



Washington State Auditor's Office

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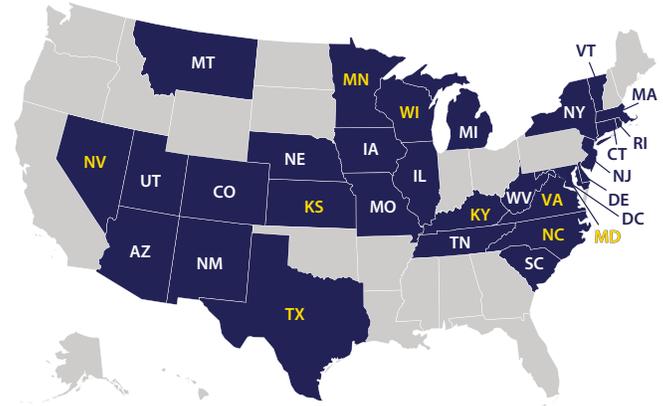
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Debt Offset Programs

State debt-offset programs: A national best practice

Debt-offset programs help states recover delinquent debt by intercepting payments the state makes to businesses and reducing the amount paid by the amount owed. At least 29 states and the District of Columbia use debt-offset programs to recover debt owed by businesses. We talked to nine of these states and reviewed literature on debt collection. We learned that effective offset programs are automated with wide participation across agencies, providing states with benefits such as: fast collections, increased voluntary compliance, recovery of difficult debts, and efficient use of agency's staff resources.

29 states use a debt-offset program to collect business debt
We interviewed nine of them, highlighted in yellow on the map.



Source: State Auditor's Office research.

Washington does not have a comprehensive debt-offset program

As of June 2014, businesses owed five state agencies about \$738 million in outstanding delinquent debt that is more than 90 days past due. Individually, agencies actively pursue debt owed by businesses. They use a variety of collection tools to recover debt including notices to withhold and deliver, garnishments and levies. Several agencies included in our audit have the authority to offset payments internally as well as externally, by cooperating with other agencies.

However, Washington lacks the single comprehensive legal authority needed to offset payments at a statewide level; it also lacks a systematic method to identify when delinquent businesses are receiving payments from the state. Currently, agencies can only detect payments the state makes to delinquent businesses by searching manually through each other's data systems – a process some agencies stated is time-consuming. Agencies included in the audit told us they believe a debt-offset program would be a beneficial additional tool in their debt collection toolkit.

Two debt-offset programs: two effective ways to help Washington collect delinquent business debt

States typically have two options when they set out to recover delinquent business debt with a debt-offset program: a state-only program or a state program working in partnership with the U.S. Treasury's State Reciprocal Program.

A state debt-offset program could have helped Washington more quickly recover about \$4 million in one month

We compared the outstanding delinquent debt that businesses incurred and still owed to five state agencies in fiscal year 2013 to the payments eight state agencies made to those businesses in June 2013. We found agencies paid \$261 million to businesses that, at the end of fiscal year 2013, still owed the state about \$40 million in delinquent debt. We estimate that, if the program had been in place, it could have potentially recovered about \$4 million (10 percent) of this debt in one month.

Quicker debt collections for the state with a state offset program

\$4 million

Washington's estimated debt recovery in June 2013, using a state debt offset program based on leading practices

It is likely agencies recovered some of the \$4 million after June 2013 (the month of our estimate) with existing collection efforts. However, based on our test and benefits reported by other states, we concluded that a debt-offset program could have recovered these funds sooner, freeing up agency staff time to collect other types of debt that cannot be offset.

Accurate and complete taxpayer data is key to maximizing collections with a debt-offset program

We learned that because of a lack of statutory authority to require federal taxpayer identification numbers (TINs), not all agencies track them. About \$29 million (14 percent) of the total outstanding delinquent debt we reviewed lacked or had inaccurate TINs. As a result, we could not estimate all debt a state debt-offset program might have recovered for Washington in June 2013.

Washington could also benefit from participation in the U.S. Treasury's State Reciprocal Program

Four of the nine states we talked with participate in the federal program and said it was beneficial. Debt offset collections in those states ranged from \$1 million to \$8.7 million in 2013. These states also said the federal program helps with recovery of difficult debts, such as debt owed by out-of-state businesses and debt that is up to 10 years old.

Leading practices can guide the way

Our interviews with nine states that operate offset programs helped us identify several leading practices that could guide policy-makers and agencies to develop and implement effective debt-offset programs for Washington. The box to the right lists these practices.

Washington would need to make some changes to implement effective debt-offset programs

States we spoke with recommend establishing the program through legislation that includes key components such as identifying a lead agency, setting up a priority payment system and establishing a sustainable funding model. Implementing the program will also require process changes and system upgrades. We learned that these functions could likely be integrated into the state's existing financial management system with modifications.

Other states report investments in system upgrades as the major expense when launching a debt-offset program. Although we did not conduct a cost estimate for Washington, states report that the investment is worthwhile because the benefits the program provides outweigh its costs.

Other states found benefits in participating in the federal reciprocal debt offset program

Debt offset collections for four states ranged from \$1 million to \$8.7 million in 2013

Leading practices for developing and implementing effective debt-offset programs

- Select a lead agency to implement and administer the programs
- Maximize agency participation to increase collections
- Develop a sustainable funding model to finance the program administrative costs
- Specify types of debts and payments the program can and cannot offset
- Establish a priority system to determine which types of debts are recovered first
- Provide due process to debtors to ensure they are treated fairly
- Authorize agencies to share confidential data needed for debt recovery
- Develop processes that are automated, clear and standardized
- Provide initial and ongoing training to staff at participating agencies

Recommendations in brief



Authorize state agencies to require federal TINs and share payment and debt data



Authorize state agencies to participate in the U.S. Treasury's State Reciprocal Program



Establish a workgroup to develop a proposal for the design and implementation of a state and the federal reciprocal debt-offset programs



Using the workgroup's June 2016 report, authorize a single comprehensive statute to offset debts owed by businesses with payments to those businesses