



# ***Financial Overview of the Commonwealth's Accounts Receivable***

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House Appropriations Committee  
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# Presentation Outline

- Overview of Accounts Receivable
- Agency Accounts Receivable
- Conclusion

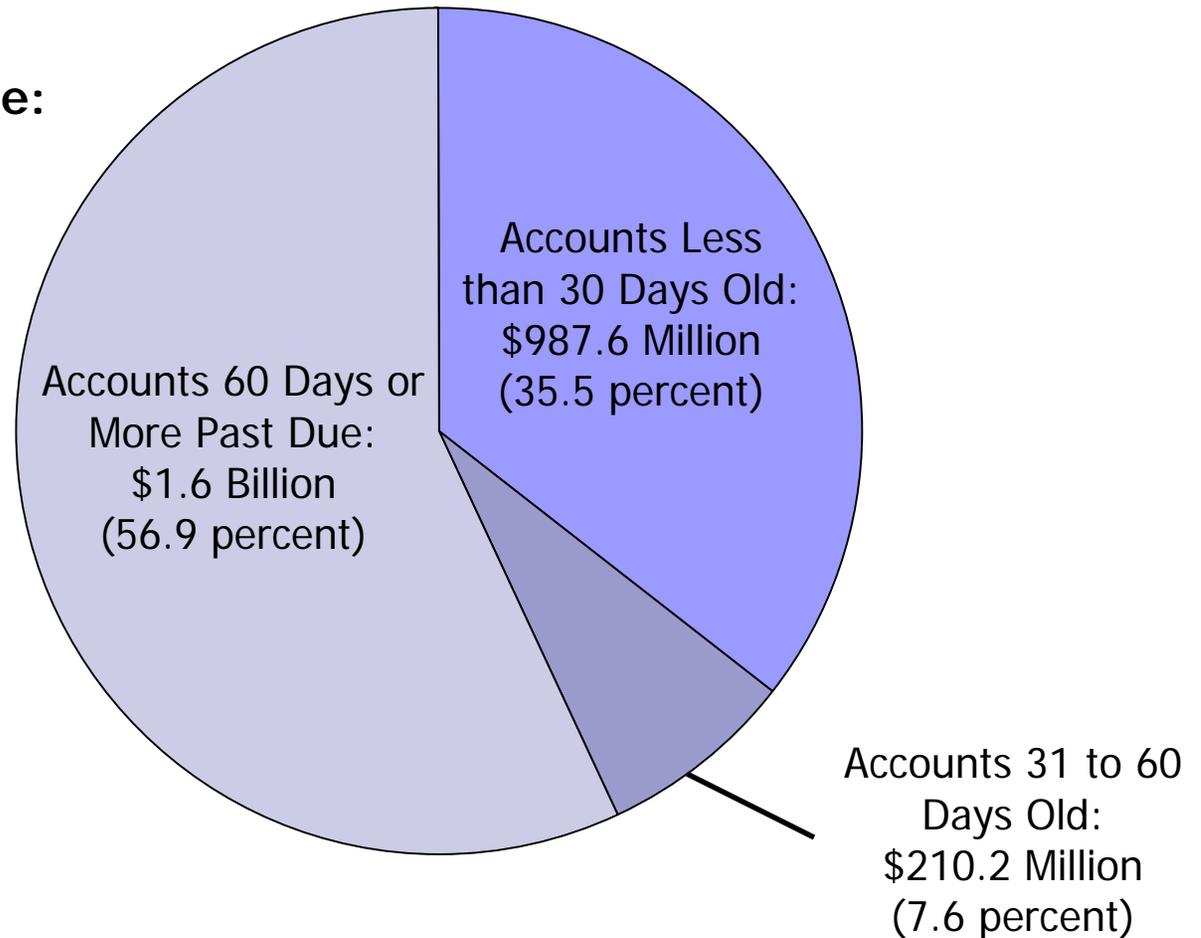


# Accounts Receivable Overview

- The term “accounts receivable” represents any amounts owed to the Commonwealth, including:
  - Taxes, loans, notes receivable, amounts due for goods and services or licenses and fees, judgments, fines, or court costs
  - Any penalties, interest, or other costs that may be added to the amounts owed to the Commonwealth
  - Outstanding payments from federal grants or contracts
- The Commonwealth’s total accounts receivable includes:
  - Accounts receivable payable within 30 days
  - Past due accounts more than 30 days old

# Virginia's Total Accounts Receivable by Age

**Total Accounts Receivable:  
\$2.8 Billion**

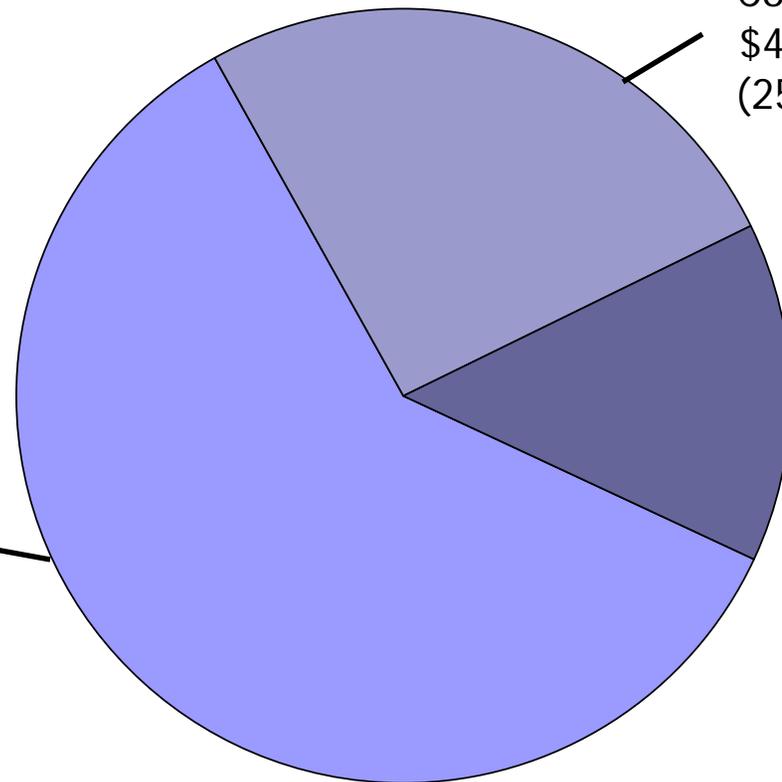


Source: Department of Accounts, data as of June 30, 2005

# Accounts Receivable Balances 60 Days Past Due by Agency

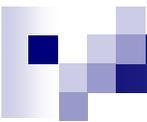
**Total Accounts Receivable  
60 or More Days Past Due:  
\$1.6 Billion**

Department of Taxation:  
\$952.0 Million  
(60.1 percent)



Court System:  
\$409.5 Million  
(25.8 percent)

All Other Agencies:  
\$223.1 Million  
(14.1 percent)



# Collection Practices Permitted by Statute

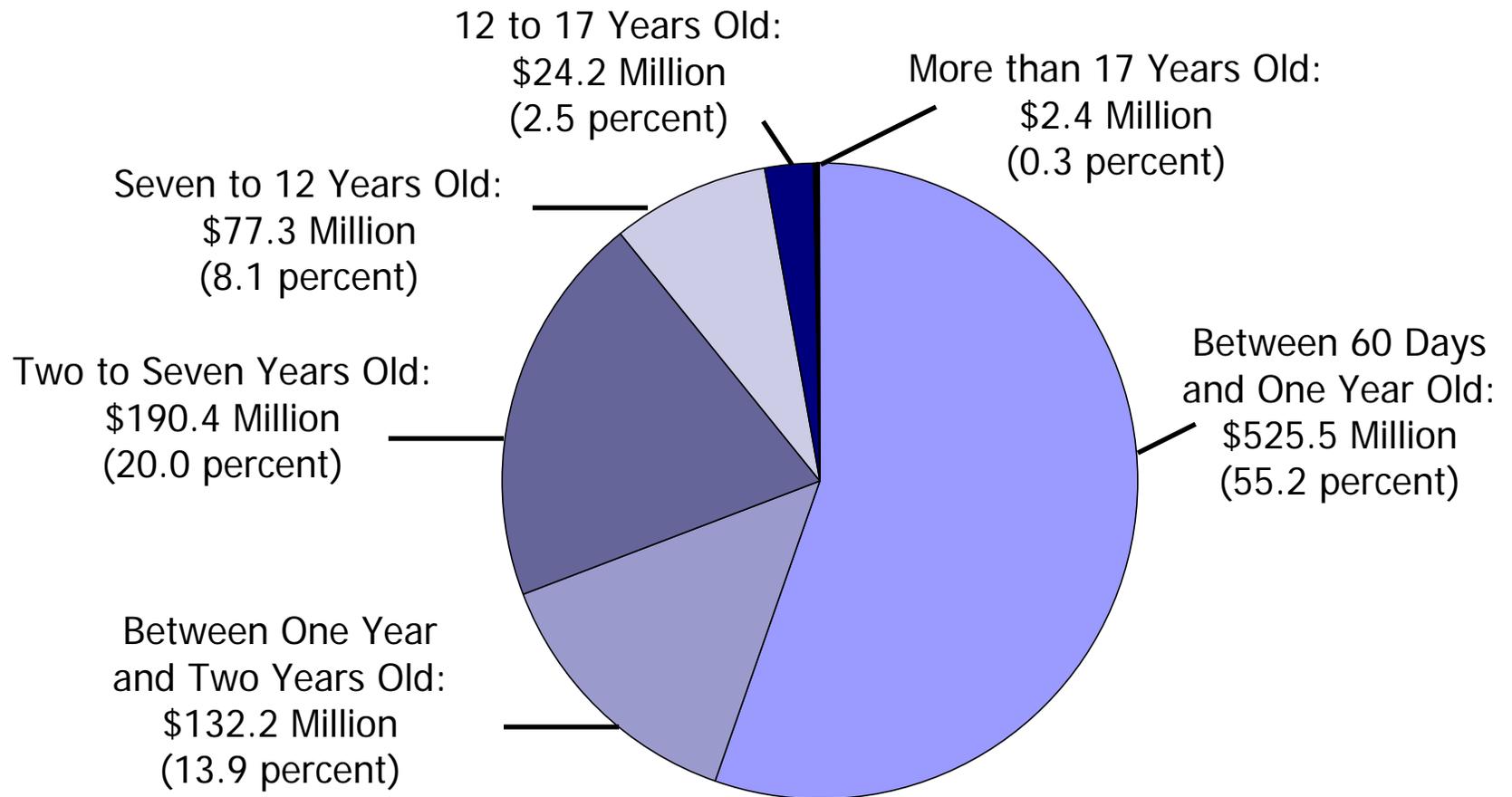
- Virginia Debt Collection Act: Agencies and Institutions
  - Agencies and institutions may notify credit reporting bureaus, use collection agencies, seek garnishments, liens, and judgments against debtors, employ administrative set-off programs, and delay or withhold services to persons who refuse to pay their debts
- Setoff Debt Collection Act: Central Agencies
  - The Setoff Debt Collection Act permits the Department of Taxation to withhold tax refunds from individuals and businesses to satisfy debts owed to state agencies and institutions
  - The Department of Accounts offers a similar vendor setoff program to capture agency payments to businesses with outstanding debts to other agencies and institutions
  - The State Lottery Department will withhold prize awards to satisfy debts owed to the Commonwealth
- Compromise and Settlement of Debts: Office of the Attorney General, Division of Debt Collection
  - Provides legal representation and advice concerning accounts receivable
  - May pursue accounts receivable totaling \$3,000 and 60 days or more past due
  - May compromise or settle accounts receivable for state agencies and institutions

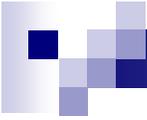


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# Age of Taxation's Past Due Accounts





# Accounts Receivable: Department of Taxation

- The Department of Taxation's accounts receivable past due more than 60 days total \$952.0 million, and includes the following:
  - Non-filer assessments: \$493.6 million (51.8 percent)
  - Personal and business bankruptcies: \$106.3 million (11.2 percent)
  - Bills on Partial Payments: \$63.2 million (6.6 percent)
  - Bills with Active Lien: \$49.0 million (5.1 percent)
  - Contested assessments: \$34.0 million (3.6 percent)
  - Offers in compromise and Other: \$205.9 million (21.6 percent)



# Tax Amnesty Suggests Past Due Amounts Uncollectible

- Past due accounts eligible for the 2003 tax amnesty program equaled \$853.2 million
- Despite interest and penalty reductions for taxpayers who came forward, and the prospect of an additional penalty of 20 percent on accounts for which no action was taken, only \$94.9 million (11.1 percent) was collected
  - Because of this enhanced penalty, the Department of Taxation's past due accounts receivable actually increased during tax amnesty to \$910 million
- If collection did not occur during tax amnesty, it is unlikely any portion of those accounts will be collected



# Collection Efforts Used by Taxation

- To improve the collection of taxes, the General Assembly provided 117 new compliance positions in FY 2003
- Collection practices used by compliance unit to pursue accounts receivable include:
  - Charges penalties and interest on amounts past due
    - In many cases, penalties and interest exceed taxes actually owed
  - Contracts with five collection agencies for pursuit of past due taxes
  - Relies on automated programs to ensure staff focus on most collectible accounts (typically those less than three years old)
  - Uses data from a variety of sources to track debtors: federal tax returns, Virginia Employment Commission records, and Department of Motor Vehicles license and vehicle registration data
  - Participates in the federal Treasury Offset Program
  - Places liens on homes and other property owned by debtors
  - Employs auditors in a number of other states to ensure business tax revenues are collected



# Actions Taxation Considering to Improve Collections

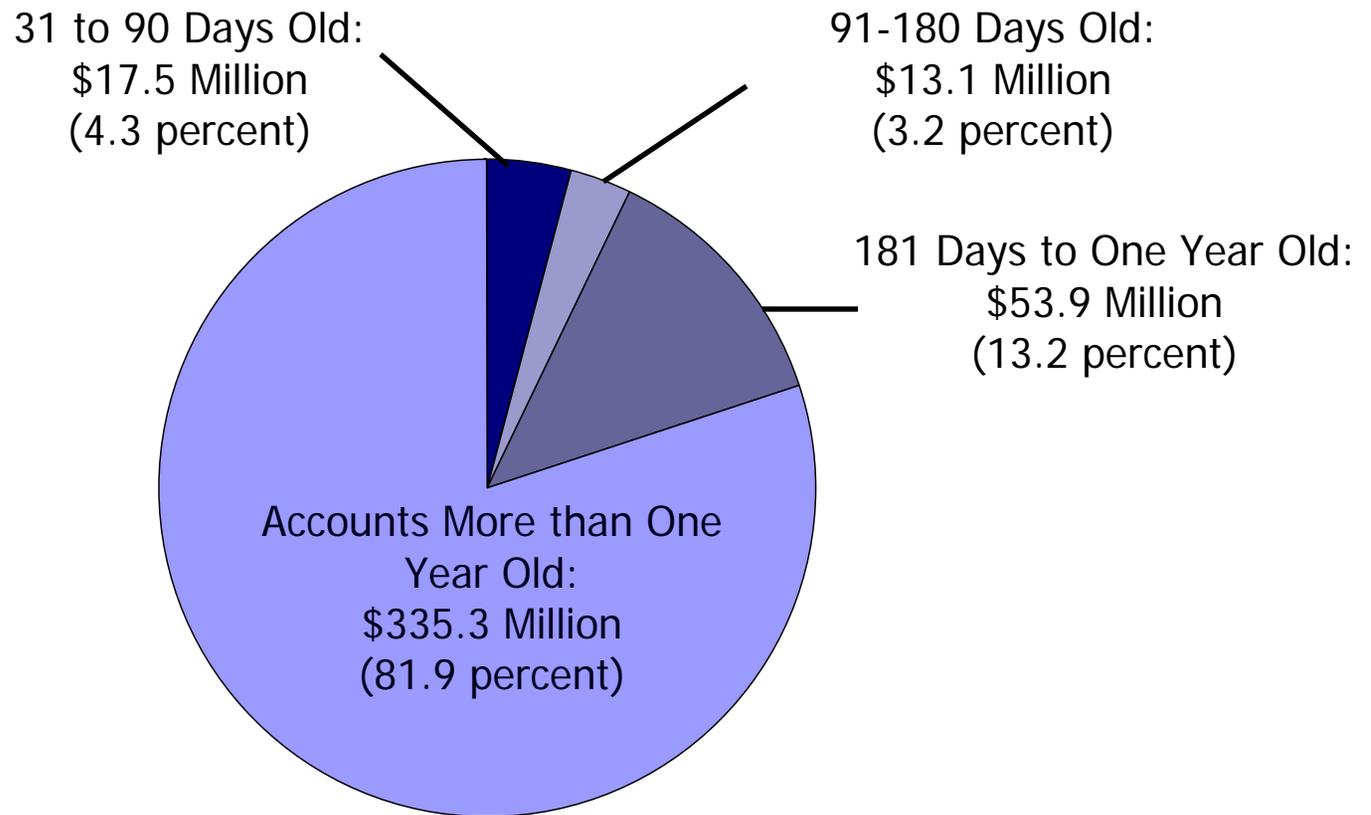
1. Active management of accounts receivable assigned to private collection agencies
  - Private collection agencies given timeframe to resolve past due amounts otherwise account recalled and reassigned
2. Tax clearance program
  - Requires applicants for certain licenses to establish that taxes are current
    - Currently being implemented in both Louisiana and Maryland
3. Publish lists of delinquent taxpayers
  - Social Services is using this approach with outstanding child support payments

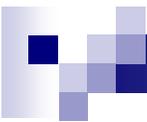


# Accounts Receivable: Court System

- Past due accounts receivable older than 60 days equal \$409.5 million
- These receivables include:
  - Traffic fines and court costs: \$61.4 million (15.0 percent)
  - Misdemeanor and felony fines and costs: \$348.1 million (85.0 percent)
- Collections constrained by ability of offenders to repay debt
  - Misdemeanants and felons often require payment plans to resolve fines and court costs
  - Collections of past due fines and costs are further complicated by incarceration

# Age of Court System's Past Due Accounts





# Potential Actions to Improve Collection of Court Debt

- Require all past due costs and fines to be assigned to Taxation's Court Debt Collection Office
  - Commonwealth's attorneys, rather than the court system, are responsible for collecting past due costs and fines
    - If a Commonwealth's attorney pursues the matter, he may keep up to 35 percent of any amounts collected
    - If Taxation's Court Debt Collection Office is used, that unit charges 17 percent of any amounts collected
- In some instances, it appears judges are permitting excessive timeframes for repayment of court costs and fines
  - For example, one judge has permitted until 2097 for repayment of court costs and fines
  - Consequently, no alternative collection practices, like garnishments or liens, may be used until this person's debt is past due
    - One recommendation may be to establish a period certain – perhaps 10 years – after which all court system accounts receivable are deemed past due



# Accounts Receivable: Other Agencies

<u>Agency</u>	<u>Total Receivables</u>	<u>Bad Debt Allowance</u>	<u>Collectible Accounts</u>
Department of Social Services	\$218,598,918	(\$108,994,693)	\$109,604,225
UVA Medical Center	\$140,684,175	(\$16,020,281)	\$124,663,894
Virginia Employment Commission	\$140,516,137	(30,046,235)	\$110,469,902
Direct Aid to Public Education	\$109,704,255	0	\$109,704,255
Department of Transportation	\$96,668,790	(\$3,323,156)	\$93,345,634
Medical Assistance Services	\$69,014,807	(\$29,400,009)	\$29,614,798
State Lottery Department	\$47,605,041	0	\$47,605,041
Mental Health	\$46,999,683	(\$14,894,128)	\$32,105,555
<u>All Other Agencies</u>	<u>\$281,980,782</u>	<u>(\$14,373,107)</u>	<u>\$267,607,675</u>
Total	\$1,151,772,588	(\$217,051,609)	\$934,720,979



# Description of Other Agency Balances

- Past due accounts are not a significant problem for other state agencies and institutions
  - 81.2 percent of total accounts receivable deemed collectible
  - Eight agencies represent 93.1 percent of total bad debt allowance
    - Slightly more than 41 percent related to past due child support payments
- Debt owed to other state agencies and institutions primarily composed of following items:
  - Federal funds
  - Patient care reimbursements
  - Unemployment insurance premiums
  - Tuition and fees
  - Interagency payments
  - Child support payments
- These items do not benefit general fund or provide means to reduce support for the agencies and institutions to which they are owed
  - Federal funds and patient care reimbursements primarily related to prior expenditures basis
  - Tuition and fee revenue retained by colleges and universities
  - Unemployment insurance paid by private sector firms into unemployment insurance fund
  - Only eight percent of child support payments related to families that previously received government assistance



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# Factors Affecting the Collection of Past Due Accounts Receivable

- The age of the Commonwealth's past due accounts receivables
  - Legally, all debts owed to the Commonwealth remain “on the books” until either repaid by the debtor or discharged by the Division of Debt Collection
  - All State agencies and institutions are required to have “write off” accounting policies for determining which accounts receivable are collectible
- The Commonwealth does not typically permit private collection agencies to be as aggressive with debtors as does the private sector
- Federal law prohibits state agencies and institutions from drawing down federal funds until they can justify the need for them
- Outside past due taxes and court fines and costs, much of Virginia's accounts receivable provide no measurable general fund benefit