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Project: Skip-Trace

(GEAR Program Study)

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STATE DOCUMENTS

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Project Findings

Introduction

What is GEAR?

GEAR is an acronym that stands for Governmental Enterprise Accounts Receivable collections. It is a collection service performed by the S.C. Department of Revenue (DOR) on behalf of other political entities throughout the State as authorized by S.C. Code § 12-4-580 (enacted in 1996) (**See Appendix A**). These entities include state agencies, boards and commissions, county governments, political subdivisions and municipal governments. With GEAR, government entity debt becomes treated just like any state tax debt, subject to the same collection tools available to DOR such as levy and garnishment. This is government collecting government debt. In other words, DOR is the State's collection agency. Collecting government debt with a customer service focus is a core competency of DOR.

Why has DOR pursued GEAR?

- Opportunity to improve core Competencies
- Provide Fees/Funds for needed infrastructure
- Benefit to taxpayers
- Benefit to the State

The thought process and development of what is now the GEAR program evolved from the theory of an enterprise system of government. Basically, aligning government functions by core competencies. This program started as a vision of Greg Frampton, former Deputy Director for DOR. As a member of the Information Resource Council under Governor Beasley's administration, Mr. Frampton believed that the State's economic future would depend on this enterprise system of government. DOR's core

competencies are: *Compliance*- Audit and Collection of delinquent debt, *Remittance/Document* processing, and *Registration*. Currently, there are more than 400 governmental subdivisions conducting collection functions with separate employees collecting accounts. GEAR can reduce redundancy government, allowing other entities to reallocate scarce resources.

DOR started this program in 1996, collecting for three divisions of one state agency. The process was very manual and labor intensive. Over the past five years we have revised, improved and automated our processes allowing this program to almost double in size in the number of entities participating, volume in receivable base, and dollars collected and returned to these entities each year for the past three years. Currently we have thirty-five entities participating in the GEAR program. For the 02/03 fiscal year we returned \$1.05 million dollars back to the budgets of 26 entities participating in GEAR. This generated approximately \$300,000 in fees for DOR's budget. Six months into the 03/04 year, DOR has already returned \$884,000 to these same entities as well as generating \$252,000 in fees for DOR. This might not seem like huge amounts of money, but this program is still in its infant stages. Most of the money returned to these entities belongs to county hospitals and EMS departments. This revenue is money that they have not been able to collect and it allows them to continue providing services to their communities. This is where my research project enters the picture. These dollars collected came from three basic functions: Noticing, Payment Agreements, and Wage garnishments. All of these functions are basically automated. Wage garnishing and setting up payment agreements do require human intervention and decision making. Due to the nature of our debtors

there are a large number who are disabled, elderly, and unemployed. Garnishing is a highly effective collection tool but only works if you have a wage or bank account source. The following is a collection activity summary for the current accounts in GEAR that I prepared using DOR's GEAR data base.

| <u>Collection Activity</u> | <u># of Accts.</u> | <u>Total \$ of Accts.</u> |
|----------------------------|--------------------|---------------------------|
| Under Garnishment | 5834 | \$ 8,884,236.55 |
| Under Pymt. Agree. | 394 | 914,421.27 |
| To be Garnished | 1349 | 1,980,749.32 |
| "None" | 10,711 | 15,535,017.03 |
| ----- | | |
| Total Accts. | 18,288 | \$27,314,424.17 |

The "None" collection activity group is what concerns me. This group represents 59% of the total accounts presently in GEAR. These are accounts that have been sitting and are presumed to be debtors that do not work in S.C., are not required to file income tax returns, are no longer a S.C. resident, and/or have not received our notices. Basically, for this "None" collection activity group, we do not have a current address, phone number, financial information, or employment information. These accounts need to be skip-traced to obtain current information on these debtors to facilitate collections.

Problem Statement

Outside of DOR's internal sources and processes, what is the most effective skip-tracing source and/or process?

GEAR Process

This is a brief summary of the GEAR process. A complete flow chart of this process can be found in Appendix B. A review of this is necessary to understand my focus on this research project. Myself, Sonya (Atkinson) Secor, previous manager, Doris Mosley, GEAR debt coordinator, Jimmy Swygert, a few IT personnel, and various others, have spent several years and many hours developing, improving, refining, and marketing this program. We still have a long way to go. In 2000, Mrs. Secor and myself began a very extensive cost analysis study and five-year business plan for the improvement and development of the current GEAR program. DOR is now into the third year of this business plan. Our growth has exceeded our expectations of the plan with few exceptions. One growth exception however was with personnel resources to solely work GEAR accounts. The plan called for adding three employees in year one, one employee in year two, and three additional employees for year three. I have netted one employee in addition to my two original that began working GEAR accounts in 1996. The job slots were to be funded through fees generated by GEAR. Due to budgetary shortfalls for the last several years, DOR has reallocated GEAR fees to other budget needs. I have to find ways to improve our processes and spread the growth workload over my other 14 employees who solely work tax debt.

The Process.

When an entity places new accounts with GEAR they must first notice their debtors of this intent and give them the opportunity for due process. Once the account is placed with DOR, we notice the debtors giving them 30 days to respond with payment. After

approximately 45 days we send a second notice which is an assessment notice giving them an additional 30 days prior to taking enforced collection actions, seizing refunds, levying, and garnishing. This notice is an eye opener to the debtor if they have received it. At this point, the majority of the debtors that did in fact receive their notice, have called to either dispute the billing or have made payment arrangements to resolve their liability. Early experience with these debts demonstrated that the number of good mailing addresses that the entities provided was very low. Otherwise, they probably would have already resolved the debt. To counteract this we scrub (match the addresses we receive from the entity to our addresses in our Individual Income tax system) these accounts through our system for better addresses prior to loading the debt. So, prior to mailing, the address we have is the most accurate address, provided the debtor has been filing income tax returns. A measurement of the number of calls received versus the number of notices mailed out shows an approximate 15% response.

Once the 30 day due process time has lapsed on the notice of assessment, we can begin our garnishing. We receive a tape from the Employment Security Commission each quarter giving DOR employment information of everyone earning wage income, (provided employers are filing their quarterly returns). We load this tape into our automated collection system where we store all tax and GEAR receivables. If there is a match, it automatically places the employer information on to the case for taxpayers and debtors. We can search our receivable system for accounts with wage levy sources, isolate these cases, and issue the garnishments very quickly using our automated collection system. Generally speaking, the debtors who receive garnishments are people

who did not receive their notices due to a bad address, defaulted on their payment agreement, or chose not to respond to their notices. The most common response from debtors who have been garnished is, "I never received the entity's intent letter or DOR's two notices." We receive phone calls from debtors on approximately 90% of the garnishments we issue. The majority of these debtors are requesting a reduction or release of the garnishment due to hardship situations. When debtors call, we do verify and update their demographic information. Approximately 40% of the GEAR garnishments we issue are returned to us stating that our debtor is No Longer Employed. Fortunately, with the updated quarterly tape from the Employment Security Commission, we will rerun our search for accounts with levy sources, and the process repeats itself. Unfortunately, due to our lack of personnel resources, my three employees that solely work GEAR accounts, rarely have an abundance of time to perform quality skip-tracing. Thus, I need a very effective means of skip tracing. I also left out the fact that unless the GEAR debt links to an existing debt in our receivable system, we do not have a phone number. The entities do not provide this information. Going back to our business plan, with the proper staff we could skip-trace and make outbound phone calls to collect the debt; but in these budget cutting days, I have to make the most of what my staff and I can do. Since we are unable to make outbound calls other than a few exceptions, the most effective means of collecting outside of garnishing is to get the debtor to call us for payment arrangements. Experience has shown us that when the debtor receives their notice, they call. Getting a debtor on the line is more than half the battle. Referring back to my Collection Activity chart, the largest group of accounts and liabilities is in the "None" group. Better

addresses should transform this group to the payment agreement column. Increased GEAR collections benefit DOR, the entities participating, and the citizens of this state.

Data Collection

The primary data used in my research was collected from several different sources. My main focus was to interview several of the collection agencies that we contract with to collect our tax debt to find out their “Best Practices” and to search the internet to see what additional products may be available. I limited my research to the collection agencies we contract with because the requirements and criteria that they must meet and uphold to be awarded our primary and secondary placement contracts rank them at the very top in their field nationwide. Their survival requires them to stay informed of the best sources and technology.

In my interviews with these companies I wanted to know three things:

- 1) What is your basic skip-tracing process?
- 2) What sources do you use, ranking them by highest success?
- 3) What is the main focus in your skip-tracing?

Our current skip-tracing process begins with first researching our own database. Our mainframe systems and database, mainly the registration and income tax systems are very successful for updated address information, especially during the months of January through June. This is the height of our income tax filing season. Taxpayers want to receive their refunds. Secondly, we use an online service called Merlin. Although they

provide many types of skip-tracing information, DOR solely uses them for last known address information. We have experienced a high success rate using Merlin. Prior to Merlin we used Equifax exclusively to pull credit bureau information but found Merlin to have more up to date information for \$.75 less per hit. The one advantage credit bureau reports have over Merlin is they do provide "place of employment" information.

We didn't find this information to be too useful due to the fact that we get more current employment information from our tapes from the Employment Security Commission.

We do use various online white and yellow page websites. They generally do not provide successful searches, because you are searching by name and address where as credit bureau reports and companies such as Merlin use social security numbers when searching to make sure you're finding the right "John Smith." DOR's main focus in skip-tracing is to get current addresses to re-notice debtors.

I had a face to face interview with Mary Pat Pillow, Project manager for GC Services.

She manages our onsite collection agency. Her collection staff not only has access to the GC Services data base and collection system, but they have access to DOR's as well.

They use both systems equally. She admits to having the best of both worlds. Her staff uses Merlin, credit bureau reports, and Any-Who.com for white and yellow page searches. They're main skip-tracing focus is getting current phone numbers and addresses to make outbound phone calls and to send correspondence. Mrs. Pillow says they have good success using the yellow page search to locate businesses. Also, she is amazed at what a letter will do. When they have exhausted their resources on an account they transfer the case to their Atlanta office for a more hardcore approach. Before thanking her

for her time, Mrs. Pillow offered some very interesting insight. She explained that a few years ago, she was involved with a study on "Scrubbing Accounts." Her conclusion was that it was very economical to take a data base of accounts, outsource it to a company that specializes in scrubbing, have them update all the addresses and phone numbers, and return the database for approximately .25 to .35 cents a hit. Very interesting !!!

I then contacted Kandice Gates, Operations Manager for GC Services, Atlanta, GA. DOR places cases to both the on-sight location and the Atlanta location of GC Services; they have different placement criteria for our in-state primary accounts. Mrs. Gates stated that they first scrub their accounts through NCOA (National Change of Address), US Postal Service, to up date addresses. In addition, they use credit bureau reports, and for additional skip-tracing they use a company called Accurint. They have the same service as Merlin but can provide a more comprehensive search. She states, "It is down right scary what can be found out about someone for a cost starting at \$.25 and going up to \$50.00." The Atlanta office's main focus for skip-tracing is phone numbers, addresses, and financial information. This office has a large call center and performs hardcore collecting as well.

I contacted Lou Seig, Collections Manager for The NCO Group, Mobile, Al. They hold our out-of-state primary contract. He states that they scan their new placements for newer address, phone number, and credit rating score using a company called First Data. His collectors then have the ability to search First Data's system for individual information such as neighbors, possible relatives, change of address, property ownership, bankruptcy

information, and can find out if the debtor is deceased. Mr. Seig also stated that one of the best web sights NCO uses is a company called Accurant.com. They have about a 75% hit rate using this site. NCO's main focus for skiptracing was again the usual phone number, address and financial information, but in addition, they pay close attention to property ownership and credit scoring. They have a financial side that looks for mortgage loan opportunities making debt consolidations.

I then performed some research using the internet. I wanted more information on Accurant.com since it is used and comes highly recommended by two of the collection agencies we contract with. In addition, I searched the web for account scrubbing. I came across a company called LexisNexis. They seemed to be very similar to Accurant but in addition have a product called BatchTrace. This service provides batch searches from basic to all-inclusive skip-tracing.

Data Analysis

The main purpose of this project was to research skip-tracing best practices of collection agencies that we contract with to find a more effective means of skip-tracing. A highly successful and effective resource to obtain current address information for the "None" collection activity group will facilitate collection activity on these GEAR accounts. I have assisted with the management of our collection agency contracts for the last six years. My working relationship with GC Services and The NCO Group has been for the same length of time. They are tops in their field of expertise and their processes, procedures, and technology are constantly being reviewed and updated. In reviewing the

findings in my research and data, the collection agencies and DOR share some of the same processes and use some of the same resources. We do differ slightly in our focus in skip-tracing. A resource that is used and highly recommended by both agencies is Accurint.com. After researching the web for resources, I quickly discovered that there are thousands of companies offering skip-tracing services and search capabilities. My working relationship with GC Services and The NCO Group has demonstrated over the years that they do their homework. It is probably more than a coincidence that both of them have a high regard for Accurint.com. Also, prior to the interview with Mrs. Pillow, I had never thought of out-sourcing the complete skip-tracing function. This is an interesting concept and could have merit given the lack of personnel resources.

Conclusions

Skip-tracing can be a very time consuming activity. It took one of the GEAR employees approximately 3 days to obtain 125 updated addresses and update the new demographic information in DOR's collection system using Merlin. Our time could be better spent if we were to batch scrub these 10,711 "None" collection activity accounts with a company and then upload the corrected information. However, we also need a more comprehensive research source to make individual searches. Coincidentally, our CIO at DOR received contact from a vendor this week from Accurint/US Claims wanting to know if we're interested in a free trial.

This research project has now evolved into two additional research projects: 1) An extensive cost-analysis study of out-sourcing the scrubbing of accounts, and 2)

Developing business requirements to program our collection system to select and prepare GEAR accounts to be out-sourced and scrubbed as well as uploaded when the information has been received.

Appendix A.

SECTION 12-4-580. Authority allowing department to contract to collect outstanding liabilities.

(A) The department and another governmental entity may contract to allow the department to collect an outstanding liability owed the governmental entity. In administering the provisions of those agreements, the department has all the rights and powers of collection provided pursuant to this title for the collection of taxes and all the rights and powers authorized the governmental entity to which the liability is owed.

(B) The department may charge and retain a reasonable fee for a collection effort made on behalf of a governmental entity. The amount of the fee must be negotiated between the governmental entity and the department. The debtor must be given full credit toward the satisfaction of the debt for the amount of the fee collected by the department pursuant to this section.

(C) Governmental entities that contract with the department pursuant to this section and those entities whose debts are submitted for collection through an association shall indemnify the department against injuries, actions, liabilities, or proceedings arising from the collection or attempted collection by the department of the liability owed to the governmental entity.

(D) As used in this section:

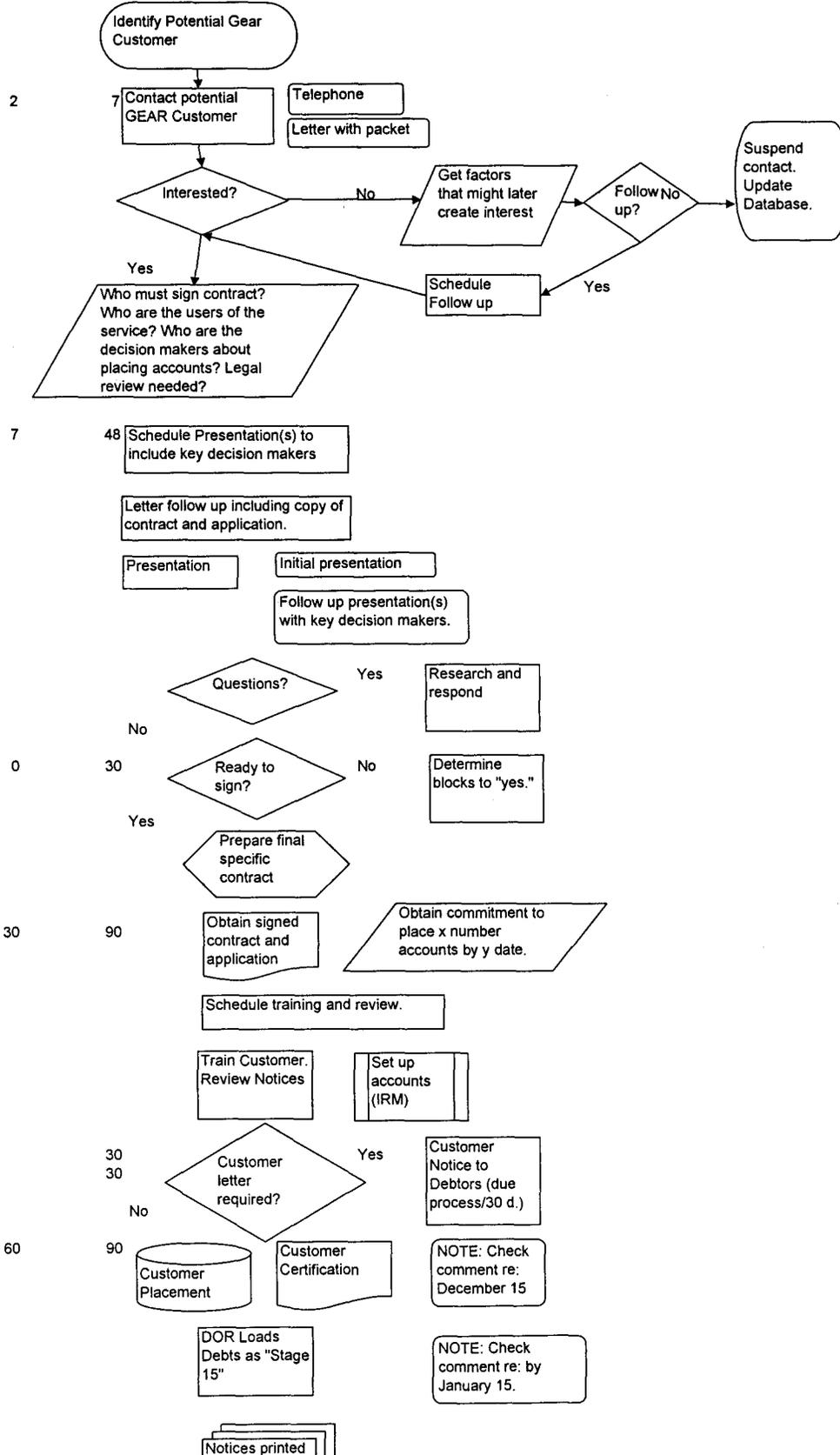
(1) "Governmental entity" means the State and a state agency, board, committee, department, or public institution of higher learning; all political subdivisions of the State; all federal agencies, boards, and commissions; and a federal, state, county, or local governmental or quasi-governmental entity. "Political subdivision" includes the Municipal Association of South Carolina and the South Carolina Association of Counties when these organizations submit claims on behalf of a county or local governmental or quasi-governmental entity.

(2) "Liabilities owed the governmental entity" has the same meaning as a "delinquent debt" as defined in Section 12-56-20(4).

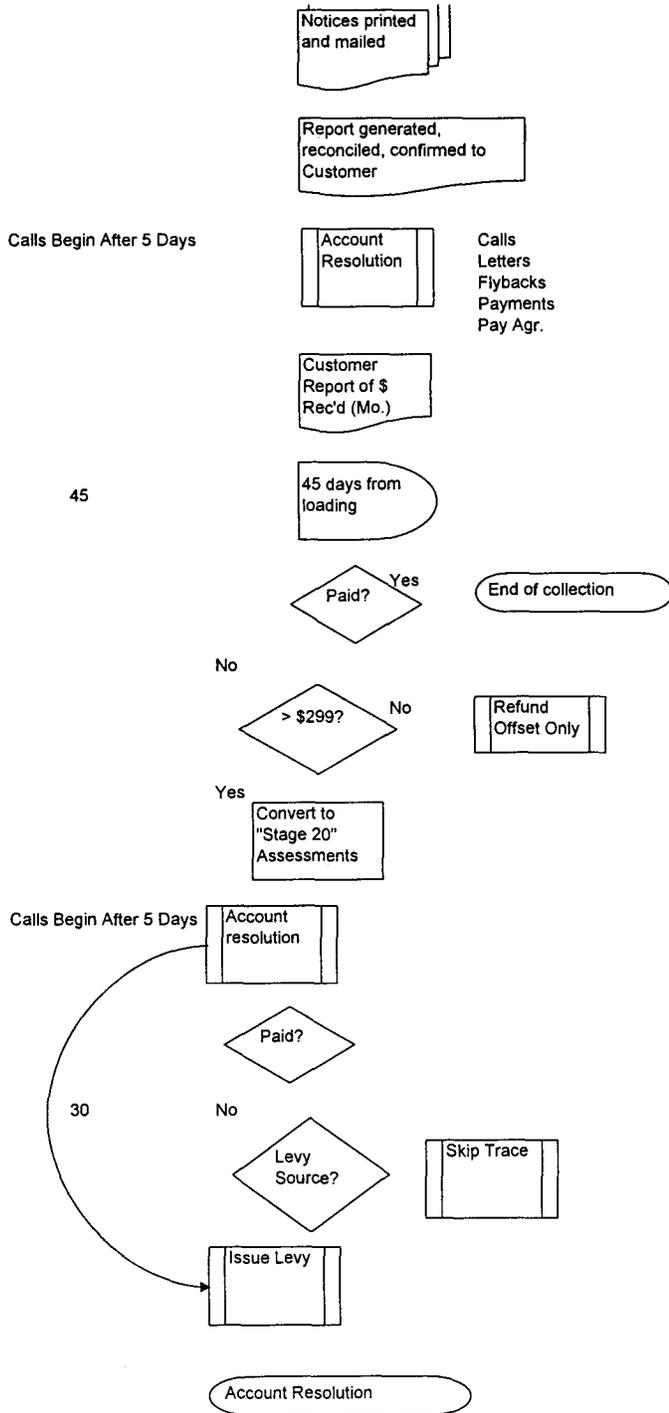
(E) The governmental entity shall notify the debtor of its intention to submit the liability to the department for collection and of the debtor's right to protest not less than thirty days before the liability is submitted to the department for collection. The notice, hearing, appeals, and other provisions contained in Section 12-56-50 through 12-56-120 apply to this section with additional language in the notice letter as specified by the department.

Appendix B.

GEAR Process Flowchart
Min Time To Max Time



Appendix B.



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