

DOUGLAS R. HOFFER
STATE AUDITOR



STATE OF VERMONT
OFFICE OF THE STATE AUDITOR

September 25, 2014

Senator Dick Sears, Senate Judiciary Committee

Representative William Lippert, House Judiciary Committee

Dear Senator Sears and Representative Lippert,

Attached please find the State Auditor's Office (SAO) memo to the Office of the Court Administrator regarding SAO's observations of the Judicial Bureau's accounts receivable collection process. These observations are the result of the assessment SAO performed in order to determine whether to conduct an audit. In this case, for a variety of factors, we determined not to conduct an audit at this time.

In addition to the attached memo, I've included Judiciary's responses to our observations.

Please feel free to contact me with any questions.

Best regards,

A handwritten signature in black ink that reads "DOUG HOFFER".

Doug Hoffer
Vermont State Auditor

Cc: Senator Dick Sears

TO: MATT RIVEN, CHIEF OF FINANCE AND ADMINISTRATION, JUDICIARY
FROM: TANYA MOREHOUSE, CHIEF AUDITOR AND SHANNON AQUINO, SENIOR
AUDITOR, STATE AUDITOR'S OFFICE
SUBJECT: JUDICIAL BUREAU ACCOUNTS RECEIVABLE
DATE: SEPTEMBER 12, 2014

As a result of our review of information provided during our risk assessment¹, as well as interviews with personnel, we noted potential areas of improvement. Our observations are noted below and suggestions are provided that may help to enhance current operations and the collection of unpaid fines.

Collections of Unpaid Traffic Fines

Collection Processes

The Judicial Bureau (Bureau) utilizes several methods to help increase the collection of unpaid fines, such as, driver's license suspension, tax refund offset, payment plans and use of a collection agency. However, according to interviews with Judiciary's internal auditor, the Bureau lacks documentation of its collection processes and the auditor recommended that Bureau processes be documented. During our review, it came to our attention this recommendation had not been implemented. Given that documented processes and procedures are important elements of a framework to manage accounts receivable as well as supporting the continuity of operations in the event of transition, the Bureau should review the state of its corrective action plan and reconsider implementing this recommendation.

We also observed there appears to be limited monitoring of the results of each collection method. According to Judiciary personnel, information is received concerning cash receipts resulting from collection agency efforts, but it appears this information is not being gathered for each of the other collection methods. Without this type of data and lacking documentation of its collection processes, it appears the Bureau is not able to assess the effectiveness of each collection method, nor whether their timing is optimal. As a result, the Bureau may not be utilizing the most effective collection methods at the optimum point in the collection process and may be missing opportunities to increase collections. During the course of our review, we did not obtain information regarding the availability of data that would be needed to assess collection efforts. However, since Judiciary administers the payment plans and contracts with collection agencies, data to assess the collection results for these mechanisms should be available to the Bureau. Given that the other collection mechanisms are managed with State partners - DMV for license suspension and Tax Department for tax offset – data may not be readily available for use by the Bureau. To the extent the Bureau is able to gather data, staff should use it to assess whether the current process yields the expected rate of collections in a timely manner.

Collection Agency

Judiciary contracts with AllianceOne Receivables Management, Inc. for collection services, and during our review of the contract, we noted no performance measurement provisions. Performance measures help to determine if the contractor selected is performing within expectations and how they compare to other contractors. Without these measures, Judiciary may

¹ A risk assessment is an objective analysis of the value of a proposed project to assess its cost/benefit.

be limiting their collection ability. It is suggested Judiciary include performance measures in their contracts that would allow assessment of the collection agencies' actual results.

Allowance for Uncollectible Accounts

Calculation

Judiciary utilizes a report each fiscal year to estimate the amount of Accounts Receivable that will be deemed uncollectible at June 30, and this information is then included in the State's CAFR. During our review of this report (2009-2013), we noted a few errors in calculations that were used to derive the uncollectible estimate. These errors included column footing errors (2011), incorrect average calculations (2011, 2012) and inconsistencies in the estimate methodology (2009-2013). We observed there has been limited or no review to verify the accuracy and consistency of the methodology used in the calculation. Due to the results of these calculations being included in the annual State CAFRs and the materiality of the dollar amount of the allowance (\$11M in 2009 to \$21M in 2013), we suggest Judiciary implement a supervisory review of this estimate to ensure its accuracy.

Write-Off Policy

The Bureau currently does not have a policy for write-offs of uncollectible accounts receivable; however, they have uncollected fines dating back to 1991. It was not clear to us during the review process if the lack of a write-off policy is the result of a statutory restriction or if it is a historic business practice. Regardless, it is possible collection efforts are being expended for fines that will never be collected, such as for deceased individuals, or that limited or no collection attempts are being made for significantly aged fines. Writing off significantly aged receivables, which may have limited possibility of collection, can help to focus collection resources. We suggest the Bureau consider the feasibility of implementing a write-off policy.

Even though the focus of our risk assessment centered on the Bureau, to the extent they are applicable, the above suggestions should be considered for implementation throughout the other divisions of Judiciary.

SUPREME COURT OF VERMONT
OFFICE OF THE COURT ADMINISTRATOR

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September 24, 2014

Tanya Morehouse
Chief Auditor
Office of State Auditor
Montpelier, Vermont Judiciary

Re: Response to SAO Memo “Judicial Bureau Accounts Receivable” September 12, 2014

Dear Ms. Morehouse:

Thank you for your letter of September 12. Below please find the Judiciary’s responses.

Collections of Unpaid Traffic fines – Collection Process

Documentation process: It is agreed that there is opportunity for improved documentation of the current Judicial Bureau revenue collection process and its interface with our legacy “VTADS” case management system. Development of that documentation is currently taking place. It should be emphasized that there is an imbedded process in VTADS that assigns Judicial Bureau cases to various revenue collection strategies, and this process has been vetted and tested over time. Cases are not assigned to collections under any manual or discretionary process. We believe the collection process is currently functioning as intended – and we had assumed that the process and associated documentation would be revisited with the acquisition of a new case management system. With the delay of that acquisition, we agree that the documentation of the current process should be as up-to-date and accurate as possible.

Monitoring of collection methods: We will examine what types of reporting regarding the different collection methods (tax offset, collection agency, etc.) are possible within VTADS. Reporting of the different collection methods is currently labor intensive. Developing additional programming and reporting requirements may not be appropriate at this stage of VTADS’ life cycle. Options to collect this data outside of VTADS will also be examined, but such an approach would lose the granular connection to individual cases. As part of the development of the new case management system, reporting capabilities will be reviewed by creating a list of those user needs and included in the design and development phase of the CMS.

Collection Agency: The current Alliance One contract, as is typical with collection agencies, provides for sharing of revenues between Alliance One and the Judiciary. We would argue that this arrangement constitutes a performance incentive for the vendor. The contract also includes various reporting metrics. Nonetheless, we agree that performance measurements are important and it is the intent of Judiciary to pursue all options for performance measures and incentives in future contract negotiations with the collection agency in order to maximize feasible and appropriate collections.

Allowance for Uncollectible Accounts

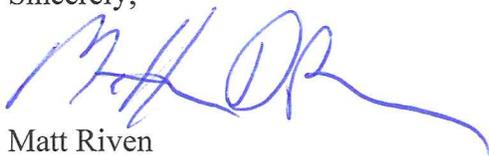
Calculation: The current calculation of Judiciary accounts receivable is based on a complex series of VTADS queries aggregating multiple systems and locations. We agree that errors did occur in the reporting of accounts receivable in 2011 and 2012. The methodology applied for the upcoming 2014 CAFR is the same methodology as used in past years. The Finance Office has checked its calculations for 2014, and the calculations and methodology has been reviewed by a supervisor. That said, the limitations of VTADS, and the steps required to extract amounts-due information at the case level and convert it to an accounts receivable report, create the possibility of error and emphasize the importance to the Judiciary of implementing a modern case management system.

Write-Off Policy: Determination of any statutory restrictions regarding write-offs will be conducted. If none exist, Judicial will request additional guidance on implementing a write-off policy that would be in line with other state agencies while also meeting the policy intent of the underlying judicial actions. As noted above, the aging and outdated VTADS system would require additional programming to accurately apply a write-off policy, and a determination would need to be made whether such programming is appropriate at this stage of the system's life-cycle. A similar approach would be required if the State were to recommend a reserve for uncollectible receivables rather than a write-off.

It should be noted that the Judiciary reports to the Department of Finance and Management each year its estimate of uncollectible revenues. The Judiciary applies a methodology utilizing a sample of known fines, and associated collections, to generate a collection rate, which is then applied to the entire pool of known fines, to develop an estimate of uncollectible receivables, and this is reported on the CAFR report. The Judiciary does not disagree that such a write-off or reserve policy may be appropriate; however, we believe any steps toward such an approach require both consistency with State-wide practices and recognition of the upcoming transition to a new technology system.

Thank you for the opportunity to respond, and please let us know if you would like to further discuss these items.

Sincerely,



Matt Riven