OFFICIAL STATE CABINET AGENCY RESPONSE TO THE PERFORMANCE AUDIT ON DEBT-OFFSET PROGRAMS: A TOOL TO HELP WASHINGTON COLLECT DELINQUENT DEBT – NOVEMBER 20, 2014

This coordinated management response to the State Auditor's Office (SAO) performance audit report received on November 5, 2014, is provided by the Office of Financial Management, Health Care Authority and Lottery, and the departments of Employment Security, Enterprise Services, Labor and Industries, Revenue, Social and Health Services, and Transportation.

SAO PERFORMANCE AUDIT OBJECTIVES:

The SAO sought to answer three questions:

1. Can a state debt-offset program help Washington collect delinquent business debt?

2. Can participation in the U.S. Treasury's State Reciprocal Program help Washington collect delinquent business debt?

3. What actions would Washington need to take to develop and implement effective debt-offset programs?

SAO Issue 1:   A state debt-offset program could have helped Washington more quickly recover about $4 million in delinquent business debt in one month.

SAO Issue 2:   Washington could have collected about $1.2 million in a single month through participation in the U.S. Treasury's State Reciprocal Program.

SAO Issue 3:   Pass legislation that includes key components including: select a lead agency; maximize agency participation; develop a sustainable funding model; specify types of debts and payments the program can and cannot offset; establish a priority system for the types of debt that are recovered first; provide due process to debtors; authorize agencies to share confidential data.

SAO Recommendation 1: The Legislature authorize state agencies to collect federal TINs and share payment and debt data for the purposes of conducting state and federal debt offsets, allowing individual agencies to immediately enhance existing collection efforts.

STATE RESPONSE:

We agree with the SAO performance audit report that a single common identifier across agencies is key to an effective comprehensive debt-offset program. We support removing statutory barriers where they exist and where it makes sense.

Action Steps and Time Frame

‣ None applicable. *Directed to the Legislature.*

SAO Recommendation 2: The Legislature authorize state agencies to participate in the U.S. Treasury's State Reciprocal Program.

STATE RESPONSE:

We concur with the SAO recommendation to authorize and remove barriers for state agencies to participate in the U.S. Treasury's State Reciprocal Program. While the U.S. Treasury recently indicated it would be willing to work with individual agencies to establish reciprocal agreements, providing the authority to allow offsets of federal debts and state agency debts — as well as the authority to collect the necessary information and related offset fees — would help maximize participation by Washington State agencies.

Some Washington State agencies already participate in the U.S. Treasury's Offset Program (TOP). The U.S. Treasury reported that Washington State agencies recovered $51.1 million in fiscal year 2013 by participating in its programs. TOP state reciprocal program may help Washington recover debt owed to the state more quickly. However, it is important to note that the debt owed is not new money.

Action Steps and Time Frame

‣ None applicable. *Directed to the Legislature.*

SAO Recommendation 3: The Legislature establish a workgroup with a directive to develop a proposal for the design and implementation of a state and the federal reciprocal debt-offset programs. To efficiently and effectively implement and administer the programs, the workgroup should:

- Design the programs using the leading practices recommended by other states and the U.S. Treasury's State Reciprocal Program requirements
- Identify ways for agencies to obtain accurate federal TINS
- Identify necessary process changes and system upgrades
- Estimate necessary resources
- Identify statutory changes
- Report its progress to the Legislature and the Governor's Office by June 30, 2016

STATE RESPONSE:

We agree that more needs to be known about the costs, benefits and design of a comprehensive automated debt-offset system. We support the SAO's recommendation to the Legislature to establish a work group to further study and provide a proposal. None of the states the SAO interviewed were able to provide a cost estimate for establishing a comprehensive system. Nor did the performance audit examine how much sooner debt might be collected under this kind of program. While there is potential to collect debt sooner, it is not new revenue, and it is unknown how long it would take to amortize the investment. Additional research is still needed, and efforts need to be weighed against state resources and other statewide priorities.

Automated debt-offset between agencies is a complex topic with potential for significant unintended consequences and costs. Assuming the Legislature provides funding to establish a work group, we believe that in addition to the elements the SAO identified, careful consideration must be given to

how an automated cross-agency system may affect businesses. The performance audit did not include input from the business community about potential impacts to Washington's business climate.

In addition to IT system and process changes, the work group should assess:

- Costs/benefits to implement, including cultural changes, communication and training requirements
- Impacts to businesses
- Types of debt feasible to offset

The work group should also consider alignment with enterprise projects underway, including replacement of the state's core financial systems. Washington recently completed the planning and strategy phase for this project, which calls for implementation of an enterprise resource planning system that includes debt-offset functionality. There may be similarities and research available on governance and resources the work group should consider.

Action Steps and Time Frame

‣ None applicable. *Directed to the Legislature.*

SAO Recommendation 4: Taking into account the workgroup's June 2016 report, the Legislature authorize a single comprehensive statute to offset debts owed by businesses with payments to those businesses.

STATE RESPONSE:

The agencies audited for this report recognize the complexity and potential for a comprehensive debt-offset program. If the Legislature provides funding and directive for a work group, we believe there is potential for cross-agency debt-offsets to complement debt collection tools and help rein in the underground economy – those individuals and businesses that conceal their true tax liability to government.

Action Steps and Time Frame

‣ None applicable. *Directed to the Legislature.*