

**A Report to the District Attorney**

**July 2000**

**A Performance Audit of**

**Countywide Collection  
Efforts on Accounts  
Receivable**

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**County Auditor**

A PERFORMANCE AUDIT

of

COUNTYWIDE COLLECTION EFFORTS  
ON ACCOUNTS RECEIVABLE

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# A Performance Audit of Countywide Collection Efforts on Accounts Receivable

*This report is divided into the following sections:*

- I. Executive Summary*
- II. Introduction*
- III. Scope and Objectives*
- IV. Findings and Recommendations*

## **I. Executive Summary**

### **Background**

At the request of the District Attorney's Office, we calculated the cost/benefit ratio and performed an audit of the overall collection efforts Countywide relating to outstanding and delinquent accounts receivable.

Two types of debt collection occur within the County: 1) collection on bad checks and 2) collection on outstanding accounts receivable representing amounts patrons owe the County for services the County rendered. Initial collection efforts occur at the agency/office/division level.

Accounts may then be sent to the District Attorney's Office for further collection efforts, including legal action. The Sheriff's Office assists the Attorney by delivering summons and complaints, writs of execution and in some cases auctioning off personal property.

On average the maximum amount the Attorney's Office spends for each dollar collected is \$1.08. Taking an account from its original billing at the division level through the entire collection process, including the Attorney's and Sheriff's Offices, creates a maximum expenditure of \$2.80 for each dollar collected. Most collection costs are incurred in the Attorney's and Sheriff's Offices.

Most referrals to the Attorney's Office are from library fines followed by bad checks from the Treasurer; however the largest volume of account referrals by dollar amount are for Daycare services.

### **Findings and Recommendations**

- *The County spends a maximum \$2.80, of which \$1.08 are Attorney's costs, for each dollar recovered from individuals owing money to the County.*

- *The Attorney's Office recovers 33 percent of its collection costs through fees assessed to delinquent accounts.*
- *The Sheriff's Office recovers 39 percent of its collection costs through fees assessed to delinquent accounts.*
- *The Treasurer recovers all costs associated with collection on bad checks.*
- *The average collection rate at the office or division level is 86.5 percent; for the Attorney's Office it is 19.8 percent.*

*The County spends a maximum \$2.80, of which \$1.08 are Attorney's costs, for each dollar recovered from individuals owing money to the County.* By the time a receivable passes through the division level and, if necessary, goes on to the Attorney's and Sheriff's Offices, a maximum of \$2.80 is spent for each dollar recovered. Most receivables, however, are collected before it becomes necessary to refer them to the Attorney's Office.

*The Attorney's Office recovers 33 percent of its collection costs through fees assessed to delinquent accounts.* The Attorney's Office adds a fee of \$50 to \$150 to all accounts requiring legal action. Even with collection of the fee, Attorney's Office expenses incurred in collection efforts exceeded revenues by \$99,397 in 1999.

*The Sheriff's Office recovers 39 percent of its collection costs through fees assessed to delinquent accounts.* The Sheriff's Office charges a fee for delivering summons and complaints, writs of execution and for holding Sheriff's sales to auction personal property. Combined costs to the Sheriff exceeded fees collected by \$31,448 in 1999. Fees are mandated by State statute, and therefore cannot be increased by the Sheriff's Office to recover all costs.

*The Treasurer recovers all costs associated with collection on bad checks.* Countywide Policies #1062 and #1306 place initial responsibility for collecting bad checks with the Treasurer, with the exceptions of Aging Services and Justice Courts. Once the Treasurer has exhausted its collection tools, bad checks are forwarded to the Attorney's Office. Costs incurred by the Treasurer in 1999 were covered by revenue generated in returned check fees.

*The average collection rate at the office or division level is 86.5 percent; for the Attorney's Office it 19.8 percent.* The wide difference in

collection rates is largely due to the nature of receivables that reach the Attorney's Office. Individuals at this stage are often difficult to locate and may be experiencing financial problems like bankruptcy. Collection rates at the division level range from 100 percent at several agencies to 77 percent at Family Health Services, for an average of 86.5 percent. These rates reflect only collections in 1999 and are likely to increase as additional collections are made in subsequent years.

Please refer to section IV of this report for more details about these and other findings.

## II. Introduction

Receivables occur when goods or services have been delivered but payment has not yet been received. Typically, billings to clients would indicate the presence of a receivable.

Salt Lake County receivables occur in areas where the public is required to pay for goods or services, usually at the Library in the form of fines, or Daycare, where parents or guardians are delinquent in paying for child care. Insufficient funds checks returned to Salt Lake County are also receivables because the debt has not been satisfied for goods or services the County delivered.

The Health Department had \$621,945 in receivables in 1999, about 50 percent of which arose from billings to individual patients and the rest from billings to Medicare, Medicaid, insurance companies and others.

At about \$17 million, Solid Waste Management generates the largest dollar volume of receivables. However, only minimal collection efforts are required since only a few large companies make up the bulk of their receivables. In addition, all companies are bonded, ensuring that the County receives its money in case of non-payment.

Business Licensing, while having receivables, is able to issue a citation to a business that does not renew its license. However, most County agencies lack such remedies and instead use the Attorney's Office to collect on delinquent accounts. Bad or insufficient funds checks, and delinquent accounts from the Library and Daycare are typically those referred to the Attorney's Office for collection. See Appendix A for a list of all County offices and agencies with receivables.

Collection efforts vary depending on the level at which they are made. At the division or agency level, management sends letters, makes phone calls, or otherwise contacts the patron to collect on an amount that is owed to the County. If these efforts fail and the account is referred to the Attorney's Office, a letter, called a demand letter, is sent to the patron, followed by legal action if necessary.

The Sheriff's Office may also get involved by delivering a summons and complaint, which lists the amount and type of debt and requires the debtor to respond in writing; and once the court passes judgement on the debt, a writ of execution is issued authorizing the sale of non-exempt personal property. Both Attorney's and Sheriff's Offices assess fees to offset some of the collection costs.

*Most collection efforts in the District Attorney's Office are on bad checks, Library and Daycare accounts.*

### III. Scope and Objectives

The scope of our audit included all County receivables, with the exceptions of taxes and amounts billed to Medicare, Medicaid, and other governmental entities. Our work was designed to achieve the following audit objectives:

- To determine Countywide time and resources spent on billing and collection.
- To arrive at a cost/benefit ratio to determine if collections should be outsourced.
- To calculate the rate of collection by comparing all outstanding receivables to the amount collected during 1999.

While we make some recommendations, our report consists primarily of findings for use by the Attorney's Office in deciding whether to outsource collection efforts.

### IV. Findings and Recommendations

Our findings and recommendations are divided into four sections: The cost/benefit ratio, The Attorney's Office collection process, The Sheriff's and Treasurer's involvement in the collection process, and The feasibility of outsourcing collections.

#### 1.0 The cost/benefit ratio

We derived an average ratio of the amount spent for each dollar recovered by determining the amount of employee salaries in the billing and collection process, the cost of supplies involved and the overhead that could be allocated to the process and then dividing this amount by total collections for 1999. Our findings are as follows:

- **The County spends a maximum \$2.80, of which \$1.08 are Attorney's costs, for each dollar recovered from individuals owing money to the County.**
- **Collection costs at the office or division level are less than 45 cents for each dollar collected.**

- **The average collection rate Countywide is 86.5 percent; for the Attorney’s Office it is 19.8 percent.**

**1.1 The County spends a maximum \$2.80, of which \$1.08 are Attorney’s costs, for each dollar recovered from individuals owing money to the County.**

The \$2.80 assumes that an uncollected account goes through all stages of the collection process shown in Table 1 below. Collection costs will generally be much less than this since most accounts are collected before progressive stages in the collection process become necessary.

<b>Maximum Countywide Collection Costs Per Dollar Collected</b>		
<b>Library</b>	<b>1. Division level efforts.</b>	<b>\$.44</b>
<b>Attorney’s Office</b>	<b>2. Demand letter sent.</b>	<b>\$.31</b>
	<b>3. Legal action.</b>	<b>\$.77</b>
<b>Sheriff’s Office</b>	<b>4. Summons and complaint delivery.</b>	<b>\$.52</b>
	<b>5. Writ delivery and sale procedures.</b>	<b>\$.76</b>
<b>Total</b>	<b>Countywide maximum cost of \$1 collected</b>	<b>\$2.80</b>

**Table 1.** *Additional costs are incurred by the County at each level of collection effort.*

On a Countywide basis, 4 cents is spent for each dollar collected based on total 1999 Countywide collections of \$24,273,472 compared to total collection costs from all agencies of \$888,345. Cost ratios vary depending on the division or level at which the analysis is made. For the Library, the example used in Table 1, the average cost per dollar collected when looking at all costs and collections as a whole, including Attorney’s and Sheriff’s fees, is 46 cents per dollar collected.

Attorney’s Office collections in 1999 of \$269,052 represented 1.1 percent of total Countywide collections mentioned previously of \$24,273,472; however the collection process is much more costly at the Attorney’s Office level due to the difficult nature of the accounts. The average cost to collect a dollar once an account reaches the Attorney’s Office, steps 2 through 5 in Table 1, is 74 cents.

Once legal action is required, steps 3 through 5 of Table 1, the cost becomes much greater, at 97 cents per dollar collected. See Appendix B for the numbers used in calculating these various costs per dollar collected taken from distinctive vantage points.

Table 1 further divides the levels of collection efforts into cost units and shows costs per dollar collected that would be incurred at each of these levels.

The 31 cents per dollar cost incurred under Attorney's Office in step 2 of Table 1 is the average cost to process delinquencies at the point the first letter is sent from the Attorney's Office to the debtor. This was calculated by matching costs of \$29,486 against collections in 1999 of \$93,967.

The 77 cents in step 3 is the per dollar cost at the point where legal fees are incurred, such as allowable attorney's fees and court costs, in addition to the normal office processing costs. This was calculated by matching costs of \$118,775 against collections of \$155,008.

The Library's collection costs are the highest of any other office, division or agency, with 44 cents spent for each dollar collected. Unlike most receivables, a library fine for late, lost or damaged items is a delinquent receivable the moment incurred. The Library's higher collection costs reflect the reluctance of individuals to pay for unwanted or unexpected fines.

The Attorney's Office begins its collection efforts with a letter demanding payment within 15 days. Next a summons and complaint is filed and delivered by the Sheriff's Office or Constable, with a deadline of 20 days. A default or summary judgment is then obtained, with a deadline of 10 days. Finally, a writ of execution, stating that personal property will be sold, is issued and delivered by the Sheriff's Office. A subsequent sale is the final collection resource. See Appendix C for flowchart of the Attorney's collection process.

## **1.2 Collection costs at the office or division level are less than 45 cents for each dollar collected.**

Costs incurred at the division, office or agency level are low because most accounts are paid on time and few remedies, other than phone calls, statements and letters are available to collect on delinquent accounts. While the Library's costs are 44 cents for every dollar collected, other agencies are significantly lower, starting with 8.8 cents in Family Health Services and going down to less than a penny at Solid Waste Management.

For a full listing of receivables and the costs associated with billing and collecting see Appendix A. For a listing of time spent on collections, policy and collection resources used see Appendix D.

## **1.3 The average collection rate Countywide is 86.5 percent; for the Attorney's Office it is 19.8 percent.**

*Most division/agency/office level collection costs are less than 10 cents per dollar collected.*

Collection rates for each office were determined, where records were adequate, by dividing the amount collected during the year by the total amount outstanding during the year. Collection rates ranged from 100 percent at several agencies to 77 percent at Family Health Services. Family Health has many low income clients that might not be inclined to pay, and in addition many of the billed amounts are so minimal that collection efforts may not be cost effective.

The average of collection rates in all County offices, divisions or agencies is 86.5 percent. This rate reflects 1999 collections only and will increase as additional collections for receivables arising in 1999 are made in subsequent years. For a full listing of collection rates see Appendix A.

The Attorney's Office collected \$200,111 in 1999 excluding Attorney's and Sheriff's fees, representing 19.8 percent of the total \$1,012,792 outstanding in the Attorney's Office during that period. We calculated outstanding receivables by including old accounts on file prior to 1998 of \$303,794 and adding the carryforward balance from 1998 of \$315,720, and new 1999 placements in the Attorney's Office of \$393,224.

The Treasurer collected 71 percent of both bad checks placed with its office during 1999 and accounts which carried over from 1998. The Treasurer collected \$288,765 or 71 percent of the \$406,120 in bad checks on which it made collection attempts,

## **2.0 Attorney's Office collection process.**

If the division or agency makes unsuccessful attempts to collect a delinquent account, they may place it with the Attorney's Office for collection. In the Attorney's Office we found the following:

- **The Attorney's Office recovers 33 percent of its collection costs through fees assessed to delinquent accounts.**
- **Staff are overwhelmed with account processing demands.**
- **The number of delinquent accounts referred to the Attorney's Office is expected to rise.**
- **The ability of the Attorney's Office to produce meaningful information can be improved.**

*Taxpayers absorb most collection costs in the Attorney's Office.*

**2.1 The Attorney's Office recovers 33 percent of its collection costs through fees assessed to delinquent accounts.**

Salaries, benefits, supplies and overhead costs to collect \$200,111 were \$148,261; fees collected from debtors were \$48,864, 33 percent of collection costs. Collections exceeded revenue by \$99,397.

Fees are set by State statute and the Attorney's Office has no power to set them to match actual costs. The Attorney's Office also charges interest to all bad or insufficient funds checks at an annual rate of 10 percent. If the Attorney's Office charged interest to Daycare and Library accounts as well, the deficit would be only partially mitigated.

**2.2 Staff are overwhelmed with account processing demands.**

Although account placements continue to increase, the Attorney's Office has reduced staff time devoted to collection efforts in favor of other duties. The Attorney's Office collection staff had two full-time legal secretaries in 1999 and one receptionist. Beginning in 2000 the time allotted to the legal secretary assigned to collecting bad checks was reduced from 100 percent to 20 percent.

The increasing workload facing Attorney's Office staff in the number of open, unresolved accounts is shown in Table 2.

<b>Attorney's Office – Schedule of Open Accounts</b>							
Type	1995-1997		1998		1999		Total Amount
	Qty	Amount	Qty	Amount	Qty	Amount	
Library	976	\$107,493	294	\$36,858	918	\$98,076	\$242,426
Bad Checks	1,172	\$149,779	522	\$84,350	430	\$38,937	\$273,066
Daycare	159	\$46,522	140	\$56,090	364	\$140,225	\$242,837
<b>Total</b>	<b>2,307</b>	<b>\$303,794</b>	<b>956</b>	<b>\$177,298</b>	<b>1,712</b>	<b>\$277,238</b>	<b>\$758,329</b>

**Table 2 .** *The number of accounts continues to accumulate each year.*

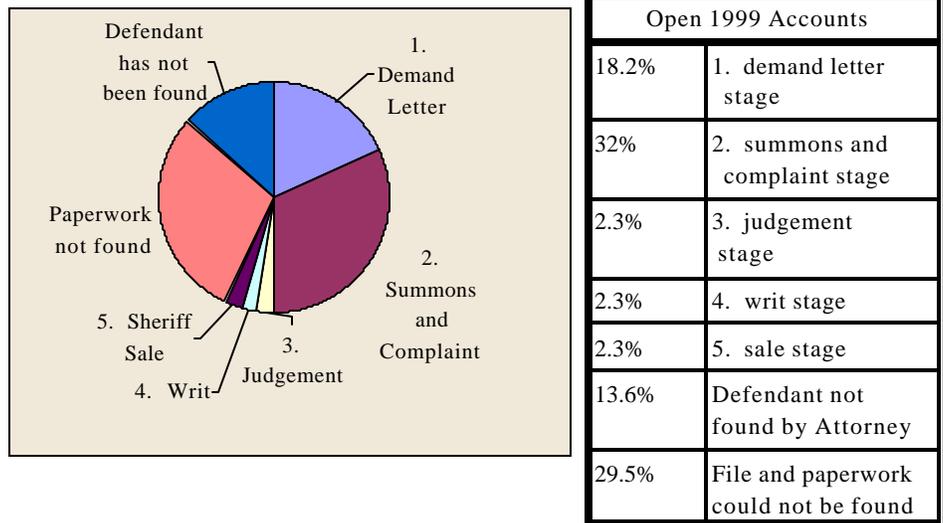
No collection efforts are being made on accounts placed with the Attorney's Office between 1995 and 1997, although they represent 40 percent of the amount currently outstanding. Activity may occur in the rare instance that a debtor contacts the Attorney's Office because an old judgement is affecting the debtor's credit.

Open accounts from 1998 of \$177,298 also have a low likelihood of collection because of their age and because the Attorney’s limited resources are focused on processing new accounts.

- **Library accounts take an average of 337 days to reach the Attorney’s Office.**

According to Library policy its collection process should take 115 days. We sampled 72 accounts received by the Attorney’s Office in 1999, 36 where Library fines and 16 of these were still open and within the Attorney’s Office. Of these open accounts, from the date a fine was charged to the patron to the date the account was sent to the Attorney’s Office averaged 337 days or 11 months. The process of locating patrons a year after their fine has been incurred further drains the Attorney’s Office of resources. Our findings closely parallel a random sample taken during a Library Audit in August of 1998, in which an average of 331 days lapsed before an account reached the Attorney’s Office. See Appendix E for sample results of the average days for bad checks to reach the Attorney’s Office from the Treasurer.

**Processing of Open Accounts Placed During 1999**



**Figure 1.** Illustrates partial processing of accounts placed in 1999.

With inadequate staffing levels and ever-increasing caseloads, collections are not being processed timely according to established procedure. We sampled 72 accounts in our examination placed in the Attorney’s Office in 1999 and found 44 that were still open and unpaid.

Among the 44 still open we found 8 or 18.2 percent which had only received a first demand letter. Demand letters for the 8 accounts had been sent an average of 165 days or five-and-a-half months prior to our examination, a

***Delinquent accounts are not always processed timely through the Attorney's system.***

summons and complaint should have been prepared 16 days after a demand letter was mailed.

Fourteen of the 44 accounts received a demand letter and were subsequently served a summons and complaint according to policy. However, no judgement has been prepared and sent to the court. After being served, debtors have 20 days to clear the debt before a judgement is prepared. These accounts had been out an average of 100 days, or over 3 months without one.

Figure 1 on page 9 illustrates the 8 that should have made it past the demand letter stage, the 14 that have not proceeded past a summons and complaint, and the stages at which the rest of the 44 open accounts were at the time we examined them. Thirteen of the 44 were shown in the Access database as still being open but we could not find the file. These could have been closed due to bankruptcy or the individual moving out of state but not recorded in the database.

In addition, the Attorney's Office has a backlog of unserved summons and complaints that have accumulated in a file drawer without being placed in the individual's account folder, resulting in delays in the collection process. We counted 652 of these unserved papers in the drawer during our audit. Summons and complaints are unserved because the individual has moved, the time for service has expired, or other reasons. Attorney staff indicated that because of time restraints they had been unable to file the unserved papers and proceed with further collection efforts on those accounts.

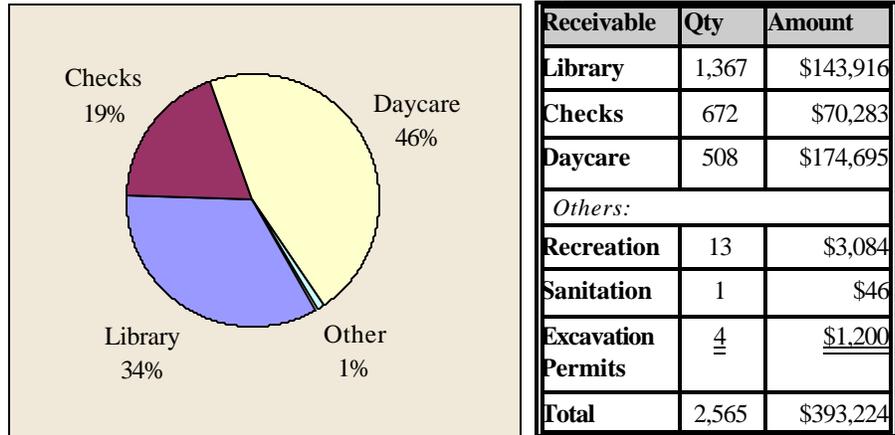
### **2.3 The number of delinquent accounts referred to the Attorney's Office is expected to rise.**

Accounts placed for debt collection in the Attorney's Office are likely to continue to rise. Library account placements, for example, increased 52 percent from 1998 to 1999. Agencies that have not utilized the Attorney's Office in the past, such as Environmental Health and the Recorder's Office, plan to start sending accounts for collection some time this year.

Increases will be partially mitigated by two Daycare closures. Redwood and Central City Daycare centers, which placed \$38,419 and \$27,827 respectively in 1999, ceased operations in mid April. They represented 38 percent of Daycare placements.

Referrals from Daycare, the Library and insufficient funds checks represent the bulk of collection efforts in the Attorney's Office. Figure 2 on page 11 shows the types and percentages of accounts placed with the Attorney's Office in 1999, as taken from the Attorney's Access database.

**Accounts Referred to the Attorney’s Office in 1999**



**Figure 2.** Daycare accounts are the majority of account placements by dollar amount.

Of the \$393,224 in delinquent accounts placed with the Attorney’s Office in 1999, \$103,172 or 26.2 percent were collected and \$22,675, or 6 percent were closed as uncollectable as of December 31, 1999; the rest were still open.

**Collections are actually somewhat higher due to partial payments, however, the Attorney’s Office does not enter partial payments in its database and therefore these are not included.**

**2.4 The ability of the Attorney’s Office to produce meaningful information and statistics can be improved.**

Because of the way the Attorney’s Office uses Access database software, information such as amount placed and collected was not readily available for their use. We noted several ways the Attorney could improve the use of the database and its over all performance.

- Access can be programed to run various reports and queries. Additional training could make useful status reports available, such as the number of accounts outstanding, aging of accounts, and accounts collected or written off.
- Amounts closed in the database during the month should be reconciled to amounts collected. Partial payments should be entered into the database, and accounts should be closed on the same day they are paid.
- Library accounts should be entered at the time they are received. Unlike other types of accounts, Library fines are not entered into the database until the 15 day demand letter has expired, making measurement of account placements difficult.

- Costs incurred and court numbers assigned in the collection process should be entered into Access as incurred, not just when the account is closed. Current procedure makes account status difficult to determine.
- For tracking and reporting purposes a field should be created for service by the Constable. Currently amounts paid to the Constable are difficult to determine.

## 2.5 Recommendation

We recommend that:

***2.5.1 The Access database be utilized to provide meaningful information to the Attorney's Office and other County divisions or agencies regarding the current status of uncollected accounts.***

## 3.0 Sheriff's and Treasurer's involvement in the collection process.

At the court's request, the Sheriff's Office personally delivers demands to delinquent clients in the form of summons and complaints and writs of execution. A summons and complaint lists the amount and type of debt, and summons the debtor to respond in writing. Once the court has passed judgement on the debt a writ of execution may be filed. A writ of execution authorizes the sale of non-exempt personal property. The Treasurer's Office has charge to collect insufficient funds checks. Our findings are:

- **The Sheriff's Office recovers 39 percent of its collection costs through fees assessed to delinquent accounts.**
- **The Treasurer's Office recovers all costs associated with collection on bad checks.**

### 3.1 The Sheriff's Office recovers 39 percent of its collection costs through fees assessed to delinquent accounts.

The Sheriff's Office spent \$51,525 in 1999 delivering summons and complaints, writs of execution and holding Sheriff's sales and recovered \$20,077 of this amount, or 39 percent through fees assessed to debtors. Fees are paid directly to the General Fund and do not augment the Sheriff's budget. As a result of these efforts, \$50,757 in delinquent accounts was collected. See Appendix B for a listing of costs and revenues for the Attorney and Sheriff.

***The threat of a Sheriff's sale often motivates patrons to pay outstanding debts.***

The Sheriff's Office delivers summons and complaints and writs of execution directly to the debtor's home, making a maximum of 3 attempts on writs of execution and as many attempts as deemed necessary on summons and complaints. We found one instance where 12 attempts at service had been made. The writ of execution and sales process is the most time consuming for the Sheriff's Office, and generates the most in costs. Sheriff's fees are mandated by State statute; therefore the Sheriff cannot increase fees to better offset their costs.

Although costly, Sheriff's sales are also effective in producing payment. According to the Attorney's Office, debtors found at home when officials go out to conduct a sale are almost always eager to pay right away to avoid the sale, and they often pay ahead of the scheduled sale.

Table 3 shows the number of Sheriff's sales scheduled and actually held in 1999. As noted, 186 were canceled the last half of the year. According to the Sheriff's Office, this was due to Attorney's representatives being unable to attend.

**Sheriff's Sales Scheduled versus Actually Held**

<b>1999</b>	<b><u>Scheduled</u></b>	<b><u>Held</u></b>	<b><u>Canceled</u></b>
<b>January - June</b>	<b>135</b>	<b>135</b>	<b>0</b>
<b>July - December</b>	<b><u>248</u></b>	<b><u>62</u></b>	<b><u>186</u></b>
<b>TOTAL</b>	<b>383</b>	<b>197</b>	<b>186</b>

**Table 3.** *Sheriff's sales are effective in producing payment but many were canceled in the last half of 1999 due to administrative problems.*

**3.2 The Treasurer's Office recovers all costs associated with collection on bad checks.**

The Treasurer's recovery of all collection costs related to insufficient funds checks is based on returned check fees assessed to the debtor of \$17 to \$20 per check, which in 1999 totaled \$23,335, compared to collection costs of \$22,856, or a recovery rate of 102%.

Countywide policy #1062 on Management of Public Funds, section 3.10.1 states in part "...the bank will return the check to the Treasurer to initiate the collection process...". Countywide policy #1306, Collection of Bad Checks section 1.1 states "Except as otherwise provided herein, the Salt Lake County Treasurer's Office shall attempt collection of all returned checks for all County Agencies."

The Treasurer’s Office requests payment from the individual or company that wrote the check and, barring successful collection, sends it to the Attorney’s Office for additional action and legal remedies.

<b>Bad Checks Processed by the Treasurer’s Office in 1999</b>	
Carry forward from 1998	\$20,631
Amount of bad checks in 1999	\$1,291,669
Deemed uncollectable or referred back to agency	(\$906,180)
Amount on which collection efforts were made	\$406,120
Bad checks referred to the Attorney’s Office	(\$42,955)
Treasurer collected on bad checks	(\$288,765)
Bad check carryforward at the end of 1999	\$74,400

**Table 4.** *Seventy one percent of all amounts outstanding during 1999 were successfully collected by the Treasurer’s Office.*

As shown in Table 4, bad checks returned to the Treasurer’s Office in 1999 totaled \$1,291,669 of which \$906,180 were sent back to the Justice Courts or Aging Services, according to established procedures, or they were deemed uncollectible because of bankruptcy.

#### **4.0 Feasibility of outsourcing collections.**

Consideration has been given to replacing the current collection procedure of forwarding delinquent accounts from the division level to the Attorney’s Office, to forwarding accounts after the division level to an outside collection agency.

We found the following:

- **One collection agency contacted returns 100 percent of the principal on simple transactions and 50 percent if legal action is required.**
- **King County Washington outsources its collection efforts.**

#### **4.1 One collection agency contacted returns 100 percent of the principal on simple transactions and 50 percent if legal action is required.**

Once an account reaches the Attorney’s Office, 31 cents is spent for each dollar collected, assuming that collection is made following the first demand letter. Using a collection agency would eliminate this initial cost altogether.

A large, regional collection agency we contacted indicated that for accounts requiring no legal action, a 33 percent collection fee is added to the account and paid by the debtor. The entire principal amount would be returned to the County. As shown in Table 5, if that agency had collected the same amount on first demand letters as the Attorney’s Office in 1999, the County would have saved \$29,486 in collection costs.

<b>Payment on First demand, Outsource versus District Attorney</b>			
	<b>Revenue</b>	<b>Costs</b>	<b>Net Revenue</b>
<b>Collection Agency</b>	<b>\$93,967</b>	<b>\$0</b>	<b>\$93,967</b>
<b>District Attorney</b>	<b>\$93,967</b>	<b>\$29,486</b>	<b>\$64,481</b>
<b>Savings/(Cost) of Outsourcing</b>	<b>\$0</b>	<b>\$29,486</b>	<b>\$29,486</b>

**Table 5.** Using 1999 figures for accounts paid on demand, outsourcing would have saved the County \$29,486.

***The County could have saved over \$77,000 in 1999 from outsourcing collection efforts.***

Once an account requires legal action, such as filing a summons and complaint or obtaining a judgement against the debtor, the collection agency retains 50 percent of the principal. Combined Attorney’s and Sheriff’s costs in legal action average \$.97 for each dollar collected in 1999.

As illustrated in Table 6, during 1999 the amount saved by outsourcing accounts requiring legal action would have been \$48,277 for a combined savings of \$77,763 on accounts paid before and after first demand. District Attorney revenue of \$175,085 includes both principal and penalty charges. These charges – Attorney’s and Sheriff’s fees – are not included in the \$106,144 shown as revenue for the collection agency.

<b>Paid after legal action, Outsource versus District Attorney</b>			
	<b>Revenue</b>	<b>Costs</b>	<b>Net Revenue</b>
<b>Collection Agency</b>	<b>\$106,144</b>	<b>\$53,072</b>	<b>\$53,072</b>
<b>District Attorney</b>	<b>\$175,085</b>	<b>\$170,300</b>	<b>(\$4,795)</b>
<b>Savings/(Cost) of Outsourcing</b>	<b>(\$68,951)</b>	<b>\$117,228</b>	<b>\$48,277</b>

**Table 6.** Using 1999 figures for accounts requiring legal action, outsourcing would have saved the County \$48,277. The decrease in revenue generated is due to the loss of Attorney’s and Sheriff’s fees.

Before legal action is taken the collection agency checks with four major credit bureaus to determine if the debtor has assets or current employment. This practice eliminates the cost of legal action when it is certain there is no future collection potential. The Agency also reports its delinquent accounts to credit bureaus. This action provides debtors another incentive to pay in order to protect their credit record.

## **4.2 King County Washington outsources its collection efforts.**

King County (Seattle) has outsourced collections since 1991 using a contracted agency and renewing the contract each month. One-hundred percent of the outstanding amount is remitted to King County. King County charges the collection agency \$17,000 a month for the right to collect its past due accounts. The collection agency assesses a fee to the debtor of 30 percent to 50 percent of the principal. During 1999 approximately \$4 million was collected by the agency for King County.

King County sends debtors a monthly invoice which warns that a private collection agency will receive the account at 90 days. When the 90 day period has passed, all accounts are sent to the company on a disk. Hard copies of returned checks are mailed along with any back-up required for accounts in litigation. Accounts under \$10 are not sent for collection. The collection agency does not use the local sheriff and has its own attorneys and process servers.

## **4.3 Recommendation**

We recommend that:

***4.3.1 The Attorney's Office consider the benefits that would be gained by outsourcing Countywide collections.***

## COLLECTION COST/BENEFIT RATIO BY INDIVIDUAL COUNTY DIVISION

County Agency	Program or Service	1999 Collections	Total Costs to Collect	Cost per \$1 Collected	Maximum Collection Cost	Percent Outstanding Collected
Solid Waste Management	Dumping fees	\$17,282,349.54	\$23,769.87	\$0.0014	N/A	92%
Environmental Health	Yearly fees; water food air quality sanitation	\$1,625,031.00	\$10,869.72	\$0.01	N/A	98%
Business Licensing	License renewals	\$782,161.11	\$17,738.72	\$0.02	N/A	Unavailable
Library	Fines for late, lost and damaged items	\$940,176.64	\$411,968.51	\$0.44	\$2.80	Unavailable
Fine Arts	Rent for tenants, Rent for non tenants	\$762,131.72	\$47,717.31	\$0.06	\$2.42	79% 92%
Recreation Centers	Daycare	\$752,958.69	\$42,343.96	\$0.06	\$2.42	86.06%
Family Health	Immunizations Vital Statistics STD testing Diabetes, Etc.	\$548,622.76	\$48,708.36	\$0.09	N/A	77%
Highway Operations	Signal maintenance Sales: road base, salt, etc Noxious weed control	\$494,683.92* * June through December only.	\$4,231.78	\$0.01	N/A	Unavailable
Treasurer	Bad Checks Principal + Check fee Check fee	\$312,099.99 \$23,334.69	\$22,855.66 \$22,855.66	\$0.07 \$0.98	\$2.43 \$3.34	70%
Development Services	Excavation fees	\$284,167.20	\$6,148.81	\$0.02	\$2.38	Unavailable
Recorder	Polaris use	\$210,827.46	\$10,245.30	\$0.05	N/A	Unavailable
Accord Center	Use of ice rink	\$172,826.96	\$2,548.86	\$0.01	N/A	93%

**COLLECTION COST/BENEFIT RATIO BY INDIVIDUAL COUNTY DIVISION**

County Agency	Program or Service	1999 Collections	Total Costs to Collect	Cost per \$1 Collected	Maximum Collection Cost	Percent Outstanding Collected
Equestrian Park	Boarding horses	\$89,966.77	\$30,926.69	\$0.34	\$2.70	99.42%
Sports Administration	Sports leagues	\$85,215.00	\$5,024.69	\$0.06	\$2.42	92%
Special Events	Junior livestock auction	\$79,533.84	\$1,222.88	\$0.02	N/A	Unavailable
Sanitation	Trailer rental, dumping fees	\$8,885.74	\$1,356.23	\$0.04	\$2.40	95.71%
	Refuse collection	\$24,150.50				100%
Fire Department	Permit/inspection fees	\$9,617.18	\$596.77	\$0.06	N/A	100%
Steiner East Aquatic	Facility use	\$5,210.96	\$153.20	\$0.03	N/A	100%
Fire Department	Special use of paramedics	\$3,410.00	\$3.18	\$0.001	N/A	100%
Animal Services	Impound fees	\$1,687.00	\$128.81	\$0.08	N/A	98%

**COST PER DOLLAR COLLECTED; VARIOUS VANTAGE POINTS**

		1999 Collections	Costs	Cost per \$1
<b>Countywide</b>	All Receivable Collections vs. All Costs	\$24,273,416.86	\$888,345.13	\$0.04
	Library:	\$1,013,012.21	\$465,866.83	\$0.46
	Daycare:	\$831,452.77	\$100,429.58	\$0.12
	Treasurer:	\$429,811.76	\$109,962.37	\$0.26
<b>Attorney's Office</b>	Costs at All Stages	Principal Attorney Fee <u>Combined</u>	  <u>\$248,974.70</u>	  \$148,260.93 \$0.60
	Cost at Demand Letter Stage	Principal*	\$93,966.82	\$29,486.09 \$0.31
	Cost at Legal Action Stage	Principal Attorney Fee <u>Total</u>	 <u>\$155,007.88</u>	  \$118,774.84 \$0.77
	Fee vs. Cost of All Stages	Attorney Fee	\$48,863.66	\$148,260.93 \$3.03
<b>Sheriff's Office</b>	Cost of all Sheriff Stages	Principal Fees <u>Combined</u>	 <u>\$70,834.26</u>	  \$51,524.89 \$0.73
	Summons and Complaint Stage	Principal Fees <u>Combined</u>	 <u>\$10,466.06</u>	  \$5,492.24 \$0.52
		Fees	\$1,405.41	\$5,492.24 \$3.91
	Writ of Execution and Sale Stages	Principal Fees <u>Combined</u>	 <u>\$60,368.20</u>	  \$46,032.65 \$0.76
		Fees	\$18,671.89	\$46,032.65 \$2.47
	Fee vs. Costs of All Stages	Fees	\$20,077.30	\$51,524.89 \$2.57

## COST PER DOLLAR COLLECTED; VARIOUS VANTAGE POINTS

### Combined Sheriff and Attorney

#### All Amounts Collected Through the Attorney's Office

Principal	\$200,111.04
Attorney's Fees Collected	\$48,863.66
Sheriff's Fees Collected	\$20,077.30
Total Revenue	<u>\$269,052.00</u>

Total Sheriff's Cost	\$51,524.89
Total Attorney's Cost	\$148,260.93
Total Combined Costs	<u>\$199,785.82</u>

Costs Divided by Revenue	<u>\$ 0.74</u>
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#### Amounts Collected Through Legal Action

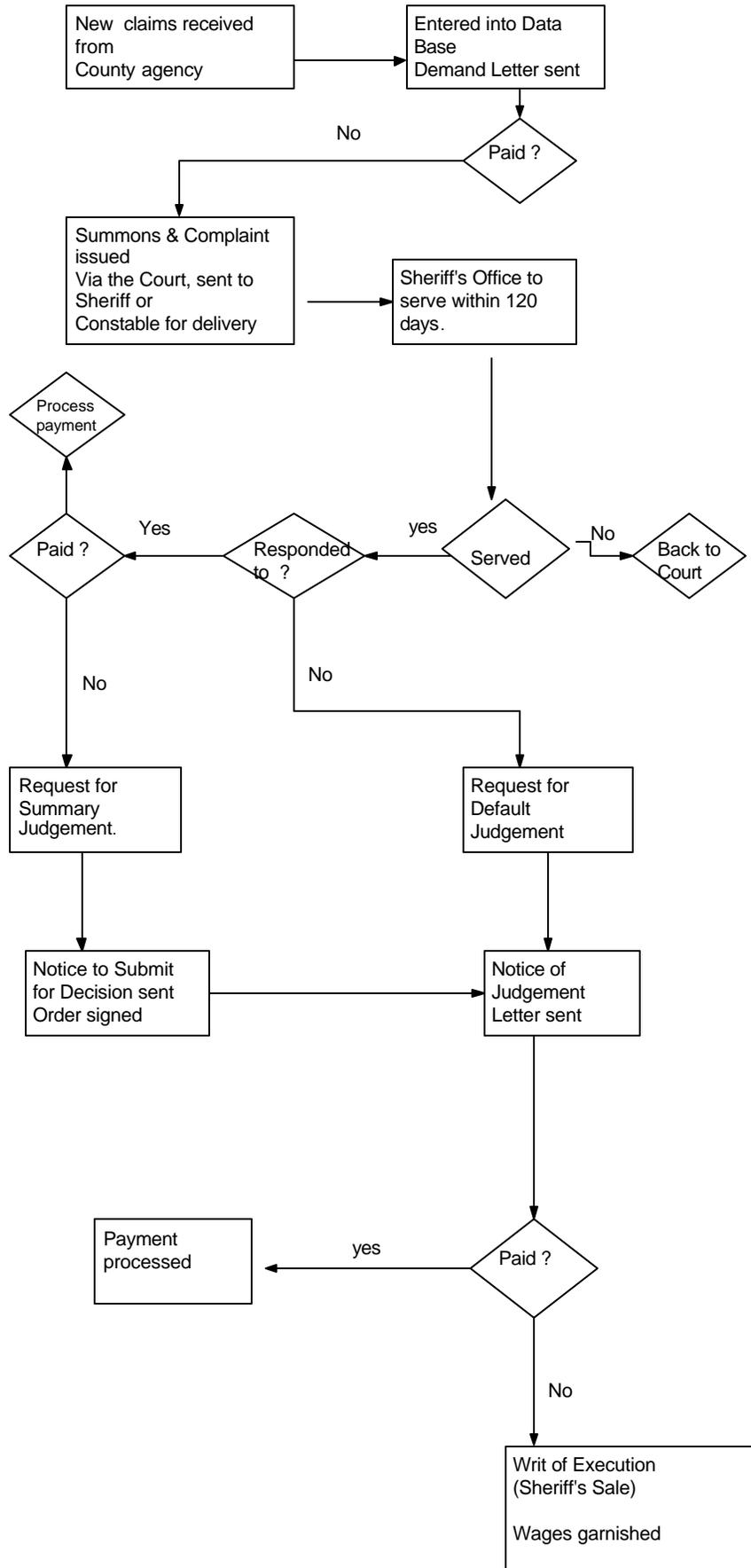
Principal for Cases Requiring Legal Action	\$106,144.22
Attorney's Fees Collected	\$48,863.66
Sheriff's Fees Collected	\$20,077.30
Total Revenue	<u>\$175,085.18</u>

Total Sheriff's Costs	\$51,524.89
Attorney's Costs for Legal Action	\$118,774.84
Total Costs	<u>\$170,299.73</u>

Costs Divided by Revenue	<u>\$ 0.97</u>
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\* No fees are charged to accounts paid after the first demand letter.

# District Attorney Collection Process Flowchart



## COLLECTION PROCEDURES, TOOLS AND MANPOWER BY INDIVIDUAL COUNTY DIVISION

County Agency	Program or Service	Policy & Procedure: Written/ Verbal	Control: Manual/ Computerized	Aging Report Available Yes/No	Collection Tools	Percent of a FTE for billing and collection
Solid Waste Management	Dumping fees	Written	Computerized	Yes	- Phone calls - Finance charges - Suspend service - Bond called on	33.00%
Environmental Health	Yearly fees; water, sanitation food air quality	Verbal	Computerized	Yes	- Collection notices - Late fees - Future use of <b>Attorney's Office</b>	13.43%
Business Licensing	License renewals	Written	Computerized	No	- Late penalties - Collection notices - Citations issued	25.68%
Library	Fines for late, lost and damaged items	Written	Computerized	No	- Phone calls - Late notices - <b>Attorney's Office</b>	1160.00%
Fine Arts	Rent for tenants, Rent for non tenants	Written	Computerized	Yes	- <b>Attorney's Office</b>	104.00%
Recreation Centers	Daycare	Written	Manual	No	- Late fees - Collection letters - Suspend service - <b>Attorney's Office</b>	6.90% to 37.00% Average 17.20%
Family Health	Immunizations Vital Statistics STD testing Diabetes, Etc.	Verbal	Computerized	Yes	Private billing: - Late notices 3rd Party billing only: - Rebill -Phone calls	57.00%
Highway Operations	Signal maintenance Sales: road base, salt, etc Noxious weed control	Verbal	Computerized	Yes	- Phone calls - Bond called on	18.70%
Development Services	Excavation fees	Verbal	Computerized	Yes	- Phone calls - Suspend service - <b>Attorney's Office</b>	11.70%
Accord Center	Use of ice rink	Verbal	Computerized	Yes	- Late fees	8.60%

## COLLECTION PROCEDURES, TOOLS AND MANPOWER BY INDIVIDUAL COUNTY DIVISION

County Agency	Program or Service	Policy & Procedure: Written/ Verbal	Control: Manual/ Computerized	Aging Report Available Yes/No	Collection Tools	Percent of a FTE for billing and collection
Recorder	Polaris use	Verbal	Computerized	No	- Suspend service - Future use of <b>Attorney's Office</b>	13.00%
Equestrian Park	Boarding horses	Verbal	Computerized	Yes	- Sale of Animal - Minimal use of <b>Attorney's Office</b>	81.00%
Sports Administration	Sports leagues	No Policy	Manual	No	- Letters - Phone calls - <b>Attorney's Office</b>	25.98%
Special Events	Junior Livestock Auction	Verbal	Manual	No	- Phone calls - Letters	4.70%
Sanitation	Trailer rental, dumping fees Refuse collection	Verbal	Manual*  <small>*Implementing computer controls</small>	No	- Late notices  - Attach to Property tax or/ - <b>Attorney's Office</b>	2.43%
Fire Department	Permit/inspection fees	Verbal	Manual	No	- Notices	1.15%
Steiner East Aquatic	Facility use	Verbal	Computerized	No	- Invoices	0.40%
Fire Department	Special use of paramedics	Verbal	Manual	No	- No collection tools have been required.	0.00%
Animal Services	Impound Fees	Verbal /written	Computerized	No	- Reminder Notices  - Phone calls - Misdemeanor charges.	0.11%
Treasurer	Bad checks	Written	Computerized	No	- Returned check fee - Certified mailing - <b>Attorney's Office</b>	302.00%
<b>Attorney's Office</b>	Delinquent: - Library - Daycare - Bad Checks - Misc. Other	Verbal	Computerized/ Manual	No	- Collection letters - Certified mailing - Summons and Complaint - Writ of execution	353.34%

### Average Days for Bad Checks from the Treasurer to Reach the Attorney's Office

Sample Number	Amount (Principal +\$20 fee)	Notice from Bank	Sent by T. to A.O.	Days, Bank to A.O.	Opened in Access by A.O.	Days Sent by T. to Opened by A.O.	Status as of 2/00
2	\$64.65	7/12/99	11/10/99	118	11/12/99	2	Paid
4	\$192.50	9/14/99	10/29/99	45	11/3/99	4	Open
10	\$25.00	11/2/99	12/29/99	57	12/30/99	1	Open
13	\$22.50	2/5/99	4/1/99	56	4/22/99	21	Closed
21	\$28.00	1/21/99	4/5/99	74	3/12/99	-23	Closed
23	\$295.00	1/20/99	4/5/99	75	3/12/99	-23	Paid
25	\$50.00	7/6/99	8/13/99	37	8/17/99	4	Open
34	\$50.00	10/20/99	11/29/99	39	11/30/99	1	Open, Not Found
35	\$120.00	5/21/99	6/21/99	30	6/23/99	2	Closed
36	\$30.50	7/21/99	8/26/99	35	9/13/99	17	Open
37	\$26.00	7/12/99	11/29/99	137	11/30/99	1	Open, Not Found
46	\$24.30	6/17/99	8/4/99	47	8/5/99	1	Open
47	\$205.00	11/23/98	1/7/99	44	1/13/99	6	Paid
62	\$25.00	11/4/98	1/7/99	63	1/13/99	6	Open
65	\$495.00	12/28/98	5/11/99	133	5/21/99	10	Paid
66	\$31.00	6/1/99	7/19/99	48	7/20/99	1	Paid
67	\$45.00	8/30/99	10/29/99	59	11/3/99	4	Open
72	\$26.00	9/3/99	11/5/99	62	11/5/99	0	Paid
<b>Total:</b>	<b>\$1,755.45</b>			<b>1159</b>		<b>35</b>	
<b>Average:</b>	<b>\$97.53</b>			<b>64</b>		<b>2</b>	

*It takes an average of **64 days** for a bad check to reach the Attorney's Office from the date the Treasurer receives notice from the bank.*