee, or a fee of around 2.5 percent through the vendor Official Payments. For example, although San Mateo County does charge a fee, the fee is 2.5 percent through Official Payments. This is the same fee rate that the County of Santa Clara taxpayers pay if they choose to pay their property taxes with a credit card through Official Payments. However, if they pay a County debt with a credit card, their fees are far higher. Auditors were unable to find any other agency that charges the level of fees charged to the County of Santa Clara debtors for credit card use. The fee schedule and the contract with the CUBS vendor is the subject of Section 2 of this report. The fee schedule is also provided here as Attachment 1.6.

Despite the expense and other challenges, payments by telephone and internet to CUBS totaled \$6.5 million in FY 2008-09, or nearly 12 percent of the Department's total net collections revenue of \$55.7 million that year. The vast majority of this \$6.5 million was paid by credit card, rather than by bank withdrawals. Estimated fees paid by debtors for credit card use in FY 2008-09 were nearly \$250,000, an amount representing an estimated average fee of 4.4 percent. Auditors obtained detailed data on credit card payments made by internet and telephone through this vendor during April 2009. There were 2,858 credit card transactions with an average payment of \$167.

Under the CUBS contract, if the County itself pays the fees, the County's cost is \$2.25 per transaction. Had the Department either absorbed the fees, or paid the fees to CUBS at its rate of \$2.25 and passed that low fee on to debtors, it is very likely that collections by telephone and on-line would have been significantly greater.

Researchers at Northern Illinois University identified statistically significant improvements in electronic payment rates when governments do not impose

convenience fees for payment transactions. Attachment 1.12 provides detail on this research, including the experience of the City of Tampa, Florida. In March 1995, Tampa ceased charging convenience fees that it had imposed for on-line transactions. Although the City did no promotion of this change, the City immediately began collecting more online payments. For example, its May 2005 online payments were 70 percent greater than its May 2004 online payments⁴. In addition to this research, studies by the U.S. Federal Reserve Board have documented consistent, large increases in the amount of electronic transactions, compared to payments made by traditional checks, since 2000. The last study showed that the per-capita electronic payment rate more than doubled between 2000 and 2006. This suggests that electronic payments are efficient and generally preferred by the public. Other large California counties contacted for this audit generally reported that they do not charge convenience fees, and some staff were adamant that charging fees reduces collections.

As of mid-March 2010, the central collections agencies of at least 12 California counties⁵ were using the same vendor that the County of Santa Clara Tax Collector uses to process credit card payments. This vendor – Official Payments Corporation (OPC) – generally charges lower convenience fees than does the existing Department of Revenue vendor. For example, if a person owed \$500 to the County of Santa Clara and \$500 to San Mateo County, and paid both bills with a credit card, the fee would be \$15.60 in County of Santa Clara, but \$12.50 in San Mateo. The fee discrepancy increases as the amount of the payment decreases. That is, if a person paid \$100 to DOR by credit card, the fee would be \$4.65, versus \$2.50 in San Mateo County.

Furthermore, if a person paid a \$5,000 delinquent medical bill with a credit card through DOR's CUBS, the fee would be \$148.60. If the same person paid a \$5,000 property tax bill with a credit card through the County of Santa Clara Tax Collector's OPC, the fee would be \$125, for a difference of more than \$23.

The Department of Revenue should substantially revamp its remote payment acceptance capabilities. Changes should include eliminating the high fees associated with payment by debtors to the County's current vendor, either by getting a new vendor that has more reasonable fees, or by paying the much lower "County-fee" rate of \$2.25 per transaction that the vendor charges, as further discussed in Section 2 of this audit. In the latter case, the County could either pass those much lower fees on to the debtor, or it could pay those fees itself in an effort to boost collection rates, consistent with anecdotal and research-based accounts of material rate improvements when additional fees are not charged. If the County absorbed the cost of transactions at \$2.25 each, it would be the equivalent of the County's current cost for a Cashier⁶ assuming

⁴ The study did not indicate whether the total amount of revenue collected was greater or whether the payment method was simply shifted from manual to electronic.

⁵ Butte, Colusa, Humboldt, Madera, Merced, Monterey, Sacramento, San Bernardino, San Joaquin, San Mateo, Tuolumne, and Ventura. This list does not include counties that use OPC for collections payments handled through the Tax Collector or the Controller-Treasurer, or other agencies.

⁶ The budgeted salary and benefits for a Step 3 Cashier in the FY 2009-10 budget is \$66,656. For this same amount of money, the County could pay \$2.25 per transaction for 29,625 transactions per year. In other words, payment of this fee is equal to paying a Cashier who processes about one payment every 3 ½ minutes for 1,790 work hours per

that Cashier processed 16.5 transactions per work hour. Therefore, absorbing the fee and reducing counter traffic would be cost-effective for the Department.

CONCLUSION

The County of Santa Clara Department of Revenue has established a variety of means for the public to pay debts owed the County. However, the available options are limited and sometimes more expensive than necessary. Improving and expanding payment options would likely result in greater collections and more net revenue to the County. For example, rather than encouraging debtors to come to the office to pay, the Department should enable debtors to pay with credit cards by mail, and should make the payment by credit card online and by telephone easier and less expensive. The Department should also establish a default installment payment plan for most accounts, improve telephone service, and enable Collections Officers to take payments by telephone.

RECOMMENDATIONS

The Department of Revenue should:

- 1.1 Develop written policies regarding management of incoming telephone calls and voicemails, including adopting reasonable timeframes for returning telephone calls, and clearing voicemail boxes. (Priority 2)
- 1.2 Where a default payment plan is not already established (e.g. probation accounts), the Department should establish a default installment payment of \$50 a month that is sent out on most of its initial billing statements. This process should not be followed for debtors with account balances of less than the default installment payment amount or probationers who must pay off their probation expenses within the three-year probation period. For these instances, the Department should establish policies for setting installment payment amounts, and Collections Officers should adjust as appropriate the default installment payment amount that is mailed to the debtor based on these policies. (Priority 1)
- 1.3 On a pilot basis, provide a credit card payment slip with initial and subsequent notices to debtors to enable them to mail back a credit card payment to an outside vendor. (Priority 1)
- 1.4 Commence a pilot program in which debtors can pay bills on-line or by phone to a vendor without paying a fee and track County expenditures and revenue receipts for this program for at least one year to determine if net County receipts are greater or less under a no-debtor-fee arrangement. At the conclusion of the pilot program, the Department should develop a written policy regarding charging or absorbing fees. (Priority 1)

year. This calculation is meant to illustrate the fact that absorbing the convenience fee for a vendor to process a payment is equivalent to absorbing the salary of staff to perform the same work.

- 1.5 Revamp its website and mailings to clearly identify its online payment link, and provide a payment link on the County's main webpage. (Priority 1)

SAVINGS, BENEFITS AND COSTS

Implementation of Recommendation 1.1 would improve the ability of debtors to reach a Collections Officer, and thereby improve collections. Implementation of Recommendation 1.2 would increase collections by an undetermined but potentially significant amount, and, assuming that the Department did not continue to mail bills to non-responsive debtors, would not materially alter printing or mailing costs. Implementation of Recommendation 1.3 would result in increased costs to purchase credit card payment slips, and to process the increased payments. Such costs would be offset by increased revenue from increased payments. For example, the Department currently collects about 10 percent of its total revenue by remote credit card payments, even though the internet and telephone credit card fees are high, the online payment link is somewhat obscure, and Department staff tend to advise debtors to make payments in person rather than remotely, and credit card payments cannot be made by mail. Implementation of Recommendation 1.4 would enable the Department to determine whether it is more cost effective to pass fees established on to the debtor or to absorb those fees as a cost of doing business, and to establish a fee policy based on that evidence. Implementation of Recommendation 1.5 would facilitate immediate debt payments. Implementation of all of these recommendations would likely increase net collections revenue. Each 1 percent increase in gross revenue collections would increase revenues by \$550,000. Implementation of these recommendations also would reduce counter traffic at DOR's office, freeing Collections Officers and Cashiers to spend more time on collections activities, including new tactics as described in Section 4 of this report.

**COUNTY OF SANTA CLARA
DEPARTMENT OF REVENUE**

MAIL: P.O. BOX 1897, SAN JOSE, CA 95109-1897
OFFICE: 1555 BERGER DR., BLDG #2, SAN JOSE, CA

TRANS DATE	DESCRIPTION	ITEM	AMOUNT
08-30-09	VALLEY MEDICAL CENTER - OUTPATIENT	CHQ	470.00

PREVIOUS BALANCE	PAYMENTS	CURRENT CHGS & ADJS.	ACCOUNT BALANCE	CURRENT PAYMENT DUE
0.00	0.00	470.00	470.00	470.00
ACCOUNT NUMBER	STATEMENT DATE	REFERENCE (IF REFERENCE BEGINS WITH "VM" SEE REVERSE SIDE)	PAST DUE PAYMENT	
[REDACTED]	12-21-09	[REDACTED]	0.00	
PHONE 408-282-3200	EXT	PAYMENT DUE 02-09-10 470.00		

STATEMENT OF ACCOUNT 12-21-09 RETURN THIS PORTION WITH YOUR PAYMENT
 OPEN LATE EACH TUESDAY TO 7:00PM / 6:45PM FOR PAYMENTS
 WWW.SCCSOV.ORG/PORTAL/SITE/DDR FOR PAYMENT OPTIONS
 COUNTY OF SANTA CLARA
 DEPARTMENT OF REVENUE
 CURRENT PAYMENT DUE 470.00
 PAST DUE PAYMENT 0.00

TOTAL PAYMENT DUE 470.00

INDICATE AMOUNT PAID PAYMENT IN US DOLLARS ONLY
 DOLLARS CENT\$

000000000000

OFFICE HOURS
MONDAY-FRIDAY

PAYMENTS
8:00 A.M. - 4:45 P.M.

ACCOUNTS ASSISTANCE
8:00 A.M. - 5:00 P.M.

PRINT ACCOUNT NUMBER, NAME AND ADDRESS ON CHECK OR MONEY ORDER.

DO NOT SEND CASH THROUGH THE MAIL. ALL PAYMENTS ARE DUE IN US FUNDS. DO NOT SUBMIT PAYMENT IN FOREIGN CURRENCY. YOUR PAYMENT WILL BE RETURNED.

POST-DATED CHECKS WILL BE RETURNED. EACH NSF PAYMENT WILL RESULT IN AN ADDITIONAL FEE OF AT LEAST \$25.00. NON-RECEIPT OF YOUR MONTHLY STATEMENT DOES NOT RELIEVE YOU OF YOUR OBLIGATION FOR PAYMENT.

IF YOU ARE UNABLE TO MAKE YOUR MONTHLY PAYMENT OR SHOULD HAVE QUESTIONS REGARDING YOUR ACCOUNT, PLEASE CONTACT YOUR ACCOUNT REPRESENTATIVE AT THE PHONE NUMBER LISTED ON THE REVERSE SIDE.

FOR YOUR CONVENIENCE, A PAYMENT DROP BOX IS LOCATED OUTSIDE OF OUR BERGER DRIVE OFFICE. (PLEASE, NO CASH PAYMENTS) CHARGES, ADJUSTMENTS AND PAYMENTS POSTED AFTER THE STATEMENT DATE WILL BE REFLECTED ON YOUR NEXT STATEMENT.

YOUR ACCOUNT BALANCE, PAYMENT RECEIPT, AMOUNT OF NEXT PAYMENT, DUE DATE, DIRECTIONS TO OUR OFFICE, AND A LIST OF HOLIDAYS WHEN WE ARE CLOSED ARE AVAILABLE 24/7 THROUGH OUR INTERACTIVE VOICE RESPONSE (IVR) PHONE SYSTEM. THE IVR IS ACCESSIBLE FROM THE PHONE NUMBERS LISTED ON THE REVERSE SIDE.

VISA/MASTERCARD ACCEPTED FOR IN-PERSON PAYMENT ONLY. NO CREDIT CARD PAYMENT WILL BE ACCEPTED BY OUR OFFICE OVER THE PHONE. PAYMENT OPTIONS VIA THE INTERNET OR A TOLL FREE PHONE CALL ARE AVAILABLE. PAY ON-LINE www.paybill.com/659492 BY PHONE 1-866-561-6016. A VARIABLE FEE WILL BE CHARGED AND MADE KNOWN TO YOU PRIOR TO YOUR AUTHORIZING PAYMENT.

VM REFERENCE

IF YOU ARE A SELF-PAY PATIENT, HAVE NO INSURANCE, YOU MAY QUALIFY FOR A SANTA CLARA COUNTY HEALTH AND HOSPITAL SYSTEM SERVICES CHARITY OR DISCOUNT PROGRAM. PLEASE CALL (408) 282-3200.

SI USTED ES UN PACIENTE SIN NINGUN TIPO DE SEGURO MEDICO, USTED PODRIA CALIFICAR PARA UN SERVICIO DE CARIIDAD O UN PROGRAMA DE DESCUENTO DE SANTA CLARA COUNTY HEALTH AND HOSPITAL SYSTEM. POR FAVOR LLAME AL (408) 282-3200.

NEU QUY VI LA MOT NGUOI TU TRÁ TIEN Y PHI VI KHONG CO BẢO HIỂM SỨC KHỎE THÌ QUY VI CÓ THỂ HỎI BỮ ĐIỀU KIỆN ĐỂ HƯỞNG CHƯƠNG TRÌNH TỰ THIÊN HOẶC GIẢM GIÁ CHO CÁC DỊCH VỤ CỦA SANTA CLARA COUNTY HEALTH AND HOSPITAL SYSTEM. XIN GỌI SỐ (408) 282-3200.

7891-6050, CA 95108, SAN JOSE, CA
7891 BOX O.O.P.
DEPARTMENT OF REVENUE
COUNTY OF SANTA CLARA

LAW OFFICES OF

[REDACTED]
[REDACTED]
[REDACTED]

Certified Specialist • Probate, Estate Planning and Trust Law • The State Bar of California Board of Legal Specialization

May 8, 2008

[REDACTED]
County of Santa Clara
Department of Revenue
P.O. Box 1897
San Jose, Ca 95109-1897

Subject: [REDACTED]
Account [REDACTED]

Dear [REDACTED]

I represent [REDACTED] who is the personal representative of the estate of [REDACTED]. My client is in the process of closing out the estate of [REDACTED]. It is our understanding that there may be an outstanding claim against the estate of [REDACTED].

I began calling your office in November 2007 in an attempt to resolve this matter. I originally spoke to [REDACTED] of your office who advised me that your office needed an authorization from [REDACTED] before your office could speak with me. I obtained an authorization and faxed it to your office.

I called [REDACTED] on November 27, 2007 - her mailbox was full.

I called [REDACTED] on November 30, 2007 - her mailbox was full.

I called [REDACTED] on December 5, 2007 and left a voicemail message for her.

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May 8, 2008

I called [REDACTED] on December 18, 2007 and left a voicemail message for her.

I called [REDACTED] on January 4, 2008. [REDACTED] advised I should speak to [REDACTED].

I called [REDACTED] on January 24, 2008 and left a message. [REDACTED] advised that I needed to speak with you regarding a compromise of the claim.

On January 25, 2008, I wrote a letter to you advising that my client was willing to pay \$3,000 to settle this matter. You never responded to my letter.

On February 21, 2008, I called [REDACTED]. She "found" my letter and advised me that she put it on your desk for your action.

On February 29, 2008, I called you and left a voicemail message for you. You never responded.

On March 4, 2008, I called you and left a voicemail message for you. You never responded.

On March 18, 2008, I called you and left a voicemail message for you. You never responded.

On March 19, 2008, I called you and left a voicemail message for you. You never responded.

On March 25, 2008, I called you and you advised that the lien committee was meeting on April 10th.

On April 15, 2008, I called you and left a voicemail message for you. You never responded.

On April 21, 2008, I called you and left a voicemail message for you. You never responded.

[REDACTED]

Page Three
May 8, 2008

After repeatedly contacting your office and receiving no response, I can only assume that your office is not interested in discussing this matter. I will, therefore, advise my client to distribute the assets of the [REDACTED] estate and consider this case closed.

Very truly yours,
[REDACTED]

the Department of Revenue. Those numbers are (408) 282-3280 for the Tax Intercept Program (tax refunds) and (408) 282-3290 for the Court Ordered Debt Program (bank account or wage attachment).

>> Go to Agency/ Department this FAQ is sourced by

[▲ Back to Top](#)

4. What should I do if my Department of Revenue account representative doesn't return my call?

Try your account representative one more time. If you do not make direct contact, call back, press zero to connect with an operator and ask to speak to a supervisor.

>> Go to Agency/ Department this FAQ is sourced by

[▲ Back to Top](#)

5. Sometimes when I call the Department of Revenue, I cannot get through to my account representative. Why?

The Department of Revenue sends out billing statements twice a month. Over 25,000 bills are mailed at each monthly cycle. Unfortunately, DOR staff cannot respond to all callers during these peak billing periods. When the telephones get busy, calls are routed to the department's voice mail system. It is department policy that all calls be returned within 48 business hours.

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[▲ Back to Top](#)

6. I received a notice from the Franchise Tax Board that my tax refund was intercepted or that my bank account was attached. Why did this happen?

The Department of Revenue has an agreement with the State of California Franchise Tax Board to recover any past due amounts owed to Santa Clara County. If you received a notice from the state that they intercepted your state tax refund or attached your bank account, that means that we have submitted your name to the state because you have not paid a debt that was owed to DOR.

>> Go to Agency/ Department this FAQ is sourced by

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7. I just received my billing statement and my latest payment is not reflected in my balance. Why?

The monthly bills were probably being printed and your payment had not posted yet. You can always contact your account representative and ask them to check your payment status. You can also obtain the information relative to your last payment amount and date posted through our interactive voice response (IVR) system. Please click on "Phone Number" for more information about our IVR and the information available 24 hours a day, 7 days a week.

>> Go to Agency/ Department this FAQ is sourced by

[▲ Back to Top](#)

8. The amount the Department of Revenue says that I owe for my court fine is higher than what I was told in court. Why?

There could be a number of reasons why this occurs. Court appearances can be a very stressful experience and things happen pretty fast. Often, a defendant will only hear that he/she owes a fine. State law requires that for every fine imposed for criminal, vehicle or local ordinance offenses, that a penalty assessment of up to 280% be added. This means that if you are fined \$500, a penalty assessment of \$1,400 is added for a total amount owed of \$1,900. In addition, the court may order program fees if you are placed on formal probation. There may also be fees imposed for such programs as Weekend Work, Public Defender, State Restitution, Victim Restitution, drug program fees, diversion program fees and an accounts receivable fee. If this all sounds confusing, contact your account representative who will explain all the charges.

>> Go to Agency/ Department this FAQ is sourced by



SEARCH SCCGOV [input field] Go



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YOU ARE HERE > Revenue, Department of (DEP)



Department of Revenue

Office Location & Hours

Billing Information

Payment Information

Civil Assessment Payment

Helpful Links

Mission Statement

Maximize collection of accounts receivable at the least possible cost, while providing the highest quality of service that is professional, respectful and courteous.

DEPARTMENT OVERVIEW

The Department of Revenue provides agencies and departments within the County with professional collection services using collection enforcement techniques comparable to those used in the private sector. Services provided include billing and collection, explanation of client charges, negotiating payment arrangements, delinquent noticing, collection pursuit through client follow-up, small claims action and lawsuits, accounting and distribution of revenue collected to appropriate funds and entities.

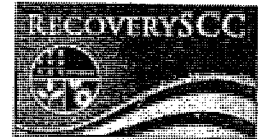
GOALS

- Maximize revenue collection.
- Provide timely, quality customer service. Provide assistance and information to the public that is helpful and responsive.
- Process documents timely to establish account data and to bill clients.
- Send monthly billing statements that are clear, informative and accurate to facilitate prompt payment.
- Deposit revenues in a timely manner to maximize interest earnings.
- Distribute revenues timely and consistently to provide a funding source for other services.
- Optimize use of technology to improve efficiency and effectiveness.
- Maintain positive relations with our business partners by frequent and open communication, mutual coordination and teamwork, responsiveness to concerns or changing needs, and constant attention to opportunities for improving and streamlining our existing processes.
- Maintain sufficient staffing of individuals who are experienced and expert in their

QUICKLINKS

- > Frequently Asked Questions
- > Finance Agency

HIGHLIGHTS



Recovery SCC

...more



Census 2010

...more

PROPERTY VALUE DOWN?

Click Here

Learn how to reduce your Assessed values/property taxes.

...more



Be Aware, Prepare!

...more



2-1-1 Santa Clara County

...more

fields, with a positive customer service ethic and awareness of the Finance Agency Vision goals and principles. Provide to them opportunities for personal and professional development and growth.

Phone Number: (408) 282-3200

The Department of Revenue uses an interactive voice response system (IVR) to assist you with information relating to our office and your account 24 hours a day, 7 days a week in either English or Spanish. Information available to you includes the hours we are open, a list of payment options available to you, directions to our office, our mailing address and a list of holidays when we are closed. You can verify your last payment received, your account balance and the amount and due date of your next payment. You will need to know your account number and we must have your Social Security Number on file, in order for you to use the system regarding your account information. If we do not have a valid payment plan established for your account or if our information is incomplete, your call will be transferred to your collection representative for assistance and update of your records. If your representative is not available you may leave a message and your representative will contact you generally within 48 business hours.

Credit Card Payments

The Department of Revenue will accept credit card payments from walk in clients but will not accept credit card payments via phone calls to its office.

The Department of Revenue cannot accept in-person credit card payments for victim restitution payments. Credit card payments over the Internet or the toll free interactive voice response system are permitted as the party making payment pays the convenience fees associated with the transaction separately from their credit card payment. The convenience fee will be calculated and displayed for your approval prior to your authorizing payment.

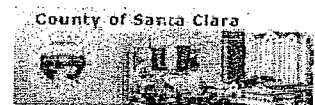
Please click on the *Payment Information* link for more information relating to credit card and electronic funds (ACH) payment.

Civil Assessment

Accounts pursued under civil assessment generally include a DMV hold placed on your driver's license. The hold will be removed upon notification by DOR to the Superior Court when the account has been paid in full. However, payment made by check or electronic funds (ACH) whether in our office, through the mail, via the Internet or IVR will delay the release notification to the DMV for at least 30 days. Please click on the *Civil Assessment Payment* link for more information.



SEARCH SCCGOV [input field] Go



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DOR Department of Revenue

Office Location & Hours

Billing Information

Payment Information

Civil Assessment Payment

Helpful Links

Print this article | Email this article

Payment Information

In-person payments:

Monday, Wednesday - Friday: 8:00 AM - 5:00 PM (Last payment accepted at 4:45 PM)

Tuesday: 8:00 AM - 7:00 PM (Last payment accepted at 6:45 PM)

Department of Revenue
1555 Berger Drive
Bldg #2 First Floor
San Jose CA 95112



- Credit cards (VISA and MasterCard) are accepted for in-person payments. (See Credit Card and Electronic Fund (ACH) Transfer Payments below)
- Spanish and Vietnamese-Speaking staff are available for bilingual services.
- Visitor parking is available in the lot located in front of Bldg. #2. Please park in the Visitor Parking lane to avoid a parking ticket.



A payment drop box is available outside Building #2 for your convenience during non-business hours. Please do not deposit cash.

Payments by mail:

Make checks payable to the DEPARTMENT OF REVENUE and include your DOR account number and the client name if paying for someone else.

Please return your

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payment using your billing statement remittance advice and blue return payment envelope whenever possible. If you do not have your remittance advice or the blue envelope, payments may be addressed to:

County of Santa Clara
Department of Revenue
PO Box 1897
San Jose CA 95109-1897

If you are making a payment in full of a Traffic or Criminal Civil Assessment Court Case please click on the Civil Assessment Payment link for important information about your payment method and alternative mailing address.

Credit Card and Electronic Fund (ACH) Transfer Payments

Commencing August 29, 2003, at noon, we have partnered with Columbia Ultimate Business Systems, Inc. and EDS to provide 24 hour, 7 day a week payment capability for our clients via the Internet or a toll free interactive voice response call system. You may make a payment using either VISA or MASTERCARD or an electronic funds (ACH) transfer from your checking or savings account. There is a sliding convenience fee for payments made by credit card. The amount of the convenience fee will be calculated and displayed for your approval before you finalize your payment authorization. If you are not satisfied with the amount of the convenience fee you can cancel or terminate the payment and remit your payment by mail or come to our office to make payment. There will be a flat fee of \$2.25 for an electronic funds (ACH) transfer from your checking or savings account. This fee will also be displayed for your approval before you finalize your payment authorization.


If you are making a payment in full of a Traffic or Criminal Civil Assessment Court Case please click on the Civil Assessment Payment link for important information about your payment method and alternative mailing address.

The Department of Revenue will accept credit card payments from walk in clients but will not accept credit card payments via phone calls to our office.

The Department of Revenue cannot accept in-person credit card payments for victim restitution payments. Credit card payments over the Internet or the toll

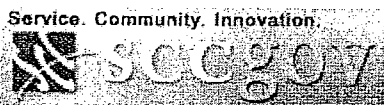
free interactive voice response system are permitted as the party making payment pays the convenience fees associated with the transaction separately from their credit card payment. The convenience fee will be calculated and displayed for your approval prior to your authorizing payment.

Our INTERNET payment link follows the information for Civil Assessment Payments. It is important that our clients carefully determine their method of payment on civil assessment accounts carefully as payment using a checking or savings account (ACH) will delay the release of their driver's license hold for 30 days by DMV.

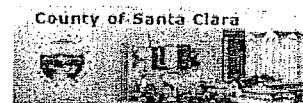
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Consumer Paid Fees				
Credit Card Fees			ACH/EFT	
TRANSACTION AMOUNT		FEE	FEE	
\$0.00	TO	\$25.00	\$2.65	\$2.25 per transaction
\$25.01	TO	\$50.00	\$3.65	
\$50.01	TO	\$75.00	\$3.95	
\$75.01	TO	\$100.00	\$4.65	
\$100.01	TO	\$150.00	\$6.20	
\$150.01	TO	\$200.00	\$7.65	
\$200.01	TO	\$250.00	\$8.70	
\$250.01	TO	\$300.00	\$9.65	
\$300.01	TO	\$350.00	\$11.40	
\$350.01	TO	\$400.00	\$12.60	
\$400.01	TO	\$450.00	\$14.70	
\$450.01	TO	\$500.00	\$15.60	
\$500.01	TO	\$600.00	\$18.45	
\$600.01	TO	\$700.00	\$21.65	
\$700.01	TO	\$800.00	\$24.65	
\$800.01	TO	\$900.00	\$27.65	
\$900.01	TO	\$1,000.00	\$30.65	
\$1,000.01	TO	\$1,100.00	\$33.65	
\$1,100.01	TO	\$1,200.00	\$36.65	
\$1,200.01	TO	\$1,300.00	\$39.65	
\$1,300.01	TO	\$1,400.00	\$42.65	
\$1,400.01	TO	\$1,500.00	\$45.65	
\$1,500.01	TO	\$1,600.00	\$48.20	
\$1,600.01	TO	\$1,700.00	\$51.95	
\$1,700.01	TO	\$1,800.00	\$54.20	
\$1,800.01	TO	\$1,900.00	\$57.20	
\$1,900.01	TO	\$2,000.00	\$60.20	
\$2,000.01	TO	\$2,250.00	\$67.70	
\$2,250.01	TO	\$2,500.00	\$74.70	
\$2,500.01	TO	\$2,750.00	\$82.70	
\$2,750.01	TO	\$3,000.00	\$89.70	
\$3,000.01	TO	\$3,250.00	\$96.70	
\$3,250.01	TO	\$3,500.00	\$104.70	
\$3,500.01	TO	\$3,750.00	\$111.70	
\$3,750.01	TO	\$4,000.00	\$120.70	
\$4,000.01	TO	\$4,250.00	\$128.70	
\$4,250.01	TO	\$4,500.00	\$135.70	
\$4,500.01	TO	\$4,750.00	\$141.70	
\$4,750.01	TO	\$5,000.00	\$148.60	
\$5,000.01	TO	\$5,500.00	\$163.10	
\$5,500.01	TO	\$6,000.00	\$178.20	
\$6,000.01	TO	\$6,500.00	\$192.70	
\$6,500.01	TO	\$7,000.00	\$207.70	
\$7,000.01	TO	\$7,500.00	\$222.70	
\$7,500.01	TO	\$8,000.00	\$237.20	
\$8,000.01	TO	\$8,500.00	\$251.70	
\$8,500.01	TO	\$9,000.00	\$266.70	
\$9,000.01	TO	\$9,500.00	\$281.70	
\$9,500.01	TO	\$10,000.00	\$296.70	



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Civil Assessment Payment

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Civil Assessment Payment

Payment of Traffic and Criminal Civil Assessment Court Cases:

The Superior Court of Santa Clara County has partnered with the Department of Revenue for the collection of "delinquent" traffic citations and some criminal misdemeanor convictions permitting the civil enforcement of the past due fine amounts.

This civil enforcement collection process includes the placement of a suspension on the client/defendant's driver's license with the DMV. Payment of the account balance in full by cash, money order, cashier's check or credit card will result in a release notification processed to DMV.

Payment by a personal check via mail, in our office, or an electronic funds (ACH) transfer either on-line or via our payment IVR will delay the release notification to the DMV for at least 30 days.

Accounts Receivable Fee:

The Department of Revenue is authorized by the County Board of Supervisors to add a \$30 Accounts Receivable Fee to any account forwarded by a county agency or partner to offset the cost of collection. This \$30 fee will be added by DOR upon receipt of all traffic tickets. If you have received a notification from the Superior Court indicating your ticket has been forwarded to DOR for collection, the amount provided on the Court notification doesn't include this \$30 fee. Please check with DOR for your account balance or include the additional \$30 in your payment if you are referring to the amount provided and due from the Court notification you have received.

Civil Assessment Account Payments by Mail:

The Department of Revenue uses automated mail opening and payment posting equipment to open and process payments received through the United States Postal Service. This process is currently unable to distinguish between personal checks, money orders or cashier's checks sent through the mail. If your payment in full is made by a money order or cashier's

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check, please place your statement remittance stub and money order or cashier's check in a white envelope (do not use the DOR blue return envelope) and mail to the following address:

Department of Revenue
Traffic/Criminal Cashier Unit
PO Box 1897
San Jose CA 95109-1897

This action will insure we recognize your payment and permit us to post it correctly resulting in the timely release of your DMV license hold.


Civil Assessment Accounts - DMV Release:

When your account is posted and paid in full using a credit card, money order, cashier's check or cash it will take at least 2 business days for the notification to get to DMV. During this period the client/defendant should not contact the Court or DMV. There is nothing that can be done to expedite the notification process.

The client/defendant will need to contact and most likely visit the DMV on the 3rd business day and will need to pay a "reissuance fee" in order to have their license reinstated, unless this issue has been resolved within 30 days of the letter notification from DMV of the license suspension. This payment is due to DMV, not to Court and not to DOR.

Internet Payment Link:
<https://www.paybill.com/scc.dor/>

Toll Free IVR Payment: 1-866-561-6015

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DOR

Department of Revenue

For Customer Service, Call (408) 282-3285

To pay your bill online:

1. Enter Your Account Number.
2. Select the payment type and enter a payment amount.
3. Confirm your entries.
4. On approval, write down the Confirmation Number for future reference.

Account Number Entry

Account Number

How To Find Your Account Number

We accept the following card(s):
MasterCard, Visa

We also accept electronic funds transfer from the following bank accounts:
Checking, Savings

There is a convenience fee to use this service.

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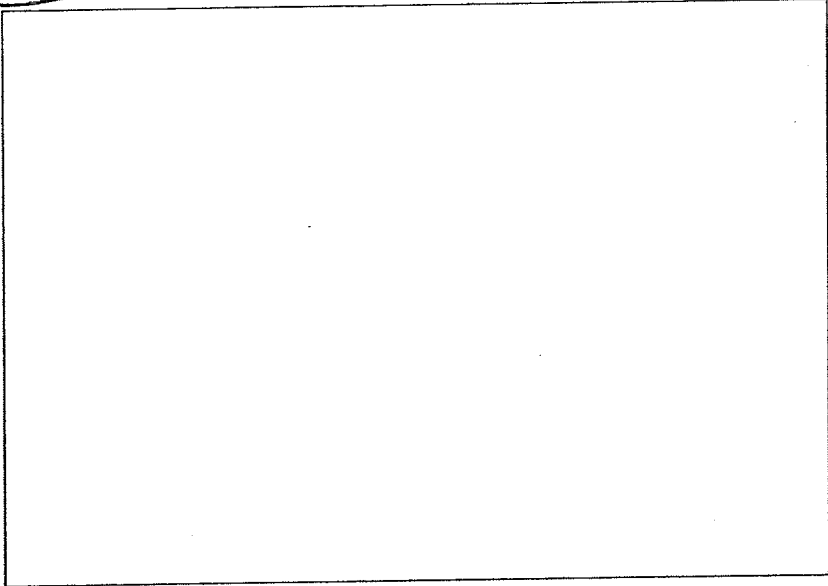
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Monday April 19, 2010. 04:59:20 PM

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Payment Options

~Providing cost-effective and efficient bill collection services.~

On-Line



Pay on-line using American Express, Discover, Mastercard, Visa or ECheck (Electronic Funds Transfer). If you have any questions, please contact San Mateo County Revenue Services at (650) 363-4155.

Mail



Pay by American Express, Discover, Mastercard, Visa, Check, Cashier's Check, or Money Order payable to Revenue Services and send to: PO BOX 2999, Redwood City, CA 94064. Include your account number with payment.

Phone



Call 1-877-496-0510 toll-free to use our interactive voice response system and pay by credit card or electronic fund transfer from your checking or savings account or call (650) 363-4155 to speak with a member of the Revenue Services Staff.

In Person



Redwood City :

Monday through Friday 9:00am to 5:00pm 555 County Center, 1st Floor Redwood City, CA 94064

South San Francisco:

Monday through Friday 9:00am to 4:00pm Closed for Lunch 12:30-1:30 1050 Old Mission Road S. San Francisco, CA 94080

*Exact change/payment required.

555 County Center in Redwood City during non-business hours

Drop Box

Check Cashier's Check Money Order

- Spanish, Tagalog, Cantonese, Greek, Persian, Armenian, Hindi, Arabic speaking staff are available for bilingual services. Visitor parking is located on the ground floor of the parking structure in Redwood City. Maps and directions to our office are available online. Frequently Asked Questions (FAQs)

Information on Victim Restitution

If you have comments or suggestions about this site, please e-mail Revenue Services Return to Top

Non-Court Related Charge Initial Billing Notice Template 1

Resend X Close

1 / 2 71.3% Find

Internal Services Agency

Department of Revenue Recovery

Director

Interim County Executive
Agency Administrator

County of Sacramento

June 24, 2010

Account Number:
Amount Referred:

\$76.47

You have been previously informed that you owe the County of Sacramento for SHARE OF COST MEDICAL SERVICES. The amount of this indebtedness is \$76.47.

Your monthly payment will be \$50.00, with first payment due on 07/08/2010. If you cannot comply with this payment plan, you must call this office within five (5) days from the date of this letter.

We accept all major credit cards or you may pay by electronic check through Official Payments Corporation. Call 1-800-272-9829, or visit www.officialpayments.com. You will need to have the following: credit card information, DRR account number shown above (or the social security number of the account holder), jurisdiction code 1509, and payment amount. A friend or relative may use their credit card to pay for you.

Please remove and return the payment section below with your payment in the envelope provided. Mail at least 5 days before the due date. To insure proper credit to your account, be sure to include your DRR number on your check or money order.

700 H St., Rm. 6720A • Sacramento, CA 95814 • Phone (916) 875-7500 • Fax (916) 875-7664 www.drr.saccounty.net

Please detach & return w/payment

Account ID	Total Balance	Total Payment Due	Payment Due Date
[REDACTED]	\$76.47	\$50.00	07/08/2010
Statement Date	TO ENSURE PROPER CREDIT, RETURN THIS PORTION WITH YOUR PAYMENT		Check No.:
06/24/2010			Payment Amount:

Make all checks payable to COUNTY OF SACRAMENTO. Write account number on Check/Money Order. Mail at least 5 days before the due date.

County of Sacramento

e-Government and Financial Transactions: Potential Versus Reality

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Abstract: Some of the most challenging e-government applications involve allowing citizens and other customers such as businesses to conduct financially related transactions electronically with governments on a 24-hour, 7-day a week basis. There has been little empirical research on the utilization rates of on-line financial applications. This paper reviews existing data concerning usage rates and presents new data from governments at the state and local levels concerning the usage rates of these online systems. Generally, usage rates are low, demonstrating that there is a gap between the potential and reality of this form of e-government. Statistical tests showed that convenience fees have a negative effect on usage rates. There were also statistically significant differences among applications. Population size was not significantly related to usage rates. Our qualitative data suggest that governments can affect usage rates by providing incentives to employ online transactions and/or penalties for making payment by manual methods. Governments may also improve their usage rates by making their websites and applications accessible and easy-to-use as well as by extensively marketing these applications. Finally, the intrinsic advantages of the applications themselves compared to traditional payment methods affect usage rates.

Keywords: e-Government, usage rates, e-Payment, convenience fees, marketing (of e-Government and e-Payment services)

1. Introduction

In this paper, we study the use of e-government (Holden, Norris, & Fletcher, 2005, p. 64) to provide financially related transaction services to citizens 24 hours, seven days per week such as paying of bills and filing of taxes. There are at least two major positive expectations associated with these types of transactions: (1) It is expected that they will make it easier and quicker for citizens and others to conduct transactions with government by providing a 24/7 method of access; (2) It is expected that by moving these transactions from mail, phone or in-person contacts to electronic exchanges that government may save money such as by less need for personnel in "front office" duties involving the general public as well as other savings including avoidance of costs associated with physical mailings and dealing with bad checks. In addition, many governments suspect that citizens will eventually expect and demand online services because they have become used to this mode of conducting businesses such as with Amazon.com or E-bay. This viewpoint is supported by a recent Federal Reserve (2004) study of payment trends for the period of 2000-2003 showed rapid changes towards electronic payments. In 2000, most non-cash payments were by check but by 2003, most were by "electronic instruments" and the number of checks paid actually declined during these years (Federal Reserve, 2004, p. 10).

2. Literature review

Data show the potential for growth in the use of electronic financial transactions by governments. For example, a 2004 survey by the Pew Center (Horrigan 2004) found that 30 percent of all contacts with government concerned transactions of some sort. A Pew study (Horrigan 2004) asked how many people would prefer to perform personal transactions to the Internet and between 20 and 26 percent each said they prefer to do transactions for auto licenses, personal projects, recreational licenses, and professional licenses using electronic means. As one might expect, the study showed that citizens with broadband access were more likely to want to use the internet for transactions..

Coursey (2005) reports that an average of 44 percent of citizens requested online financial transactions according to citizen surveys. However, Norris & Moon (2005) based on the 2002 survey by the International City/County Management Association (ICMA) found that only about 5 to 7 percent of governments currently allow for online processing of financial transactions. But change should be occurring soon. According to Moulder (2005), more than 50 percent of local governments (including 50 percent of those with populations from 5000 to 9000) plan to offer online payment of utility bills, fees and fines. However, Norris & Moon (2005) cite data to show that there is a wide gap between

stated intentions and actual behaviour with respect to the implementation of financial transactions. Norris & Moon (2005, p. 70) point out that, based on stated intentions, the percent of governments adopting financial transactions should have jumped by 32 per cent between 2000 and 2002 but the actual increase was only 6.5 percent.

There are significant obstacles to offering online services. Norris & Moon (2005) found that lack of IT staff and financial resources were the top two barriers to e-government in 2002. Norris & Moon's data also show that the percent of governments citing the issues of security and convenience fees grew faster than other barriers between 2000 and 2002—this finding could reflect their interest in developing online transaction systems. Coursey (2005) points out that the funding of these systems often requires convenience fees that are resisted by political leadership and these fees also may violate local ordinances. However, there are now third party vendors who will provide e-commerce sites for governments. Arrangements vary but one approach that is cost free to government is to allow the vendor to charge convenience fees to recoup their costs and assist in making a profit on these ventures. In some cases such as in the Illinois Epay Program (<http://www.illinoisepay.com/epay/index.jsp>), the state may arrange a contract and make online payment systems available to a wide variety of governmental organizations including many municipalities and county governments that have few IT resources of their own and, in some cases, even lack their own website. In the state of Washington, several governments have cooperated on developing a successful system (MyBuildingPermit.com) for doing simple (i.e., they don't require plan review) permits online and some of these local governments are relatively small in population. This system has been highly successful. For example, during 2004, their overall percentage usage rate for all of the cities taken together in 2004 was about 29 percent of all subject permits issued and the rate has been increasing in 2005 (Michaud, 2005). Perlman (2001) discusses how the use of third party vendors has allowed counties without large IT resources such as Cobb County (Georgia) to implement an online ticket-paying system. Cobb County obtained a 17 percent usage rate and helped to shorten lines at the courthouse. These cases show that small and moderately-sized cities can experience success through use of vendors and cooperative efforts of pooling resources.

One of the most important aspects of planning for online transaction systems is the extent and speed with which the intended customers of these

systems use online functions. This usage rate is sometimes referred to as a "penetration" or "take-up" rate. This rate is important to vendors and the nature of the deal that they are willing to strike with governments—the higher the rate expected, the more favourable the deal they would be willing to make. If the government conducts its own online transaction system, then the usage rate will be important because government will want to recoup its investment of personnel, hardware, and software with benefits such as less time required to conduct traditional mail or in person transactions, though some governments told us that the major goal of such programs is to reduce costs for customers as an official associated with the MyPermit.com (Michaud, 2005) observes:

Standard ROI methods do not work with on-line applications. Too many of the benefits are "soft"—either they are on the side of your customer or they are in the improved image of the city. In our case, the cost savings are almost all on the customer side.

Still, planning for governmental e-commerce requires assumptions about these usage rates. For example, a plan for e-government for the State of Massachusetts (2001) assumed that the "take-up rate" for individual citizens would begin at 10 percent and increase 5% per year so that by the fifth year of implementation, it would reach 35 percent. The same plan assumed that business usage rate would begin at 15 percent and would increase rapidly to 50 percent by the fifth year of implementation.

Are these assumptions realistic? What are the usage rates obtained by governments for their online financial transactions? Although only a small percentage of local governments offer such transactions according to the most recent ICMA survey cited above, the absolute numbers are large enough now for us to take advantage of the experience of these early implementers and provide a data base for governments planning e-commerce activities to draw upon. These data will also help initiate research into the factors that affect usage rates of governmental online transaction systems.

Despite its importance, there have been few studies of actual e-commerce usage rates. One exception is Rudolph & Cullison's (2002) study of the State of Arizona's Motor Vehicle Department (MVD) adoption of an online registration system. The original plan was for a "self-funding model" in which IBM would construct and implement the system at no cost to the State. IBM's plan was to recoup their costs and make a profit from a convenience fee that would be charged to

customers using the online system (Rudolph & Cullison, 2002). The system began in 1997 and worked smoothly in technological terms but the usage rate was low, only about 2 percent in the first year, due largely to the \$6.95 convenience fee according to Rudolph & Cullison (2002). The state passed new legislation in 1998 to allow IBM to recoup money from the registration fee itself and also to be reimbursed for the credit card fee and this policy change led IBM to rescind the convenience fee (Rudolph & Cullison). The result was an increase in usage rate to about 20 percent by 2002. Rudolph & Cullison (2002) report that an internal study found that online transactions cost about 65 percent less than traditional "over-the-counter" service.

Strover's (2002) Texas survey and found the highest percentage of citizens willing to pay high fees (over 10 dollars) for renewing driver's license (10.1%) and filing and paying taxes (7.5%) which makes sense because these are two of the most essential services for citizens. It is instructive to compare survey results with actual reports of online usage from governments. The State of Texas Online Authority (2002, 2000) found a wide range in the degree of usage depending on the particular target group involved. The highest usage rates obtained were for the following transactions: (1) Department of Public Safety Driver records (71.9%); (2) Savings & Loan license renewals (44%); (3) Department of Public Safety concealed handgun license (27%); (4) Real Estate Commission License renewal (23%); and (5) Department of Public Safety Driver's License Renewal (12.7%). The lowest rates of usage were for local government transactions that the Texas Online Authority supported including: City of Mesquite Ticket pay (.2%), City of Dallas Water Bill pay (.2%); City of Houston Ticket pay (.6%); Department of Transportation Vehicle Renewal (1.0%); and Travis County Property tax (1.2%).

The Texas OnLine Authority (2002, p. 18) concluded that the extent of marketing done for the online transaction system helped to explain why some target groups had high rates. For example, the departments with the highest usage rates (Department of Public Safety and Department of Savings and Loan) marketed the new applications on TV, radio, through press conferences, and other media. A survey (Texas OnLine Authority, 2002) studied end users of the systems and found that the most common way that end users found out about the system was from renewal notices but other significant sources were websites, search engines, and libraries.

3. Study purposes and methods

This is an exploratory study of an important but largely neglected topic of usage rates. Our goals are to synthesize existing knowledge, present new information on rates, and develop a preliminary framework to explain variation in usage rates. During the course of the study, we also found it important to analyze other forms of electronic financial transactions that governments employ such as automated debit or credit payment systems. Drawing on qualitative data gathered in the study, we also will identify certain strategies to improve usage rates as well as some preliminary insights on some of the impacts of these systems.

Since Moulder (2005) found that only about 10 percent of governments have systems now, we deliberately sought out organizations that already have implemented online payment systems. In particular, we contacted local governments that were rated highly by West (2004) and another rating of e-government excellence, the Campbell Public Affairs Institute of the Syracuse University's Governmental Performance Project ratings of counties. In addition, we contacted certain state agencies that were reputed to have high usage rates in order to gather additional information. We also employed major governmental listservs (those of Governmental Management Information Science, the Innovation Groups, and CityWebmaster listservs) to solicit data. We asked each government to provide us with the following information: (1) data on the number and percent of transactions that are conducted electronically through their governmental website with credit cards; (2) data on the number and percent of transactions that were conducted by other electronic transaction methods such as "ACH" or direct debit payments. We also requested information about whether they used convenience fees. We obtained responses from 45 governments for 58 different applications. This is an exploratory study and, given the methods we used to obtain data from organizations, we can not claim that these data are representative of other governments. We do know that our governments contain certain organizations have been offering online transaction services for a relatively long period of time as well as others that are very new to online transactions. Despite the fact that we guaranteed anonymity to governments reporting usage data, it is still likely that governments that view their online systems as being successful are more likely to share their data so this and other unknown response biases may affect our findings. Our reporting of these measures, despite the non-random sample, helps to build some benchmark usage data and prepare

the basis for more refined analyses in the future. Moreover, we have a good representation of local governments in terms of size—the governments in our list range from less than five thousand to more than one million in population. In addition to seeking data on their usage rates, the authors also solicited qualitative comments both through e-mail and phone conversations with the respondents to obtain their insights concerning usage rates.

4. Forms of “Electronic” Payments and state-level data

When we began this research, we were primarily focused on one specific form of electronic transaction: transactions by individual citizens with governments through websites with credit cards since this has been the focus of research by most e-government researchers such as West (2005). As we explored further, we realized that web-based credit card payments were only one of several different electronic transaction methods offered by governments and these other forms often dominate in terms of numbers. For example, projects such as New York City’s NYCSEV and Indiana’s ePay programs, named winners of a contest for online systems by the NECCC (National Electronic Commerce Coordinating Council 2004), employ a variety of forms of transactions including web-based credit card payments, Interactive Voice Response (IVR), Kiosk, ACH-credit, ACH-debit, and other forms of electronic payments from customers. For state agencies, there are several approaches to filing state taxes (Federation of Tax Administrators 2004) that are electronic. There are ELF, Telefile, On-Line, and Direct I-file returns that are at least partially electronic in nature: (1) ELF: returns are submitted by practitioners; (2) Telefile: citizens use touchtone phone to submit their forms; (3) Direct I-File in which citizens submit their forms directly to the state through a state website; (4) Online Returns in which citizens submit their forms via personal computers and software through “electronic return originators;” (5) Bar-Coded paper returns in which the paper returns are captured and converted into electronic form. Of course, many would not consider the bar-coded approach to be “electronic.” Moreover, new forms of electronic conversion and payments are continually evolving. For example, one of the municipalities we contacted employs “Distributed Payment Capture” in which payments left in an outdoors payment box are scanned and converted to enable an electronic ACH deposit. In short, we have now reached the stage where most payments will quickly be converted into electronic format even if it is initially made via manual methods but there remain differences among

these methods in the extent to which they have eliminated the need for manual processing and human intervention on the part of the government.

The different forms of transaction methods have their advantages and disadvantages. Direct debit or the “ACH” method has the advantage of usually not involving any fees for the government or the citizen. This method, however, may not be practical if the bill is due in a short period of time and the person is not already signed up for this form of payment, although one of the governments in our sample did offer a “one time ACH” payment option. Thus direct debiting forms of payment make best sense for recurring types of charges like utility bills while occasional payments that often have short-time frames for payment (e.g., for traffic violations) mesh better with online credit card payments. From the governmental point of view, the credit card approach has an advantage of immediately obtaining the funds and problems of payment become a matter for the individual and his/her credit card company to work out. By way of contrast, an electronic debit approach will not obtain any money if there is nothing left in that person’s account and thus presents a difficulty similar to bad checks.

There are wide ranges in the degree to which states employ these particular forms of electronic submissions. The majority of all states’ electronic income tax filing appears to occur through electronic arrangements with “practitioners” (the “ELF” electronic submission form). For example, in 2004 (Federation of Tax Administrators, 2004), about 81 and 71 percent of the electronic taxes filed to Iowa and Illinois occurred through ELF. Iowa overall had the highest rate of electronic submission, about 60 percent (including telefile) but less than 3 percent of Iowa returns were filed by the I-filing method through direct electronic submission by citizens from a website. By way of contrast, Illinois had less than 40 percent filed electronically but had more than 9 percent filed through the I-filing method. If one includes bar-coded returns as electronic, then Massachusetts had the highest overall electronic filing rate with more than 80 percent. (Federation of Tax Administrator, 2004). The percentage of taxes filed electronically by states varies greatly from 19% (Rhode Island) to 60% (Iowa) (see Table 1 below). The relatively high rates of state taxes being filed by electronic methods is explained by at least two factors: (1) Residents who file electronically expect to quickly receive a refund so they are actually expecting a benefit rather than paying a bill; (2) A large proportion of these payments are made by tax processing “practitioners” for whom electronic submission makes economic sense and the fact that states

can require or more easily target efforts to increase electronic submission on a narrow set of businesses. Another factor affecting usage rates is a state mandate. Duncan & Burruss (2005)

point out that certain states mandate electronic payments for practitioners and these mandates have had a significant effect on usage rates

Table 1: Shows the electronic payment rate

Type of Organization	Bills-Application	Time period	Overall Electronic Rate	Types of Electronic Payments Included
States	State tax filings	2004	19-60%	Telefile, I-file, Online, Web, & IVR
State of Arizona	Vehicle Registrations	July-December 2004	32.18%	Web & IVR
State University	Tuition Payments	2004	3.54%	Web

Also impressive is the State of Arizona's 32.18% rate of electronic submission (IVR and Web combined) for their automobile registration (see Table 1). Moreover, there has been a steady rate of increase in Arizona's percent of registrations done via the Internet or Interactive Voice Response System from 1.2 percent in FY1998 to nearly 28 percent for FY2004 for an average increase of nearly 4 percent per year. Arizona's success began with the repeal of the convenience fee thus the percent Internet/IVR jumped from 1.3 to 7.35% in the 1998-1999 period but the upward trend has continued steadily since then indicating that there is an underlying secular trend to greater use of online transactions. In Table 1, we combine Internet and IVR—disaggregating these two categories shows that the percent done by the Internet rose steadily from about 12 percent in 2002 to 25.5 percent in 2005 (year to date) while the percent done by IVR has actually declined from 7.1% to 6.6% during the same time period. (Note: We are indebted to James Cullison, Arizona Department of Transportation for providing this updated analysis of the Arizona data). By way of contrast, the percent of tuition payments at one state university done through the Internet was 3.54%. (Note: we keep this university temporarily anonymous to preserve the anonymity of the authors).

can be concentrated. Likewise, success is likely to be greater when the target group can perform a large number of transactions that are important to the success of their jobs or businesses as opposed to the occasional transaction that characterizes many of the online transaction systems aimed at general citizenry

5. Local government results

For local governments, Table 3 below shows the percent of web payments with credit cards range from zero percent for two local governments to a high of 45 percent for simple building permits but the latter figure is an exception. Many of the governments provided us with several months and, in a few cases, years of data. In these cases, we calculated averages for the most recent year or fiscal year or for the several months of data provided. In Table 3, we report averages and ranges for those categories of applications that had several responses: parking violations, utilities, property taxes, and water-related payments. The percent usage for parking tickets was highest with an average of more than 10 percent compared to 3 percent for utility, two percent for water, and only about 1 percent for property taxes. We conducted simple t-tests and the differences in usage rates between parking and water-related were significant ($p < .001$, 2 tail) but those between parking and utility were not quite significant ($p = .051$, 2 tail). Most utility and water-related web payment usage rates are in the low single digit range. We received few reports for business taxes but the few we did obtain were generally low. So, generally, the penetration rate for web payments of most local government applications appears to be low. The percentages of payments by electronic debit (also often referred to as "ACH" or "bank draft" by our respondents) were generally more substantial than the percent of web payments. In 18 out of 23 cases where we received percent usage figures for both web and direct debit (ACH) payment methods, the direct debit percent surpassed the web payment, often by a substantial degree—a

Several of the state and local governments provided us data concerning usage rates for several years and the data show a consistent secular trend to higher rates through time, though the improvement generally is gradual. For example, data provided to us recently by the State of Texas OnLine Authority allow us to compare FY2005 data for selected Texas applications (see Table 2 below) and there are (with one exception) systematic improvements in usage rates, often sizeable, between the 2002 and the projected 2005 usage figures. The Texas results and the high rate of success with tax practitioners illustrate one principle of online transaction systems: success is easier when the target group is relatively small in number so that marketing efforts

paired samples t-test found the difference significant at $p < .001$.

Table 2: State of Texas OnLine Authority: Selected 2002 & Projected 2005 Adoption Rates Compared

Agency	FY 2002*	Projected FY2005**	# Transactions (2005)
Nurses License Board	50%	135.82%	8,321
Texas Dept. Licensing & Regulation Air	4%	12.27%	196
Licensed Chemical Dependency Counselor Renewal	4.10%	23.82%	41
Railroad Commission License Renewal	4.40%	42.39%	401
Department of Insurance Agents License Renewal	9.33%	22.73%	2,034
Real Estate Commission License Renewal	23.20%	59.81%	2,108
Department of Public Safety Drive License Renewal	12.70%	38.33%	23,300
Department of Public Safety Concealed Handgun License	27.30%	8.56%	1,894
Department of Public Safety Driver Records	71.90%	93.96%	759,646
Department of Transportation Vehicle Registration Renewal	1.00%	2.79%	33,850
Texas Engineering Extension Course Registration	0.70%	3.53%	335
Comptroller of Public Accounts Sales Tax	2.60%	6.27%	12,913

*Based on State of Texas OnLine Authority (2002).

**Based on Interim FY 2005 report provided March 24, 2005 by Kevin Tanner, Senior Project Manager, Texas OnLine Authority.

***These are projected figures based on early 2005 results and thus the figures are estimates and can be in excess of 100%.

We explored the hypothesis that governments that do not impose a convenience fee would have higher usage rates by testing for differences in usage rates for local governments with similar applications (water-related & utility) and the usage rates were higher (.047 vs. .012) with the no-fee governments ($p < .05$). The impact of convenience fees is also suggested by the fact that in 3 out of the 4 cases (in which we know about the status of convenience fees) where web payment percentages exceeded the direct debit (ACH) percentages, the governments had no convenience fee. As noted above, one of the reasons for the relative popularity of the direct debit method is that it generally has no convenience fee attached to its use.

would have a positive impact on the percent of online transactions. Population size has been found to be important by Ho & Ni (2004) to the expansion of e-government features. Although the correlations were in the expected direction, there were no statistically significant correlations between size and usage rates overall or within the utility and water-related categories. Of course, due to the non-random nature of our sample and its limited size, these tests need to be replicated on larger, random samples before drawing any firm conclusions. However, the lack of a strong relationship between size and usage rates could reflect the fact that the increasing availability of third party vendors reduces the importance of size as a factor affecting usage rates

We also explored the hypothesis that the size of the government as indicated by its population

Table 3: Usage rates for local Government

Government	Population Range	Application	Time	%Web	Conv. Fee?	Other Electronic
G27	Over 1,000,000	Business taxes	2004	0.01%	Yes	
G42	250,000-499,999	Business taxes	2004	0.60%	Yes	
G13	2500-4999	Licenses	2005	1.00%	Yes	
G36	Over 1,000,000	Municipal Courts	2004	6.95%	Yes	
G3	100,000-249,999	Parking Violations	2005	17.00%	Yes	
G14	100,000-249,999	Parking Violations	2004	1.25%	Yes	Other: 7.49%
G21	500,000-1,000,000	Parking Violations	2005	4.00%		
G24	500,000-1,000,000	Parking Violations	FY2005	13.70%		
G27	Over	Parking Violations	2004	11.53%	Yes	IVR 2.95%;

Government	Population Range	Application	Time	%Web	Conv. Fee?	Other Electronic Kiosk .26%
G42	250,000-499,999	Parking Violations	2004	18.30%	Yes	
G44	250,000-499,999	Parking Violations	2004	10.89%	Yes	
<i>Average for Parking Violations: 10.95%; Range: 1.25% to 18.30%</i>						
G2	100,000-249,999	Parks & Recreation	2004-2005	6.30%	No	
G42	250,000-499,999	Police Reports	2004	18.10%	Yes	
G22	100,000-249,999	Property tax	FY2005	2.04%	Yes	
G23	500,000-1,000,000	Property tax	2004	0.41%	No	
G24	500,000-1,000,000	Property tax	FY2005	0.01%		
G27	Over 1,000,000	Property tax	2004	2.08%	Yes	
<i>Average for Property taxes: 1.13%; Range .01% to 2.08%</i>						
G27	Over 1,000,000	Red light violations	2004	3.26%	Yes	
G21	500,000-1,000,000	Sewer bill	2005	3.00%		ACH: 2%
G2	100,000-249,999	Simple building permit	Mar-05	45%	No	
G18	Over 1 Million	Ticket payments	2005	2.8%		
G22	100,000-249,999	Ticket payments	FY2005	2.17%	Yes	
G1	25,000-49,999	Utility payments	2005	2.14%	Yes	ACH 8.11%
G4	Under 2500	Utility payments	2005	0.00%	Yes	
G5	100,000-249,999	Utility payments	2005	1.00%	Yes	Direct debit 9%
G6	50,000-99,999	Utility payments	2004-2005	15.85%	No	Bank draft 8.05%
G7	50,000-99,999	Utility payments	2005	1.64%		
G10	25,000-49,999	Utility payments	2004	1.45%	No	Direct debit: 15.34%
G15	2500-4999	Utility payments	2004	0.24%	Yes	
G20	200,000-249,999	Utility payments	Jan-05	2.73%	Yes	IVR: 9.15%
G26	100,000-249,999	Utility payments	2004	4.96%	No	Direct debit 13.40%
G30	5000-9,999	Utility payments	2005	0.50%	Yes	Direct debit: 9.5%
G31	100,000-249,999	Utility payments	2005	11.50%	No	ACH 9.1%; Electronic lock box 14%
G32	100,000-249,999	Utility payments	2005	1.06%	No	ACH 1.19%; Direct Debit 2.14%
G33	10,000-24,999	Utility payments	2005	0.17%		Direct debit 2.14%
G35	100,000-249,999	Utility payments	2004	4.14%	No	
G37	100,000-249,999	Utility payments	2004	2.88%	No	
G38	500,000-1,000,000	Utility payments	2004	0.92%	No	
G42	250,000-499,999	Utility payments	2004	1.80%	Yes	
<i>Utility-Related Payments. Average 3.18%; Range 0 to 15.85%</i>						
G17	250,000-499,999	Vehicle registrations	2004	3.56%	No	
G40	2500-4999	Wastewater bills	2005	0.00%	Yes	
G41	50,000-99,999	Water & Wastewater	2005	4.17%	No	Automatic bank draft: 16.5%

Government	Population Range	Application	Time	%Web	Conv. Fee?	Other Electronic
G8	Over 1,000,000	Water bill	FY2005	5.36%	Yes	IVR 1.2%
G9	500,000-1,000,000	Water bill	2004-2005	0.55%	Yes	IVR 1.2%
G16	50,000-99,999	Water bill	2003	0.01%	Yes	
G19	50,000-99,999	Water bill	2005	5%	Yes	Direct Debit: 25%
G22	100,000-249,999	Water bill	FY2005	4.20%	Yes	
G25	100,000-249,999	Water bill	2004-2005	1.28%	No	IVR 1.73%; ACH-recurring 12%; ACH-one time 1.01%
G28	10,000-24,999	Water bill	2005	0.39%	Yes	ACH 2.56%
G29	25,000-49,999	Water bill	2005	0.39%	Yes	ACH 2.56%
G34	5000-9999	Water bill	2005	0.82%	Yes	ACH 4.65%
G39	50,000-99,999	Water bill	2003	0.01%	Yes	
G43	250,000-499,999	Water bill	2005	.60%	Yes	Automated payment: 15.3%
G45	5000-9,999	Water bill	2005	1.01%	Yes	Direct debit 5.11%
G11	2500-4999	Water-sewer	2005	0.68%	Yes	ACH: 4.69%
G12	50,000-99,999	Water, sewer, & recycling	2005	5.63%	No	ACH 3.62%;DPC: 2.95%
G44	250,000-499,999	Water-Stormwater	2005	2.43%	No	ACH 9.57%

Water-Related Applications. Average: 1.98%; Range 0 to 5.63%

ACH, Bank draft, & direct debit all refer to essentially same idea of electronic transfer arrangements with bank or other financial institutions that results in electronic transfer of funds.

IVR: Interactive Voice Response System that also results in electronic payments.

DPC: Distributed Payment Capture that involves scanning of check to result in an ACH transaction.

The City of Tampa (Florida) provides a test for the impact of convenience fees. (Note: we are indebted to Steve Cantler, Tampa's Information Technology Project Services Leader, for these data). They dropped convenience fees in March of 2005 (see Table 4) and both the percentage of the count of online payments and the percent of the amount paid online increased the months following the change despite the fact that the government did little or no promotion. The percentage usage rates in Table 4 represent an average for all of Tampa's applications but their individual application rates vary greatly—from more than 18 percent for parking tickets to less than 1 percent for business taxes, demonstrating that the nature of the particular application affects usage rates. The Tampa data also illustrate that online percentages are generally fairly stable even though the absolute amounts may be affected by seasonal factors. Table 4 also illustrates the fact that there are two different figures that can be used to calculate usage rates: percentages of counts and percentage of amounts—the count percent is almost double the amount figure in this case. These two different percentages can differ significantly if the size of the typical online payment differs from the typical traditional

payment—note that the figures reported in Table 3 employ the count figure. For example, one local government noted that their numbers of "wire transactions" were small but often involved large amounts being transferred from banks.

One of the attractions of web payments is the ability to earn "miles" or other rewards from credit card companies. This would be especially attractive for a large payment such as annual property taxes but most if not all of the property taxes online systems have fairly heavy convenience fees so that the percent paying online is small. Still some do pay by this method even though it does not appear to make economic sense. Indeed, an official in one government reported that in some cases, online credit cards were used for payments that resulted in hundreds or thousands of dollars in fees and the benefits from credit card companies did not appear to justify the costs. Upon inspection, in some of these cases, it turned out it was a third party (e.g., representative of a homeowner association) paying the fee and thus the payment of the penalty made sense from that individual's perspective.

Table 4: City of Tampa Effect of Eliminating Convenience Fees Beginning March 2005

Month-Year	Online Transaction Account	Online Revenue Collected	Percent of Transactions Online	Percent of Revenue Collected Online
Jan-04	4,388	280,886	3.55%	1.70%
Feb-04	4,396	268,067	3.66%	1.59%

Mar-04	4,574	278,481	3.28%	1.50%
Apr-04	4,048	231,278	3.32%	1.52%
May-04	4,034	256,940	3.32%	1.60%
Jun-04	4,208	272,940	3.30%	1.58%
Jul-04	4,209	294,904	3.40%	1.67%
Aug-04	4,280	296,358	2.98%	1.44%
Sep-04	3,578	234,976	2.90%	1.28%
Oct-04	4,510	303,981	3.46%	1.63%
Nov-04	4,378	315,701	3.30%	1.89%
Dec-04	4,441	296,684	3.62%	1.73%
Jan-05	4,375	307,392	3.72%	1.84%
Feb-05	4,381	311,956	3.72%	1.87%
Mar-05	5,894	361,359	4.49%	1.97%
Apr-05	5,784	367,897	4.66%	2.35%
May-05	6,685	437,002	4.90%	2.52%

Source: Steve Cantler, Information Technology Project Services Leader, City of Tampa, Florida

6. Discussion

Web payments can save governments money on postage and are also a quicker and easier method than traditional methods (postal mail or in person payments). The speed of the website credit card payment can make a difference when people are late. For example, one local government has a policy that parking tickets double in cost if not paid within 10 business days. According to an official with this local government, people often don't pay immediately and then panic as they realize the date is approaching so they use the web online system to pay the parking tickets despite its convenience fee and this is one of the reasons why their usage rate for parking tickets is higher (close to 20 percent) compared with less than 2 percent for utility bills. In short, people may resort to online payment to ensure that they make the deadline to avoid penalty fees and be willing to pay the convenience fee if they are less than the penalty.

Online payments with credit cards may also be useful to those who are short on cash and this fact is associated with other important benefits. According to one of the municipal officials, many of the users of online utility payments are late payers whose service is about ready to be cutoff. It used to be that people could write a check and use "float" due to the fact that it took several days for the check to clear. However, the Check Truncation Act (often referred to as "Check 21") has sped up the time that it takes to clear checks and thus cut back on the "float." Consequently, online payment with credit cards is one way to pay when cash funds are not available in their checking accounts. From the point of view of the government, the processing of checks can be costly in terms of time and personnel as well as the fact that a certain percentage of the checks are bad. Thus credit card payment can alleviate the problem of the bad check—the problem of payment then becomes between the credit card

company and the customer, not between the customer and the local government. Likewise, the cutting off of utility services is a very serious step (e.g., losing heat during cold weather) so the use of credit cards can help to avoid this dilemma for both customer and government. Our communications with several local governments revealed that they very much dislike initiating these service cutoffs so that if online services reduce the necessity to cutoff services, the online systems could be viewed as successful even if the overall rate of usage is low. One local government reported a drop in "collection shutoffs" of water declined for the city from about 2500 to 1700 during a 3-month period—more than a 30 percent drop. In short, to summarize, the smallness of the percentage figures for web use can mask some important positive impacts.

Web usage rates are likely affected by many factors over which governments have no control such as the socioeconomic status of their populations and the area's degree of "connectedness" to Internet. Areas with wealthy populations with high education levels and prevalent broadband usage are likely to obtain relatively higher rates of usage and these are factors over which governments have little or no control. There are some factors that governments can control. One is the nature of the website—how visible and easy to access and use is the online payment system? The authors searched through more than 200 websites for their online payment applications during the course of this study. In many cases, online services are highlighted on the home page (or portal) so that the online transaction system is both prominent and accessible in one or two clicks of a mouse. In many cases, we had extreme difficulty in finding the online payment system and only were able to locate it by sending a query to the webmaster or some other official of the government. Some of

the variation in usage rates is likely to be due to these aspects of the governmental website.

We were not able to actually conduct transactions to test the user friendliness and effectiveness of the applications. The award-winning NYC Serv ePayment Project's (NECC, 2004, p.13) concluded that it is important to have a live help desk that citizens can call and that many hacking attempts were made so that "robust security" is a necessity. However, an official of the NYC Serv (Desiderio, 2005) stated that the biggest fraud issues concerned pay by phone—not by Internet. The development of an online transaction system is complex and the NYC Serv (2004, p. 14) project concluded that there is no substitute for a field test because acceptance testing could not accurately "simulate actual portal usage." They noted that a focus group would have been useful because it would have turned up insights such as the importance of supporting AOL and Apple that were not included in the original design requirements developed by internal managers. Another agency found similar issues needed to be dealt with: (1) Customer support issues such as lost or forgotten information, credit card validation problems, missing or inaccurate customer information, & user error in navigating the application; (2) Operational issues such as fraudulent credit card use, need to train customer support representatives, and dealing with changes that the system forces to the closing of business operations. If this agency had to start over, some of the steps they would do differently include a more detailed online help system. In short, although we were not able to investigate the actual characteristics of the applications, it is clear that the accessibility and quality of the system will affect usage rates.

A second major factor is marketing. One of the officials running a state-supported online system said that he noticed big differences in usage rates depending on the extent to which the local government marketed their system. We asked governments to provide us information on the nature their marketing and some of high usage rates indicated that they had put substantial effort into it as the following comments indicate. Here are some comments. The high usage rate for MyBuildingPermit.com communities reflects their commitment to marketing the applications:

(Local Government Business Systems Manager) We hired a marketing company to help us come up with a logo and to give us advice. Each of the jurisdictions had posters and business cards and every jurisdiction's Permit Techs told clients about it. We had press releases. During the design stage we had focus groups of contractors who tested the system and gave us feedback. We

have contractors that pull a lot of these types of permits so we knew if we targeted some of the big ones we would pick off a large percentage of the applications. We went to the Master Builders Association. We all have public computers in our Permit Centers so we can show clients how to use it. We all have links on our websites to this website....

The nature of the customer pool affects success rate. MyBuilding.Com was able to be quickly successful because they were able to target a few large contractors and thus achieve substantial success by converting them to users. Other communities relied on a variety of marketing strategies:

(Local Government Manager) "We used whatever marketing tools we had at hand. We included a few sentences in our residential newsletter, sent a separate letter to all utility customers and promoted it on our website.

(Local Government Manager): "The marketing strategy was straightforward. The first billing cycle that eBilling was available...the message section of the bill had an announcement with information inviting people to go to our website and view and/or pay their bill. In addition, a buck slip bill stuffer on bright yellow paper was placed in the envelope with more detailed information. (The City does not use bill stuffers very often and limited them to one subject per cycle so there is more effect). In addition, we made the system the "featured" story with a hot link on the home page of the website. We repeated the message on the bill with the next two cycles but did not use a buck slip. In addition, residents who called and paid their bill historically via phone were given the information and invited to look at the system....

In both of these above cases, the governments were relatively successful and their success appeared to be associated with a reasonably extensive marketing campaign. So marketing can make a difference. Still, as we show in Table 4, increases in usage rates can be achieved without additional marketing simply by eliminating convenience fees. According to Cullison (2005), Arizona's auto-registration program did not employ much advertising beyond sticking a flyer in renewal notices but that their application sold itself through word-of-mouth advertising.

In Figure 1 below, we have outlined a model of the factors that, based on our analysis, appear to influence usage rates. Our model is undoubtedly a simplified version of reality, positing that the usage rates are constrained by certain variables that are beyond the control of the government

including the nature of the area served, the pool of customers/citizens and their particular characteristics and financial situations, and the nature of the applications themselves. Within these constraints, organizations can influence usage rates through their convenience rate policies, and the quality of their website and applications. The nature and perceived advantages of the application itself can have effects on customers' propensity to use the systems independent of these factors. For example, according to Megan Michaud (2005), Business Systems Manager for the City of Bellevue (Washington), the MyBuilding.com "system sells" itself because it allows contractors to sit in their office and "pull permits across jurisdictions." We saw in the state level data that fairly high usage rates can be obtained when the

targeted group expects a significant benefit such as an income tax refund or if the targeted users are business people whose job will be significantly facilitated by the online system. Our model draws on the Technology Acceptance Model (TAM) that posits that perceived ease of use and utility affect end user's usage of technology (Davis, 1989). Wang (2002) employed a revised TAM model that included perceived privacy of information and the citizen's sense of self-efficacy and found these variables were significant in explaining usage rates of electronic filing systems in Taiwan. Of course, we did not directly study end users of the systems in this research—our model is based upon the qualitative observations of some of the managers of the government systems.

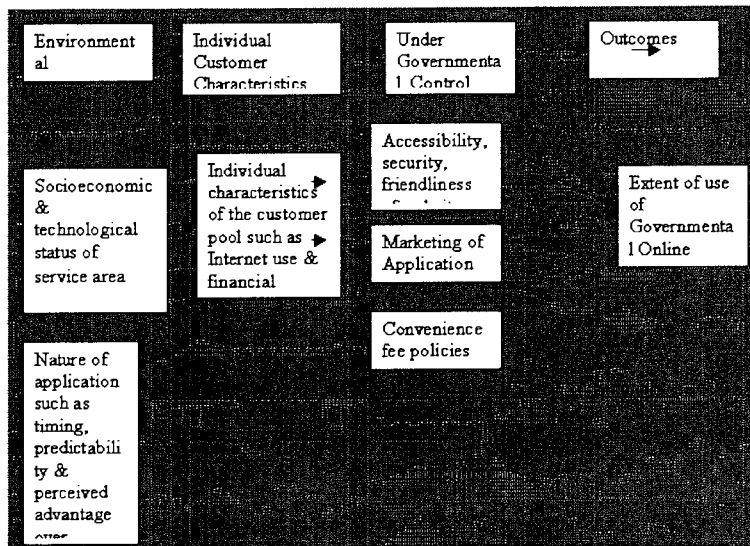


Figure 1: Model of factors influencing use of Governmental online financial

The establishment of online payment systems can be complex for a variety of factors including negotiations with credit card companies. Governments can adopt certain tactics to lower rates for their customers. For example, the NECCC (2004) study reports that the State of Indiana issued an RFP to obtain the best credit card rate. Reportedly, some of the credit card companies have policies that restrict, for example, the use of sliding fees and require that all credit cards offered by online systems charge the same fee. These policies can force government to make choices as to which credit cards they will accept.

All governments providing online systems currently maintain traditional payment systems too so it is important to increase the usage of electronic payment options because the marginal cost of them is less once the system is in place. The trend among the advanced governments is to

provide several different options for payment including web payment, interactive voice response, direct debit, and others. An alternative approach to encourage greater electronic payment usage is to charge a fee for traditional methods of payment. This is what Conyers Georgia (Perlman, 2001) did—they charged three dollars for an accident report picked up at City Hall while providing it for free over the Internet. However, such an approach is likely to be controversial since previous work shows that usage rates are correlated with age and ethnicity (Strover & Straubhaar, 2000). Indeed, one local government official explicitly argued against the exclusion of convenience fees for online payments:

We read with interest the experience of other municipalities and "villages" with high median incomes who absorb the costs of "e-payment"

programs.... ..this approach doesn't make business sense. "E-government" may be sexy, but it comes at a cost. We made the decision not to subsidize those customers who (and we have heard this quite often) wish to accumulate frequent flyer miles by using their credit card to pay their utility bills.

Our results along with the few other studies done of usage rates provide some tentative conclusions that need testing with a scientific sample. First of all, the percent of payments done through websites with credit cards is generally small for most local governments. Thus governments planning to implement online systems should begin with expectations of low usage rates for

applications aimed at general citizenry. High usage rates appear to occur in special situations such as when customers expect benefits (e.g., tax refunds) as opposed to paying a bill, their numbers are small so marketing can be targeted, or the group of intended users are businesses or professionals whose jobs will be significantly easier due to the online system. Still, we found a steady if gradual increase so that usage rates should be substantially higher in the future. In short, online financial transactions continue to offer a great deal of promise for the future but success is not quick or easy but requires a sustained effort.

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Section 2. Contract for On-line and Telephone Payments

- The Department of Revenue does not directly accept on-line or telephone payments, and in 2003 contracted with its existing CUBS account system vendor to develop a credit card payment system on its behalf. Contrary to County policies, this contract, was not competitively bid, has no expiration date, was not processed through the Procurement Department or County Counsel, and was not approved by the Board of Supervisors. Furthermore, the fees charged to debtors to make payments appear to violate State law, because they exceed the County's cost to provide the service, and were not approved by the Board. Because these charges do not comply with State law, they may also violate federal law. Current fees also exceed the rates proposed in a March 2010 Countywide electronic payment policy, and are far higher than fees charged by another vendor providing similar services to the Tax Collector's Office and to the collections units in other counties.
- The high fee structure also encourages in-person payments, which tie up staff at the DOR counter, and also discourages payment of debts generally. Academic research and anecdotal reports from other counties indicate that charging of "convenience fees" reduces collections substantially, as further detailed in Section 1 of this report.
- The Department should immediately obtain Board authorization to renegotiate the CUBS contract for remote payment services, or replace it with another vendor, reducing charges to debtors to no more than 2.5 percent of payment amounts. In addition, the County should promote remote payments and collections by implementing a pilot program running for at least one year in which the County itself pays the fees, rather than passing the fees on to debtors. This move should result in effective savings by reducing staffing requirements at the DOR counter, and increase the willingness of debtors to pay outstanding bills, resulting in net increased revenue to the County. These changes, in combination with recommendations in Section 1 of this report, should bring this function into compliance with relevant laws and County policy, while reducing counter-staffing requirements, increasing net revenues, and facilitating a shift of staff from counter work to telephone tasks.

E-Payment Contract

In 2003, the Department of Revenue entered into what was intended to be a short-term contract with its existing CUBS account system vendor for a new service to process revenue collection payments on-line and by telephone. The Department itself does not accept telephone or on-line payments directly. The agreement, a copy of which is provided as Attachment 2.1, was to enable the vendor to use the County as a test site for its electronic payment system, and the County in return would get product support and training for free.

The contract provides that there are credit card transaction processing fees ("convenience fees") to be paid to the vendor. It specifies that if the County elected not

to pass these fees to the public, the credit card fees would amount to a maximum of \$2.25 per transaction. It does not specify what the fees would be to the public. Although the County cost to provide this service is \$2.25, the cost charged to the public for this same service is in some cases more than 6,500 percent higher, as shown in the fee schedule, Attachment 2.2. This is a violation of Government Code Section 6159, as shown as Attachment 2.3, which specifically states that the fee is “not to exceed the costs incurred by the agency in providing for payment by credit or debit card...”.

Actual Fees

As of March 2010, the actual fees the vendor charged far exceeded \$2.25 per transaction that the County would incur to provide this service. A sampling of these fees is provided in Table 2.1 below, which shows the percentages of these fees. Note that all of the fees exceed the \$2.25 per transaction rate identified in the contract as the County cost. The system will only accept credit card payments up to \$5,000.

Table 2.1

**Client Expenses for Paying DOR Bills
Online with Credit Card**

Payment	Fee	Percent
\$25	\$2.65	11%
\$26	\$3.65	14%
\$50	\$3.65	7%
\$51	\$3.95	8%
\$75	\$3.95	5%
\$76	\$4.65	6%
\$100	\$4.65	5%
\$150	\$6.20	4%
\$200	\$7.65	4%
\$500	\$15.60	3%
\$5,000	\$148.60	3%

Source: DOR Web Payments System

As of mid March 2010, the central collections agencies of at least 12 California counties¹ were using the same vendor that the County of Santa Clara Tax Collector uses to process credit card payments. This vendor – Official Payments Corporation (OPC) – generally charges lower convenience fees than does the existing Department of Revenue

¹ Butte, Colusa, Humboldt, Madera, Merced, Monterey, Sacramento, San Bernardino, San Joaquin, San Mateo, Tuolumne, and Ventura. This list does not include counties that use OPC for collections payments handled through the Tax Collector or the Controller-Treasurer, or other agencies. Additionally, a 2006 study by the Iowa Department of Administrative Services concluded that OPC was providing electronic payment services for the Internal Revenue Service, 26 states, the District of Columbia and 2,000 local government clients nationwide.

vendor – typically around 2.5 percent. For example, if a person owed \$500 to the County of Santa Clara and \$500 to San Mateo County, and paid both bills with a credit card, the fee would be \$15.60 in the County of Santa Clara, but \$12.50 in San Mateo. The fee discrepancy increases as the amount of the payment decreases. That is, if a person paid \$100 to DOR by credit card, the fee would be \$4.65, versus \$2.50 in San Mateo County.

Further, if a person paid a \$5,000 delinquent medical bill with a credit card through DOR’s vendor, the fee would be \$148.60. If the same person paid a \$5,000 property tax bill with a credit card through the County of Santa Clara Tax Collector’s OPC, the fee would be \$125, for a difference of more than \$23.

Contract and Fee Approval

Neither the fee amounts nor the contract with CUBS for remote payment services was approved by the Board of Supervisors². The failure to get either approval of the Board of Supervisors or delegation of authority from the Board to execute the contract for remote payments appears to violate Section 5.3.1 of the Board of Supervisors’ policy manual. In addition, the contract has no end date, and was not reviewed by the Procurement Department or County Counsel prior to execution. DOR should obtain authorization from the Board of Supervisors to re-negotiate or terminate the contract.

Although the code is subject to interpretation, it appears that Government Code Section 6159 requires, among other things, that the Board approve fees charged for credit card transactions. That section states, in relevant part, that “any fee imposed” by a public agency for the use of a credit or debit card or electronic funds transfer “shall be approved by the governing body responsible for the fiscal decisions of the public agency.” These fees are not in the County Ordinance Code Section A14 – Fees and Charges, nor are they included in the FY 2010 Countywide master fee schedule. Further, the Department of Revenue is subject to federal law via the Fair Debt Collections Practices Act. Section 808 of the act states, in relevant part:

“A debt collector may not use unfair or unconscionable means to collect or attempt to collect any debt. Without limiting the general application of the foregoing, the following conduct is a violation of this section:

- (1) The collection of any amount (including any interest, fee, charge, or expense incidental to the principal obligation) unless such amount is expressly authorized by the agreement creating the debt or permitted by law.”

The fact that the fees were imposed in a manner inconsistent with State law may therefore be a violation of this section of federal law. In addition, the fees also appear to violate County policy with regard to electronic funds transfer fees. This policy was established in 2005, subsequent to the establishment of the 2003 CUBS contract. Controller Treasurer County Policy and Procedure 11-100-001, approved by the Board

² The County had an existing contract with CUBS for account system services, which was appropriately executed.

of Supervisors in March 2006, governs "Acceptance of Electronic Fund Transfer Payment Methods, including credit cards, debit cards and ACH's." A copy of this policy is provided as Attachment 2.4.

According to this policy "all fees and charges associated with the electronic payments will be based on cost incurred by the County, and determined in accordance with the County's policy for determining fees and charges." Since the charges under the contract are dramatically higher than the County's costs would be, it appears that the contract violates the policy. The policy also indicates that payers should generally incur the cost of using electronic payment methods, but states:

"Departments are encouraged to analyze their individual situations for business cases where it is in the County's best interest to pay the fees and charges and seek proper approval for the department absorbing the associated costs or including them in their fees and charges."

The Department of Revenue should immediately insist that the contract vendor either comply with the \$2.25 per transaction rate identified in the contract, or identify an alternative vendor for credit card payments, such as either the proposed County-wide vendor or the County's existing vendor for property tax payments, and should execute an appropriate contract in which fees generally³ do not exceed 2.5 percent of the transaction. Any contractual "convenience fees" should be submitted to the Board of Supervisors for approval. Further, the department should establish a pilot program of at least one year in length in which the County pays the convenience fees itself, rather than passing these fees on to debtors. Evidence from other jurisdictions and academic research indicates that elimination of convenience fees increases collections by an amount greater than the cost of the convenience fees, thus resulting in a net benefit to the absorbing jurisdiction.

Further recommendations related to collection of remote payments via credit card are provided in Section 1 of this report, which addresses issues with the Department of Revenue payment methods.

CONCLUSION

The Department of Revenue has contracted with a vendor since 2003 to provide Internet and telephone bill payment services to the public. The contract is at odds with the County's normal contracting requirements, and the vendor's fees are unusually high and were not approved by the Board of Supervisors. The Department should address this problem immediately, before proceeding to address its available payment processes in general, as recommendation in Section 1 of this report.

³ Some vendors have a \$1 minimum convenience fee, which means that small payments would result in fees of more than 2.5 percent.

RECOMMENDATIONS

The Department of Revenue should:

- 2.1 Obtain authorization from the Board of Supervisors to re-negotiate or terminate the contract for remote payment services with CUBS. (Priority 1)
- 2.2 Require that the online credit-card vendor charge no more than the \$2.25 per transaction rate listed in the vendor's contract, or cease doing business with that vendor and instead contract with a new vendor for provision of remote payments via credit card, and ensure that "convenience fees" with that vendor generally do not exceed 2.5 percent. (Priority 1)
- 2.3 Present the selected vendor's "convenience fees" to the Board of Supervisors for review and approval, consistent with Government Code Section 6159. (Priority 1)

SAVINGS, BENEFITS AND COSTS

Implementation of the recommendations would bring the Department's contract into compliance with existing County policies, and State and federal law, and would reduce fees for the public, probably resulting in increased collections, as further described in Section 1 of this report.

COLUMBIA ULTIMATE BUSINESS SYSTEMS, INC. BETA TEST AGREEMENT

6/2/00

Please FAX THE LAST PAGE BACK TO Rane'e Schwinn @ 360-260-1642.

This Beta Test Agreement ("Agreement") dated April 4, 2003 is made by and between Columbia Ultimate ("Developer") and County of Santa Clara ("Recipient").

Developer is testing a product, EDS*PAY, and associated processes and services identified (the "Product") which it desires to have tested by a prospective user in what is commonly referred to as "Beta Test".

The Product contains valuable, confidential, trade secret information owned by Electronic Data System Corporation ("EDS") and Columbia Ultimate.

The Recipient desires to test and evaluate the Product's suitability for use in its business.

NOW, THEREFORE, in consideration of the promises set forth herein, the parties hereto agree as follows:

1. Arrangement.
Developer agrees to provide to Recipient the Product, and Recipient accepts the Product, subject to the terms of this Agreement. Recipient agrees to test and evaluate the Product as provided herein, report to Developer with respect to the usefulness and functionality of Product not limited to the Addendum of this contract (Test Plan), and return the Product to Developer at the conclusion of the Beta Test, all pursuant to this Agreement.

In consideration for Recipient providing a Beta Test environment for the Product, Developer will:

- A. Provide the following products and services at no charge during the Beta Test phase:
- i. Training on the Product.
 - ii. Consulting on the Product.
 - iii. Documentation on the Product.
 - iv. Technical support of the Product.
- B. Provide the following at the end of the Beta Test phase:
- i. Depending on the outcome, offer the Recipient the option to be Beta Test Client for additional Products.
 - ii. Depending on the outcome, continue to utilize the Product in a "live" mode.

There are convenience and/or transaction fees associated with this service and if the Recipient chooses to pay the fees rather than pass the fees on to the consumer the Recipient will be charged at a maximum of \$2.25 per transaction for credit card and \$3.25 per transaction for ACH/EFT. This convenience fee is paid to Columbia Ultimate for processing and does not include discount fees that will be negotiated between the Recipient and their merchant bank.

2. Non-Disclosure.
A. Recipient acknowledges and agrees that in providing the Product, Developer may disclose to Recipient certain confidential, proprietary trade secret information of Developer (the "Confidential Information"). Confidential Information may include, but is not limited to, the Product, computer programs, flowcharts, diagrams, manuals, schematics, development tools, specifications, design documents, marketing information, financial information or business plans. During this Agreement and for a period thereafter, Recipient agrees that it will not, without the express prior written consent of Developer, disclose any Confidential Information or any part thereof to any third party, except to the extent that such Confidential Information: a) is or becomes generally

COLUMBIA ULTIMATE BUSINESS SYSTEMS, INC. BETA TEST AGREEMENT

available to the public through no fault of Recipient, or b) is rightfully received by Recipient from a third party without limitation as to its use. At the termination of this Agreement, Recipient will return the Product and all other Confidential Information to Developer.

- B. Recipient also agrees that it shall not duplicate, translate, modify, copy, distribute, printout, disassemble, de-compile, reverse engineer or otherwise tamper with the Product or any firmware, circuit board or software provided therewith.

3. License.

Recipient acknowledges that Recipients shall have only a limited, non-exclusive, non-transferable license to use the Product until terminated by either the developer or the recipient. Recipient acknowledges and agrees that it will not use the Product for any purpose that is illegal. Because the Product is a "Beta Test" version only and is not error or bug free, Recipient agrees that it will use the Product carefully and will not use it in any way which might result in any loss of its or any third party's property or information.

4. Report.

Recipient shall report to Developer, as soon as practical, any perceived defect in the Product. Throughout and at the conclusion of the Beta Test, Recipient shall provide to Developer an evaluation of the Product, including both positive and negative aspects.

5. Termination.

Recipient may terminate this Agreement at any time prior to expiration of the Beta Test by returning the Product including all Confidential Information and copies thereof, to Developer, along with its evaluation report. Developer may terminate this Agreement upon notice to Recipient, subject to Recipient's obligation to return the Product, Confidential Information and all copies thereof. The obligations of Recipient in Section 2 above shall survive the termination of this Agreement. If not earlier terminated, this Agreement shall terminate automatically upon the end of the period set forth in Section 3 and following Recipient's return of the Product and the Confidential Information. Upon termination, Recipient agrees to remove from Recipient's computer any files related to the product. If, during the beta test period, the developer decides not to continue this service the recipient is free to contact EDS directly to negotiate service.

6. Developer's Warranties.

Developer represents and warrants that it has the requisite right and legal authority to grant the license and provide the Product and the Confidential Information as contemplated by this Agreement. DEVELOPER MAKES NO OTHER WARRANTY, EXPRESS OR IMPLIED, WITH RESPECT TO THE PRODUCT OR ANY OTHER CONFIDENTIAL INFORMATION AND ALL OTHER WARRANTIES, WHETHER EXPRESS OR IMPLIED, ARE HEREBY DISCLAIMED, INCLUDING, WITHOUT LIMITATION, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. DEVELOPER'S SOLE LIABILITY FOR BREACH OF THE REPRESENTATION AND WARRANTY ABOVE, AND RECIPIENT'S SOLE REMEDY, SHALL BE THAT DEVELOPER SHALL INDEMNIFY AND HOLD RECIPIENT HARMLESS FROM AND AGAINST ANY LOSS, SUIT, DAMAGE, CLAIM OR DEFENSE ARISING OUT OF BREACH OF THE REPRESENTATION AND WARRANTY, INCLUDING REASONABLE ATTORNEYS' FEES.

7. Governing Law.

This Agreement is to be governed by, construed and enforced according to the laws of the State of Washington.

8. No Assignment.

Recipient may not assign this Agreement without the prior written consent of Developer. This Agreement shall be binding upon and inured to the benefit of the parties and their respective administrators, successors and assigns.

9. Dispute Resolution.

COLUMBIA ULTIMATE BUSINESS SYSTEMS, INC. BETA TEST AGREEMENT

If any controversy or claim arises out of or relates to this Agreement, or the breach thereof, the parties agree that senior management will attempt in good faith to settle the controversy or claim within ten (10) business days thereafter before resorting to arbitration pursuant to this Section. If said controversy or claim cannot be settled through such senior management intervention, the controversy will be settled by arbitration in accordance with the then current rules and supervision of the American Arbitration Association, and by a sole arbitrator selected by the parties who is sufficiently knowledgeable in the areas of law necessary to arbitrate the controversy. The decision and award of the arbitrator shall be final and binding and the award so rendered may be entered in any court having jurisdiction thereof. The arbitrator shall not be authorized to award punitive damages to either party. The requirement for arbitration shall not be deemed a waiver of any right of termination under this Agreement.

10. Final Agreement.

This Agreement terminates and supersedes all prior understandings or agreements on the subject matter hereof. This Agreement may be modified only by a further writing that is duly executed by both parties.

IN WITNESS WHEREOF, the parties hereto have executed this Beta Test Agreement as of the date first above written.

County of Santa Clara

COLUMBIA ULTIMATE BUSINESS SYSTEMS

Signature: _____

Signature: _____

Print Name: _____

Print Name: _____

Title: TAX COLLECTOR

Title: Immedia Transactional Services
Product Manager

Signature: _____

Print Name: _____

Date: 4-30-03

Title: ACTING DIRECTOR REVENUE

Signature: _____

Print Name: _____

Title: INFORMATION SYSTEMS MANAGER

Date: 4/30/03

EDS*Pay Pricing Structure for Columbia Ultimate Clients as of February 7th, 2003				
Consumer Paid Fees			Agency Paid Fees	
Credit Card Fees		ACH/EFT	Credit Card	ACH/EFT
TRANSACTION AMOUNT	FEE	FEE	FEE	FEE
\$0.00 TO \$25.00	\$2.65	\$2.25 per transaction	\$2.25 per transaction	\$2.25 per transaction
\$25.01 TO \$50.00	\$3.65			
\$50.01 TO \$75.00	\$3.95			
\$75.01 TO \$100.00	\$4.65			
\$100.01 TO \$150.00	\$6.20			
\$150.01 TO \$200.00	\$7.65			
\$200.01 TO \$250.00	\$8.70			
\$250.01 TO \$300.00	\$9.65			
\$300.01 TO \$350.00	\$11.40			
\$350.01 TO \$400.00	\$12.60			
\$400.01 TO \$450.00	\$14.70			
\$450.01 TO \$500.00	\$15.60			
\$500.01 TO \$600.00	\$18.45			
\$600.01 TO \$700.00	\$21.65			
\$700.01 TO \$800.00	\$24.65			
\$800.01 TO \$900.00	\$27.65			
\$900.01 TO \$1,000.00	\$30.65			
\$1,000.01 TO \$1,100.00	\$33.65			
\$1,100.01 TO \$1,200.00	\$36.65			
\$1,200.01 TO \$1,300.00	\$39.65			
\$1,300.01 TO \$1,400.00	\$42.65			
\$1,400.01 TO \$1,500.00	\$45.65			
\$1,500.01 TO \$1,600.00	\$48.20			
\$1,600.01 TO \$1,700.00	\$51.95			
\$1,700.01 TO \$1,800.00	\$54.20			
\$1,800.01 TO \$1,900.00	\$57.20			
\$1,900.01 TO \$2,000.00	\$60.20			
\$2,000.01 TO \$2,250.00	\$67.70			
\$2,250.01 TO \$2,500.00	\$74.70			
\$2,500.01 TO \$2,750.00	\$82.70			
\$2,750.01 TO \$3,000.00	\$89.70			
\$3,000.01 TO \$3,250.00	\$96.70			
\$3,250.01 TO \$3,500.00	\$104.70			
\$3,500.01 TO \$3,750.00	\$111.70			
\$3,750.01 TO \$4,000.00	\$120.70			
\$4,000.01 TO \$4,250.00	\$126.70			
\$4,250.01 TO \$4,500.00	\$135.70			
\$4,500.01 TO \$4,750.00	\$141.70			
\$4,750.01 TO \$5,000.00	\$148.60			
\$5,000.01 TO \$5,500.00	\$163.10			
\$5,500.01 TO \$6,000.00	\$178.20			
\$6,000.01 TO \$6,500.00	\$192.70			
\$6,500.01 TO \$7,000.00	\$207.70			
\$7,000.01 TO \$7,500.00	\$222.70			
\$7,500.01 TO \$8,000.00	\$237.20			
\$8,000.01 TO \$8,500.00	\$251.70			
\$8,500.01 TO \$9,000.00	\$266.70			
\$9,000.01 TO \$9,500.00	\$281.70			
\$9,500.01 TO \$10,000.00	\$296.70			

Note: Credit card fee does not cover the agencies merchant account fees which will be charged to them by their merchant bank.

Government Code 6159. (a) The following definitions apply for purposes of this section:

(1) "Credit card" means any card, plate, coupon book, or other credit device existing for the purpose of being used from time to time upon presentation to obtain money, property, labor, or services on credit.

(2) "Card issuer" means any person, or his or her agent, who issues a credit card and purchases credit card drafts.

(3) "Cardholder" means any person to whom a credit card is issued or any person who has agreed with the card issuer to pay obligations arising from the issuance of a credit card to another person.

(4) "Debit card" means a card or other means of access to a debit cardholder's account that may be used to initiate electronic funds transfers from that account.

(5) "Draft purchaser" means any person who purchases credit card drafts.

(6) "Electronic funds transfer" means any method by which a person permits electronic access to, and transfer of, money held in an account by that person.

(b) Subject to subdivisions (c) and (d), a court, city, county, city and county, or other public agency may authorize the acceptance of a credit card, debit card, or electronic funds transfer for any of the following:

(1) The payment for the deposit of bail for any offense not declared to be a felony or for any court-ordered fee, fine, forfeiture, penalty, assessment, or restitution. Use of a card or electronic funds transfer pursuant to this paragraph may include a requirement that the defendant be charged any administrative fee charged by the company issuing the card or processing the account for the cost of the transaction.

(2) The payment of a filing fee or other court fee.

(3) The payment of any towage or storage costs for a vehicle that has been removed from a highway, or from public or private property, as a result of parking violations.

(4) The payment of child, family, or spousal support, including reimbursement of public assistance, related fees, costs, or penalties, with the authorization of the cardholder or account holder.

(5) The payment for services rendered by any city, county, city and county, or other public agency.

(6) The payment of any fee, charge, or tax due a city, county, city and county, or other public agency.

(7) The payment of any moneys payable to the sheriff pursuant to a levy under a writ of attachment or writ of execution. If the use of a card or electronic funds transfer pursuant to this paragraph includes any administrative fee charged by the company issuing the card or processing the account for the cost of the transaction, that fee shall be paid by the person who pays the money to the sheriff pursuant to the levy.

(c) A court desiring to authorize the use of a credit card, debit card, or electronic funds transfer pursuant to subdivision (b) shall obtain the approval of the Judicial Council. A city desiring to authorize the use of a credit card, debit card, or electronic funds transfer pursuant to subdivision (b) shall obtain the approval of its city council. **Any other public agency desiring to authorize the use of a credit card, debit card, or electronic funds transfer pursuant to subdivision (b) shall obtain the approval of the governing body**

that has fiscal responsibility for that agency.

(d) After approval is obtained, a contract may be executed with one or more credit card issuers, debit card issuers, electronic funds transfer processors, or draft purchasers. The contract shall provide for the following matters:

(1) The respective rights and duties of the court, city, county, city and county, or other public agency and card issuer, funds processor, or draft purchaser regarding the presentment, acceptability, and payment of credit and debit card drafts and electronic funds transfer requests.

(2) The establishment of a reasonable means by which to facilitate payment settlements.

(3) The payment to the card issuer, funds processor, or draft purchaser of a reasonable fee or discount.

(4) Any other matters appropriately included in contracts with respect to the purchase of credit and debit card drafts and processing of electronic funds transfer requests as may be agreed upon by the parties to the contract.

(e) The honoring of a credit card, debit card, or electronic funds transfer pursuant to subdivision (b) hereof constitutes payment of the amount owing to the court, city, county, city and county, or other public agency as of the date the credit or debit card is honored or the electronic funds transfer is processed, provided the credit or debit card draft is paid following its due presentment to a card issuer or draft purchaser or the electronic funds transfer is completed with transfer to the agency requesting the transfer.

(f) If any credit or debit card draft is not paid following due presentment to a card issuer or draft purchaser or is charged back to the court, city, county, city and county, or other public agency for any reason, any record of payment made by the court, city, or other public agency honoring the credit or debit card shall be void. If any electronic funds transfer request is not completed with transfer to the agency requesting the transfer or is charged back to the agency for any reason, any record of payment made by the agency processing the electronic funds transfer shall be void. Any receipt issued in acknowledgment of payment shall also be void. The obligation of the cardholder or accountholder shall continue as an outstanding obligation as if no payment had been attempted.

(g) Notwithstanding Title 1.3 (commencing with Section 1747) of Part 4 of Division 3 of the Civil Code, a court, city, county, city and county, or any other public agency may impose a fee for the use of a credit or debit card or electronic funds transfer, not to exceed the costs incurred by the agency in providing for payment by credit or debit card or electronic funds transfer. These costs may include, but shall not be limited to, the payment of fees or discounts as specified in paragraph (3) of subdivision (d). Any fee imposed by a court pursuant to this subdivision shall be approved by the Judicial Council. Any fee imposed by any other public agency pursuant to this subdivision for the use of a credit or debit card or electronic funds transfer shall be approved by the governing body responsible for the fiscal decisions of the public agency.

(h) Fees or discounts provided for under paragraph (3) of subdivision (d) shall be deducted or accounted for prior to any statutory or other distribution of funds received from the card issuer, funds processor, or draft purchaser to the extent not recovered from the cardholder or accountholder pursuant to subdivision (g).

(i) The Judicial Council may enter into a master agreement with one or more credit or debit card issuers, funds processors, or draft purchasers for the acceptance and payment of credit or debit card drafts and electronic funds transfer requests received by the courts. Any court may join in any of these master agreements or may enter into a separate agreement with a credit or debit card issuer, funds processor, or draft purchaser.

**County of Santa Clara
Finance Agency
Controller-Treasurer Department
Policies and Procedures Manual**

Procedure Number: 11-100-001

Date Issued: 11/30/05

Date Last Revised: 12/13/05

SUBJECT: Acceptance of Electronic Fund Transfer Payment Methods, including credit cards, debit cards and ACH's

PREPARED BY: Manager, Accounting Division

APPROVED BY: Controller-Treasurer

POLICY: This policy encourages the departments to accept electronic fund transfers for making payments to the County of Santa Clara (the County). All fees and charges associated with these electronic payments will be based on cost incurred by the County, and determined in accordance with the County's policy for determining fees and charges. Each department will obtain the Controller-Treasurer's approval for the original departmental procedure, including fees and charges, and any changes to those procedures.

Departments should consider the following factors when establishing their individual electronic fund transfer procedures:

1. The procedures should encourage the departments to select the most cost effective payment methods to accept payments for the County.
2. Payer should incur the cost for using an electronic fund transfer where the County is acting as a collecting agent for moneys that are passed through to others, unless the ultimate recipient of those moneys chooses to waive the charge and absorb the associated costs.
3. Payer should incur the cost for using an electronic fund transfer in all other cases, unless the fee or charge is waived in the best interest of the County. Departments are encouraged to analyze their individual situations for business cases where it is in the County's best interest to pay the fees and charges and seek proper approval for the department absorbing the associated costs or including them in their fees and charges. Prior approval of the Controller-Treasurer is required for waiving all fees or charges.
4. In order to ensure that County master contracts are honored, the Controller-Treasurer and Procurement departments will have the final determination in selecting vendors to provide the electronic fund transfer services.

REFERENCES:

Government Code Section 6160 - 6166

Government Code Section 54985 - 54988

**County of Santa Clara
Finance Agency
Controller-Treasurer Department
Policies and Procedures Manual**

Procedure Number: 11-100-001

Date Issued: 11/30/05

Date Last Revised: 12/13/05

SCOPE (if applicable):

This policy includes credit cards (including "PIN-less" debit cards) PIN debit cards, ACH (Automated Clearing House), and other forms of electronic fund transfer. This policy excludes wire transfers, which are covered in the Cash Handling Policy. Electronic fund transfers will be payments that are drawn on a major United States bank in United States dollars. For additional details, electronic fund transfers will have the same meaning as defined in the Government Code Sections specified in the "References" paragraph.

PROCEDURE:

Responsible Party

1.0 Controller-Treasurer

Action

- 1.1 Will decide any disputed issue.
- 1.2 Will provide the initial approval of a department's electronic fund transfers procedures.
- 1.3 Will provide approval of any revisions to a department's electronic fund transfers procedures.
- 1.4 Will at least annually review that the fees and charges have been determined in accordance with County policy.
- 1.5 Will update this policy as necessary.

Responsible Party

2.0 Department Heads

Action

- 2.1 Will ensure compliance with this policy.
- 2.2 Will submit a procedure that details the acceptance of electronic fund transfers and the handling of the fees and charges to the Controller-Treasurer for approval prior to commencing to accept electronic fund transfers.
- 2.3 Will submit any procedural changes relating to the acceptance of electronic fund transfers to the Controller-Treasurer for approval.

**County of Santa Clara
Finance Agency
Controller-Treasurer Department
Policies and Procedures Manual**

Procedure Number: 11-100-001

Date Issued: 11/30/05

Date Last Revised: 12/13/05

PENALTIES (if applicable):

Not Applicable.

RELATED TOPICS (if applicable):

Not Applicable.

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Section 3. Improving Medical Debt Collections

- The estimated outstanding balances at the Department of Revenue (DOR) are comprised chiefly of unpaid medical bills incurred by patients at Valley Medical Center (VMC). Of the estimated \$603 million in outstanding balances, an estimated \$318 million is medical debt, and medical accounts have been in collections for more than an estimated 18 months on average.
- Because many medical debts are ultimately not collected, as of June 30, 2009, the County's allowance for uncollectible medical debt was \$391 million. Some of the practices at both DOR and VMC affect collections on these accounts. First, although the hospital's Conditions of Admission Form states that patients are responsible for the patient share of unpaid hospital bills, which is enforced in court, patients are not required to sign agreements to reimburse the County for their portion of expenses. (However, some of these patients may be General Assistance recipients and therefore signing agreements to reimburse the County for medical expenses.) For patients without reimbursement agreements, it is more difficult to collect from them if they subsequently obtain assets or from their estates after death.
- In addition, the appropriate third-party payer is sometimes not identified by VMC before the account is transferred to DOR. For example, in FY 2008-09, DOR and VMC identified more than 3,700 accounts that were eligible for payment by a third party, but that were first sent to DOR before being billed to the responsible party. The extent to which there may be other accounts for which a third-party payer exists but which has not been identified is unknown. Finally, the length of time it takes to transfer medical accounts to DOR also hinders collections because such accounts are "stale," making it more difficult to locate debtors.
- By requiring patients to sign reimbursement agreements before they leave the hospital, obtaining better information from patients so that they may bill third-party payers before accounts are transferred to DOR, and transferring accounts within 60 days of first billing of the patient-due amount, VMC would improve the ability to collect medical debts. In addition, by reducing its backlog of extremely aged accounts, DOR would facilitate collections of newer accounts, for which collections efforts are more likely to be fruitful. For each 1 percent decrease in the allowance for uncollectible medical debt reported in the County's financial statements, the County would recover an estimated \$3.9 million annually.

Background

Pursuant to County Ordinance Sec. A18-6, any person receiving services from the Santa Clara Valley Health and Hospital System, including Valley Medical Center (VMC), is obligated to pay for services.

Currently, patients at Valley Medical Center sign conditions of admission forms at the time of service. A copy of the relevant portion of this document is provided as

Attachment 3.1. These forms state, among other things, that the patient is financially responsible for charges not covered by a third party. County Counsel can and does go to Court to enforce these agreements. However, the agreements lack the power of a "Reimbursement Agreement," which would enable the County to collect from the estates of patients and to place a lien on their property.

Reimbursement agreements with patients that receive services at VMC are legally binding tools to collect outstanding debt to the County. Based on records at DOR, VMC required patients to sign reimbursement agreements as early as the 1950's, but at some point around 1980, ceased requiring these documents.

These agreements obligate patients to pay when they have the ability to. A sample reimbursement agreement is provided as Attachment 3.2. These reimbursement agreements waive the limitation of any statute for repayment of medical debt, "now owing, or to come due in the future." If a debtor acquires property and there is a future transaction on the property, the reimbursement agreement triggers a lien on that property and the County is able to collect outstanding debt. In addition, if the debt is not paid by the time the person is deceased, the signed reimbursement agreement allows the County to pursue repayment through Probate law. As a result of these reimbursement agreements, DOR has been able to collect an unquantifiable amount of medical debt.¹ However, DOR staff reported that VMC stopped requiring all patients to complete a reimbursement agreement in the 1980's. Failure to require reimbursement agreements may result in fewer collections from the estates of the deceased or transactions on debtors' properties.

Current Use of Reimbursement Agreements

Other County of Santa Clara departments continue to execute reimbursement agreements in accordance with County Ordinance Sec. A18-6. For example, the Social Services Agency (SSA) requires all clients to sign a reimbursement agreement as part of the application process for General Assistance, which is included as Attachment 3.3. Note that the SSA reimbursement agreement contains language referring to medical assistance as well. Therefore, when a lien is placed on the property of a client that has received General Assistance and medical assistance, DOR is able to collect on outstanding medical debt. Recognizing the benefit of securing medical debt, DOR tries, after the debt is in collections, to secure outstanding medical debt over \$5,000 with a reimbursement agreement from the debtor, which is provided as Attachment 3.4. However, the frequency of securing reimbursement agreements highly depends on accurate contact information for debtors after they have left the medical facility, and the willingness of debtors to sign months or years after services were rendered.

In addition, counties other than Santa Clara which collect debt for their County hospitals that responded to a survey for this audit reported that clients are required to

¹ Outstanding medical balances prior to the 1980's are not recorded in DOR's electronic collections system, CUBS. Instead, these balances are recorded in paper ledgers or file cards stored at DOR and the data could not be compiled during the audit period.

sign a reimbursement agreement at their County hospital. These counties are Contra Costa, San Francisco and San Bernardino.

Failure to require patients to sign reimbursement agreements results in lower collections. In one example, in which more than \$90,000 in medical charges was due to the County, and the patient had not signed a reimbursement agreement. When the patient became deceased, the County had no legal remedy to require the patient's estate to pay the outstanding debt (see Attachment 3.5) and the outstanding balance was subsequently written off as uncollectible.

In the years since the reimbursement agreement was first implemented in the County of Santa Clara, State law was changed and now prohibits the use of liens on primary residences as a means of collecting unpaid hospital bills for patients who meet the criteria for the hospital's charity or discount payment programs. This prohibition is stated in California Health and Safety Code Section 127425 (f) (1). This section also prohibits wage garnishments for qualifying patients as well. The law does not prohibit using the reimbursement agreement to collect outstanding debts from the estate of persons who qualify for the hospital's charity or discount payment programs.

Given this code section, VMC should include reimbursement agreements in every patient packet informing patients that they will be billed for medical services and requiring patients to pay for the services to the extent that the services are not reimbursed by a third party and to the extent allowed by law. The reimbursement agreements should contain similar language to previous VMC agreements, waiving the statute of limitations for collecting medical debt "now owing, or in the future." Such language would require any patient to sign the agreement once, but have it applied to future medical services.

Valley Medical Center should determine whether patients meet the criteria under the hospital's policies for charity or discount payment programs, as it does currently, and should use this information to ensure that liens are not placed on the primary residences of qualifying patients. Because the law allows patients to apply for charity care within 150 days of service, VMC should have six months to make note of the patient's qualification for programs.

By requiring every patient to sign a reimbursement agreement, the County would be doing due diligence in informing patients of their obligations while providing the County an additional mechanism for collecting outstanding medical debt. Based on interviews with various VMC staff, there is some question as to whether all patients know that they must pay for outstanding medical bills, regardless of their insurance and financial status. Some patients may believe that services are free because they are provided by a public agency.

Timing of Transfer to DOR

Accounts transferred by VMC to DOR were randomly sampled for this audit in order to assess the effect of shortening the time-line for transfer of medical bills to DOR. The sample included medical accounts that were transferred by VMC and still housed at

DOR, as well as accounts that were eventually referred to a private collection agency by DOR. It is important to note that a single medical account could have multiple bills transferred from VMC to DOR. For example, a patient may have three separate bills from the same date of service transferred to DOR, one bill for the pharmacy, another for professional service fees and a third for hospital services. Further, a debtor could have multiple dates of service at VMC. All of the medical bills for a single debtor are included in the same DOR account. Therefore, a sample of 100 medical accounts that were transferred to DOR in 2009 yielded 161 separate medical bills for analysis.

On average, it took 187 days, or more than six months, from the date of service until the medical bill was transferred to DOR for collections.² Further, 16 medical bills exceeded one year from the date of service to transfer to DOR, and one of the accounts transferred to DOR more than five years from the date of service. According to hospital management, the time that it takes to transfer these accounts is driven by the length of time that it takes for the bill to be processed and paid by any applicable third-party payer(s), followed by subsequent billing of the patient share of cost to the patient. In some cases, it may also be affected by the length of time that a seriously injured individual is receiving care.

It is generally accepted that collection success is diminished as accounts become “stale.” For example, credit card companies often sell delinquent credit card debt to other collection agencies and the sale price for delinquent debt is driven by the age of the account, with older accounts worth less. Data included in a Government Accountability Office (GAO) report and shown in Attachment 3.6, illustrate that debt between 91 days to six months delinquent have a higher sale price than debt that is more than six months delinquent because collection agencies are able to collect more of the debt. Therefore, the time that elapses before DOR is notified of a patient’s medical account obligation affects its ability to collect on that debt.

VMC should reduce the timeline of transferring outstanding medical debt, which is that debt that has been determined to be the unpaid patient’s share of cost. While it may take weeks or months for third-party payers to provide payment on a bill, at the point when third-party payments have been credited to the account and any remaining positive account balance is deemed to be the patient’s responsibility, VMC should bill the patient for the patient’s share for a period of 60 days before transferring the account to DOR. Currently, such transfers occur at about 90 days, according to hospital management.

Timely Billing of Third-Party Payers

After a medical debt has been transferred to DOR as an accounts receivable, a DOR Revenue Collections Officer (Collections Officer) or VMC staff member may find that the patient is eligible for a third-party to pay all or a portion of the medical bill. In these situations, an “adjustment” is requested to reduce collectible charges and the account is transferred back to VMC so that Medi-Cal, Medicare, private insurance, or other third-party payer may be billed for the charge.

² According to the Department of Revenue, transfers have been occurring more quickly since late 2009.

As shown in Table 3.1 on the following page, the value of medical accounts transferred to DOR for collections, but subsequently identified as debt that should have first been billed to a third party, was \$13.9 million in FY 2008-09. This amount was from 3,700 accounts that then “boomeranged” back to VMC so that the hospital could then bill insurance or other appropriate party. The data in the table below does not include adjustments for mental health charges. The accounts are shown based on whether the error was identified by VMC or DOR.

Table 3.1

**Unpaid Medical Bills Transferred by VMC to DOR
for Collection and Subsequently Returned to VMC for Third-Party Billing
in FY 2008-09**

Adjustment Type	Department of Revenue		Valley Medical Center		Total
	No. of Accounts	Dollar Amount	No. of Accounts	Dollar Amount	Dollar Amount
Medi-Cal	2,007	(\$6,762,458)	605	(\$1,654,676)	(\$8,417,134)
Medicare	59	(\$335,452)	15	(\$25,005)	(\$360,457)
Insurance	473	(\$2,982,434)	124	(\$511,149)	(\$3,493,583)
Ability to Pay ³	337	(\$1,214,865)	104	(\$392,062)	(\$1,606,927)
Total	2,876	(\$11,295,209)	848	(\$2,582,892)	(\$13,878,101)

Source: Department of Revenue

According to VMC Patient Business Services (PBS) staff, which is responsible for billing these accounts, there are several reasons why accounts eligible for third-party payments are transferred to DOR prior to billing the third-party.

First, the financial status of the account may be miscoded due to inaccurate or incomplete information about the patient. For example, a patient screened for outpatient services may not be forthcoming about their ability to pay, insurance coverage, or eligibility for other programs when making an appointment at VMC. Hospital staff reported that financial screening over the telephone is “cursory.” However, the same patient may go through a more rigorous financial screening for subsequent inpatient services, revealing eligibility for other programs. PBS would then review the patient’s previous charges and request adjustments to account balances that have already been transferred to DOR, based on the newly identified information.

In addition, a patient may not provide VMC all of the required documentation for billing, such as an insurance or Medi-Cal card, before they are discharged. Despite efforts made by PBS, a patient may not follow up on information needed for third-party

³ The Ability to Pay Determination Program (APD) is for County of Santa Clara residents only. Based on a review of the patient’s family income, the patient may be eligible for a lower co-pay that is significantly less than the cost of services. Funding for APD comes from Federal Disproportionate Share Hospital (DSH) adjustment payments.

billing. Therefore, the account will eventually be coded as “self-pay” and transferred to DOR. PBS staff reported that patients may eventually respond with more complete information about responsible third parties once DOR initiates collection efforts. This is a key reason for the previously mentioned recommendation to transfer the unpaid patient’s share of costs to DOR after 60 days.

Finally, a patient’s insurance coverage or ability to pay may change between the date of service and the transfer of the bill to DOR.

VMC staff reported that as of April 2010, they were reviewing and proposing changes to workflow procedures and processes to ensure that all patients treated at VMC have their insurance coverage or program eligibility verified, see a financial counselor, and/or are referred to a Social Service Agency eligibility worker to apply for assistance or charity programs, prior to being discharged from VMC. Any changes to the intake and discharge procedures at VMC that would increase its ability to determine the patient’s ability to pay, prior to the first billing statement or transfer of the account to DOR, would reduce administrative resources currently wasted through the billing, collections and adjustment process described above. Hospital management reported that new changes include requesting identification, such as drivers’ licenses, from patients. VMC should improve its procedures for collecting adequate information to ensure that appropriate payers are identified up front, to minimize the volume of cases in which cases are transferred to DOR prior to the billing of the responsible third parties. In addition to increasing collection rates, addressing the “boomerang” of medical accounts would eventually reduce the cost of collections. According to DOR, the cost to collect medical debt in FY 2008-09 was \$3.3 million, or 34 percent of DOR’s actual expenditures of \$9.7 million⁴ in FY 2008-09. This includes staff time and resources spent researching accounts that should have been billed to a third-party prior to transfer to DOR. However, DOR only received \$1.5 million from VMC for its collection services in FY 2008-09. DOR staff reported that VMC was only charged \$1.5 million based on -the long-standing agreed to cost allocation method of allocating total DOR expenditures to clients based on their proportion of collections.⁵ For example, if DOR’s collections for VMC represented 20 percent of DOR’s total collections in FY 2008-09, DOR would only request reimbursement from VMC for 20 percent of expenditures in FY 2008-09. Although VMC directly reimburses only a portion of the costs of these collections to DOR, due to the large General Fund subsidy for VMC, as a practical matter the remaining portion is paid by General Fund dollars. If, in the future, VMC should become less dependent on General Fund resources, it should reimburse DOR for the full cost of its collections.

⁴ The \$9.7 million includes \$8.3 million in DOR’s actual expenditures for FY 2008-09 and \$1.4 million in costs for outside collection agencies.

⁵ This method of cost allocation is distinguished from the method used for remaining DOR collection costs, which is driven by requirements of Penal Code Section 1463.007 that allows cost recoupment for the collection of delinquent court-ordered debt. -.

Timely Billing

When medical accounts are transferred to DOR approximately six months, on average, after the date of service, over 3,700 accounts are returned to SCVMC for appropriate billing, and there is a backlog of accounts, the County risks billing third-party payers in an untimely manner. As a result, the County could be unnecessarily classifying charges as uncollectible, reducing its collection rate, and losing revenue from medical accounts. The estimated outstanding balances at the Department of Revenue (DOR) are comprised chiefly of unpaid medical bills incurred by patients at Valley Medical Center (VMC). Of the estimated \$603 million in outstanding balances, an estimated \$318 million is medical debt, and medical accounts have been in collections for more than an estimated 18 months on average.

According to VMC staff, the County has one year from the date of service to bill and receive reimbursement from Medi-Cal and up to 27 months for Medicare. The time limit for VMC to file a medical claim with private insurers is typically 90 to 120 days from the date of service. When a medical claim is denied by a third-party payer due to untimely filing and VMC had the insurance information, the outstanding medical charges cannot be billed to the patient. Therefore, VMC must request a reduction in accounts receivable for the relevant DOR medical accounts. While neither the frequency nor value of these incidents were determined, examples of VMC requesting adjustments to accounts due to untimely billing are provided as Attachment 3.7. However, if the patient did not provide the insurance information, the patient is responsible to pay and the account is sent to DOR to collect.

By reducing the average number of days to transfer medical accounts from VMC to DOR to 60 days, improving the collection of pertinent financial and insurance information before patients are discharged from VMC, and reducing the backlog of outstanding accounts, the County would reduce the loss of revenue due to exceeding the time limits for billing third-party payers. As shown in Table 3.2 below, a total of approximately \$12.3 million in charges were returned to VMC for appropriate billing to Medi-Cal, Medicare or private insurance companies in FY 2008-09. These charges include mistakes identified by DOR and VMC. Based on the reimbursement rates provided by VMC, the unbilled charges were worth an estimated \$3.7 million in revenue for the County.

Table 3.2

**Third Party Billings of Medical Bills
Returned to VMC by DOR
in FY 2008-09**

	Balance of Unbilled Accounts	Reimbursement Rate*	Estimated Collections
Medi-Cal	\$8,417,134	21.50%	\$1,809,683
Medicare	\$360,457	27.68%	\$99,775
Insurance	\$3,493,583	52.30%	\$1,827,144
Total	\$12,271,174	N/A	\$3,736,602

Sources: Department of Revenue and SCVMC

*The reimbursement rates are blended percentages that include reimbursement for inpatient and outpatient charges, as well as reimbursements for charges that were returned to VMC after transfer to DOR. The rate therefore includes claims denied due to untimely billing.

In addition, there is an additional \$1.6 million, as shown on the prior page, for revenue received for charity care. The \$3.7 million detailed above in Table 3.2 represents about 30.4 percent of the total amount of outstanding “boomerang” debt. More timely billing would result in a somewhat greater share of revenue received from these accounts.

More importantly, there is a large amount of debt that is ultimately deemed uncollectible, per the County’s Comprehensive Annual Financial Statements. Page 54 of the audited financial statements for FY 2008-09 identified \$390,860,000 in accounts considered uncollectible. As previously indicated, the extent to which these accounts may include accounts for which a third-party payer exists but was not identified or billed timely is undetermined. If even a small portion of those accounts could be billed to a third party as a result of improved patient identification and eligibility determination for both government programs and private insurance coverage, receipts could be improved. If uncollectible accounts were so reduced by even one percent, the County’s revenues would be increased by an estimated \$3.9 million per year.

According to hospital management, a new system is being implemented that will ensure that patients see financial counselors, and that adequate information is collected. VMC Management anticipates this may be in place as early as Thanksgiving.

Backlog of Medical Accounts

At the Department of Revenue, General Collections accounts that are \$1,000 or less, or “low-value” accounts, a majority of which are medical bills, are assigned to “Desk 30.” Department staff reported that there is a backlog of “low-value” accounts. As of early

January, 2010, there were approximately 35,000 “active”⁶ “low-value” accounts. These accounts are considered the caseload for two Revenue Collection Clerks (RCC’s), or part of the caseload of other collectors that have been forwarded the account. Further review of a report generated in early January, 2010 listed approximately 23,600 “low dollar” “active” accounts as six months or more delinquent, or approximately 67 percent of the low-value accounts that should be actively worked by DOR staff.⁷ Many of the accounts are far more than six months delinquent, often more than one year delinquent. Based on a systematic sample of 100 delinquent “low dollar” accounts, the average age of the accounts was 18 months from the date the first *payment to DOR*⁸ was due. Further, as accounts age, additional charges may be added to the account, thereby turning “low-value” accounts into “high-value” accounts. “Low value” accounts that are six months overdue in collections were found to be as high as \$59,000. On a monthly basis, such accounts are reclassified, removed from the low-value desk, and assigned to a Collections Officer.

The aging of accounts is also a concern for outstanding medical accounts greater than \$1,000. As of early January 2010, there were approximately 26,000 active accounts with balances greater than \$1,000 in the General Collections Units. Most of these are medical bills. Of these active accounts, approximately 16,000 accounts, or 62 percent, were at least six months delinquent. In a systematic sample of 100 delinquent General Collections accounts as of early January 2010, the average age of accounts was 23 months from the date payment was due to DOR.

As discussed above, the ability to collect on accounts diminishes as the account ages. When DOR spends time and resources on collections for older accounts, they may miss opportunities for collecting debt on accounts that are newer and likely to have better contact information. DOR should establish policies and procedures that prioritize newer accounts. The criteria used for prioritizing accounts, which is further discussed in Section 5, should be applied immediately to reduce the backlog of aging accounts.

As of early December 2009, the total outstanding balance for medical accounts was an estimated \$311 million, excluding medical debt referred to private collection agencies. By implementing these recommendations and focusing efforts on collectible accounts, DOR could improve collections.

CONCLUSION

Delinquent medical bills are being transferred to the Department of Revenue six months on average after the date of service. In addition, at least 3,700 of the accounts transferred to the Department should have been billed to a third-party payer prior to transfer. Finally, not all medical patients are asked to sign a reimbursement agreement when they use hospital services.

⁶ Active accounts include those that are coded as “Active” or “Pending” in DOR’s collections system. These accounts require collections or additional review from in-house DOR staff.

⁷ The 473 page report was provided to the auditors in paper format. Based on limited time and resources, analysis of the total outstanding debt and breakdown by type of debt and dollar amount could not be completed.

⁸ This means these accounts are well over two years old.

RECOMMENDATIONS

The Santa Clara Valley Medical Center should:

- 3.1 Ensure that at the point when third-party payments have been credited to the account and any remaining positive account balance is deemed to be the patient's responsibility, that the account is transferred to DOR after 60 days. (Priority 1)
- 3.2 Improve procedures for obtaining all necessary information from patients needed to determine the appropriate third-party payers, and billing those payers prior to transfer of the account to DOR. (Priority 1)
- 3.3 Require all patients to complete reimbursement agreements prior to being released from care - and note within six months whether each patient qualifies for discount or charity care as defined by Health and Safety Code Section 127425 (f) (1) to ensure that collections actions are appropriate and legal (Priority 2).

The Department of Revenue should:

- 3.4 Establish policies and procedures to write off uncollected accounts in accordance with aging criteria that would reduce the backlog of medical accounts and focus collection activities on newer accounts sooner. (Priority 1)

SAVINGS, BENEFITS AND COSTS

Implementation of these recommendations would increase the County's collection rate for medical debt and reduce the annual loss of revenue due to patient accounts becoming uncollectible. The County expects to collect an estimated \$3.7 million on accounts that were originally not billed from FY 2008-09 that should have been billed to a third-party payer. To the extent that the balances for similar charges could be billed more timely in the future, a greater amount of revenue would be received. In addition, the allowance for uncollectible medical debt was estimated at \$391 million in FY 2008-09. For each 1 percent that this could be reduced, the County would reap an additional \$3.9 million. One way to reduce accounts for which collections cannot be made would be to improve the collection of information from patients regarding their financial and insurance situation, and to improve the transfer of patient-share of cost account balances, as described in Recommendations 3.1 and 3.2. Recommendation 3.3 would enable the County to collect when it legally can by placing liens on the properties of debtors, and also from the estates of deceased debtors. It should be noted that a very large number of debtors will be exempt from liens being placed on their primary residences through the reimbursement agreements due to a prohibition in the law for persons qualifying for charity and discount programs. Recommendation 3.4 would improve the ability of the limited staff at DOR to focus on accounts with the greatest likelihood of collection, thereby increasing revenue receipts.



Santa Clara Valley
Medical Center
751 South Bascom Ave.
San Jose, CA 95128

Conditions of Admission

Name of Patient: _____

1. **Consent to Medical and Surgical Procedures:** The undersigned consents to the procedures which may be performed during this hospitalization or on an outpatient basis, including emergency treatment or services and which may include but are not limited to laboratory procedures, x-ray examination, medical and surgical treatment or procedures, anesthesia, or hospital services rendered for the patient under the general and special instructions of the patient's physician or surgeon.
2. **Nursing Care:** The hospital provides general duty nursing care unless, upon orders of the patient's physician, the patient is provided more intensive nursing care. It is agreed that should the patient or his/her legal representative request the services of a special duty nurse, without an order from the patient's physician, that such services must be arranged for by the patient or his/her legal representative. The hospital shall in no way be responsible for failure to provide the same and is hereby released from any and all liability arising from the fact that said patient is not provided with such additional care.
3. **Participation in Teaching Program:** It is understood that the hospital is a teaching institution and that physicians, nurses, and other health care personnel in training participate in patient care. Unless the hospital is notified to the contrary in writing, the patient will participate in the medical education and training programs conducted at the hospital.
4. **Financial Agreement:** The undersigned agrees to pay for services rendered, in accordance with the regular rates and terms established for such services at the hospital, and agree that, pursuant to California Civil Code section 2881, et seq., the hospital has a contractual first lien against any subsequent judgment or compromise regarding the injuries or condition for which the patient receives medical services.
5. **Personal Valuables:** It is understood and agreed that the hospital maintains a safe for the safekeeping of money and valuables and the hospital shall not be liable for the loss or damage to any money, jewelry, glasses, dentures, documents, furs, fur coats and fur garments, or other articles of unusual value and small size unless placed therein, and shall not be liable for loss or damage to any other property unless deposited with the hospital for safekeeping. The liability of the hospital for loss of any personal property which is deposited with the hospital for safe keeping is limited by statute to five hundred dollars (\$500.00) unless a written receipt for a greater amount has been obtained from the hospital by the patient.
6. **Assignment of Insurance/Medical Benefits to the Hospital:** The undersigned authorizes, whether he/she signs as an agent or as patient, direct payment to the hospital of any insurance/medical benefits otherwise payable to or on behalf of the undersigned for this hospitalization or for these outpatient services, including emergency services if rendered, at a rate not to exceed the hospital's regular charges. It is agreed that payment to the hospital, pursuant to this authorization, by an insurance company shall discharge said insurance company of any and all obligations under a policy to the extent of such payment. It is understood by the undersigned that he/she is financially responsible for charges not covered by this assignment.

Owned and operated by the County of Santa Clara

When recorded, return to:

BOOK 6723 PAGE 488

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BOOK 6723 PAGE 488

FILED FOR RECORDS AT REQUEST OF

COUNTY HOSPITAL

NOV 28 02 AM 1964

OFFICE #1, 3405 SANTA CLARA COUNTY PAUL R. TEILH RECORDER

Santa Clara County Hospital
South Bascom Avenue
San Jose, California

D.H.

(Above space for Recorder's use.)

Case # 193240 **AGREEMENT TO REIMBURSE** Date 10/29/64
 Dist. # _____
 MAN _____ (Name) _____ WOMAN _____ (Name) _____
 Maiden Name _____
 Alias _____ Alias _____
 Birthdate _____ Birthdate _____
 Present Address _____

We or I (the use of the plural in this instrument to include the singular) hereby acknowledge that we, or members of our immediate family (used herein to mean spouse, parent, or child) have received relief, care, and maintenance and/or medical aid from the County of Santa Clara, State of California (hereinafter called Promisee), and that we agree to make reimbursement for all aid and assistance rendered us, or members of our immediate family during all periods of our dependency, past, present, and future.

We DO HEREBY WAIVE the limitation of any statute for the presentation of any claim for the repayment of said relief, care, and maintenance, and/or medical aid now owing, or to come due in the future.

We DO HEREBY AGREE that all monies so paid by the Promisee shall be secured by a lien on all property that we own or acquire; and in the event of coming into possession of any funds or property of any kind, or if at the time of death we leave any estate whatsoever, we agree that said Promisee shall be repaid for all monies so paid, as a preferred claim.

The following is a true and correct description of all real property owned by us or in which we have an interest:

REAL PROPERTY: None

Address:

Legal Description:

Name of Co-Owner, if any

I, the undersigned co-signer, consent to the creation of a lien against the above-described property, in which I have an interest, under the terms and conditions set forth above, but I assume no personal liability for repayment of any aid and assistance rendered thereunder.

STATE OF CALIFORNIA } ss.
County of Santa Clara

On this 29 day of October, 1964, before me, Paul R. Teilh, County Clerk of said County of Santa Clara, State of California, personally appeared _____

known to me to be the person whose name _____ subscribed to the within instrument, and acknowledged to me that _____ executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at my office in said County and State the day and year in this certificate first above written.

(SEAL)

County Clerk

by _____

58 (replaces W-1)

(Above space for Recorder's use.)

AGREEMENT TO REIMBURSE

CASE #: _____ Date: _____
MAN: _____ WOMAN: _____
Soc. Sec. #: _____ Marital Status: _____ Soc. Sec. #: _____ Marital Status: _____
Malden Name: _____
Alias: _____ Alias: _____
Birthdate: _____ Birthdate: _____
Present Address: _____

I/WE, (the use of the plural in this instrument includes the singular) hereby acknowledge that we, or members of our immediate family (used herein to mean spouse or child) have received relief, care, maintenance and/or medical assistance from the County of Santa Clara, State of California (hereinafter called Promisee), and we agree to make reimbursement for all aid and assistance rendered to us or our immediate family whether past, present or future, and/or we agree to make reimbursement for costs of administration and/or confinement under Penal Code Section 1208.

We DO HEREBY WAIVE the limitation of any statute for the presentation of any claim for the repayment of said relief, care, and maintenance and/or medical aid now owing, or to come due in the future.

We DO HEREBY AGREE that all monies so paid by the Promisee shall be secured by a lien on all property that we own or acquire; and in the event of coming into possession of any funds or property of any kind, or if at the time of death we leave any estate whatsoever, we agree that said Promisee shall be repaid for all monies so paid, as a preferred claim.

The following is a true and correct description of all real property owned by us or in which we have an interest:

REAL PROPERTY:

Address:

Legal Description:

Signature _____ Signature _____
Print Name _____ Print Name _____

STATE OF CALIFORNIA)
COUNTY OF SANTA CLARA)

On _____ before me, _____, personally
(Deputy County Clerk)
appeared _____, personally
known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are
subscribed to the within instrument and acknowledged to me that, he/she/they executed the same in
his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s) or
the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

_____, COUNTY CLERK

By: _____
Deputy County Clerk - Social Services Agency

When recorded, return to: COUNTY OF SANTA CLARA
DEPARTMENT OF REVENUE
1555 BERGER DRIVE, BLDG. #2
SAN JOSE, CA 95112

Recording Requested by: COUNTY OF SANTA CLARA
DEPARTMENT OF REVENUE

NO RECORDING FEES
UNDER GOVT. CODE 27383

(Above space for Recorder's use)

AGREEMENT TO REIMBURSE

Case #		Date
MAN _____		WOMAN _____
Soc. Sec. # _____	Marital Status _____	Soc. Sec. # _____
Alias _____		Marital Status _____
Birthdate _____		Alias _____
Present Address _____		Birthdate _____
		Present Address _____

I/WE, (the use of the plural in this instrument includes the singular) hereby acknowledge that we, or members of our immediate family (used herein to mean spouse or child) have received relief, care, maintenance and/or medical assistance from the County of Santa Clara, State of California (hereinafter called Promisee), and we agree to make reimbursement for all aid and assistance rendered to us or our immediate family whether past, present or future. We further agree to reimburse the County of Santa Clara for all other obligations owing to the County of Santa Clara for fees, costs and obligations of whatever kind.

We DO HEREBY WAIVE the limitation of any statute for the presentation of any claim for fees or obligations of whatever kind, or for the repayment of said relief, care, and maintenance and/or medical aid now owing, or to come due in the future.

We DO HEREBY AGREE that all monies so paid by the Promisee and all fees or obligations owed to the County of Santa Clara shall be secured by a lien on all property that we own or acquire; and in the event of coming into possession of any funds or property of any kind, or if at the time of death we leave any estate whatsoever, we agree that said Promisee shall be repaid for all monies so paid, and all fees and obligations owed to the County of Santa Clara as a preferred claim.

The following is a true and correct description of all real property owned by us or in which we have an interest:

REAL PROPERTY:

Address: _____ Owner: _____
 _____ Print Name: _____

STATE OF CALIFORNIA)
) ss.
 COUNTY OF SANTA CLARA)

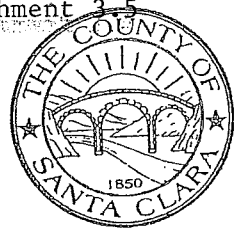
On _____ before me, _____ (Deputy County Clerk) personally appeared _____ (Print Name)

who proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that, he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s) or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.
M REGINA ALCOMENDRAS, COUNTY CLERK RECORDER

By: _____
Deputy County Clerk, Department of Revenue



Dskd
2

City of Santa Clara
of the County Counsel

City Government Center, East Wing
West Hedding Street
San Jose, California 95110-1770
(408) 299-2111
(408) 292-7240 (FAX)

County Counsel

MEMORANDUM

TO:

[Redacted]
Department of Revenue

FROM:

[Redacted]
Deputy County Counsel

RE:

[Redacted]

DATE: July 27, 1995

We have reviewed the file to determine whether the adult child [Redacted] of Mr. [Redacted] is legally responsible for his medical costs at VMC. We conclude that, in the absence of contractual liability, the adult child is not legally responsible to reimburse the County for the cost of medical services provided to an indigent parent. See Welfare & Institutions Code §§14008, 17300; San Bernadino County v. Simmons (1956) 46 C.2d 394; Freitas v. County of Contra Costa (1994) 28 C.A.4th 163.

In the present case, I understand that [Redacted] is making monthly payments, but that she has never signed any kind of reimbursement agreement. In such a case our best (and only) option is to continue to accept the payments, with the understanding that we have no legal remedy should she stop paying.

Please feel free to call me if you would like to discuss this issue in more detail.

BLC:smw

cc: [Redacted]

GAO

Report to Congressional Requesters

September 2009

CREDIT CARDS**Fair Debt Collection
Practices Act Could
Better Reflect the
Evolving Debt
Collection
Marketplace and Use
of Technology****GAO**

Accountability * Integrity * Reliability

reduced consumers' ability to repay debts and reduced buyers' willingness to pay as much for underperforming assets.

Table 2: Estimated Price Ranges for Credit Card Debt, Per Dollar of Account Face Value, March 2007 and January 2009

Type of debt	March 2007	January 2009
Fresh: 91 days to 6 months past due and never placed with a collection agency	\$0.12 - \$0.17	\$0.055 - \$0.075
Primary: 6 to 12 months past due and never placed with a collection agency	\$0.08 - \$0.12	\$0.035 - \$0.05
Secondary: 12 to 24 months past due and/or previously placed with 1 collection agency	\$0.055 - \$0.09	\$0.02 - \$0.03
Tertiary: More than 2 years past due and/or previously placed with 2 collection agencies	\$0.03 - \$0.05	\$0.01 - \$0.02
Quad: More than 3 years past due and/or previously placed with 3 collection agencies	\$0.01 - \$0.025	\$0.004 - \$0.01

Source: Kaulkin Ginsberg, InsideARM.

Note: The definitions in this table for fresh, primary, secondary, tertiary, and quad debt are those used by Kaulkin Ginsberg, but these definitions can vary across the debt collection industry.

After a debt buyer purchases a portfolio of accounts it has similar options as an issuer in choosing how to collect on the accounts. It can choose to collect or litigate using internal resources, contract the collection of the account to a third-party agency or law firm, or resell the accounts, or a portion of them, to a secondary buyer. The resale of debt has increased in recent years, according to Kaulkin Ginsberg, and debt can be resold multiple times. One debt buyer estimated that almost half of all credit card accounts purchased directly from original creditors eventually are resold. As with the original sale of a debt portfolio, resale can occur through a public auction, directly between debt buyers, or through a debt broker serving as intermediary. The extent to which debt buyers resell their debt depends to some extent on their business model. "Passive" debt buyers do not attempt to collect debts directly, but rather resell or outsource everything they purchase to collection agencies or law firms. Other debt buyers purchase portfolios, attempt collection for a certain period, and then resell accounts for which collection was not successful. Several industry stakeholders with whom we spoke noted that a debt buyer's due diligence becomes especially important for portfolios that have been sold

County of Santa Clara
VMC - VHP / Department of Revenue
CUB'S ACCOUNT ADJUSTMENT FORM

F/C: **59**

ADJUSTMENT EXISTING ACCOUNT

BILLABLE
 UNBILLABLE

- ACCOUNT INFORMATION UPDATE
- ADD ADDITIONAL CHARGES TO EXISTING ACCOUNT
- DECREASE / REDUCE CHARGES ON EXISTING ACCOUNT

CUB'S Account Number: (If Available) Notes: (1) Data in Text Fields will wrap within cell
 (2) Use Tab Key to accept data and move to next cell
 (3) Do not send confidential information via email

Debtor Information:			
Last Name, First Name Middle:	Address: Street / APT #	City, State ZIP - Country	Home Phone: (000-000-0000)
Date of Birth: (MM/DD/YYYY)	SSN: (000-00-0000)	VM #:	Account #:
Patient Name, First Name Middle:			Driver's License / State:
Debtor's Employer Information:			
Employer Name:	Employer Address	Employer City, State ZIP	Employer Phone: (000-000-0000)

Description of Charge(s) to be Collected // New Charges / Additional Charges / Decrease Charges (Be Specific)
Detail Charge Description, Transaction Date & Amount: PLEASE REDUCE CHARGES ON EXISTING ACCOUNT, CHARGES NEVER BILLED TO MEDICARE, CLAIM EXCEEDS TIMELY FILING LIMIT
VPF1
Special Instructions (If Any):
Total Net All Charges: 1,368.00

Submitted By:			
<input type="checkbox"/> HHS	<input type="checkbox"/> VHP	<input type="checkbox"/> DOR	<input type="checkbox"/> Other/Specify:
Referral Completed By:	Date:	Phone Number - Ext:	Email Address:
Signature:	Date:	Phone Number - Ext:	Email Address:

DOR Use Only:				Form: CARMM-09/08	
Transaction Date:	Trans Code:	Facility Code:	Transaction Amount:		
Total Amount:				Batch #:	Batch #:
Entered By:				Date:	

County of Santa Clara
VMC - VHP / Department of Revenue
CUB'S ACCOUNT ADJUSTMENT FORM

F/C: *SM*

ADJUSTMENT EXISTING ACCOUNT

BILLABLE
 UNBILLABLE

- ACCOUNT INFORMATION UPDATE
- ADD ADDITIONAL CHARGES TO EXISTING ACCOUNT
- DECREASE / REDUCE CHARGES ON EXISTING ACCOUNT

CUB'S Account Number: (If Available) Notes: (1) Data in Text Fields will wrap within cell
 (2) Use Tab Key to accept data and move to next cell
 (3) Do not send confidential information via email

Debtor Information:			
Last Name, First Name Middle:	Address: Street / APT #	City, State ZIP - Country	Home Phone: (000-000-0000)
Date of Birth: (MM/DD/YYYY)	SSN: (000-00-0000)	VM #:	Account #:
Patient Name, First Name Middle:			Driver's License / State:

Debtor's Employer Information:			
Employer Name:	Employer Address	Employer City, State ZIP	Employer Phone: (000-000-0000)

Description of Charge(s) to be Collected / New Charges / Additional Charges / Decrease Charges (Be Specific)
 Detail Charge Description, Transaction Date & Amount:
**PLEASE REDUCE CHARGES ON EXISTING ACCOUNT, NOT PAYABLE BY 2NDARY INS AS CLAIM EXCEEDS
 TIMELY FILING LIMIT**

VPF1
 Special Instructions (If Any): Total Net All Charges:
31.08

Submitted By: HHS VHP DOR Other/Specify:

Referral Completed By:	Date: 1/23/2010	Phone Number - Ext:	Email Address:
Signature Reviewed and Approved By:	Date: 1/23/2010	Phone Number - Ext:	Email Address:

Form: CARVM1:09/08

Transaction Date:	Trans Code:	Facility Code:	Transaction Amount:	
Total Amount:				Batch #:
Entered By:				Batch #:
			Date:	

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Section 4. Improving Collections Tactics

- The County of Santa Clara Department of Revenue (DOR) does not utilize some practices for enforcing collections that have increased collections for other counties. For instance, seven counties that responding to a survey reported that they levy bank accounts, five counties report delinquent debt to credit bureaus, and three counties report using auto dialer systems to increase contact with debtors and reduce time spent dialing phone numbers. DOR does have an auto dialer system, but it is only used on a limited basis.
- By not employing such practices to the extent possible, the Department may incur unnecessary costs associated with referring accounts to private collection agencies and may miss opportunities to increase collections.
- The Department should revise its collection practices and tactics by establishing policies and procedures for levying bank accounts and reporting debt to credit bureaus. In addition, the Department should substantially expand its existing use of an auto dialer to initiate calls to debtors based on established campaigns.
- By implementing these recommendations, the Department would incur some costs for bank levy and credit reporting expenses. However, these changes should increase the collections rate. For every one percent increase in collections, the County would reap an estimated \$550,000. Therefore, an increase in collections should offset the cost of these new collections tactics and procedures, resulting in substantial additional net revenues.

Collections Tactics Used

As discussed in Section 1, initial collection activities for accounts at the Department of Revenue involve sending statements and trying to obtain full or partial payment of debt. When a payment is not received within 30 to 120 days from the date of a statement, depending on the type of account, it is considered delinquent. Once an account is delinquent, Revenue Collections Officers (Collections Officers) attempt to enforce collections through a variety of means, depending on the type of account and dollar amount of the outstanding balance. For example, certain tactics can only be utilized for Justice Collections accounts, i.e., debt from formal probation, traffic court and informal “muni” probation. Other tactics are primarily used for General Collections accounts, which includes medical debt and miscellaneous accounts. Table 4.1 on the following page summarizes the tactics DOR utilizes by collections unit, followed by brief overviews.

Table 4.1

**Department of Revenue Collections Tactics
as of April 2010**

	Justice Units	General Unit
Establish payment plans	✓	✓
Garnish wages	✓	✓
Refer to Tax Intercept Program (TIP)	✓	✓
Refer to Court-Ordered Debt (COD)	✓	
Refer to private collection	✓	✓
Request Order to Show Cause/Bench Warrants	✓	
Request Civil Assessments	✓	
Small Claims (less than \$5,000)		✓
County Counsel litigation (\$5,000 or more)		✓
Request debtors to sign reimbursement agreements	✓	✓
Place a lien on a property	✓	✓
Place a claim on an estate through Probate	✓	✓
Bankruptcy	✓	✓

Source: Department of Revenue

Garnishments and Tax Interception

If a Collections Officer has received verification from an employer that the debtor is currently employed, then the Collections Officer can file a legal writ to garnish the debtor's wages. A maximum of 25 percent of a person's income can be garnished. The writ is forwarded to the Sheriff for collection from the employer until the debt is fully paid or the debtor is no longer employed.

When a debtor is not currently employed, but the Department has their Social Security number, a Collections Officer can refer the account to the State Franchise Tax Board's (FTB) Tax Intercept Program (TIP). A State tax refund would be intercepted and used to pay off debt to the County. In addition, outstanding debt may remain in TIP for up to 10 years.

Court Ordered Debt

Delinquent court debt can also be referred to the State Franchise Tax Board's (FTB) Court-Ordered Debt (COD) program for collections. As a State program, COD is afforded additional resources for collections. For example, under California Vehicle Code Section 1653.5 and Government Code Section 12419.10, the Department of Motor Vehicle (DMV) may provide social security numbers to FTB for the purpose of collecting any unpaid fine, penalty, or court-ordered reimbursement for court-related services (see Attachment 4.1). In contrast, DOR is unable to obtain Social Security numbers from the DMV to assist in collections. Delinquent debt is referred to COD for

one year on average¹, after which, outstanding debt is returned to the Department. As a fee for its collection efforts, COD retains 15 percent of any revenue collected for the County.

Private Collection Agency

When a Justice Unit account is returned to DOR from Court-Ordered Debt, the account can be referred to a private collection agency. General Unit accounts, however, can be referred to the private collection agency directly, as an alternative to wage garnishments or the Tax Intercept Program². The Department's current contract for private collection is with Bay Area Credit. Similar to COD, Bay Area Credit may use collection practices that DOR does not, allowing them to collect DOR's delinquent debt. As shown in Attachments 4.2 and 4.3, these practices include remaining open at extended hours and during the weekend and utilizing automated dialers. DOR staff reported that while the Department does not report debt to credit bureaus, Bay Area Credit does, and this fact is stated in letters sent to delinquent debtors (see Attachment 4.4). Bay Area Credit's standard fee for services is 12 percent of collected revenue; fees are higher in litigation cases. However, if Bay Area Credit contacts a debtor and discovers that the debtor had insurance or Medi-Cal for delinquent medical debt, DOR recalls the account, and Bay Area Credit must transfer it back to DOR for further research.

Order to Show Cause / Bench Warrants

If a victim restitution³ balance remains on an account with a felony conviction as the probation period is about to expire, the defendant may be called to the victim restitution court, or a Collections Officer can request an Order to Show Cause. A hearing is scheduled and the debtor must appear to explain to a judge why they have not paid off the debt. If the debtor fails to appear at the hearing, then the judge will issue a bench warrant for their arrest and return to court for review. DOR staff noted that bench warrants are a limited tool for collections because they are difficult to enforce. A debtor that has a bench warrant related to outstanding court debt would not be brought into court unless they were stopped for an unrelated issue, such as a subsequent moving violation.

Civil Assessments

According to DOR staff, Civil Assessments are used as an alternative to bench warrants to enforce collections on delinquent traffic and misdemeanor "muni" accounts. When the Court has approved a request for a Civil Assessment, the account is converted to civil status, a \$300 fee is added to the delinquent debt for Failure to Appear, and another \$300 is added for Failure to Pay, as applicable, and a suspension is placed on the debtor's California driver's license. In order to remove the suspension on the license as quickly as possible, the debtor must pay the balance in full by cash, money order,

¹ The average period of time is one year, per DOR; however, these accounts may continue to be in the COD program for many years.

² When the Department has a Social Security number, the account goes to the Tax Intercept program first, and if that is not successful, it is sent to an outside collections agency.

³ Victim Restitution is a money judgment order against a defendant for a victim's loss.

cashier's check or credit card. If the debtor pays by check or electronic funds (ACH) transfer, there is a delay on the release of the license for at least 30 days to assure the funds are secured.

Civil Assessments have generated a significant amount of revenue. In FY 2008-09 DOR collected an estimated \$6.3 million in civil assessment fees for approximately 21,000 traffic accounts. The revenue from civil assessment fees is in addition to the estimated \$12.5 million collected for outstanding traffic fees and fines that were transferred to DOR. Therefore, the Traffic unit collected an estimated \$18.8 million in FY 2008-09, an estimated collection rate of 88 percent. Civil assessments for misdemeanor accounts also bring in General Fund revenue to the County.

However, limited payment options may be preventing DOR from collecting additional revenue. As discussed in Section 1, debtors are not able to pay by credit card through mail or by calling an in-house collector or cashier. Further, payment by credit card through DOR's vendor for online and phone payments can result in unusually high fees (see Section 2). Payment by credit card may be the preferred method of payment for some debtors, particularly for those that live outside of the County and/or do not have access to transportation to DOR. Therefore, DOR should revise its payment options to make it easier for debtors to pay off debt by credit card and lift the suspension of their driver's license as quickly as possible.

Small Claims and County Counsel Litigation

Collections Officers in the General Unit can request a credit report for debtors that are at least 26 years old. According to the DOR procedures manual, if it appears that the debtor is employed or self employed, has real property or another source of potential income, then the Collections Officer can pursue Small Claims action for accounts between \$200 and \$4,999 or County Counsel may litigate accounts with balances greater than \$5,000. Due to the costs of litigation, these tactics are an expensive means to collect debt. Therefore, Collections Officers are encouraged to utilize these tactics only when other collection efforts have failed.

Implementing Additional Collections Tactics

While Attachment 4.5 illustrates that all of the tactics described previously are not uniquely employed by the County of Santa Clara, other counties utilize three methods for enforcing collections that the Department should also implement or expand.

Levy Bank Accounts

In a survey of 12 California counties, the County of Santa Clara was the only county out of eight respondents that did not levy bank accounts, as of April 2010. The counties that levy bank accounts as a means for enforcing collections are Alameda, Contra Costa, Fresno, Orange, Sacramento, San Bernardino, and San Francisco. According to Contra Costa, Fresno, Orange, and Sacramento, all funds in the bank account at the time the Writ of Execution is served are seized, up to the amount specified on the Writ. For example, if the Writ specifies \$400, but there is only \$200 in the account, the entire bank

account will be seized and returned to the requesting county. Only Alameda County reported that when they levy bank accounts, a percentage, as opposed to a dollar amount, is specified in the Writ of Execution.

When a bank account is levied, the bank freezes the account for a period of time before surrendering the funds to the requesting County. During this period, no deposits or withdrawals can be made. Therefore, the debtor with a levied bank account may incur additional charges when there are attempts to cash checks or deduct automatic debit payments while the account is frozen. Sacramento County reported that during the time a debtor's bank account is frozen for 60 days, in accordance with the Writs of Executions they serve, the debtor is entitled to file a "Claim of Exemption." A judge would then schedule a hearing, at which point the debtor and County would compromise on any outstanding debt. However, until a compromise is reached, the bank account remains frozen and the debtor is at risk of incurring charges, owing additional debt to vendors or creditors, or not having enough funds for basic necessities.

Fresno County reported that bank levies have been an effective tool for collections because after a debtor's account is levied once, debtors become aware of the consequences of failing to follow payment arrangements. Bank levies would be a particularly effective tool for debtors that appear to be self-employed or have an unknown source of income. Because these debtors may not show employment in the data of the State Employment Development Department, DOR would not be able to garnish their wages. As such, DOR should establish policies for issuing bank levies on delinquent debt and immediately inform debtors of this possibility if they fail to make payments. While there are litigation costs associated with bank levies, the costs of a levy to a debtor should be a deterrent for debtors to become delinquent. The Department of Revenue should establish policies and procedures for levying bank accounts to enforce collections when appropriate. For example, the Department should determine which types of accounts, the amount of outstanding debts, and which types of debtor are appropriate for levies.

Report to Credit Bureaus

As of April 2010, the Department reported that Collections Officers do not report delinquent debt to credit bureaus, while the Department's contracted private collection agency may. However, other counties such as Contra Costa, Orange, Sacramento, San Bernardino, and San Francisco have stated that their in-house collectors report delinquent debt to credit bureaus. To the extent possible, the Department should utilize tools that other county and private collection agencies employ to increase collections.

Therefore, the Department should establish procedures for reporting debt to credit bureaus. For instance, Orange County notifies debtors with non-court fines and fees that the County may report delinquent debt after the account has been in the system for 90 days. After implementing this policy for five years, Orange County reported that debtors' inquires about credit reporting indicate that their notices serve as incentive for debtors to make payments. As shown in Attachment 4.6, Sacramento County may report debt that has been delinquent 60 to 90 days or more to collections agencies.

However, debtors are provided with a warning letter in advance of such action. By informing debtors that in-house collectors may report debt to credit bureaus *before* the account is referred to private collection, the Department could increase collections and avoid costs associated with transferring debt to the private collection agency. In addition, the Department should establish policies and procedures for reporting delinquent debt directly to credit bureaus, when appropriate. For example, the Department should determine which types of accounts, the amount of outstanding debts, and which types of debtors are appropriate for credit reporting.

Predictive / Auto Dialer

The Counties of Sacramento and Contra Costa reported using predictive/auto dialer systems, which have reduced staff time spent initiating phone calls to debtors and increased collections. These counties, however, could not provide statistics for how much collection has increased as a result of the dialers. The City and County of San Francisco reported implementing an evening (5:00-8:00 PM) pilot program for an auto dialer system.

In Sacramento County, the auto dialer calls numbers on a work in progress list according to an established criteria or campaign. For example, the campaign could be for accounts that are 1-2 days delinquent. While in-house collectors are on the line leaving a message or talking to a person, the dialer predicts when the collector will hang up and begins dialing the next number. According to Sacramento County staff, their auto dialer will call 7,000 numbers a day at the beginning of a week, but will drop down to 5,000 numbers a day at the end of the week as the collections staff work through their caseload.

In Sacramento County, the number of staff required to work predictive/auto dialer systems ranged from one to 10 staff members. Sacramento County reported assigning 10 staff members to making outbound calls and three to handle incoming calls. Staff members manning the Sacramento County dialer system can be either in-house collectors or support staff. Contra Costa County reported that the director of the collections agency has remote access to the dialer system over the weekend to set up an auto message function. The dialer then calls debtors and leaves a generic message such as, "This is an important message from Contra Costa County. Please give us a call at the following number on Monday." Because the message does not mention the department or the nature of the call, it is in compliance with debt collection laws. As a result, Contra Costa receives many calls the Monday following a weekend auto dialer campaign. Sacramento County staff similarly reported that approximately 50-60 percent of the calls made result in leaving generic messages, but the County has experienced an increase in returned calls based on the dialer campaigns.

DOR has an auto dialer system with six ports. However, the dialer is used only for four hours on Wednesdays and four hours on Thursdays, according to Department management. The County does not use the dialer to make outgoing unattended automated calls, because this generates many return calls, which the Department says it cannot handle. However, based on auditors' observations and interviews, the Department could handle more incoming calls from located, responsive debtors if the

staff were not assigned to non-productive call-outs and skip tracing of very old accounts and if the Department made it easier for willing debtors to establish payment plans and/or make credit card payments by mail. In addition, as discussed in Section 5 of this report, additional staff are recommended to the extent those staff generate net new General Fund revenues.

The Department should establish a pilot program of greater use of the predictive/auto dialer program could begin with the General Unit, which currently has a backlog of accounts that are more than six months delinquent. With 12 Collections Officers, two Senior Collections Officer, and two Collections Clerks assigned to the unit as of November 2009, four could be assigned to outgoing calls, 2 assigned to incoming calls, one assigned to the counter and the rest as back up for an entire day. Assignments could then rotate on a daily or weekly basis. The Department could also experiment with shifting assignments depending on the day of the week or month, such as assigning more staff after a weekend or evening dialer campaign or not using a predictive/auto dialer during busy counter days. Based on interviews and observations, the collections staff already are overwhelmed with incoming phone calls and debtors at the counter trying to establish payment plans or lift a driver's license suspension. However, by making it easier for debtors to establish payment installments by mail and pay by credit card through mail or phone calls transferred to a cashier, as discussed above and in Section 1, the incoming flow of phone calls should subside enough to implement a pilot predictive/auto dialer program for outgoing calls.

CONCLUSION

By requiring patients at Santa Clara Valley Medical Center to sign reimbursement agreements, enforcing collections through bank levies and credit reporting, and improving contact with debtors by expanded the use of predictive/auto dialers, the Department could reduce unnecessary costs associated with referring accounts to private collections and potentially increase its in-house collections.

RECOMMENDATIONS

The Department of Revenue should:

- 4.1 Establish policies and procedures for levying bank accounts to enforce collections when appropriate. (Priority 2)
- 4.2 Establish policies and procedures for reporting delinquent debt directly to credit bureaus when appropriate. (Priority 1)
- 4.3 Establish policies and procedures for implementing a robust predictive/auto dialer program on a pilot basis, after making substantial reductions in the age and volume of assigned accounts. (Priority 2)

SAVINGS, BENEFITS AND COSTS

Implementation of these procedures should increase collections by an undetermined percentage. For every 1 percent increase in gross collections as a result of these recommendations, the Department would receive an estimated \$550,000.

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Government Code

Offset of Fine, Bail, Parking Penalty, or Reimbursement

12419.10. (a) (1) The Controller shall, to the extent feasible, offset any amount overdue and unpaid for a fine, penalty, assessment, bail, vehicle parking penalty, or court-ordered reimbursement for court-related services, from a person or entity, against any amount owing the person or entity by a state agency on a claim for a refund from the Franchise Tax Board under the Personal Income Tax Law or the Bank and Corporation Tax Law or from winnings in the California State Lottery. Standards and procedures for submission of requests for offsets shall be as prescribed by the Controller. Whenever insufficient funds are available to satisfy an offset request, the Controller, after first applying the amounts available to any amount due a state agency, may allocate the balance among any other requests for offset.

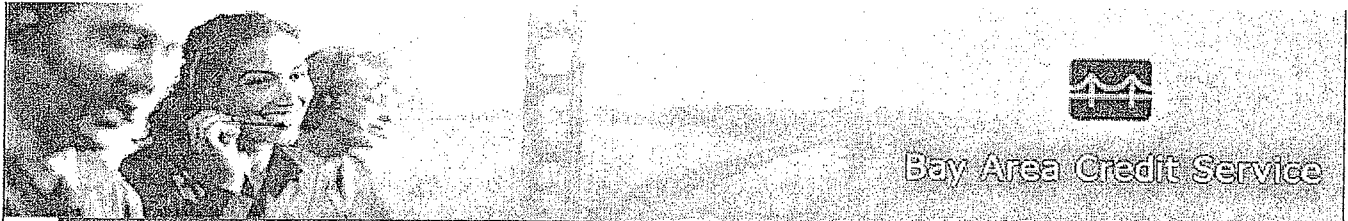
(2) Any request for an offset for a vehicle parking penalty shall be submitted within three years of the date the penalty was incurred. This three year maximum term for refund offsets for parking tickets applies to requests submitted to the Controller on or after January 1, 2004.

(b) Once an offset request for a vehicle parking penalty is made, a local agency may not accrue additional interest charges, collection charges, penalties, or other charges on or after the date that the offset request is made. Payment of an offset request for a vehicle parking penalty shall be made on the condition that it constitutes full and final payment of that offset.

(c) The Controller shall deduct and retain from any amount offset in favor of a city or county an amount sufficient to reimburse the Controller, the Franchise Tax Board, the California State Lottery, and the Department of Motor Vehicles for their administrative costs of processing the offset payment.

(d) Notwithstanding Chapter 3.5 (commencing with Section 6250) of Division 7 of Title 1, or any other provision of law, the social security number of any person obtained pursuant to Section 4150, 4150.2, or 12800 of the Vehicle Code is not a public record and shall only be provided by the Department of Motor Vehicles to an authorized agency for the sole purpose of making an offset pursuant to this section for any unpaid vehicle parking penalty or any unpaid fine, penalty, assessment, or bail of which the Department of Motor Vehicles has been notified pursuant to subdivision (a) of Section 40509 of the Vehicle Code or Section 1803 of the Vehicle Code, responding to information requests from the Franchise Tax Board for the purpose of tax administration, and responding to requests for information from an agency, operating pursuant to and carrying out the provisions of, Part A (Aid to Families with Dependent Children), or Part D (Child Support and Establishment of Paternity) of Subchapter IV of Chapter 7 of Title 42 of the United States Code. As used in this section, "authorized agency" means the Controller, the Franchise Tax Board, or the California Lottery Commission.

(Amended Sec. 1, Ch. 551, Stats. 2003. Effective January 1, 2004.)



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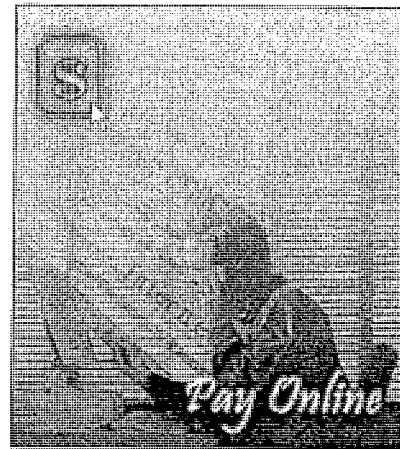
This is an attempt to collect a debt and any information obtained will be used for that purpose.

Office Hours:

Monday-Thursday 5 AM to 9 PM PST
 Friday 5 AM to 8 PM PST
 Saturday 6 AM to 3 PM PST
 Sunday 9:30 AM to 8 PM PST
 (PST - Pacific Time)

Important:

- For Inquiry Or To Make Payment By Phone, Please Call (800) 697-1234
- To Communicate With Our Office By Mail, Please Refer To Our Address On The Letter You've Received And Include Your Account Number And/Or Tear-Off Coupon. Please Follow The Procedures Below:
- Make Check Or Money Order Out For The Full Amount Shown.
- Enclose Your Payment And Bottom Section Of Letter In Return Envelope.
- Important: Please Put Account Number On All Checks And Correspondence.
- Mail It!



• • T • Mobile •

For T-Mobile payments call: (866) 671-9438

Payment Information:

We accept:



Enter Amount \$: Format: 00.00

[Proceed to Secure Payment Center](#)

- * For assistance in making an online payment, inquiries, or to make a payment by phone, please call (800) 697-1234
- * By clicking this button you acknowledge that you have read the above terms and conditions and wish to continue
- * T-Mobile payments are NOT accepted on this site, please call (866) 671-9438 and we will process your payment by phone

Proposers for Collection Services for DOR, October 2006

RFP Respondent Vendor	Collector Caseload		Collector: Supervisor Ratio	
	Type of Account Unspecified	Medical Accounts		Govt Accounts
AllianceOne SM 717 Constitution Dr., Ste. 202 Exton, PA 19341		800	1500	10:1
Associated Receivable Consultants 1058 Claussen Rd., Ste. 110 Augusta, GA 30907	1500			10:1
Bay Area Credit Service 50 Airport Parkway, Suite 100 San Jose, CA 95110	1200-1400 Dialer	150-500		11:1
Bridgeport Financial, Inc. 221 Main St., Ste. 920 San Francisco, CA 94105				6:1
Collection Bureau of America, Ltd. 25954 Eden Landing Rd. Hayward, CA 94545	3500			12:1
CBSJ Financial Corporation 299 Stockton Ave San Jose, CA 95126-2794	125/day			5:1
JJ MacInyre 1801 California Ave. Corona, CA 92881	900-2000 based on expertise and balance			12:1
J & L Collection Services, Inc. dba J&L Teamworks 651 N. Cherokee Lane, Ste. B-2 Lodi, CA 952240	500 (3-5 days) seasoned 750 successful 7/day active 30/day skip 750-900 low balance			6:1
MedCore, Inc. 4721 Morrison Dr. Mobile, AL 36609	1000 3000 low balance			6:1
NCO Financial Systems, Inc. 507 Prudential Rd. Horsham, PA 19044	900-1200			10:1
Outsourcing Solutions, Inc. 390 S. Woods Mill Rd, Ste 350 St. Louis, MO 63017		300-500	800-1000	10:1

COUNTY OF SANTA CLARA
DEPARTMENT OF REVENUE

MAIL: P.O. BOX 1897, SAN JOSE, CA 95109-1897
OFFICE: 1555 BERGER DR., BLDG #2, SAN JOSE, CA

NOTICE OF INTENT TO ENFORCE COLLECTION

UNLESS WE RECEIVE PAYMENT OF \$858.00 WITHIN FIFTEEN (15) DAYS, THE DEPARTMENT OF REVENUE WILL EITHER REFER YOUR NAME TO THE STATE FRANCHISE TAX BOARD AND INTERCEPT TAX REFUNDS DUE YOU OR THE DEPARTMENT WILL REFER YOUR ACCOUNT TO A PRIVATE COLLECTION AGENCY WHICH MAY AFFECT YOUR CREDIT RATING.

RESPOND WITHIN FIFTEEN (15) DAYS TO AVOID EITHER OF THESE ACTIONS.

ACCOUNT NUMBER	DATE	REFERENCE (IF REFERENCE BEGINS WITH "VM" SEE REVERSE SIDE)
[REDACTED]	12/29/09	
PHONE 408	PAYMENT DUE DATE	(SEE REVERSE SIDE FOR MORE INFORMATION)
282-3200		
EXT [REDACTED]	**PAYMENT DUE IMMEDIATELY**	
YOUR ACCOUNT REPRESENTATIVE IS:		858.00
[REDACTED]		

STATEMENT OF ACCOUNT

RETURN THIS PORTION WITH YOUR PAYMENT

12/29/09

COUNTY OF SANTA CLARA
DEPARTMENT OF REVENUE

OPEN LATE EACH TUESDAY TO 7:00PM / 6:45PM FOR PAYMENTS
WWW.SCCGOV.ORG/PORTAL/SITE/DOR FOR PAYMENT OPTIONS

TOTAL PAYMENT DUE

858.00

INDICATE AMOUNT PAID	
DOLLARS	CENTS

PAYMENT IN US DOLLARS ONLY

21

0400000000 00030054324 00000858001 00000000000

PLEASE USE RETURN ENVELOPE FOR ADDRESS CORRECTION

Collections Tactics Used by Other Jurisdictions

	Santa Clara	Alameda	Contra Costa	Fresno	Orange	Sacramento	San Bernardino	San Francisco
Establish Payment Plans	X	X	X	X	X	X	X	X
Garnish Wages	X	X	X	X	X	X	X	X
Refer to Tax Intercept Program (TIP)	X	X	X	X	X	X	X	X
Refer to Court Ordered Debt (COD)	X	X	X	X		X	X	X
Refer to Private Collections	X		X	X		X	X	
Request Order to Show Cause / Bench Warrants	X		X			X		X
Request Civil Assessments	X							X
Small Claims (less than \$5,000)	X	X	X	X	X	X	X	X
County Counsel litigation (\$5,000 or more)	X	X	X	X	X	X	X	X
Request debtors to sign Reimbursement Agreement	X		X				X	X
Place a lien on property	X	X	X		X	X	X	X
Place a claim on an estate through Probate	X		X	X				X
Charge Interest	X	X		X	X	X	X	X
Levy Bank Accounts		X	X	X	X	X	X	X
Report to Credit Bureau			X	X	X	X	X	X
Late and Penalty Fees*			X	X	X	X	X	X
Dialer			X			X		X

*The counties reported that the late and penalty fees were added by the referring County departments, not the in-house collection agency.

C100.5 Credit Reporting Policy

DRR's policy is to report all eligible accounts in compliance with the law. (See DRR Policy & Procedure Manual; Section E1600)

Rationale Accounts that are 60 to 90 days or more delinquent with DRR may be reported to major credit reporting agencies as unpaid collections. Clients will be sent a warning letter, unless DRR has no current address, and given an opportunity to pay in full to avoid having a collection item appear on their credit report.

C100.6 COD POLICY

DRR's policy is to refer eligible delinquent accounts to COD to supplement DRR's collection efforts. (See DRR Policy & Procedure Manual; Section E100, or Collector Desk Manual section B1000)

Referrals When 90 days delinquent and initial collection efforts by DRR are not successful, eligible accounts, based on specific criteria including type, age and balance of debt, will be referred to the Franchise Tax Board's (FTB) Court Ordered Debt Collection (COD) program for collections.

FTB has the authority to collect COD eligible debts using the same process and resources used to collect delinquent personal income tax debts.

Accounts returned to DRR as uncollected by COD will have the most cost effective final action taken (legal action, return to court, write-off, etc.) to settle the account.

Section 5. Collections Officer Duties, Workload and Procedures

- The County of Santa Clara Department of Revenue lacks a written accounts management policy that includes criteria for prioritizing accounts, as well as formal timeframes for pursuing and finalizing collection activities. As a result, Revenue Collections Officers (Collections Officers) are assigned a large number of “active” accounts – 3,562 on average. This is significantly more than most other private and public agencies assign to each Collections Officer. More importantly, many accounts have been in active collections a very long time. In fact, the *majority* of the Department’s “active” caseload for “general” accounts is more than six months old, with the average of these accounts estimated to have been in active collections for almost 21 months. In addition, Collections Officers are permitted to work accounts in any order they choose as there is no policy regarding what types of accounts should come first.
- Further, Collections Officers with medical debt on their caseloads are expected to perform functions that are not consistent with their job duties. Instead of setting up payment plans or following up with debtors, these Collections Officers are expected to bill accounts that should have been billed by the referring agency and to make assessments of and assess debtor eligibility for various programs. Lastly, the Department’s supervisors oversee a large number of Collections Officers, and are responsible to carry out non-supervisory duties.
- The lack of a caseload management policy, coupled with the large caseloads filled with very old accounts, combined with non-Collection duties for Collections Officers and their supervisors, undermine collections efforts by making it difficult to focus resources on collecting those accounts most likely to yield payment.
- By establishing caseload management policies that reduce the large volume of aged “active” accounts, hiring additional staff on a pilot basis, ceasing medical billing and eligibility assessment, and reducing administrative functions the Department would be able to better focus on and work accounts with the greatest potential for collection, thus improving revenue receipts.

Background

The County of Santa Clara Department of Revenue (DOR) collects debts for both “justice” type accounts, such as probation fines and fees, and “general” accounts, such as medical bills. At any given time, the Department has around 600,000 accounts. Of these, about 125,000 are deemed to be in “active” collections, meaning that they are on Revenue Collections Officers’ (Collections Officers) active work lists, and are not in litigation, referred to an outside collections agency or program or deemed uncollectible.

Existing “Framework” of Procedures

A review of the Department’s policies and procedures manual revealed that the Department does not have a caseload management policy that includes criteria for prioritizing accounts, such as the age of the account or other criteria.

In addition, the Department’s policies and procedures manual describes how to proceed with several collections tactics, which are discussed in Section 4 of this report, but does not provide a timeframe for when these activities should be completed. For example, there are no specific timeframes for when employment verification should be requested to pursue a wage garnishment, accounts should be referred to a private collection agency or a State program for further collection, or when accounts should be considered uncollectible. Only criteria such as whether the account has a social security number or the dollar value of an account are included in the procedures manual. Collections Officers receive a variety of reports listing accounts that may be worked on a given day. They are permitted to work any of these accounts in any order. For example, they may work on an account that is three years old, bypassing an account that is three months old, at their discretion.

Caseload Age

The existing procedures require Collection Officers to retain accounts and continue collections activity until, in the case of probation accounts, the probation period has expired. Per direction of the Probation Department and Court, a justice account can be sent to Court Ordered Debt only if the fine has been paid. In the case of other debts, the accounts may remain on the “active” work list until the debt becomes uncollectible under the statute of limitations, which, in the case of medical accounts, is four years from the most recent date of service. The vast majority of active “general” accounts – 64 percent – have been in collections for more than six months. Auditors estimate that these older accounts averaged 21 months in collections. Since many accounts are aged by several months, or even years, before they get to DOR, it is likely that a large share of the Department’s “active” accounts are for debts incurred two or more years earlier.

Collection Officers’ Caseload Size

As a result of allowing Collections Officers to continuing collections activity on very old accounts, whether because of long-term probation or the act of holding other accounts at length, the Department’s average caseload is excessively large. Based on data provided by other California County collections functions in response to a survey for this audit, the County of Santa Clara generally assigns larger caseloads – about 3,500 accounts – to its collections staff. Of the three counties that reported an overall caseload figure, two reported lower averages. These counties were Contra Costa (400 to 600 accounts) and Orange (3,000 accounts). San Francisco reported 10,000 accounts per Collections Officer, but this figure includes property tax collections, which is outside the scope of DOR. Fresno, Alameda and San Bernardino counties did not report an overall average. Sacramento County does not have individual caseloads, as all of its staff are on a dialer system.

In addition, the caseloads reported by private collections agencies to the County as part of an RFP in 2006 also indicates that private firms generally report far fewer accounts assigned to each Collections Officer. For example, firms specified between 150 and 800 medical accounts per Collections Officer, between 500 to 3,500 accounts for unspecified account types, and between 800 and 1,500 accounts for “government” debts. These amounts are shown in Attachment 5.1.

The Department has a very large number of fiscally inactive accounts, as detailed in the Introduction of this report. Its caseloads are so large that Collections Officers could not possibly work through their daily list of accounts to be worked. As previously noted in this report, the staff voicemail boxes are often full, and the Department’s two supervisors have an unusually large number of staff to oversee. Given that the current direct collections staff of about 37 brings in about \$55 million a year¹, for an average revenue of almost \$1.5 million apiece, it is highly likely that hiring additional collections staff would generate new revenue far in excess of the cost of the staff salaries and benefits. The Department of Revenue should start a pilot program by hiring a Revenue Collections Supervisor, at a benefitted cost of about \$121,536, and three Revenue Collections Officers, at a benefitted cost of \$292,140, for a total cost of about \$413,676. These new staff should be hired as unclassified positions, on pilot basis, and assigned to non-Traffic accounts. Over the course of a year, the Department should track the amounts assigned to these staff, the amounts they collect, and determine whether the staff generate net new revenue. At the end of the pilot program, the Department should report back to the Board of Supervisors, which should determine whether to maintain, expand or terminate the program based on the results of the pilot.

Formal Caseload Management Policy

It is generally accepted knowledge that the success of collection decreases as accounts age without payment or collection activity. When Collections Officers’ caseloads are excessively loaded with aged accounts, the Department’s ability to collect on newer, more viable accounts is undermined. Further, the lack of direction regarding priority of accounts on caseloads leads to inconsistencies in collections efforts among Collections Officers.

Therefore, the Board of Supervisors should direct the Department to establish a formal case management policy with criteria for what accounts should be worked first and timeframes for pursuing and finalizing collection activities, and turning accounts over to private collections agencies or writing off accounts. The caseload management policy of Sacramento County’s Department of Revenue Recovery is provided as an example in Attachment 5.2. As shown in the Attachment, Sacramento’s priority is to work newer accounts first with emphasis on the most collectible accounts, such as accounts with valid contact information, as well as employment, income, and prior payment history. Further, Sacramento obtains employment verification within 60 days of receiving an account, reports accounts to credit bureaus when they are 60 to 90 days delinquent, and refers accounts to the State Franchise Tax Board’s Tax Intercept Program or Court-Ordered Debt when accounts reach 90 days old.

¹ For more detail on this amount, see the Introduction of this report.

The DOR caseload management policy should also substantially reduce the General Collections Units’ large caseloads by clearing aging “general” accounts, where collection rates are comparatively lower than “justice” accounts (see Introduction). For example, Contra Costa County makes a determination about all of its accounts within 180 days. Because a majority of the Department’s “general” accounts are more than six months delinquent, the Department should finalize collections for “general” accounts over a year old and adjust this timeframe as the backlog of accounts is reduced. Criteria, timeframes, and policies should also incorporate several recommendations included in this report and utilize automation to the greatest extent possible. Table 5.1 on the below provides a sample case management policy for aging “general” accounts.

Table 5.1

**Sample Case Management Policy for
“General” Accounts Over 1 Year**

Type of Account	Initial Action	Ideal Final Action	Timeframe
*Over \$1,000 *Payment history *Bank account information at DOR *Employment	*Dialer campaign and/or letter *Possible bank levy *Wage garnishment	*Full Payment *Reimbursement Agreement & Payment Plan *Reimbursement Agreement only *Bank Levy *Wage garnishment	Within 60 days of letter date
*Over \$1,000 *No payment history	*Dialer campaign and/or letter *Possible report to credit bureau	*Full Payment *Reimbursement Agreement & Payment Plan *Reimbursement Agreement only *Report to credit bureaus	Within 30 days of letter date
*Under \$1,000 *Over \$1,000, no valid contact information *All other accounts when ideal final action has failed	*Forward to private collection		Within 30 days of policy adoption or ideal final action has failed

Source: Department of Revenue

When an account has been paid in full, or a reimbursement agreement has been signed, the debt has been reported to credit bureaus or forwarded to private collection, the account should be cleared from the Collections Officers’ “active” caseload.

Collection Officers’ Duties

The Department’s General Collections Units are responsible for collections of medical debt referred by Valley Medical Center hospital and other units of the Health and Hospital System, such as Mental Health. Although Collections Officers assigned to these units do not possess any particular training or expertise in medical billing or determining whether patients may be eligible for State or federal programs that would cover some or all of their medical bills, they are nonetheless regularly performing these

functions. The official job duties of these positions do not call for such functions. However, based on interviews with the staff of these units, reviews of case records and notes, and review of the Department of Revenue's written procedures, these types of activities consume the majority of the General Collections Units' staff time. For example, Attachments 5.3 and 5.4 show the Department of Revenue's procedures for its collections staff to bill medical accounts that were not billed by Valley Medical Center.

In essence, the Department of Revenue, out of necessity, has taken over tasks that should have been and should be carried out by staff in the Health and Hospital System. Unlike the Collections Officers, staff working for Valley Medical Center are trained in medical coding systems and medical billing, and have knowledge of eligibility criteria. As Collections Officers are attempting to bill accounts and determine eligibility for programs, they are not spending most of their time attempting to "collect" on debts. For example, they are not spending most of their time contacting patients who legitimately owe a balance and trying to get them to agree to a monthly installment plan, or skip tracing debtors whose whereabouts are unknown. Although the loss of revenue due to the fact that Collections Officers are spending most of their time in duties outside their job descriptions cannot be estimated, it is likely to be substantial. The Board of Supervisors should direct the Department of Revenue to cease billing and eligibility work, and direct that such work be carried out by appropriate staff in the Health and Hospital System and/or Social Services Agency, as appropriate.

Collections Supervisor Duties

The Department of Revenue has two Supervising Collections Officers. One supervises the "general" units, which are staffed by approximately 16.5 personnel, and the other supervises the "justice" units, which are staffed by approximately 23.5 personnel. These supervisors, therefore, oversee an average of 20 staff each. In addition to their oversight duties, the supervisors also have their own caseloads. These caseloads are made up of retiree medical accounts, which is mostly not a collections function, as well as accounts involving sensitive matters, complaints, complicated cases, County employees as debtors, or situations in which debtors request to deal with a supervisor. In a survey of other counties conducted for this audit, six of the seven responding counties, except for Santa Clara, reported that supervisors did not have their own caseloads. Note that the 20-to-1 ratio is far higher than private agencies reported, as shown in Attachment 5.1.

In addition to overseeing a large number of personnel, and having their own caseloads, supervisors serve one day a month as Hearing Officers for individuals appealing their parking ticket citations,² Plus additional time spent preparing appeal responses, site visits, etc. In addition, these two personnel report directly to the Department Director, and effectively serve as department managers. This structure effectively pushes supervision of Collections Officers onto Senior Collections Officers.

In addition to adding a new, non-Traffic supervisor, as previously discussed, the Department should examine ways to reduce the supervisors' caseloads. The Employee

² The Department also provides two other staff, the Department's Fiscal Officer and an ASO to carry out Hearing Officer duties as well.

Services Agency (ESA) is in the process of trying to get PERS to deduct retiree premium payments from employee pension checks, so that DOR does not have to process these incoming payments and engage in collections efforts on delinquent premium payments. The Department and ESA should ensure that this change occurs.

CONCLUSION

The County of Santa Clara Department of Revenue does not have a written case management policy with criteria for prioritizing accounts or timeframes for pursuing and finalizing collection activities. As a result, Collections Officers have very high caseloads, and many of their accounts are extremely old. In addition, those collecting medical debt have effectively been assigned duties that are not within the scope of their job descriptions. Further, the supervisors have many staff to oversee, while also managing their own caseloads and engaging in managerial duties. By reducing the number and age of accounts on Collections Officers caseloads, reducing the non-collections duties of Collections Officers, reducing the duties of supervisors, and adding three staff and a supervisor on a pilot basis, the Department would likely generate larger amounts of revenue.

RECOMMENDATIONS

The Department of Revenue should:

- 5.1 Establish caseload management policies that reduce caseloads by clearing old, unproductive accounts off of the active caseload of Collections Officers and provide direction regarding casework priorities. (Priority 1)
- 5.2 Cease engaging in medical billing and eligibility work, effectively shifting that work to the more appropriate staff in the Health and Hospital System and/or Social Services Agency, as appropriate. (Priority 1)
- 5.3 On a pilot basis, hire three new unclassified Revenue Collections Officers, and one unclassified Revenue Collections Supervisor, at a cost of approximately \$413,676, and track assigned collections amounts and received amounts for at least one year to determine whether there is a net revenue increase, and report back to the Board of Supervisors. These staff should be assigned to non-Traffic accounts.
- 5.4 Examine ways to reduce Supervising Collection Officers' caseloads, including by working with the Employee Services Agency to get PERS to deduct retiree health premiums from their pension payments. (Priority 3)

SAVINGS, BENEFITS AND COSTS

Implementation of Recommendations 5.1 and 5.2 should improve collections by focusing staff time and attention on newer, more "collectible" accounts and facilitating "collections" activity, as opposed to billing and similar efforts. Implementation of Recommendation 5.3 would enable supervisors to provide more hands-on oversight of

staff, and is expected to generate material net new revenues for the County, after accounting for the cost of hiring the staff Implementation of Recommendation 5.4 would reduce the administrative workload in the department associated with processing retiree premium payments and engaging in collections efforts on unpaid balances.

Proposers for Collection Services for DOR, October 2006

RFP Respondent Vendor	Collector Caseload			Collector: Supervisor Ratio
	Type of Account Unspecified	Medical Accounts	Govt Accounts	
AllianceOne [®] 717 Constitution Dr., Ste. 202 Exton, PA 19341		800	1500	10:1
Associated Receivable Consultants 1058 Claussen Rd., Ste. 110 Augusta, GA 30907	1500			10:1
<u>Bay Area Credit Service</u> 50 Airport Parkway, Suite 100 San Jose, CA 95110	1200-1400 Dialer	150-500		11:1
Bridgeport Financial, Inc. 221 Main St., Ste. 920 San Francisco, CA 94105				6:1
Collection Bureau of America, Ltd. 25954 Eden Landing Rd. Hayward, CA 94545	3500			12:1
CBSJ Financial Corporation 299 Stockton Ave San Jose, CA 95126-2794	125/day			5:1
JJ MacIntyre 1801 California Ave. Corona, CA 92881	900-2000 based on expertise and balance			12:1
J & L Collection Services, Inc. dba J&L Teamworks 651 N. Cherokee Lane, Ste. B-2 Lodi, CA 952240	500 (3-5 days) seasoned 750 successful 7/day active 30/day skip 750-900 low balance			6:1
MedCore, Inc. 4721 Morrison Dr. Mobile, AL 36609	1000 3000 low balance			6:1
NCO Financial Systems, Inc. 507 Prudential Rd. Horsham, PA 19044	900-1200			10:1
Outsourcing Solutions, Inc. 390 S. Woods Mill Rd, Ste 350 St. Louis, MO 63017		300-500	800-1000	10:1

SECTION C

C100 Case Management Policy and Guidelines on Delinquent Collections

Policy DRR's policy is to work the newer accounts first with emphasis on the most collectable accounts, and on those uncollected, to finalize collection activity in a timely, cost effective manner.

Rationale This policy is consistent with DRR's primary mission which is to provide professional collection services at the lowest possible cost.

Work Priority Factors such as a good phone number, work and income history, and prior payment history help determine the likelihood of collection. The following table explains the priority of work activities and deadlines:

Priority	Activity	Description	Deadline for Completion
1	Incoming calls	Calls from the public regarding delinquent accounts	As they come in
2	Return Calls	Phone messages (including voice mail) from clients.	Within 24 hours from message date and time.
3	Dialer	Electronic Calls made by predictive dialer	Make outgoing calls on a daily basis
4	WIP PRIORITY 1 PTP Follow up	Accounts where clients have promised to make payment. May be tracked using ticklers, there may be promises that will not be considered priority 1, (see account follow-up policy)	<ul style="list-style-type: none"> •Initial pmt: 5 days late •Monthly: 30 days late
5	Correspondence Handled by Customer Service Unit	Correspondence from clients, victims, and/or others regarding DRR accounts.	Within 7 days of receipt by DRR.
6	EDD's >\$3000	Employment and wage history from State Employment Development Dept. Automated runs bi-monthly. Misc-WIP separates quarterly earnings over \$3000.	Within 60 days of receipt by DRR.
7	WIP TODAYS WORK PRIOR DAYS WORK	Accounts selected by the system to be worked each day. System selects accounts based on review/tickler dates due to probation expiring, custody release, etc.; also selects for payment review; defaulted payment plans, reset pay plans, etc.	Daily/Weekly.
8	WIP- New Business, Conversion accounts, Required work. Letter follow -up	Accounts in these categories are selected based on a variety of reasons; status code, lack of activity, tickler dates, new charge status, etc. Most of these accounts need to be finalized. No phone contact, letters sent, uncollected and requires final action (COD, RTC, legal or write-off).	Daily/Within 60 days of letter date.

9	RCS support desk (7)	Miscellaneous work referred from other areas or work referred back by the senior for correction	Daily/Weekly
10	EDD's <\$2900 (Sup staff)	Same as item 6 above except accounts with quarterly earnings of \$2900 and under	All higher priority work completed (support staff).
11	Misc. WIP Query Runs	Computer list generated for a specific group of accounts to be worked.	As designated by Supervisor or Senior.

C100.1 General Case Management Policies

Letters When new charges are input, an initial billing letter is sent to the client explaining the charge has been referred to DRR for collection; prompts the client to pay* or call for payment terms and explains consequences of non-compliance and/or non-payment. Other collection letters may be sent as appropriate. ***Note:** Some initial billing letters, when adding charges to current accounts, provide the client with updated payment terms.

C100.2 Payment Terms Policy

DRR's policy is to first seek payment in full. For those client's who cannot pay in full, standard payment terms require a 25% down and 10% per month, with a goal of setting terms that will have the account paid in full within one year. Alternative payment arrangements may be set in accordance with the client's financial circumstances; payments should not be set for less than the minimum of \$50 per month without supervisory approval.

Note: If GA is the only charge owing, payments are based on 1/3 of surplus or \$50, which ever is more. When the GA is included with other charges, payment terms should be determined excluding the GA balance. When other charges will be paid within one-year, payment terms should take the surplus into consideration

Procedure A one-year tickler date shall be scheduled on accounts where terms will not have the account paid in full within a year. Payment terms shall be increased on accounts that become delinquent or the client calls and collector follow-up is needed.

C100.3 Abstract Policy

An abstract of judgment will be filed when it is in the best interest of the County

Abstract An "Abstract of Judgment" is a judgment-related document filed with the County

Rationale Recorder that creates a lien against the client. Abstracts appear on the client's credit report and may interfere with the client's ability to obtain credit. Abstracts will be filed on all civil judgments that become 60 days delinquent. Abstracts may be filed on criminal judgments if the defendant owns property or in other circumstances where a lien is needed. Abstracts are filed on all civil judgments obtained by DRR 30 days after the date of order.

C100.4 Tax intercept Policy

DRR's policy is to use the Tax intercept program to the fullest extent possible for the benefit of the County of Sacramento, DRR's clients and customer departments

Rationale Once a year, eligible debts are submitted to the State Franchise Tax Board (FTB) and as of 1998 to the Federal Intercept Revenue Service (Food Stamp overissuances only) for the Personal Income Tax Refund Intercept Program. Instead of FTB and the IRS sending an income tax refund to the client, the refund is sent to DRR to be applied to program eligible debts.

Tax Intercept Requests are submitted annually on all qualifying accounts using the automated process: i.e. fines, restitution, judgments, Human Assistance debts, and some juvenile charges. Accounts submitted are more than 90 days old, have no active pay plan and have not received a payment in 60 days. Status codes that disqualify accounts are LBK and ?xxx. A request can be submitted on qualifying accounts whether the account is current or delinquent. Collectors are responsible for submitting change and delete information to keep intercept request accurate.

C100.5 Credit Reporting Policy

DRR's policy is to report all eligible accounts in compliance with the law. (See DRR Policy & Procedure Manual; Section E1600)

Rationale Accounts that are 60 to 90 days or more delinquent with DRR may be reported to major credit reporting agencies as unpaid collections. Clients will be sent a warning letter, unless DRR has no current address, and given an opportunity to pay in full to avoid having a collection item appear on their credit report.

C100.6 COD POLICY

DRR's policy is to refer eligible delinquent accounts to COD to supplement DRR's collection efforts. (See DRR Policy & Procedure Manual; Section E100, or Collector Desk Manual section B1000)

Referrals When 90 days delinquent and initial collection efforts by DRR are not successful, eligible accounts, based on specific criteria including type, age and balance of debt, will be referred to the Franchise Tax Board's (FTB) Court Ordered Debt Collection (COD) program for collections.

FTB has the authority to collect COD eligible debts using the same process and resources used to collect delinquent personal income tax debts.

Accounts returned to DRR as uncollected by COD will have the most cost effective final action taken (legal action, return to court, write-off, etc.) to settle the account.

C100.7 Legal Action Policy

DRR will use all legal means available to collect unpaid amounts in the most cost-effective manner

**Legal
Actions**
(Procedure)

Collectors recommend legal action on qualifying accounts to enforce collection. For cost effectiveness, the minimum account balance requirements are:

Small claims:	\$250
Writs	\$250
Muni Suits:	\$5,000
Juvenile Hearings	\$200
Order of Examinations	\$500

Exceptions to the minimums may be submitted to a Program Manager (Mary Brown or Martie Cornwell) for determination of cost and collectibility.

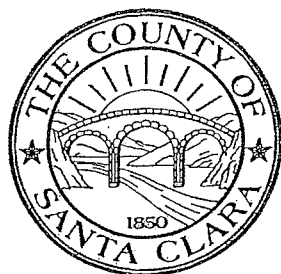
C100.8 RTC Policy

DRR's policy is to return unpaid summary and non-probation cases to court for appropriate action.

Return to Court

Uncollected active summary and non-probationary fines/restitution are to be returned to court for action (RTC-A) so a warrant for failure to pay fine may be issued. The court requests delinquent fines be returned within a year of referral. Once a warrant is issued, the defendant is required to appear in court. The defendant may pay the fine in full at the Sheriff's department prior to the court date or the sentence may be modified from paying the fine to serving time in custody.

Other fines may be returned to court for information (RTC-I) in situations where DRR needs to pass information to the court, for example, defendant deceased or in state prison or probation expired.



Department of Revenue Procedures Manual

Unit: General Accounts

MEDI-CAL BILLING

General Purpose: Medical and Medicare billing for medical charges through the State Of California

MEDI-CAL

When Medi-cal verification is received and a copy of the certs has been printed out the following actions will be taken to bill back to MEDI-CAL

1. Ente. (MCAL Eligible) in notes.
2. When enter billing information as listed in the example below , separate each month.

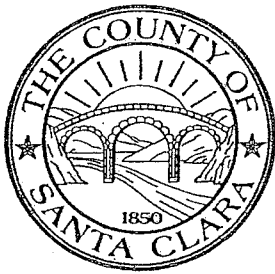
EXAMPLE

- A. VMO1 = \$10.00 9/98
 - B. VMO1 = \$20.00 10/98
 - C. VMO1 = \$145.45 11/98
 - D. VMO1 = \$22.75 12/98
 - E. Total billed = \$198.20
3. Print CUBS and highlight Patients Name, SS# and all notes pertaining to Medi-Cal billing information.
 4. Attach copy of X3 screen, DTB's, Medi-cal Certs, and copy of medi-cal card received from debtor or correspondence indicating medi-cal eligibility.
 5. Collector puts packet into RCOII Medi-Cal billing basket.

Prior to Billing

If VIL Charges (Balance after Share of Cost)

- A. Pull DTB for charges and check for medi-cal payments or if share of cost has been met.
- B. If no medi-cal payment is found on the DTB, or if no indication of share of cost met.
 1. Bill appropriately for Medi-cal.
 2. If bill shows balance after the share of cost have been met, these charges are to be paid by the debtor.



Department of Revenue Procedures Manual

Unit: General Accounts

MEDICAL CERTS ONLINE

General Purpose: To obtain Medi-cal Eligibility needed for billing purposes. Medical Certs can be completed if you have medical identification number or social security number. To connect to Medical Certs on line you will perform the following steps:

To connect online you must open E (Internet Explorer) from the Menu screen and type in the address _____ or from favorites click on Medi-cal Official Homepage. This will open the "Welcome to Medical" screen. From the welcome screen enter the following: (See attached booklet)

- a. Click on _____
- b. Next screen shows _____, click on OK.
- c. From Log In Transactions there will be two boxes:
 1. _____
 2. _____ then click on _____
- d. Next screen is for Transaction Services: Click on _____

Eligibility Screen

Enter the proper information in each box:

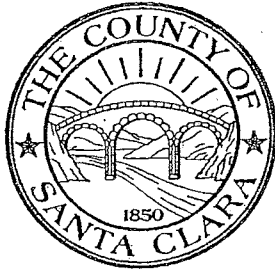
- a. Swipe Card - leave blank
- b. Recipient ID - Patient Medi-cal ID# or social security #.
- c. Date of Birth
- d. Date of Card Issue- this is today's date.
- e. Date of Service – this is for month the services were performed.
 1. Date of Service 9/21/1999 enter 09/01/1999 (Example)

After entering all the information - Click **Submit** to enter information into system.

Eligibility Response Screen

This screen will show eligibility or non eligibility for dates submitted.

- a. Print screen as back up to be attached to all medi-cal billing.
- b. If non eligibility is found note in account notes.



Department of Revenue Procedures Manual

Unit: General Accounts

MEDI-CAL THROUGH MAIL PROCEDURE

1. If a copy of Medi-Cal card is received through the mail, the copy is given to the RCC with the blue envelope that it was received in.
2. The RCC will then print x3 screen, pull DTB and put a Medi-Cal request form in tray.
3. RCC will hold backup until Medi-Cal responds.
4. The RCC does not bill anything that comes from PBS.
5. If the debtor is eligible for Medi-Cal for dates of service, the RCC will bill Medi-Cal. If they are not eligible the backup will be given to the collector (RCO) with that alpha to work.



Department of Revenue Procedures Manual

Unit: General Accounts

MEDICARE Billing Procedure

1. Verify **Medicare** coverage by checking micro fiche for dates of service by pulling the monthly microfiche and checking name of debtor, date of birth and social security number against the fiche.
 - a. If you find the debtor listed, determine the date of issuance for part A for inpatient services and Part B for out patient services.
2. If you need verification that the debtor is covered by Medicare, send email to PBS Medicare Unit () to obtain certs verification for coverage for dates of service.
3. Upon completion of certs and verification of coverage is positive you can then bill out the charges for those dates of service that are covered.
 - a. Enter .
 - b. ~~When entering billing information as listed in the example below, separate each month.~~

EXAMPLE

- F. VMO1 = \$10.00 9/98
- G. VMO1 = \$20.00 10/98
- H. VMO1 = \$145.45 11/98
- I. VMO1 = \$22.75 12/98
- J. Total billed = \$198.20

4. Provide Name, DOB, and SSN.



Department of Revenue Procedures Manual

Unit: General Accounts

Medical, Medi-cre

General Purpose: Medicare billing for Medicare charges through the State of California insurance programs.

When it has been indicated by debtor or other sources that the debtor is covered by medicare the following actions will be taken:

1. Obtain copy of Medicare card.
2. Enters Medicare number in note lines (must be 10 digits and include Part A B and D and effective dates.
3. Enters (Medicare Elig).
4. Indicates amount to be returned on CUBS.
 - a. Separate note line for each facility code, amount and month.
Example: VMO1-\$35.00 6/99
VMI1-\$50.00 7/99
 - b. Last line is the total, if more than one charge.
Example: Total billed - \$85.00
 - c. Include adding machine tape attached to CUBS.
5. Makes copy of CUBS (include all notes) and X Screen, EDS charges properly highlighted with charges, copy of Medicare card.
6. Highlight CUBS indicating Pt name, date of birth, amount returned,
 - a. If no copy of Medicare card is available highlight card id # and dates effective in notes.
7. Put back up in Senior RCO Medicare Box to review.

Medicare and Medical coverage found concurrently the following actions will be taken:

1. Enter Action Code in CUBS
2. Follow above steps #4-#7



Department of Revenue Procedures Manual

Unit: General Accounts

INSURANCE BILLING

General Purpose: Accounts that are referred to DOR and have been informed patient has insurance. The following actions will be taken.

- A. If contact has been made with the debtor request a copy of Insurance Card and authorization in writing to contact insurance to verify coverage.
- B. If unable to contact debtor, send _____ requesting debtor to complete and sign the Insurance Verification Form _____ to be attached to the _____ for mailing. Update the account for 28 days.
- C. When insurance information is received, pull DTB's before calling the insurance company to verify insurance coverage. Obtain the following information:
 1. If insurance was in effect on the date of service
 2. Effective Date of Insurance and policy number
 3. Verify if claim has been received for date of service.
 4. Mailing address for Claims Department
- D. If the patient is covered by insurance the following actions are to be taken:
 1. Enter insurance information in the account including:
 - a. Name and address and phone number of insurance company
 - b. Policy number with effective date.
 - c. Enter _____ (INS Pending) which updates the account 30 day days, put status in "PEN" status and updates to priority 1
 2. When billing insurance is completed, separate each moth.

EXAMPLE

- a. VMO1 - \$10.00 9/98
- b. VMO1 - \$20.00 10/98
- c. VMO1 - \$145.45 11/98
- d. VMO1 - \$22.75 12/98
- e. Total billed - \$198.20

E. Print CUBS and highlight all notes pertaining to insurance billing information, dollar amount and patients name and SS#.

F. Collector puts packet into RCOII Insurance billing basket.

PRIOR TO BILLING

G. If VSO Charges

1. Pull DTB for charges and check for insurance payments or write offs.
2. Obtain a copy of EOB or breakdown from insurance company.
3. If no note of any payment is found on the DTB, verify with insurance if claim has been received.
 - a. Request for explanation of non payment, attempt to provide requested info or return to debtor as their responsibility.
 - b. If bill is not received follow above steps for billing.

Revised 8/00

Section 6. Improving Management Information

- The County of Santa Clara Department of Revenue (DOR) maintains a database of accounts receivable from which it generates a large number of reports. For example, the system generates reports related to letters sent out, payments taken in, account balance adjustments and so forth. Some of these reports relate to collections amounts and to the age of debts.
- However, the Department does not utilize a few key reports that would facilitate management decision making. For example, Department management does not actively track or review collection rates overall, or by type of debt or by collections unit over a period of time. Also, the Department does not have a report indicating the age of outstanding debts assigned to Collections Officers from the beginning of the assignment.
- The absence of active use of these types of management reports impinges on the Department's ability to prioritize accounts. For example, the absence of a report showing the age of outstanding debt may play a role in the lack of policies governing collection activities on aging accounts, and the large number of Collections Officers – at least 44 percent – with daily work assignments including accounts that were referred to the Department more than a year earlier. The absence of complete aging and collections rate reports reduces the Department's ability to empirically assess which accounts should continue to be "worked" and which accounts should be sent to outside collections or deemed uncollectible. In addition, such information would assist in determination of whether changes made by management resulted in improved or reduced collections, and identification of trends that would affect resource needs or resource allocation.
- The Department should improve its management information reports so that it can determine how old debts are, how much of assigned debt is collected over time and when those collections occur. By investing in the development of better reports, the Department would be able to better direct its resources by establishing policies, related to account prioritization and other important processes, designed to improve collections rates. Even a small gain in collection rates would generate significant additional County revenue.

Existing Reports

The Department of Revenue (DOR) routinely publishes at least 238 copies of various reports or lists each month that are "informational." These reports are generated from the Department's "CUBS" accounts receivable database. This is in addition to "functional" reports, such as lists of daily accounts for Revenue Collections Officers to work. Auditors reviewed copies of these reports and their distribution.

Improving Management Information

Although many routine reports relate in some way to the age of accounts or to the amount of money collected, there is not a clear, ongoing reporting system for aging accounts or collections rates, and such information is not used to drive management or policy decisions.

Collections Rates

For example, when auditors requested overall data on the Department's collections rates for FY 2008-09 or other periods, the Department's information systems unit had to run a special data extraction and engage in several hours of work to compile this information. (The resulting data is detailed in the Introduction to this report.) Since this information is not readily available, the Department also has no data on such variables as peak collection days or times of day, or collection rates over time for different types of accounts or different units within the Department. Without this type of reporting, it would be very difficult for the management to experiment with different collections efforts to determine what works best. For example, the Department would not be able to determine if calls made in the morning or afternoon are more effective, or if one collections unit is more efficient than another. Department management, however, does provide a monthly report of the total collections by Collections Officer and unit to Collections Officers. Without including the total receivables per Collections Officer and unit, however, the Department cannot utilize collection rates to more accurately measure the Department's performance.

Aging of Accounts

The Department does not have any management-level reports that show the number and type of accounts that are overdue by 30, 60, 90, or more days. However, it does have lists that include date information. For example, the "work in progress" (WIP) lists for each Collections Officer show the "next work by" dates, which provide some indication of the age of the account. For instance, the WIP lists for December 4, 2009 included accounts that were due to have been worked, based on the "next work by" date, more than a year earlier. About 44 percent of Collections Officers had at least one such account. Since the next "work by" dates had not been updated in more than a year, the accounts themselves had to be more than a year old.

In addition, there are lists of accounts assigned to Collections Officers that reflect only debts that were due to have been paid by persons on formal probation at least 120 days prior. For example, a November 22, 2009 "delinquent" report shows that one Collections Officer had 662 accounts in which the probationers were overdue on their payments by anywhere from 121 to 2,066 days.

In addition, there are reports that list various accounts that are overdue by more than a certain number of days. For example, there is a report that lists "actively worked" "general" accounts (such as medical bills, as opposed to "justice" system accounts, such as probation fees) that are more than six months old. The January 2, 2010 run of this report was 795 pages long, and provides no management-level statistical data. Auditors took a sample of 100 accounts from the section of the report that captures accounts

under \$1,000. These accounts had been “active” but unpaid on average for more than a year and a half after they were transferred to DOR. Such accounts were already at least three or four months delinquent before they were referred to DOR. Auditors concluded from this and review of other similar reports that many accounts are extremely old. Because the Department does not track accounts by age in a managerially meaningful way, and does not have policies related to when to deem accounts uncollectible or refer accounts to outside collections programs based on age, such accounts may linger on the Department’s “active” caseload for years. Other counties often only have their staff working accounts that are less than 180 days old. Older accounts are either referred to outside collections agencies or programs, or are litigated, or are written off/deemed uncollectible.

The Department of Revenue should improve its management-level information related to the age of accounts and to collections rates, and should develop policies related to case management based on the data provided by improved reports. Such policy needs are further discussed in Section 5 of this report.

CONCLUSION

Although the Department of Revenue has many informational reports available, they are not generally management-level reports and they are not used to drive operational decisions. For example, the Department lacks adequate management information regarding collections rates and aging of accounts. By developing and using such information, the Department would be better equipped to make adjustments in collections tactics and strategies and would be better able to determine which accounts should be prioritized.

RECOMMENDATIONS

The Department of Revenue should:

- 6.1 Create detailed, routine management-level information reports related to 1) collection rates and 2) age of accounts and should develop policies related to management of the Department’s “active” caseload based on the data in the new reports. (Priority 1)

SAVINGS, BENEFITS AND COSTS

Implementation of Recommendation 6.1 would result in some costs associated with developing new CUBS reports. However, as previously indicated, the data is already in the CUBS system. By developing reporting of this information, the Department would be better able to manage its collections caseload, and increase collections.

County of Santa Clara

Department of Revenue



County Service Center

1555 Berger Drive, Bldg. #2

San Jose, California 95112

TEL 408-282-3200, FAX 408-287-6515

Mailing Address:

Department of Revenue

P.O. Box 1897

San Jose, California 95109-1897

August 30, 2010

TO: Roger Mialocq
Board of Supervisors Management Audit Manager

FROM: Susan Ping Wong 
Director, Revenue Collection

SUBJECT: Management Audit Report Recommendations
Department of Revenue (DOR) Responses

This Fiscal Year 2010, the Board's Management Audit Division was directed by the Board of Supervisors to conduct a Management Audit of the Department of Revenue (DOR), Finance Agency. Accordingly, the audit team proceeded to conduct a comprehensive management audit, spending a number of months examining the operations and practices of DOR, as well as identifying opportunities to make improvements on the department's efficiency, effectiveness, and economy.

An audit report was written which includes 20 recommendations, of which 17 are directed to DOR and 3 to the Health and Hospital System. There are also 4 suggestions made regarding internal control improvements.

Attached is the Department of Revenue's response to the audit report, recommendations and suggestions. We hope that our commentary will assist the Board and your office in evaluating the conclusions in the audit.

Three audit recommendations and findings were specifically addressed to the Health and Hospital System (HHS), which is outside the Finance agency. Comments and responses from HHS are not included in this response, and it is my understanding that they have been sent separately to the auditors.

The audit process has been an interesting and helpful process for all at DOR. The audit team worked very hard and were consistently professional, thoughtful, and reasonable. We appreciate the insight that they have offered to make our department the best it can be.

I am prepared to discuss this management audit with the Board of Supervisors' Finance and Government Operations Committee.

Thank you.

Board of Supervisors: Donald F. Gage, George Shirakawa, Dave Cortese, Ken Yeager, Liz Kniss
County Executive: Jeffrey V. Smith

**Department of Revenue (DOR) Management Audit
DOR Responses to Draft Recommendations**

August 30, 2010

Section 1. Improving Payment Methods

The Department of Revenue should:

- 1.1 Develop written policies regarding management of incoming telephone calls and voicemails, including adopting reasonable timeframes for returning telephone calls, and clearing voicemail boxes. (Priority 2)

RESPONSE: Agree

As noted in the report, DOR follows a number of practices to manage incoming phone calls and voicemails, however these need to be expanded as well as documented in greater detail. Regular and orderly promulgation, follow-up and outcome review will be incorporated into the procedures that follow the policies.

- 1.2 Where a default payment plan is not already established (e.g. probation accounts), the Department should establish a default installment payment of \$50 a month that is sent out on most of its initial billing statements. This process should not be followed for debtors with account balances of less than the default installment payment amount or probationers who must pay off their probation expenses within the three-year probation period. For these instances, the Department should establish policies for setting installment payment amounts, and Collections Officers should adjust as appropriate the default installment payment amount that is mailed to the debtor based on these policies. (Priority 1)

RESPONSE: Agree

In the last year, a small study such as this was conducted on 200 medical accounts. The results were not as positive as we expected, however, we believe a larger and longer-term study is warranted. The audit recommendation responds to that observation, and offers the opportunity to create a more comprehensive study. We will implement this recommendation on accounts where appropriate, as described above, and will follow the outcome closely.

- 1.3 On a pilot basis, provide a credit card payment slip with initial and subsequent notices to debtors to enable them to mail back a credit card payment to an outside vendor. (Priority 1)

RESPONSE: Agree, with conditions

We wish to explore implementing this process with our upcoming new credit card vendor (application currently in process) to be sure that it is technically and operationally feasible to implement. There are special and strict security measures that must be taken when handling credit card information, and this is of concern to the department.

- 1.4 Commence a pilot program in which debtors can pay bills to the vendor selected without paying a fee and track County expenditures and revenue receipts for this program for at least one year to determine if net County receipts are greater or less under a no-debtor-fee arrangement. At the conclusion of the pilot program, the Department should develop a written policy regarding charging or absorbing fees. (Priority 1)

RESPONSE: Agree, if funding available

DOR would be pleased to sponsor this pilot which would provide valuable information to the County regarding public payment patterns related to electronic media for financial transactions.

The pilot would align with the typical credit card experience of the public with regard to many types of financial transactions via credit card, e.g., paying bills, retail purchasing, restaurants, etc., where there is a firm expectation among the public that electronic transactions are a business benefit and therefore would not entail a fee.

It should be noted that the DOR debtor population may not be comparable to the general population, with regard to drawing broad conclusions about public payment behavior. However, it would still offer valuable insight into the business practices that serve DOR's function.

In addition, if the pilot discontinues after a year, we need to be prepared for public reaction which could be unfavorable.

There will be a cost to absorb the fee, which is estimated to be \$150K-200K per year. This lower figure is based on a waived fee at 2.5% for the DOR credit card volume that was experienced in FY09. Other recommendations in this report are intended to increase credit card payment volume over current, and if this should occur, the waived fee would be greater. DOR defers to the Board's discretion; however, an estimate of \$200K is suggested as an appropriation to the DOR budget to cover the cost implementing this recommendation.

DOR can recover costs for a portion of its collections, most notably for delinquent court ordered debt, as authorized by PC 1463.007. To the extent that some delinquent court ordered debt would be paid by credit card, it is possible that the related fee absorption could be borne through this mechanism. However, further investigation would be needed to determine an answer to this question.

- 1.5 Revamp its website and mailings to clearly identify its online payment link, and provide a payment link on the County's main webpage. (Priority 1)

RESPONSE: Agree

The department has already begun design review for revamping its website and mailings to improve information and access. We are looking particularly carefully at how to best present the payment link.

Section 2. Contract for Online and Telephone Payments

The Department of Revenue should:

- 2.1 Obtain authorization from the Board of Supervisors to re-negotiate or terminate the contract for remote payment services with CUBS. (Priority 1)

RESPONSE: Agree

DOR has submitted its application to migrate to the newly selected County wide credit card payment vendor. As soon as DOR's credit card system is operative with the new vendor, we will terminate the current contract. If it is necessary to formalize the transition by submitting a Board transmittal, DOR will do so.

- 2.2. Require that the online credit-card vendor charge no more than the \$2.25 per transaction rate listed in the vendor's contract, or cease doing business with that vendor and instead contract with a new vendor for provision of remote payments via credit card, and ensure that "convenience fees" with that vendor generally do not exceed 2.5 percent. (Priority 1)

RESPONSE: Agree

As stated in Response 2.1 above, DOR's transition to the County's newly selected credit card payment service is imminent, and we will be operating under the terms of a new contract with substantially less expensive convenience fees, as cited above. Further, if the Board approves the 1.4 recommended pilot to absorb credit card convenience fees, we will work with the new vendor to accommodate that special arrangement.

- 2.3 Present the selected vendor's "convenience fees" to the Board of Supervisors for review and approval, consistent with Government Code Section 6159. (Priority 1)

RESPONSE: Agree, if applicable

The fees charged by the County's newly selected credit card vendor were recently approved by the Board. If there are convenience fees related to DOR's credit card payment services by the new vendor that are not already approved, DOR will present such fees to the Board for review and approval. If the 1.4 recommended pilot is approved, this will not be necessary until and unless the pilot ends.

Section 3. Improve Collection Practices for Medical Debt

The Santa Clara Valley Medical Center should:

- 3.1 Ensure that at the point when third-party payments have been credited to the account and any remaining positive account balance is deemed to be the patient's responsibility, that the account is transferred to DOR after 60 days. (Priority 1)

RESPONSE: [Defer to Health and Hospital System](#)

- 3.2 Improve procedures for obtaining all necessary information from patients needed to determine the appropriate third-party payers and billing those payers prior to transfer of the account to DOR. (Priority 1)

RESPONSE: [Defer to Health and Hospital System](#)

- 3.3 Require all patients to complete reimbursement agreements prior to being released - and note within six months whether each patient qualifies for discount or charity care as defined by Health and Safety Code Section 127425 (f) (1) to ensure that collections actions are appropriate and legal (Priority 2).

RESPONSE: [Defer to Health and Hospital System](#)

The Department of Revenue should:

- 3.4 Establish policies and procedures to write off uncollected accounts in accordance with aging criteria that would reduce the backlog of medical accounts and focus collection activities on newer accounts sooner. (Priority 1)

RESPONSE: [Agree](#)

[DOR has successfully used this approach with its Traffic accounts and will draw that experience and business model to reduce the backlogs in our other collection areas, including for medical accounts.](#)

Section 4: Improving Collections Tactics

The Department of Revenue should:

- 4.1 Establish policies and procedures for levying bank accounts to enforce collections when appropriate. (Priority 2)

RESPONSE: Agree, with hesitation

It should be noted that DOR has never issued bank levies nor reported to credit bureaus, with the understanding that this was not desired by the Board.

We do not have this directive in any written communication; it has been passed down through time by our successive directors and is a traditional and historical understanding, founded on the idea that the County, cognizant of its "safety net" focus, wished to defer "harder core" collection styles to last resort.

When DOR works its accounts thoroughly, but without successful satisfaction of debt, it sends them to our secondary collection services providers, i.e., Bay Area Credit (Bay) and Court Ordered Debt (COD), where bank levies and credit bureau reportings are employed. Bank levies and credit reporting by DOR would reflect the County of Santa Clara as the creditor, putting the County's face on the tougher collection practices, whereas, Bay and COD are reflected on the actions that they take on our behalf.

DOR is prepared to change this practice and begin using bank levies as enforcement tools on selected accounts. It is likely that we will be looking first at Traffic accounts, with the rationale that for this debtor population it will probably be easier to sustain a bank levy with less urgent personally negative impacts.

As explained in the audit report, bank levies take all funds owed, no matter what is the bank account balance (whereas Wage Garnishments are limited to 25%, leaving some funds for basic needs). Also, once a bank account is frozen, the domino effect of additional costs and fees are likely to occur, as the debtor's other checks bounce and his/her deposits are rejected. Bank levies typically tie up the individuals banking for a couple of months, which could create a hardship on debtors, especially if from marginal or poverty income brackets.

With the Board's direction, DOR will add bank levies to its collection practices.

- 4.2 Establish policies and procedures for reporting delinquent debt directly to credit bureaus when appropriate. (Priority 1)

RESPONSE: Agree, with hesitation

See 4.1 response, above.

Similar to our response above re: bank levies, DOR is prepared to begin reporting delinquent debt directly to credit bureaus on selected accounts. Again, we would give first consideration to Traffic accounts for the same reason - that this debtor population is more likely to be able to withstand and correct a credit reporting without undue hardship.

With the Board's direction, DOR will add reporting to credit bureaus to its collection practices.

- 4.3 Establish policies and procedures for implementing a robust predictive/auto dialer program on a pilot basis, after making substantial reductions in the age and volume of assigned accounts. (Priority 2)

RESPONSE: Agree

DOR will expand and diversify its automated dialer campaigns to include new efforts, such as unattended dialer periods, evening usage and increased daytime usage. We are planning to engage an outside auto-dialer specialist on a short-term contract to assist us in designing new campaigns that target special criteria, e.g., specified payment patterns, contact difficulties, etc. Note that increased dialer activity will likely produce increased incoming calls on the following days. In coming call volume is already difficult to manage, however, with the other recommendations made by the audit report, it is expected that this challenge will be more manageable.

Section 5: Collections Officer Duties, Workload and Procedures

The Department of Revenue should:

- 5.1 Establish caseload management policies that reduce caseloads by clearing old, unproductive accounts off of the active caseload of Collections Officers and provide direction regarding casework priorities. (Priority 1)

RESPONSE: Agree

In the last 30 days, we have already reduced the under \$300 older medical account load substantially, by sending them to the next collection tier. Similar steps will be taken for the larger accounts, once we have developed a criteria set that can be used indefinitely for ongoing thinning. This will require additional study, but will be done within the next several months. Similar efforts will be employed for the Informal Muni Court accounts, and we will be looking at how to monitor APD accounts loads so that we improve collections in the front end of the account term.

While the CUBS system provides each collector account lists to work, based on age and system scoring, collectors need greater direction in prioritizing and taking action on the lists. DOR will develop clear and specific procedures to assist staff in this regard.

- 5.2 Cease engaging in medical billing and eligibility work, effectively shifting that work to the more appropriate staff in the Health and Hospital System and/or Social Services Agency, as appropriate. (Priority 1)

RESPONSE: Agree, with conditions

DOR embraces this concept with enthusiasm and will seek to work closely with HHS to develop streamlined systems for account refer-backs to be worked for billing and eligibility. We seek to work together collaboratively in this effort, each helping the other to accomplish a balanced and reasonable system that will afford DOR collectors greater resources to maximize collections. For this recommendation to work, both HHS and DOR must work in partnership toward a shared goal.

- 5.3 On a pilot basis, hire three new unclassified Revenue Collections Officers, and one unclassified Revenue Collections Supervisor, at a cost of approximately \$413,676, and track assigned collections amounts and received amounts for at least one year to determine whether there is a net revenue increase. These staff should be assigned to non-Traffic accounts.

RESPONSE: Agree, with deference to Board determination

DOR supports this recommendation with confidence and determination. We appreciate the opportunity to extend our good work further to help the County and our citizens. Collections, accounts, transactions, communications, timelines, and techniques will all be tracked and compared carefully and diligently so that we can see the effect of adding resources to this function. The current span of control for the one non-justice supervisor is 1:17, not counting additional SCCWorks volunteers under her charge. Reducing the span of control to a reasonable

ratio will be beneficial for both staff and manager, as well as for the DOR management and service system.

DOR defers to the Board's discretion, however, to approve the positions and related funding in the DOR budget, in order to make this recommendation possible.

- 5.4 Examine ways to reduce Supervising Collection Officers' caseloads, including by working with the Employee Services Agency to get PERS to deduct retiree health premiums from their pension payments. (Priority 3)

RESPONSE: Agree

DOR will continue to meet with ESA to plan the transfer of retiree health accounts to PERS.

With the addition of 2 Supervising RCOs (both unclassified – one obtained this year for Justice, and one recommended by this audit report, if approved and funded by the Board), the supervisors' caseloads should be relieved significantly, at least during the unclassified terms. If account volumes and related collections sustain, DOR will request that its unclassified positions, including these 2, be converted to classified status.

Section 6. Improving Management Information

The Department of Revenue should:

- 6.1 Create detailed, routine management-level information reports related to 1) collection rates and 2) age of accounts and should develop policies related to management of the Department's "active" caseload based on the data in the new reports. (Priority 1)

RESPONSE: Agree

CUBS has a large capacity for generating valuable management reports. DOR will investigate which reports would best fit our needs and arrange for their routine issuance and management review. Included in these reports will be information related to collection rates and account age.

As noted above, DOR has already done extensive work developing data for traffic collections. Numerous reports have proved to be invaluable in re-engineering traffic collection processes, developing new models, and managing staff assignments or deployments to match referral volumes and address special needs. Our experience in developing and using management reports for Traffic will serve us well as we move forward to do the same for the remaining collection service units.

Topics Requiring Additional Review

1. Departmental Space Constraints. The possibility of reconfiguring the space to make better use of the existing offices, expansion into nearby space in the building, or re-location to a larger space, should be explored.

RESPONSE: Agree

DOR is working with Property Management to secure additional space on the 3rd floor of the building, and to prepare a master design plan for the current main office on the 1st floor, with the intention of reconfiguring the site to make better use of the existing offices.

2. Printing of Unnecessary Reports. The Department should review its regularly published reports to ensure that all copies are necessary, and convert as many as possible to electronic format for online use.

RESPONSE: Agree

DOR is conducting a master review of all reports as recommended. In addition, we are looking at electronically archiving most reports for staff usage.

3. Internal Control Improvements

- Post signs at cashier counter informing customers that they should request receipts.

RESPONSE: Agree

- Produce regular reports to enable managers to track who is classifying which accounts as uncollectible and how often.

RESPONSE: Agree

- Ensure that the key to a drawer where cash is held is not left near the drawer, but kept by a supervising or lead cashier.

RESPONSE: Agree

- Use a locked back to transport mailed payments from the Department's offices to an offsite processing machine.

RESPONSE: Agree



Date: August 26, 2010
To: Roger Mialocq, BOS Management Audit Division
From: Nancy Kaatz, SCVHHS Chief Financial Officer *NKaatz*
Re: Response to Harvey Rose Audit of Department of Revenue Audit

SCVHHS's response is in italics below.

RECOMMENDATIONS:

The - Santa Clara Valley Medical Center should:

- 3.1 Ensure that at the point when third-party payments have been credited to the account and any remaining positive account balance is deemed to be the patient's responsibility, transfer the account to DOR after 60 days. (Priority 1)

Partially Agree. SCVMC sends patients with a confirmed outstanding balance due statements indicating the amount owed by the patient. The statements are sent over 3 consecutive months (beginning approximately 90 days) prior to an account being transferred to DOR. The 3 statement process allows patients a greater opportunity to resolve the balance, and, is in line with 90 days window for patients to apply for retro-active eligibility with the County of Santa Clara's Ability to Pay Determination Program (APD). Decreasing the timeline from 90 to 60 days would result in additional rework for both the DOR and SCVMC's Patient Business Services Department as the number of accounts requiring to be recalled from DOR would increase.

A change in the existing 3 statement, 90 day process would reduce SCVMC's ability to work with patients either to resolve an outstanding balance or to apply for retroactive coverage with the APD program.

Also, the Centers for Medicare and Medicaid Services (CMS) requires that the earliest an amount due from a Medicare beneficiary can be referred for outside/additional collection activities is 120 days following the date of service for the patient. SCVMC follows this requirement now and should continue to do so.

As a result, SCVMC believes that the recommendation to transfer an account to DOR after 2 statements or 60 days with a remaining patient liability due should be limited to commercial insurance plans only. While it can take several months to receive payment from a commercial insurance payer, the patient receives notification of the status of the account as an account statement is produced and mailed each month. Also a notification of an a payment being made for the services received from the insurance plan is sent to the patient that details any remaining amounts due from the patient for the services received.

- 3.2 Improve procedures for obtaining improved information from patients needed to determine the appropriate third-party payers and billing those payers prior to transfer of the account to DOR. (Priority 1)

Agree. The focus of the FY 11 Patient Access Redesign budget initiative is to improve front-end processes to minimize the number of denials of payment for services rendered to all insured patients, including Medicare, Medi-Cal and various private insurance plans. Two key components of the Patient Access Redesign effort are:

Financial Clearance

- o Create a Financial Clearance Center to review and validate a patient's insurance eligibility prior to the scheduled visit to identify changes in eligibility, allow for account corrections to take place – demographic, financial, etc. – or schedule an appointment with a financial counselor to discuss County and/or State sponsored programs that may be available to the patient.*
- o Increase screening by financial counselors at each entry point into the hospital and clinics.*

Registration Accuracy:

- o The County entered into an agreement effective August 23, 2010 with DCS Global Systems to implement AuditLogix, its registration quality assurance system. Benefits of the registration quality assurance system include:
 - 1. Immediate feedback and identification of missing and/or required information form a specific payer to complete a registration.*
 - 2. Standardization of addresses and elimination of zip code errors as addresses entered during the registration process will be matched against the US Postal System Data base allowing discrepancies to be resolved.*
 - 3. Provide tools to assist in compliance with the FTC's Red Flag regulations that address identity theft. The purpose of the Red**

Flag regulations is to combat identity theft. An example of identity theft taking place in a hospital/clinic would be when an individual presents in the emergency department and attempts to use the identifying information of another person to obtain services. SCVMC is required to implement a program that can detect, prevent, and mitigate identify theft in connection with new and existing accounts. AuditLogix, in combination with other actions (photo identification, etc.), increases the ability of SCVMC staff to verify and authenticate the identity of the person presenting along with the ability to validate address changes, etc.

- 3.3 Require all patients to complete reimbursement agreements after receiving medical services but prior to being released - and note within six months whether each patient qualifies for discount or charity care as defined by Health and Safety Code Section 127425 (f) (1) to ensure that collections actions are appropriate and legal (Priority 2).

Partially Agree. SCVMC is committed to enrolling patients qualifying for a discounted or charity services into the appropriate program; this is a major component of the Patient Access Redesign initiative. While requiring all patients to complete a reimbursement agreement could improve collection efforts, it could also deter some patient seeking from medical treatment due to concerns of his/her ability to pay for these services. Since all patients treated at SCVMC sign a Consent for Treatment/Admission Form prior to services being rendered, it is recommended that SCVMC work with County Counsel to incorporate reimbursement agreement language into the Consent forms and SCVMC Charity Care Program application that is utilized at the hospital and clinics to enhance the ability of DOR to pursue and collect on patient liabilities on behalf of the County.