



STATE OF ILLINOIS

OFFICE OF THE AUDITOR GENERAL

SPECIAL AUDIT OF

AGENCIES' USE OF THE

COMPTROLLER'S OFFSET SYSTEM

SEPTEMBER 1998

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

*To the Legislative Audit Commission, the
Speaker and Minority Leader of the House
of Representatives, the President and
Minority Leader of the Senate, the members
of the General Assembly, and the Governor:*

This is our report of the Special Audit of Agencies' Use of the Comptroller's Offset System.

The audit was conducted pursuant to Legislative Audit Commission Resolution Number 110, which was adopted April 28, 1997. This audit was conducted in accordance with generally accepted government auditing standards and the audit standards promulgated by the Office of the Auditor General at 74 ILAC 420.3 10.

The audit report is transmitted in conformance with Section 3-14 of the Illinois State Auditing Act.

A handwritten signature in black ink, appearing to read "William G. Holland".

WILLIAM G. HOLLAND
Auditor General

Springfield, Illinois
September 1998

REPORT DIGEST

Special Audit

AGENCIES' USE OF THE COMPTROLLER'S OFFSET SYSTEM

Released: September 1998



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SYNOPSIS

LEGISLATIVE AUDIT COMMISSION RESOLUTION 110

LAC Resolution Number 110 directed the Auditor General to conduct a special audit to determine whether the ten agencies with the largest amount of net receivables in 1996 were placing all eligible debts in the Comptroller's Offset System. The Offset System is a collection tool used to intercept State payments to debtors who owe the State money. In 1997, the Comptroller reported recovering \$7.1 million through the Offset System.

At each of the ten agencies we randomly sampled 100 receivables over \$1,000 and more than a year old. We found:

- 522 receivables reviewed (52 percent) did not comply with the provisions of the State Collection Act or the Administrative Code which govern the use of the Offset System. Of these,
 - 330 were not placed in the Offset System by the agencies, and
 - 192 were placed in the Offset System but not within one year, as required by the Act. On average, agencies submitted these 192 receivables to Offset 3.7 years after the debt's due date.
- 478 receivables reviewed (48 percent) complied with the provisions of the State Collection Act or Administrative Code. Of these,
 - 191 were placed by the State agency in the the Offset System within one year, and
 - 287 were not eligible for offset (e.g., a deferred payment plan had been established).

In 121 of the 522 receivables not properly submitted, over \$1 million may have been recovered had the debts been properly submitted to the Offset System. A large portion which may have been recovered, \$947,000, was related to 32 accounts not submitted by the Department of Children and Family Services. DCFS has since begun using its internal offset process to recover approximately \$675,000 of this debt.

We also found that: some receivables in the Offset System were not accurate; differences existed between the balances of receivables in agency records and the balances reported in the Offset System; and some receivable amounts reported to the Comptroller were either understated or overstated.

REPORT CONCLUSIONS

The State Collection Act of 1986 requires that State agencies place debts which exceed \$1,000 and are more than one year old in the Comptroller's Offset System. The one year requirement was reduced to 90 days, effective January 1, 1998. The intercepted payment is then used to offset the debt owed to the State. The Comptroller reported recovering \$7.1 million through the Offset System in calendar year 1997.

Legislative Audit Commission Resolution Number 110 directed the Auditor General to determine whether the ten agencies with the largest amount of net receivables in 1996 were placing all eligible debts in the Offset System. At each of the ten agencies, we randomly sampled 100 receivables over \$1,000 and more than a year old.

Our review of the 1,000 receivables, which totaled \$35.7 million, found the following:

- 522 of the receivables reviewed (52 percent), totaling \$6.1 million, did not comply with the provisions of the State Collection Act or the Administrative Code which govern the use of the Offset System. Of these 522 receivables,
 - 330 were not placed in the Offset System by the agencies, and
 - 192 were placed in the Offset System, but not within the one year time period established in the Act.
- The average age of the 330 receivables not submitted was 4.6 years. Regarding the 192 receivables submitted untimely, on average it took agencies 3.7 years from the due date of the debt to submit them to the Comptroller for offset.
- 478 of the receivables reviewed (48 percent), totaling \$29.6 million, complied with the provisions of the State Collection Act or Administrative Code. Of these 478 receivables,
 - 191 were placed by the State agency in the Offset System within the required one year period, and
 - 287 were exempt or not eligible for

offset (for example, a deferred payment plan had been established).

In 121 of the 522 receivables not properly submitted, over \$1 million in receivables may have been recovered had the debts been properly submitted to the Offset System. A large portion of the amount that may have been recovered, \$947,000, was related to 32 accounts not submitted by the Department of Children and Family Services. In early 1998, DCFS began using its internal offset system to adjust payments to these providers and reported recovering \$675,000 of the \$947,000.

We also identified instances where the amounts of certain receivables maintained in the Offset System were not accurate. The University of Illinois erroneously submitted \$4.8 million of claims that were already in the Offset System. The Department of Transportation submitted a debtor twice for the same claim and had double offsets taken. Almost \$624,000 in child support receivables were incorrectly entered into the Offset System due to an error on a tape submitted by the Department of Public Aid. Comptroller personnel corrected the accounts in April 1998. Inaccuracy in the amount of a debt in the System increases the risk that too much or too little is recovered when a warrant is paid to a debtor of the State.

In the audit, we also found the following:

- In 77 of the receivables sampled there was at least a \$1,000 difference in the balance of the receivable in agency records and the balance reported in the Offset System. If the balances in the Offset System are not correct, this increases the risk that the incorrect amount of funds may be withheld.
- The University of Illinois and the Department of Revenue had instances where receivable amounts reported to the Comptroller were either understated or overstated. Correct receivable information is important to accurately portray the financial position of the State.
- Eighteen receivables totaling over \$684,000 could not be submitted to the Offset System due to a lack of a social security number or employer identification number.

INTRODUCTION

Legislative Audit Commission Resolution Number 110 directed the Auditor General to conduct a special audit of the 10 agencies with the largest amount of net receivables, as identified in the Comptroller's Receivables Report for 1996. The Resolution asked the Auditor General to determine whether all eligible debts have been placed in the Comptroller's Offset System as required by law (see Appendix A).

The Offset System is a collection tool used to intercept payments to debtors who owe the State money.

The Offset System is a collection tool used to intercept payments to debtors who owe the State money. The intercepted payment is then used to offset the debt owed to the State. The Comptroller reported recovering \$7.1 million through the Offset System in calendar year 1997. The 10 agencies in the scope of the special audit included:

- Teachers' Retirement System (TRS),
- Illinois Student Assistance Commission (ISAC),
- University of Illinois (U of I),
- Southern Illinois University (SIU),
- Department of Public Aid (DPA),
- Department of Revenue (DOR),
- Department of Employment Security (DES),
- Department of Children and Family Services (DCFS),
- Department of Transportation (IDOT), and
- Department of Central Management Services (DCMS).

ACCOUNTS RECEIVABLE IN ILLINOIS

As of December 31, 1997, the Comptroller reported that the total receivable balance owed to the State of Illinois was \$7.5 billion.

Accounts receivable are amounts or claims owed to the State by an individual, corporation, or some other entity.

Receivables are assets waiting to be collected. Receivables can occur for a number of reasons.

For example, they can result from overpayments made by a State agency for a good or service, or occur when an individual or corporation does not fully pay taxes due.

DIGEST EXHIBIT 1	
STATE OF ILLINOIS RECEIVABLES	
as of December 31, 1997	
(\$ in millions)	
Total Receivables	\$ 7,465
Less: Long-Term Loans	<u>\$ 2,659</u>
Gross Receivables	\$ 4,806
Less: Est. Uncollectibles	<u>\$ 2,467</u>
Net Receivables	<u>\$ 2,339</u>
Source: 1997 State of Illinois Receivables Report	

As of December 31, 1997, the Comptroller reported that the total receivable balance owed to the State of Illinois was \$7.5 billion. As shown

on Digest Exhibit 1, the \$7.5 billion includes long-term loans (\$2.7 billion) and estimated uncollectible receivables (\$2.5 billion). The Comptroller excludes long-term loans (since long-term loans are not currently due) and estimated uncollectible receivables when calculating net receivables due the State.

The State Collection Act of 1986 (30 ILCS 210) establishes the basic requirements for the collection of accounts receivable. The Act gives the Comptroller’s Office the responsibility to establish by rule the procedures for State agencies to follow in establishing and recording amounts owed to the State of Illinois. It also prescribes the use of the Comptroller’s Offset System.

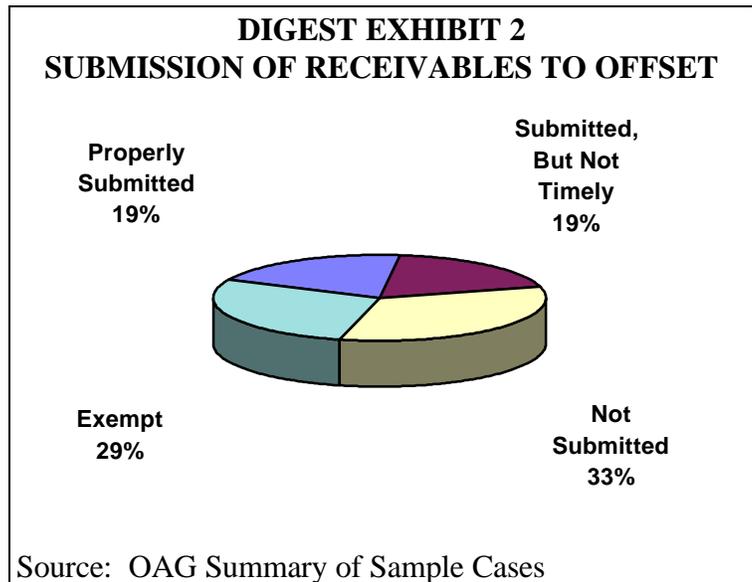
State agencies may use the Comptroller’s Offset System . . . for the collection of debts owed to the agency. All debts that exceed \$1,000 and are more than 1 year past due shall be placed in the Comptroller’s Offset System, unless the State agency shall have entered into a deferred payment plan or demonstrates to the Comptroller’s satisfaction that referral for offset is not cost effective. [emphasis added]

Public Act 90-332, which was effective January 1, 1998, reduced the age of the debt that must be turned over to the Comptroller from 1 year to 90 days. Since this audit reviewed agencies’ accounts receivable as of June 30, 1997, the audit focuses on compliance with the one year requirement. (Report pages 3-6)

AGENCY COMPLIANCE WITH OFFSET REQUIREMENTS

Fifty-two percent of the 1,000 receivables reviewed were not submitted to the Offset System as required by the State Collection Act or the Administrative Code.

As shown on Digest Exhibit 2, 52% (52 percent) of the 1,000 receivables reviewed were not submitted to the Offset System as required by the State Collection Act or the Administrative Code: 330 (33



percent) were not placed in the Offset System; the remaining 192 (19 percent) were placed in the Offset System, but after the one year prescribed time period.

Nineteen percent (191 of the 1,000 receivables) were placed in the Offset System in a timely manner. The remaining 287 receivables were not placed in the System, for reasons such as the agency had established a deferred payment plan with the debtor.

Nineteen percent (191 of the 1,000 receivables) were placed in the Offset System in a timely manner.

The amount owed to the State for the 330 eligible accounts not placed in the Offset System totaled almost \$3.6 million. The average age of these debts was 4.6 years. Digest Exhibit 3 summarizes by agency the eligible receivables not submitted to the Offset System.

As shown in Digest Exhibit 3, over half of the receivables sampled from the University of Illinois, the Department of Revenue, and the Department of Children and Family Services had not been submitted to the Offset System.

Teachers' Retirement System (TRS) had no exceptions. Most of the TRS receivables sampled were Early Retirement Incentive payments which have statutory authority to be paid off over a period of five years.

Some agencies did not submit receivables to the Offset System while the receivables were with a collection agency or with the Attorney General for collection activities. Other agencies stated that it was not cost effective to submit all debts to the Offset System. Department of Revenue officials stated they do not refer all debts because of the resources (staff and computer time) needed to notify debtors and update balances in the Offset System. Rather, the Department obtains a commercial warrant tape and

DIGEST EXHIBIT 3 ELIGIBLE RECEIVABLES SAMPLED WHICH WERE NOT SUBMITTED TO THE COMPTROLLER'S OFFSET SYSTEM			
Agency	# of Eligible Cases Not in Offset	Dollar Amt of Debt at 6/30/97	Average Age of the Debt (Yrs)
U of I	73	\$224,945.04	4.8
DOR	72	\$262,266.90	5.8
DCFS	51	\$2,387,491.21	1.6
DES	47	\$218,302.64	4.8
ISAC	42	\$330,346.61	6.5
CMS	16	\$48,434.64	1.1
IDOT	13	\$68,228.98	2.7
DPA	8	\$23,984.74	11.4
SIU	8	\$11,643.00	1.2
TRS	0	\$0.00	0.0
Total:	330	\$3,575,643.76	* 4.6
NOTE: * The average age of 4.6 years is calculated by dividing the total age of the 330 debts (1,501.7 years) by 330.			
Source: OAG Summary of Sample Cases			

Some agencies stated that it was not cost effective to submit all debts to the Offset System.

runs its accounts receivable against that listing. If there is a match, then they send that receivable to the Offset System.

One of the exemptions from submitting claims to the Offset System in the State Collection Act is if the agency “demonstrates to the Comptroller’s satisfaction that referral for offset is not cost effective” (30 ILCS 210/5). The Illinois Administrative Code (74 ILAC 320.50) provides examples where referral may not be cost effective. Comptroller officials stated that documentation is required from an agency to demonstrate that submission of a receivable is not cost-effective.

Nineteen percent of the receivables sampled were submitted to the Comptroller’s Offset System, but after a year had passed.

In addition to the 330 receivables not submitted, another 192 accounts (19 percent) were not submitted to the Comptroller’s Offset System in a timely manner. The amount owed to the State for these 192 receivables totaled over \$2.5 million. On average it took agencies 3.7 years from the due date of the 192 debts to submit them to the Comptroller. (Report pages 11-15)

OFFSET RECOVERIES

For the 383 sampled receivables which were submitted to the Offset System, the Comptroller recovered \$21,544. The Comptroller offset \$18,695.44 in the 191 receivables properly submitted, for an average offset of \$97.88. In addition, the Comptroller offset \$2,848.70 for the 192 receivables that were untimely placed in the Offset System. The number of receivables for which money was offset totaled 76, or 20 percent of the 383 receivables sampled which were placed in the Offset System.

We also analyzed our sample of receivables to determine how much might have been recovered if agencies had submitted the 192 untimely receivables in a timely manner or had submitted the 330 eligible receivables which were not submitted. We determined that offsets could have been taken in 121 of these 522 receivables (23 percent), for a potential recovery of \$1,019,525.

We determined that offsets totaling \$1,019,525 could have been taken in 121 of the 522 receivables which were not submitted, or submitted untimely, to the Offset System.

Most of the potential recoveries, \$1.006 million, were from 88 of the 330 receivables which were never submitted to Offset. The remaining \$13,915 in potential recovery was lost because the 192 receivables were not submitted in a timely fashion. For 33 of the 192 receivables, payments were made to debtors between the time the receivable was one year old and the time when it was submitted to Offset. Had the receivables been submitted within one year, these payments would have been available for offset.

A large portion of the potential recoveries was associated with DCFS receivables. Thirty-two debts from DCFS that were not submitted to the Offset System or submitted after one year had State payments sufficient to recover \$947,242 in debt owed to the State. In the OAG Compliance Audit for the two years ended June 30, 1996, DCFS was cited for failure to monitor contract advances and accounts receivable related to Board receivables. In early 1998, DCFS began using its internal offset system to adjust payments to these providers and reported recovering \$675,000 of the \$947,242.

However, a DCFS official noted that 12 providers to whom overpayments totaling more than \$376,000 were made no longer do business with the Department. The Department is considering placing these receivables with the Comptroller's Offset System.

Most of the State payments which could have been recovered were either from income tax refunds or commercial vendor payments processed by the Comptroller. However, there was an instance where a State employee could have had payroll dollars offset had DCFS submitted the receivable and an instance where a lottery winner would have had a \$2,500 prize offset had the Department of Employment Security submitted the account receivable.

Based on our sample of 1,000 receivables, we projected that potentially \$13.5 million could have been recovered if agencies had submitted all eligible accounts receivable that exceeded \$1,000 and were over one year old.

Based on our sample of 1,000 receivables, we projected that potentially \$13.5 million could have been recovered if agencies had submitted **all** eligible accounts receivable that exceeded \$1,000 and were over one year old. Since many agency receivables were several years old, this \$13.5 million does not represent an annual recovery amount, but rather, would be spread over several years. Also, some of these offsets may be protested by the debtor and may ultimately not be recovered. However, based on the results of our sample, there are additional monies that the State could be recovering if agencies submitted receivables as required. (Report pages 15-18)

OTHER FINDINGS

In our review of agencies' reporting of receivables to the Comptroller's Offset System, we identified other areas of note:

- **Failure to Update Balances:** Seventy-seven of our receivables sampled had significant differences in the balance reported to the Auditor General at June 30, 1997 and the balance that was in the Offset System. Reasons for the differences between the two amounts may be due to payments received by the agencies but not recorded with the

Comptroller or situations where an agency continues to add additional interest and/or penalties to the account. Failure to notify the Comptroller can result in situations where State warrants are incorrectly offset. (Report pages 20-21)

Eighteen sample cases with debt totaling over \$684,000 could not be submitted to the Offset System due to a lack of an identification number.

- **Lack of Identification Numbers:** The ability of the Comptroller to offset State warrants is dependent upon having a valid debtor's identification number (SSN or FEIN). Inability to provide an identification number makes the matching of warrants and debtors impossible. Eighteen sample cases with debt totaling over \$684,000 could not be submitted to the Offset System due to a lack of an identification number. (Report pages 21-22)
- **Offsets Against State Agencies:** The Comptroller withheld funds for debts that were submitted to the Offset System by one State agency against another State agency in two of the cases sampled. The State Collection Act does not prohibit State agencies from using the Offset System to recover debts owed to them by another State agency. However, the Comptroller's procedures which provide guidance to agencies regarding the referral of debt to the Offset System excludes claims against another State agency. Comptroller officials stated they saw no legal reason why offsets could not be taken against payments to other State agencies. The officials stated that they will be making some changes in the Comptroller's administrative rules and will look at this issue. (Report page 23)
- **Inaccurate Receivables Balances in the Offset System.** The University of Illinois erroneously submitted \$4.8 million of claims that were already in the Offset System. Almost \$624,000 in child support receivables were incorrectly entered into the Offset System due to an error on a tape submitted by the Department of Public Aid. Comptroller personnel corrected the accounts in April 1998. Inaccuracy in the amount of a debt in the System increases the risk that too much or too little is recovered when a warrant is paid to a debtor of the State. (Report pages 26-28)
- **Reporting of Receivables:** The University of Illinois and the Department of Revenue had instances where receivable amounts reported to the Comptroller were either understated or overstated. Correct receivable information is important to accurately portray the financial position of the State. (Report pages 25-26)

RECOMMENDATIONS

The audit report contains six recommendations to State agencies. The agencies generally concurred with the recommendations. Agency responses are included after each recommendation, as well as in Appendix D of the audit report.



WILLIAM G. HOLLAND
Auditor General

September 1998

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Chapter 1

INTRODUCTION AND BACKGROUND

REPORT CONCLUSIONS

The State Collection Act of 1986 requires that State agencies place debts which exceed \$1,000 and are more than one year old in the Comptroller's Offset System. The one year requirement was reduced to 90 days, effective January 1, 1998. The Offset System is a collection tool used to intercept payments to debtors who owe the State money. The intercepted payment is then used to offset the debt owed to the State. The Comptroller reported recovering \$7.1 million through the Offset System in calendar year 1997.

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 - 330 were not placed in the Offset System by the agencies, and
 - 192 were placed in the Offset System, but not within the one year time period established in the Act.
- The average age of the 330 receivables not submitted was 4.6 years. Regarding the 192 receivables submitted untimely, on average it took agencies 3.7 years from the due date of the debt to submit them to the Comptroller for offset.
- 478 of the receivables reviewed (48 percent), totaling \$29.6 million, complied with the provisions of the State Collection Act or Administrative Code. Of these 478 receivables,
 - 191 were placed by the State agency in the Offset System within the required one year period, and
 - 287 cases were exempt or not eligible for offset (for example, a deferred payment plan had been established).

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We also identified instances where the amounts of certain receivables maintained in the Offset System were not accurate. The University of Illinois erroneously submitted \$4.8 million of claims that were already in the Offset System. The Department of Transportation submitted a debtor twice for the same claim and had double offsets taken. Almost \$624,000 in child support receivables were incorrectly entered into the Offset System due to an error on a tape submitted by the Department of Public Aid. Comptroller personnel corrected the accounts in April 1998. Inaccuracy in the amount of a debt in the System increases the risk that too much or too little is recovered when a warrant is paid to a debtor of the State.

In the audit, we also found the following:

- In 77 of our sample cases there was at least a \$1,000 difference in the balance of the receivable in agency records and the balance reported in the Offset System. If the balances in the Offset System are not correct, this increases the risk that the incorrect amount of funds may be withheld.
- The University of Illinois and the Department of Revenue had instances where receivable amounts reported to the Comptroller were either understated or overstated. Correct receivable information is important to accurately portray the financial position of the State.
- Eighteen receivables sampled with debt totaling over \$684,000 could not be submitted to the Offset System due to a lack of a social security number or employer identification number.

INTRODUCTION

On April 28, 1997, the Legislative Audit Commission adopted Resolution Number 110 directing the Auditor General to conduct a special audit of the 10 agencies with the largest amount of net receivables, as identified in the Comptroller's Receivables Report for 1996. The Resolution asked the Auditor General to determine whether all eligible debts have been placed in the Comptroller's Offset System as required by law (see Appendix A). We examined accounts receivable that exceeded \$1,000 and were older than one year as of June 30, 1997. We present background information from the Calendar Year 1997 State of Illinois Receivables report. The 10 agencies in the scope of the special audit included:

- Teachers' Retirement System (TRS),
- Illinois Student Assistance Commission (ISAC),
- University of Illinois (U of I),
- Southern Illinois University (SIU),
- Department of Public Aid (DPA),
- Department of Revenue (DOR),
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- Department of Children and Family Services (DCFS),
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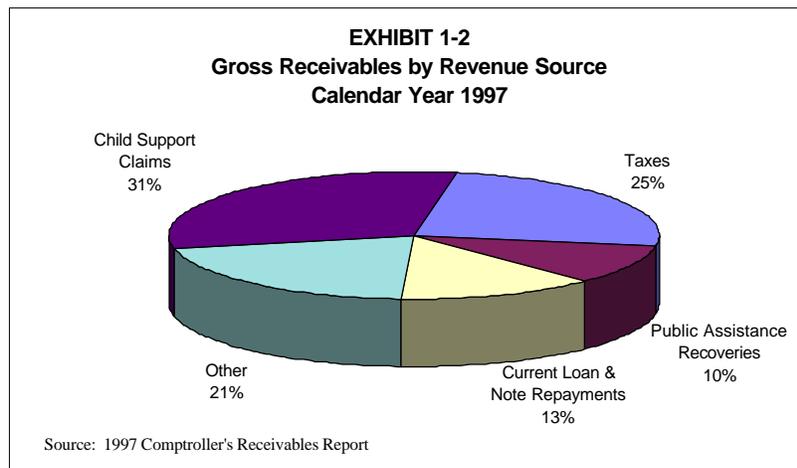
ACCOUNTS RECEIVABLE IN ILLINOIS

Accounts receivable are amounts or claims owed to the State by an individual, corporation, or some other entity. Receivables are assets waiting to be collected. Receivables can occur for a number of reasons. For example, they can result from overpayments made by a State agency for a good or service, or occur when an individual or corporation does not fully pay taxes due.

As of December 31, 1997, the Comptroller reported that the total receivable balance owed to the State of Illinois was \$7.5 billion. As shown on Exhibit 1-1, the \$7.5 billion includes long-term loans (\$2.7 billion). Since long-term loans are not currently due, the Comptroller excludes them when calculating gross receivables due the State. Long-term loans include loans made by the Housing Development Authority and Illinois Student Assistance Commission.

EXHIBIT 1-1 STATE OF ILLINOIS RECEIVABLES as of December 31, 1997 (\$ in millions)	
Total Receivables	\$ 7,465
Less: Long-Term Loans	<u>\$ 2,659</u>
Gross Receivables	\$ 4,806
Less: Est. Uncollectibles	<u>\$ 2,467</u>
Net Receivables	<u>\$ 2,339</u>
Source: 1997 State of Illinois Receivables Report	

The \$4.8 billion in gross receivables comes from a variety of sources. As shown on Exhibit 1-2, the largest component of gross receivables was child support claims (31 percent or \$1.5 billion). Of the \$1.5 billion of child support claims, \$684 million were accounts the State collected in a trustee capacity for custodial parents not on public assistance; the remaining \$779 million were amounts owed to custodial parents on public assistance. The taxes receivable category includes income and sales



taxes collected by the Department of Revenue, as well as taxes owed to the Department of Employment Security by employers.

The difference between gross and net receivables shown in Exhibit 1-1 is estimated uncollectible accounts. According to the Comptroller, 33 percent (\$2.5 billion) of the State's receivables in 1997 was considered uncollectible. Agencies periodically review their accounts and estimate those receivables that they feel they will reasonably not collect. This provides agency management with a clearer picture of available assets and allows collectors to focus on high opportunity accounts.

State agencies with the largest net receivables in 1996 were the focus of the special audit directed by Resolution Number 110. Exhibit 1-3 lists those agencies, along with the amount of gross and net receivables they had, as of December 31, 1996. The ten largest receivable agencies comprised 89 percent of the State's net receivables for 1996. The remaining 11 percent of receivables was held by over 50 other agencies.

EXHIBIT 1-3 LARGEST TEN RECEIVABLE AGENCIES at December 31, 1996 (\$ in millions)			
Agency	Type of Receivable		
	Gross	Uncollectible	Net
Dept. of Public Aid	\$ 1,960	\$ 1,136	\$ 824
Teachers' Retirement	248	0	248
Dept. of Revenue	1,005	801	204
Student Asst. Comm.	141	9	132
Univ. of Illinois	274	154	120
Employment Security	323	258	65
Children & Fam. Serv.	80	21	59
Dept. of Transportation	40	2	38
Central Mgmt. Serv.	39	2	37
Southern Ill. Univ.	28	8	20
Total-Top 10	\$4,138	\$2,391	\$1,747
Total-All Other	305	92	213
Total-All Agencies	\$4,443	\$2,483	\$1,960
Source: Comptroller's 1996 Receivables Report			

LEGAL REQUIREMENTS

Illinois statutes, the Administrative Code, and procedures developed by the State Comptroller guide the collection of debts owed to the State of Illinois, including collection through the use of the Comptroller's Offset System.

The State Collection Act of 1986 (30 ILCS 210) establishes the basic requirements for the collection of accounts receivable, including the use of the Comptroller's Offset System. The Act states that "It is hereby declared to be the public policy of this State to aggressively pursue the collection of accounts or claims due and payable to the State of Illinois through all reasonable means."

The Act gives the Comptroller's Office the responsibility to establish by rule the procedures for State agencies to follow in establishing and recording amounts owed to the State of Illinois. It also prescribes the use of the Comptroller's Offset System.

*State agencies may use the Comptroller's Offset System . . . for the collection of debts owed to the agency. All debts that exceed \$1,000 and are more than 1 year past due **shall** be placed in the Comptroller's Offset System, unless the State agency shall have entered into a deferred payment plan or demonstrates to the Comptroller's satisfaction that referral for offset is not cost effective. [emphasis added]*

Nine of the ten agencies included within the scope of this audit were statutorily required to comply with the provisions of the State Collection Act. The State Collection Act specifically excludes the student loan programs of the Illinois Student Assistance Commission (ISAC) from having to comply with the provisions of the Act. However, when a borrower refuses to pay its debt, the Illinois Administrative Code requires ISAC to “direct the State Comptroller to offset any payment from the State Treasurer to the borrower” (23 ILAC 2720.70). Consequently, ISAC’s submission of defaulted student loans to the Offset System was reviewed as part of this audit.

The State Comptroller Act (15 ILCS 405/10.05) provides the Comptroller with the authority to deduct from any warrant payable to a person, organization, or commercial enterprise the amount of money owed to the State or its agencies by that person, organization, or enterprise. The deductions include payments due for child support and delinquent student loans. In the case of personal services payments, the amount deducted cannot exceed 25 percent of the net amount of the payment. A specific section of the Accounting Operations in the Comptroller’s Office, known as the Collections Unit, has the responsibility to see that the Comptroller’s Office complies with its responsibilities under Section 405/10.05.

The Illinois Administrative Code provides more detailed guidance regarding receivables, including the use of the Comptroller’s Offset System (74 ILAC 320). The Code states that a receivable is created when the transaction has been completed to the extent that payment is the only unconsummated act, and that the claim must be measurable in terms of a monetary value. The Code restates the provisions of the State Collection Act requiring State agencies to use the Offset System if the receivable exceeds \$1,000 and is more than one year past due.

The Code goes on to exempt two types of receivables from the Offset requirement: those for which the State agency has entered into a deferred payment plan, and those for which the agency has demonstrated to the Comptroller’s satisfaction that referral to offset is not cost-effective. The Code lists examples of where referrals may not be cost-effective. This issue is discussed in greater detail in Chapter Two. Another section of the Illinois Administrative Code (74 ILAC 285) provides additional guidance regarding processing offset claims.

Section 26 of the Comptroller’s Statewide Accounting Management System (SAMS) manual sets forth procedures to be used by State agencies to comply with the State Collection Act and to more efficiently and effectively manage their receivables. Standards for referral to the Comptroller’s Offset System are prescribed in Procedure 26.40.20. The Procedure lists three instances when a debt of over \$1,000 and more than one year past due need not be referred: (1) a deferred payment plan exists, (2) the agency demonstrates to the Comptroller’s satisfaction that the referral is not cost effective, and (3) claims against a State agency.

While the Comptroller encourages the use of the Offset System for lesser amounts (and some agencies do submit amounts less than \$1,000), there is no formal requirement for agencies to do so. However, Public Act 90-332, which was effective January 1, 1998, reduced the age of the debt that must be turned over to the Comptroller from 1 year to 90 days. Since this audit reviewed agencies' accounts receivable as of June 30, 1997, the audit focuses on agencies' compliance with the one year requirement.

COMPTROLLER'S OFFSET SYSTEM

The Comptroller's Offset System is a collection tool available to State agencies which deducts amounts from State warrants to individuals, vendors, or other payees in order to pay debt such entities owe the State. By using the Offset System, the State can recoup debt owed to one agency from payments made by another agency.

When an agency desires to process a claim through the Comptroller's Offset System, they submit an Involuntary Withholding Request form or a certified magnetic tape to the Comptroller. The Comptroller loads the request into the Active Claims File in SAMS. In the nightly processing cycle, the payments are matched against the Active Claim File and forwarded to the Collections Unit to determine if the warrants are exempt from offset or not.

If the warrants are Commercial payments or income tax refunds, they are intercepted prior to writing the warrant. Payroll, Contractual Payroll, and Retirement payments are intercepted in the Warrant Distribution Unit and sent back to the Collections Unit for physical voiding. Replacement warrants are processed for any balance that will be paid to the debtor and the offset monies are placed in the State Offset Claims Fund pending a protest from the debtor. If no protest is received within 30 days, the funds are paid to the claiming agency from the Offset Fund on a State warrant.

As shown in Exhibit 1-4, State agencies had over \$2.5 billion in accounts receivable that were over one year old as of December 31, 1997. The ten agencies within the scope of this audit accounted for 87 percent of these receivables. The Comptroller reported recovering \$7,104,862 from Offset System deductions to State warrants during calendar year 1997. The Comptroller was unable to provide the OAG with the amount each agency had in the Offset System at December 31, 1997 as the System maintains operating rather than historical balances.

SCOPE AND METHODOLOGY

This audit was conducted in accordance with generally accepted government auditing standards and the audit standards promulgated by the Office of the Auditor General at 74 ILAC 420.310. The objective of the audit was to determine whether the 10 agencies with the largest amount of net receivables as identified in the Comptroller's 1996 Receivables Report were placing all eligible debts in the Comptroller's Offset System.

The Illinois State Auditing Act defines "special audit" as a "financial audit of limited scope" (30 ILCS 5/1-16). While the scope of this special audit focused on the 10 agencies' use of the Comptroller's Offset System to collect receivables, the audit also reports on other receivable-related issues.

We requested, and relied on agencies to provide, a listing of accounts receivable which were greater than \$1,000 and older than one year as of June 30, 1997 for our substantive testing. We compared the totals for each type of receivable on the agency listings with the quarterly receivable report submitted to the Comptroller for reasonableness. When significant differences were identified, we followed up with the agencies for an explanation of the differences.

A random sample of 100 cases was selected at each of the 10 agencies to review during fieldwork. The total sample of 1,000 cases comprised over \$35.7 million in debt owed to the State (see Appendix B for audit methodology).

EXHIBIT 1-4 OFFSET STATISTICS Calendar Year 1997 (\$ in thousands)		
Agency	A/R Over 1 Year Old	Amt Collected through Offset
Dept. of Public Aid	\$1,065,683	\$3,919
Teachers' Retirement	\$214	\$0
Dept. of Revenue	\$785,579	\$397
Student Asst. Comm.	\$4,179	\$639
Univ. of Illinois	\$73,622	\$109
Employment Security	\$224,435	\$1,465
Children & Fam. Serv.	\$20,606	\$48
Dept. of Transportation	\$2,936	\$85
Central Mgmt. Serv.	** \$0	\$5
Southern Il. Univ.	\$6,477	\$29
Total-Top 10	\$2,183,731	* \$6,697
Total-All Other	\$326,623	\$408
Total-All Agencies	\$2,510,354	\$7,105
Note: Part of Public Aid was reorganized to the Dept. of Human Services during 1997. * Does not add due to rounding. ** CMS does not report an amount over one year old to the Comptroller on quarterly statements.		
Source: OAG Summary of Comptroller Information		

In conducting the audit, we reviewed the statutes and administrative rules governing the use of the Comptroller's Offset System. We also assessed management controls that were relevant to the audit objective. We interviewed officials at each of the ten agencies as well as members of the Comptroller's staff and the Office of Attorney General.

Some of the general survey work was completed by special assistant auditors conducting financial or compliance audits at DPA, TRS, DOR, ISAC, U of I, IDOT, DCMS and SIU. Staff from the Office of the Auditor General performed the survey audit work at DES and DCFS, fieldwork testing, and analysis.

Verification of debts placed in the Comptroller's Offset System was accomplished by obtaining access to the Comptroller's Involuntary Withholding System within the Statewide Accounting Management System (SAMS). Original entry dates for debts placed prior to Fiscal Year 1998 were obtained from a microfiche review of the CUSAS system.

To determine if State funds were paid to debtors in our fieldwork sample, we examined four sources: (1) commercial vendor data from the Comptroller for the period of July 1, 1995 through December 31, 1997; (2) State payroll data from the Comptroller for calendar years 1996 and 1997; (3) State Lottery payments made from check processing facilities from 1995-1997; and (4) income tax return information, supplied by the Department of Revenue, for the period subsequent to the due date for each debt. The Comptroller maintains a list of appropriation account codes from which no offsets will be taken. For example, there may be legal restrictions which prohibit a particular appropriation from being offset. In our review to identify which payments could have been offset we took the list into consideration when making our calculations.

REPORT ORGANIZATION

This report is organized into three chapters. Included in the remaining chapters are the results of our testing of agencies' compliance with the provisions of the State Collection Act and estimates of the amount of money the State failed to recover due to agency non-compliance with the Act. The rest of the report is organized as follows:

- Chapter Two - Agency Compliance With Using The Comptroller's Offset System
- Chapter Three - Other Issues

Chapter 2

AGENCY COMPLIANCE WITH USING THE COMPTROLLER'S OFFSET SYSTEM

CHAPTER CONCLUSIONS

Legislative Audit Commission Resolution Number 110 directed the Auditor General to determine whether the ten agencies with the largest amount of net receivables in 1996 were placing all eligible debts in the Offset System. At each of the ten agencies we randomly sampled 100 receivables over \$1,000 and more than a year old.

Our review of the 1,000 receivables, which totaled \$35.7 million, found the following:

- 522 of the receivables reviewed (52 percent), totaling \$6.1 million, did not comply with the provisions of the State Collection Act or the Administrative Code which govern the use of the Offset System. Of these 522 receivables,
 - 330 were not placed in the Offset System by the agencies, and
 - 192 were placed in the Offset System, but not within the one year time period established in the Act.
- The average age of the 330 receivables not submitted was 4.6 years. Regarding the 192 receivables submitted untimely, on average it took agencies 3.7 years from the due date of the debt to submit them to the Comptroller for offset.
- 478 of the receivables reviewed (48 percent), totaling \$29.6 million, complied with the provisions of the State Collection Act or Administrative Code. Of these 478 receivables,
 - 191 were placed by the State agency in the Offset System within the required one year period, and
 - 287 cases were exempt and not eligible for offset (for example, a deferred payment plan had been established).

In 121 of the 522 receivables not properly submitted, over \$1 million in receivables may have been recovered had the debts been submitted to the Offset System. A large portion of the amount that may have been recovered, \$947,000, was related to 32 accounts not submitted by the Department of Children and Family Services. In early 1998, DCFS began using its internal offset system to adjust payments to these providers and reported recovering \$675,000 of the \$947,000.

Seventy-seven of our sample cases had at least a \$1,000 difference in the balance of the receivable in agency records and the balance reported in the Offset System. If the balances in the Offset System are not correct, this increases the risk that the incorrect amount of funds may be withheld. Also, 18 sample cases with debt totaling over \$684,000 could not be submitted to the Offset System due to a lack of a social security number or employer identification number.

AGENCY ACCOUNTS RECEIVABLE

Receivables may be due from private individuals or business entities, State employees, other State agencies and institutions, and local or federal government agencies. There are many different types of agency receivables.

Taxes Receivable and Related Penalties and Interest. These represent amounts owed to the State by individuals or organizations for uncollected taxes, including individual and corporate income taxes, sales taxes, motor fuel taxes, and employment taxes. The Department of Revenue (DOR) manages taxes receivable for: Retailer's Occupation; Business, Individual and Withholding Income; and Excise in the amount of \$1.3 billion. The Department of Employment Security (DES) carries Unemployment Taxes Receivable on its books. DES had over 11,000 receivables for \$133 million in unemployment taxes receivable that met the two criteria for submission of debts to the Comptroller's Offset System.

Loans and Notes Receivable. These are loans to individuals or organizations other than State agencies. The Illinois Student Assistance Commission (ISAC) carries amounts for defaulted student loans. ISAC reported over \$179 million in defaulted student loans that were at least \$1,000 and a year old. The University of Illinois (U of I) and Southern Illinois University (SIU) also had outstanding loans to students that have not been repaid. U of I reported a population of \$5.2 million in student loans to the Auditor General from which to select our fieldwork sample. SIU reported over \$438,000 for unpaid student loans.

Interagency/Intergovernmental Receivables. These receivables are due from other State agencies or from units of the federal or local governments. The Department of Central Management Services (CMS) holds receivables in the revolving funds for telecommunications, computer processing, and garage services. At June 30, 1997, CMS had interagency receivables that were at least one year old of: \$1.3 million in unpaid telephone bills; over \$691,000 in unpaid computer processing bills; and over \$62,000 in unpaid bills relative to the State Garage Revolving Fund.

Overpayments. In many instances the receivable resulted from an overpayment to an individual or organization. The Department of Public Aid carries receivables for overpayments of public assistance to clients. Public Aid reported 106,433 client overpayment accounts totaling almost \$375 million as a part of the population of receivables that met the two criteria from the State Collections Act for submission to the Comptroller's Offset System. DES carries receivables for benefit overpayments to unemployment recipients. From the population of accounts receivable submitted to the Auditor General, DES had almost 34,000 benefit overpayments totaling just over \$88 million. The Department of Children and Family Services (DCFS) has a classification of receivables known as "Board" receivables which occur due to an overpayment to an institutional or substitute care provider. According to DCFS staff, overpayments are generally the result of

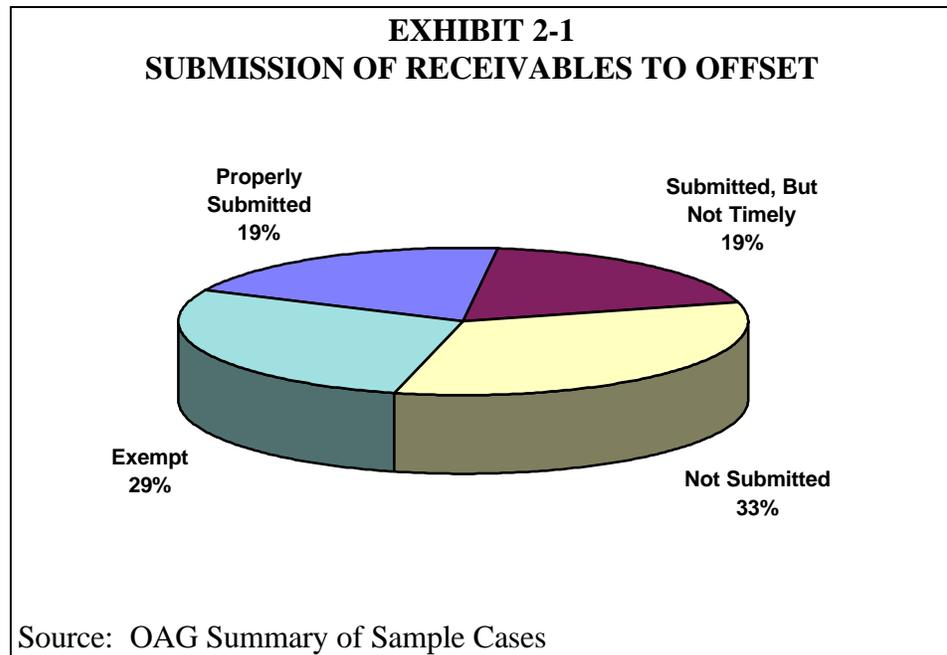
problems with reconciling estimated payments to service providers with the actual claims for services submitted by the providers. DCFS reported 84 Board receivables totaling almost \$3.2 million to the Auditor General that were older than one year and greater than \$1,000. Most of these receivables were to various institutional care providers, such as not-for-profit agencies that facilitate substitute care and other substitute care providers.

Appendix C to this report provides additional details on agency receivables including: types of receivables, collection methods, number of staff devoted to collections, types of accounts that are and are not submitted to the Offset System, and procedures used by agencies to submit accounts to the Offset System.

AGENCY COMPLIANCE WITH THE STATE COLLECTION ACT

Legislative Audit Commission Resolution Number 110 directed the Auditor General to determine if all eligible debts for the 10 largest net receivable agencies in 1996 had been placed with the Comptroller’s Offset System pursuant to the provisions of the State Collection Act of 1986. To test agency compliance, we selected random samples at each of the 10 agencies of 100 accounts receivable.

These cases were reviewed by examining agency documentation and accessing the Involuntary Withholding System in the Comptroller’s Statewide Accounting Management System (SAMS). Additionally, we investigated whether any State monies could have been recovered for our sample by looking at payments made by the Comptroller (commercial vendor and payroll), Department of Revenue (business and individual income tax refunds), and the Department of the Lottery (lottery winnings processed at check writing facilities).



As shown on Exhibit 2-1, 522 (52 percent) of the 1,000 receivables reviewed were not submitted to the Offset System as required by the State Collection Act or the Administrative Code: 330 (33 percent) were not placed in the Offset System; the remaining 192 (19 percent) receivables were placed in the Offset System, but after the one year prescribed time period.

Nineteen percent (191 of the 1,000 receivables) were placed in the Offset System in a timely manner. The remaining 287 receivables were exempt from being placed in the System, for reasons such as the agency had established a deferred payment plan with the debtor, or the debtor was another State agency (since SAMS procedures stated the Offset System is not to be used in the collection of debts between State agencies). The following sections discuss in greater detail the eligible receivables which agencies did not place in the Offset System and the related dollar impact.

Eligible Accounts Receivable Not Submitted to the Offset System

Thirty-three percent (330 of 1,000) of the cases sampled were not submitted to the Comptroller’s Offset System as required by State law and the Illinois Administrative Code. The amount owed to the State for these 330 accounts totaled almost \$3.6 million. The average age of the debts not placed in the Offset System was 4.6 years.

Exhibit 2-2 summarizes by agency the eligible receivables not submitted to the Offset System. As shown in Exhibit 2-2, over half of the receivables sampled from the University of Illinois, the Department of Revenue, and the Department of Children and Family Services had not been submitted to the Offset System. Teachers’ Retirement System (TRS) had no exceptions. Most of TRS receivables sampled were Early Retirement Incentive payments which have statutory authority to be paid off over a period of five years.

Some of the reasons agencies did not submit receivables to the Offset System included the following:

- **University of Illinois:** Hospital accounts receivable currently with collection agencies were not submitted to the Offset System.

EXHIBIT 2-2 SAMPLED RECEIVABLES WHICH WERE ELIGIBLE FOR, BUT NOT SUBMITTED TO THE COMPTROLLER'S OFFSET SYSTEM			
Agency	# of Eligible Cases Not in Offset	Dollar Amount of Debt at 6/30/97	Avg. Age of Debt (Yrs)
U of I	73	\$224,945.04	4.8
DOR	72	\$262,266.90	5.8
DCFS	51	\$2,387,491.21	1.6
DES	47	\$218,302.64	4.8
ISAC	42	\$330,346.61	6.5
CMS	16	\$48,434.64	1.1
IDOT	13	\$68,228.98	2.7
DPA	8	\$23,984.74	11.4
SIU	8	\$11,643.00	1.2
TRS	0	\$0.00	0.0
Total:	330	\$3,575,643.76	* 4.6
NOTE: * The average age of 4.6 years is calculated by dividing the total age of the 330 debts (1,501.7 years) by 330.			
Source: OAG Summary of Sample Cases			

- **Revenue:** Accounts were submitted only after the Department determines, through a systematic match of commercial warrant tapes and employment tapes, that there is a chance of a State warrant being issued to the debtor. The Department stated it is not cost-effective to send all receivables to the Comptroller’s Office. However, single pay warrants or instances where the debtor receives Lottery winnings would be missed using Revenue’s methodology. The Department uses an internal offset system to apply tax return payments to individuals and businesses who have an outstanding debt with Revenue.

- **DCFS:** DCFS staff stated that they do not place Board receivables with the Comptroller’s Offset System until the provider leaves the service of the Department. The Department prefers to use its internal offset system to collect Board receivables so that the care of the child is not jeopardized. If a provider no longer provides substitute care for the Department, other means of collection are pursued, including the Comptroller’s Offset System. However, the receivables we sampled were at least one and one-half years overdue before the Department began to use its internal offset system to collect on the accounts.
- **Employment Security (DES):** Agency officials indicated that they had an agreement with the Comptroller to submit accounts after they have been returned from a collection agency. However, DES could not provide a written agreement and Comptroller staff stated that an agreement does not exist. Additionally, DES does not submit accounts that are with the Attorney General for collection assistance. However, Attorney General staff indicated to the OAG that placement in the Offset System while an account was with their Office was acceptable.
- **Student Assistance Commission (ISAC):** The Commission, like DES, does not submit accounts to Offset that have been placed with the Attorney General. Additionally, ISAC personnel reported that they could not “stack” claims in the Offset System - only one claim per borrower from ISAC being allowed by the Comptroller. However, we found multiple instances where the *same* individual was submitted by the Department of Public Aid for overdue child support and overpayment of public assistance debts. The Comptroller’s Office noted that “stacking” (increasing the amount of an existing offset by adding additional offset claims) was not allowed as each offset transaction must have a unique offset transaction identifier. Agencies are not limited to one offset claim per individual.

- **Central Management Services (CMS):** The Department was not submitting past due receivables from units of local government which are owed to the Department’s internal service funds. The Department has indicated that the amounts for these debts are insignificant to the overall receivable balances in these funds.

Some agencies stated that it was not cost effective to submit all debts to the Comptroller’s Offset System. As noted above, the Department of Revenue does not refer all debt to the Comptroller’s Offset System. Revenue officials said this was not done because of the resources (staff and computer time)

needed to notify debtors and update balances in the Offset System. Rather, the Department obtains a commercial warrant tape and runs its accounts receivable against that listing. If there is a match, then they send that receivable to the Offset System.

EXHIBIT 2-3 EXAMPLES FROM THE COMPTROLLER’S ADMINISTRATIVE CODE OF OFFSET REFERRALS THAT MAY NOT BE COST EFFECTIVE	
1.	Excessive age of the debt
2.	Ongoing negotiations with the debtor indicate that voluntary collection efforts will be successful
3.	Debtor company has ceased operations for a long period of time
4.	Debtor business has reorganized
5.	A debt has been placed with a private collection firm, and based on the firm’s past history, it is likely that they will collect the debt
6.	Age or health of the debtor is such that it is unlikely they will be receiving any payments from the State
7.	Foreign student debtors who have left or will soon be leaving the country
8.	Individuals and corporations in bankruptcy
Source: Illinois Administrative Code (74 ILAC 320.50)	

The Department of Employment Security (DES) submits a mass referral of accounts after they are returned from collection agencies. A collection agency retains a certain percent of the amount it collects for the State. The collection agency for DES was compensated at a rate of 13.5 percent of collections during Fiscal Year 1997. When a debt is recovered through the Offset System, the State does not pay any collection fee. DES officials noted that referral of the debt to the Offset System and use of other collection means need not be mutually exclusive and added that use of collection agencies is also cost effective. According to Department officials, DES began the concurrent referral of debt to collection agencies and to the Comptroller's Offset System effective July 1998.

One of the exemptions from submitting claims to the Offset System in the State Collection Act is that if the agency "demonstrates to the Comptroller's satisfaction that referral for offset is not cost effective" (30 ILCS 210/5). The Illinois Administrative Code (74 ILAC 320.50) provides examples where referral may not be cost effective (see Exhibit 2-3). Comptroller officials stated that the examples in the Code simply show the types of instances the Comptroller's Office will use to determine whether or not the documentation submitted by the agency proves that it would not be cost-effective to submit a receivable. Comptroller's officials stated that documentation is required from an agency to demonstrate that submission of a receivable is not cost-effective.

Two agencies, the Department of Revenue and the Department of Employment Security, provided copies of correspondence or meetings they held with the Comptroller's Office relating to the cost-effectiveness of submitting certain receivables to the Offset System. According to Revenue officials, discussions with the Comptroller's Office regarding this issue are on-going. However, according to the Comptroller's Office no approval has been given to these agencies to not submit all receivables.

Untimely Submission of Receivables

In addition to the 330 receivables not submitted, another 192 accounts (19 percent) were not submitted to the Comptroller's Offset System in a timely manner. As shown in Exhibit 2-4, the amount owed to the State for these 192 receivables totaled over \$2.5 million. On average it took agencies 3.7 years from the due date of the debt to submit it to the Comptroller for this classification of sample cases.

EXHIBIT 2-4 NUMBER OF SAMPLE CASES SUBMITTED MORE THAN 12 MONTHS AFTER THEIR DUE DATE			
Agency	Total # of Cases	Total Amount of Debt at 6/30/97	Average for all Agency Cases (Years)
SIU	56	\$129,379.52	4.6
ISAC	40	\$247,103.91	3.5
DCFS	30	\$1,800,883.67	3.3
DPA	21	\$64,044.06	3.4
U of I	20	\$123,215.53	3.9
DES	14	\$120,023.07	2.9
IDOT	9	\$48,577.05	2.7
CMS	2	\$7,894.00	1.2
TRS	0	\$0.00	0.0
DOR	0	\$0.00	0.0
Total:	192	\$2,541,120.81	* 3.7
NOTE: * The average age of 3.7 years is calculated by dividing the total age of the 192 debts (712.4 years) by 192.			
Source: OAG Summary of Sample cases			

Southern Illinois University (SIU) had the highest number of receivables sampled that were not placed in the Offset System within one year of becoming due. SIU officials stated that there is no precise definition of what constitutes the beginning of the Offset System process. SIU generally starts the due process requirement one year after the receivable has become due. The Comptroller's guidance regarding due process is that agencies should provide the debtor with an opportunity to respond or dispute the claim -- an activity that should be completed in the first 60 days after an account is established as a receivable (see SAMS Procedure 26.40.10). Comptroller personnel stated that unless an agency can prove that submission of an account for offset is not cost effective, the debt should be in the Offset System one year after the due date. Good business practice also dictates that the sooner this notification occurs in the collections process, the better the chance to collect on the receivable.

OFFSET RECOVERIES

In our review of sampled receivables, we determined the amount of monies the Comptroller recovered for those which were submitted to the Offset System. We also examined the receivables which either were not submitted at all or were submitted untimely to the Offset System to determine how much money may have been recovered had the debts been properly submitted.

For those receivables which were submitted to the Offset System, the Comptroller recovered \$21,544. Exhibits 2-5 and 2-6 contain the amounts offset by the Comptroller for these receivables. As shown on Exhibit 2-5, the Comptroller offset \$18,695.44 in the 191 receivables properly submitted, for an average offset of \$97.88. In addition, as shown on Exhibit 2-6, the Comptroller offset \$2,848.70 for the 192 receivables that were untimely placed in the Offset System. The number of receivables for which money was offset in Exhibits 2-5 and 2-6 totaled 76, or 20 percent of the 383 receivables sampled which were placed in the Offset System.

EXHIBIT 2-5 PROPERLY SUBMITTED ACCOUNTS Amount Offset				
Agency	Sample Cases Eligible for Submission to Offset	PROPERLY SUBMITTED ACCOUNTS		
		# of Accts Properly Submitted	# Properly Submitted Accts with Offsets	\$ Amount Offset
DPA	85	56	14	\$1,639.69
IDOT	59	37	2	\$7,699.74
SIU	93	29	4	\$192.33
DES	85	24	10	\$1,194.98
DCFS	100	19	6	\$252.87
ISAC	100	18	7	\$651.95
DOR	72	0	0	\$0.00
U of I	97	4	2	\$155.26
CMS	22	4	3	\$6,908.62
TRS	0	0	0	\$0.00
Total:	713	191	48	\$18,695.44
Source: OAG Summary of Sample Cases				

We also analyzed our sample of receivables to determine how much might have been recovered if agencies had submitted the 192 untimely receivables in a timely manner or had submitted the 330 receivables which were not submitted. We determined that offsets could have been taken in 121 of these 522 receivables (23 percent), for a potential recovery of \$1,019,525.

Exhibit 2-6 shows that \$13,915 in potential recovery was lost because the 192 receivables were not submitted in a timely fashion. For 33 of the 192 receivables, payments were made to debtors between the time the receivable was one year old and the time when it was submitted to Offset. Had the receivables been submitted within one year, these payments would have been available for offset.

EXHIBIT 2-6						
UNTIMELY SUBMITTED ACCOUNTS						
Amount Offset and Potentially Recoverable						
Agency	Sample Cases Eligible for Submission to Offset	UNTIMELY SUBMITTED ACCOUNTS				
		# of Accts Submitted Untimely	# of Untimely Accounts that had Offsets	\$ Amount Offset	# of Untimely Accts with Potential Recoveries	Dollars Potentially Recoverable
DPA	85	21	7	\$424.83	2	\$128.46
IDOT	59	9	1	\$171.00	1	\$8,193.75
SIU	93	56	6	\$215.19	11	\$1,027.72
DES	85	14	2	\$364.40	1	\$1,000.00
DCFS	100	30	7	\$1,299.24	5	\$497.67
ISAC	100	40	4	\$61.89	6	\$923.37
DOR	72	0	0	\$0.00	0	\$0.00
U of I	97	20	1	\$312.15	7	\$2,144.51
CMS	22	2	0	\$0.00	0	\$0.00
TRS	0	0	0	\$0.00	0	\$0.00
Total:	713	192	28	\$2,848.70	33	\$13,915.48
Source: OAG Summary of Sample Cases						

However, most of the potential recoveries, \$1.006 million, were from 88 of the 330 receivables which were never submitted to Offset. As shown in Exhibit 2-7, a large portion of these potential recoveries was associated with DCFS receivables.

Thirty-two debts from DCFS that were not submitted to the Offset System or submitted after one year had State payments sufficient to recover \$947,242 in debt owed to the State. In the OAG Compliance Audit for the two years ended June 30, 1996, DCFS was cited for failure to monitor contract advances and accounts receivable related to Board receivables. The audit found that there were instances where DCFS did not offset actual charges against advances to recoup any excess payments.

According to DCFS officials, the Department has begun to use its internal offset system to recover payments for these Board receivables. DCFS' internal offset system reduces the amount of its payment to the provider to recover the amount overpaid. As of August 1998, DCFS reported that it had recovered approximately \$675,000 for the receivables we sampled.

However, a Department official noted that 12 providers which DCFS reported as owing \$553,668.92 no longer do business with the Department. The Department has determined that \$177,633 of these receivables were erroneous. According to Department officials, erroneous receivables occur because canceled or escheated warrants were not properly reflected on the receivables system, manual entries to the receivable system were in error, or receivables were not properly reduced after the provider had submitted corrected living arrangement information to document that an earlier payment was proper. The Department is considering placing with the Comptroller's Offset System these receivables of providers with whom they no longer do business.

EXHIBIT 2-7				
ACCOUNTS NOT SUBMITTED				
Potentially Recoverable Amounts				
Agency	Sample Cases Eligible for Submission to Offset	ACCOUNTS NOT SUBMITTED		
		# of Accts Not Submitted	# Accts with Potential Recoveries	Dollars Potentially Recoverable
DPA	85	8	2	\$62.82
IDOT	59	13	8	\$23,820.58
SIU	93	8	0	\$0.00
DES	85	47	13	\$17,895.08
DCFS	100	51	27	\$946,744.48
ISAC	100	42	17	\$1,965.78
DOR	72	72	4	\$416.37
U of I	97	73	11	\$2,249.07
CMS	22	16	6	\$12,454.97
TRS	0	0	0	\$0.00
Total:	713	330	88	\$1,005,609.15
Note: If DCFS potentially recoverable amount was excluded from the average, the average recoverable amount for the 279 remaining accounts would be \$210.98.				
Source: OAG Summary of Sample Cases				

Most of the State payments which could have been recovered were either from income tax refunds or commercial vendor payments processed by the Comptroller. However, there was an instance where a State employee could have had payroll dollars offset had DCFS submitted the receivable, and an instance where a lottery winner would have had a \$2,500 prize offset had the Department of Employment Security submitted the account receivable.

Based on our sample of 1,000 receivables, we also projected that potentially \$13.5 million could have been recovered if agencies had submitted **all** eligible accounts receivable that exceeded \$1,000 and were over one year old, as shown in Exhibit 2-8. Since many agency receivables were several years old, this \$13.5 million does not represent an annual recovery amount, but rather, would be spread over several years. Also, some of these offsets may be protested by the debtor and may ultimately not be recovered. However, based on the results of our sample of agency receivables, there are additional monies that the State could be recovering if State agencies complied with the provisions of the State Collection Act and Administrative Code which prescribe the use of the Comptroller's Offset System.

EXHIBIT 2-8 POTENTIAL OFFSET RECOVERIES (Projection from OAG Sample)	
Agency	Potential Recoveries
DES	* \$8,623,513.62
DCFS	\$2,040,744.59
U of I	\$1,160,284.25
ISAC	\$781,989.51
DOR	\$394,432.19
DPA	\$375,691.55
IDOT	\$81,592.23
SIU	\$18,251.04
CMS	\$16,809.18
Total:	** \$13,493,308.16
Notes:	
* The large potential recovery amount for DES, \$8.6 million, was attributable to one large State payment of \$12,723.89 from our sample. If this one large recovery were excluded, the total potential recovery for DES drops from \$8.6 million to \$2.8 million.	
** The \$13.5 million in potential receivables would cover multiple years. Some agency debt was from the 1980's.	
Source: OAG Projection of Sample Results	

<p><i>Recommendation Number One:</i></p> <p><i>The University of Illinois, Southern Illinois University, Illinois Student Assistance Commission, and the Departments of Public Aid, Revenue, Employment Security, Children and Family Services, Transportation, and Central Management Services should submit accounts receivable to the Offset System as required by the State Collection Act and Illinois Administrative Code.</i></p>
<p>Agency Responses</p> <p><u>University of Illinois</u>: We concur and will comply with the State Collection Act and Illinois Administrative Code.</p> <p><u>Southern Illinois University</u>: SIU concurs with this recommendation.</p> <p><u>Student Assistance Commission</u>: Agreed. All of the guaranteed loan transactions included in the audit sample leading to this recommendation took place prior to 1995 when the agency</p> <p style="text-align: right;">(continued on next page)</p>

(continued from previous page)

implemented computer system changes specifically to remedy lapses in submitting accounts to be offset in the Comptroller's system. We believe that when only post-1995 accounts are considered, the agency is complying with the State Collection Act and the Illinois Administrative Code. Other ISAC transactions that were part of the audit sample leading to this recommendation emanate from several small postsecondary grant programs that convert to loans if certain statutory service obligations on the part of the grant recipient are not met (i.e., failing to teach in underserved geographic areas of the state). These programs were transferred to ISAC from the State Board of Education in the early 1990's. At the time of transfer, all program operations were maintained using a manual system (i.e., grants were recorded on paper ledgers and no collection efforts were made). As ISAC has been able to allocate data processing resources to automate these programs, progress has been made in computerizing the operation of the programs. The next phase of development includes analyzing whether or not it is more economical to create an internal collections system capable of transferring offsets to the Comptroller's System using automated means or to place accounts with a private collection firm.

Department of Public Aid: Agree. To ensure only proper delinquent account receivables are reported to the Offset System, the Agency has initiated actions to exclude account receivables which are being negotiated with the debtor from reporting to the Offset System.

Department of Revenue: Department utilizes internal offset program which last year yielded \$3.6 million compared to the \$7.1 million offset by Comptroller for all agencies. Current Comptroller's rules, as applied to IDOR, are not cost effective. We have made Comptroller's Office and Debt Collection Board fully aware of our rationale, and have requested Comptroller's exemption. Discussions with Comptroller's office have been ongoing. Last meeting took place on August 4, 1998.

Department of Employment Security: We concur. As indicated in the report, we were operating under the assumption that we had an agreement with the Comptroller's Office not to refer certain categories of debt. When we were informed that no such agreement existed, we took immediate action to become compliant. An action plan was developed outlining the steps needed to identify and refer additional debt to the Comptroller's Offset System. Programming changes were begun and additional debt referred. Effective July 1998, accounts previously held for bank levy and for collection agency activity were included with the referral to the Offset system. As programming continues the amount of referred debt increases. We anticipate full compliance by February 1999.

Department of Children & Family Services: We agree with the finding and will implement the recommendation to submit accounts receivable to the Offset System as required by the State Collection Act and the Illinois Administrative Code.

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Department of Transportation: The Office of the Auditor General identified 13 cases totaling \$68,228.98 which were eligible for offset but not submitted to the Comptroller's Offset System. 7 of the 13 cases mentioned in the report have been collected, and an additional case is being reduced by installment payments being made by the debtor. The OAG also identified 9 IDOT cases totaling \$48,577.05 that were submitted for offset more than 12 months after the receivable was established. Of this amount, \$33, 563.05 has been collected by the Department. The Department will continue to collect receivables as they come due and make full use of the Comptroller's Offset System.

Department of Central Management Services: CMS will comply with the statutes by submitting accounts receivable to the Offset System in compliance with statute, which excludes offsets of other state agencies. Such transactions are simply and technically a transfer of funds between different elements of the same organization (State of Illinois). Taking other State agencies to the Offset Program would create accounting and program difficulties that outweigh the benefits of using the Offset Program to transfer funds between agencies.

FAILURE TO UPDATE DEBT AMOUNTS IN THE OFFSET SYSTEM

Seventy-seven of our sample cases had significant differences in the balance reported to the Auditor General at June 30, 1997 and the balance that was in the Offset System from our fieldwork examination that occurred in December 1997 through March of 1998. Exhibit 2-9 highlights the six agencies in this audit that had the significant differences between the two balances.

Procedure 26.40.20 of the Comptroller's SAMS manual requires agencies that have submitted claims to the Offset System to update a change in status with the Comptroller of the claims "as soon as possible, but in no case later than 30 days, after receiving notice of a change in the status of an offset claim." Changes to debt in the Offset System can be accomplished by completing the Comptroller's C-34 form or through a modification to the magnetic tape that agencies can submit. Reasons for the differences between the two amounts may be due to payments received by the agencies but not recorded with the Comptroller or situations where an agency continues to bill a debtor or add additional interest and/or penalties to the account. Failure to notify the Comptroller can result in situations where State warrants are incorrectly offset.

EXHIBIT 2-9 ACCOUNTS WITH DIFFERENT AMOUNTS REPORTED TO OAG AND IN THE OFFSET SYSTEM (GREATER THAN \$1,000)	
Agency	# of Accounts
DCFS	38
ISAC	19
SIU	8
DES	4
DPA	4
U of I	4
Total:	77
Source: OAG Summary of Sample Results	

Recommendation Number Two:

The Illinois Student Assistance Commission, University of Illinois, Southern Illinois University, and the Departments of Public Aid, Employment Security, and Children and Family Services should maintain correct balances for debts in the Comptroller's Offset System to avoid incorrect withholdings from warrants paid out by the State.

Agency Responses

Student Assistance Commission: Agreed. The agency is currently in the midst of redesigning its computer systems which manages ISAC's internal and external collection efforts. One of the areas already targeted for remediation is the frequency and monetary level at which defaulted loan account balances can be updated after initial electronic submission to the Offset System. ISAC's current computer system limits balance updates to increases of at least \$300 or decreases of \$500.

University of Illinois: We concur.

Southern Illinois University: SIU concurs with this recommendation.

Department of Public Aid: Agree.

Department of Employment Security: We concur. The Department has implemented procedures whereby receivable accounts in the Comptroller's Offset system are updated and maintained via exchange of magnetic tape on a monthly basis. These procedures have been in place since 1993. The exceptions noted in the report appear to have been caused by problems converting to the Comptroller's new computer system in July 1997. Tape exchanges in October 1997 through January 1998 that contained record changes resulted in the account balances to be erroneously zeroed out. The Comptroller's Office informed us in late January 1998 of the problem and no other runs were made until the problem was corrected in June 1998. The tape exchange is currently working as intended.

Department of Children & Family Services: We agree with the finding and will implement the recommendation to maintain correct balances for debts in the Comptroller's Offset System to avoid incorrect withholdings from warrants paid out by the State.

LACK OF IDENTIFICATION NUMBERS

The ability of the Comptroller to offset State warrants is dependent upon having a valid debtor's identification number (SSN or FEIN). Inability to provide an identification number makes the matching of warrants and debtors impossible. Eighteen sample cases with debt totaling over \$684,000 could not be submitted to the Offset System due to a lack of identification number. Good business practice would dictate that agencies take the steps necessary to obtain identification numbers for entities which owe the State money.

Of the 100 cases sampled at DCFS, 11 (totaling \$641,544.87 in debt) were reported to the Auditor General without valid identification numbers. Most DCFS receivables without valid identification numbers were parental receivables – charges to parents for the cost of providing substitute care for children of whom DCFS has taken custody. According to DCFS officials, much of the \$641,545 may not be collectible. DCFS officials stated that the Department is mandated by statute to bill parental assessments for care and maintenance at the maximum actual cost of care if the debtor does not respond with documented income information. Typically, the debtor’s actual income is so low as to not be assessable or to require the receivable to be significantly lowered.

Other agencies which had receivables without corresponding SSN or FEIN numbers were the Departments of Transportation (five cases totaling \$35,336.40), Revenue (one case, \$6,246.97), and Employment Security (one case, \$1,223.53). The Department of Revenue receivable was from 1981 at which time a FEIN number was not required from bingo licensees; FEIN numbers are now required, according to Revenue officials. Regarding the Department of Employment Security case, subsequent to the completion of audit fieldwork, the Department obtained the FEIN number and entered the receivable in the Offset System.

Recommendation Number Three:

The Departments of Children and Family Services and Transportation should take the steps necessary to obtain correct identification numbers on individuals and other entities which owe money to the State so that all possible methods of collection can be pursued.

Agency Responses

Department of Children & Family Services: We agree with the finding and will implement the recommendation to take the steps necessary to obtain correct identification numbers on individuals and other entities which owe money to the State.

Department of Transportation: The OAG identified 5 IDOT cases in which IDOT was unable to determine a Social Security number or a Federal Employer Identification number for the debtors. One of the primary reasons for the lack of an identification number for a debtor is due to motorist damage to IDOT property, and the only information related to the party responsible for the damage is drivers license related. Social Security numbers and Federal Employer Identification numbers are not consistently available from the Secretary of State. In the case of the Department of Revenue, for confidentiality reasons, they cannot provide this information to our Department for individuals or tax entities. For out-of-state motorists, this problem is particularly difficult to deal with because of the lack of available data from other states. The collection agencies that attempt to recover these receivables on our behalf try to obtain this information, but in some instances, they are unable to provide the Department this data. The Department will continue to try to obtain Social Security or Federal Identification numbers for all debtors.

OFFSETS AGAINST STATE AGENCIES

The Comptroller withheld funds for debts that were submitted to the Offset System by one State agency against another State agency in two of the cases we sampled. While the State Collection Act does not exempt payments to other State agencies from the Offset System, the Illinois Administrative Code and the Comptroller's own procedures do.

Both instances occurred during Fiscal Year 1998. In the first case the Department of Insurance submitted a claim to the Offset System for a \$75 debt owed to the Department by Chicago State University. The Comptroller subsequently offset a warrant from a General Revenue Fund appropriation and sent the offset funds to the Department of Insurance. The second case involved the University of Illinois submitting a debt owed to the University by the Southern Illinois University School of Medicine for \$100. The Comptroller again offset the \$100 from a State warrant payable to Southern Illinois University and remitted the offset to the University of Illinois.

The State Collection Act does not prohibit State agencies from using the Offset System to recover debts owed to them by another State agency. However, the Comptroller's procedures which provide guidance to agencies regarding the referral of debt to the Offset System excludes claims against another State agency. Specifically, Procedure 26.40.20 of the Comptroller's SAMS manual states that "The Comptroller's Offset is not to be used in the collection of debts between State agencies."

Comptroller officials stated they saw no legal reason why offsets could not be taken against payments to other State agencies and that the Office of the Comptroller's position is that such offsets are acceptable. The officials stated that they will be making some changes in the Comptroller's administrative rules and will look at this issue.

Other State agencies, most notably the Department of Central Management Services (CMS), had receivables due from other State agencies (76 of 100 receivables sampled). CMS officials stated that pursuant to SAMS procedures, debt owed by other State agencies cannot be submitted to the Comptroller's Offset System. Also, effective July 1, 1997, CMS reported that it now has the authority to bill and collect monies from agencies with unpaid fiscal year receivables from subsequent years appropriations, which provides an inter-agency receivable collection process where previously one did not exist.

<p><i>Recommendation Number Four:</i></p>
<p><i>The Comptroller should take the steps necessary to ensure its administrative rules, policies, procedures and practices regarding the use of the Offset System to collect debt from another State agency are consistent.</i></p>
<p>Agency Response</p>
<p>Office of the Comptroller: We agree. We are in the process of incorporating all statutory changes in our rules, policies, procedures and practices.</p>

Chapter 3

OTHER ISSUES

CHAPTER CONCLUSIONS

In our review of agencies' reporting of receivables to the Offset System, we identified other issues related to the accuracy of the Offset System account balances and agencies' reporting of accounts receivable.

For some agencies, the amounts of receivables maintained in the Offset System were not accurate. The University of Illinois erroneously submitted \$4.8 million of receivables that were already in the Offset System. The Department of Transportation submitted a debtor twice for the same receivable and had double offsets taken. Almost \$624,000 in child support receivables were incorrectly entered into the Offset System due to an error on a tape submitted by the Department of Public Aid. Comptroller personnel corrected the accounts in April 1998. Inaccuracy in the amount of a receivable in the Offset System increases the risk that too much or too little is recovered when a warrant is paid to a debtor.

The University of Illinois and the Department of Revenue had instances where receivable amounts reported to the Comptroller on quarterly statements were either understated or overstated. Correct receivable information is important to accurately portray the financial position of the State.

AGENCY REPORTING OF ACCOUNTS RECEIVABLE

The quarterly accounts receivable reports filed by the University of Illinois and the Department of Revenue with the Comptroller's Office contained some errors. Agencies are required by the State Collection Act to report receivables to the Comptroller based on rules developed by the Comptroller (30 ILCS 210/4). These reports are to be made quarterly according to procedures outlined in the SAMS manual (Procedure 26.30.10).

University of Illinois

The University of Illinois was not reporting all receivables to the Comptroller on its quarterly accounts receivable reports. To test compliance with utilization of the Comptroller's Offset System, we requested that each agency provide a listing of accounts receivable that were greater than \$1,000 and older than one year as of June 30, 1997. The University provided a population of all its eligible accounts which totaled \$96.6 million. However, the University reported only \$45.8 million in receivables over one year old to the Comptroller on its June 30, 1997 quarterly report. While the quarterly reports were understated, the financial statements prepared by the University included all accounts receivable and were not understated.

According to University officials, the discrepancy was caused by a failure to report to the Comptroller on the quarterly reports University of Illinois Hospital receivables that were with outside collection agencies. As a result of this audit, the University reported it had initiated steps to properly report receivables to the Comptroller.

Department of Revenue

The Department of Revenue reported accounts receivable incorrectly to the Comptroller. In 6 percent (6 of 100) of our randomly selected sample cases, the Department reported accounts as receivables when, in fact, they were not debt. These six accounts totaled almost \$11,500. When we inquired about these six accounts, Revenue officials determined that the problem centered around the Department's CRS (Comptroller Reporting System) System and its failure to properly read refunds and adjustments in individual income taxes. For the six sample cases, the system assigned a positive balance erroneously and the Department reported the accounts as receivables to the Comptroller at June 30, 1997.

Recommendation Number Five:

The University of Illinois and the Department of Revenue should continue to take steps to ensure that accurate receivable balances are maintained and reported to the Comptroller.

Agency Responses

University of Illinois: We concur with this recommendation and have taken steps to insure that accurate receivable balances are reported to the Comptroller. All prior quarterly Accounts Receivable reports have been resubmitted with the data restated.

Department of Revenue: The computer systems problem identified by us has been corrected.

ACCURACY OF ACCOUNTS IN THE OFFSET SYSTEM

We also found instances where the amount of certain debts maintained in the Offset System were not accurate. Inaccuracy in the amount of a debt in the Offset System increases the risk that too much or too little is recovered when a warrant is paid to a debtor of the State.

University of Illinois

The University of Illinois submitted \$4.8 million of accounts receivable in error to the Offset System. The error was caused by an old tape, containing 1,716 debts, being re-submitted to the Comptroller from the Chicago campus.

During fieldwork we identified eight sample cases, and their corresponding dollar amount totaling almost \$18,000, which had been submitted twice to the Offset System by the University. The original submission date for the debts was August 26, 1997. The debts were then re-submitted on

a tape on February 24, 1998 for the amount of the original debt. Comptroller personnel stated that the Offset System contains many edits but would not catch instances where adds to the system occur, like the situation with the University. When adds occur, the Offset System assigns an involuntary withholding number to the debt being added by an agency. The Comptroller does send a match tape back to the agency, if requested, that it can use for deletes and changes to debts already in the Offset System.

Department of Transportation (IDOT)

IDOT had double offsets of over \$6,600 taken due to an error in submitting the account twice by the Department. IDOT submitted the same debt to the Offset System in both February and August of 1997. Payments from an IDOT appropriation to this vendor were offset by the Comptroller on two occasions. On the second occasion the Comptroller sent IDOT a warrant which contained the complete recovery of the erroneous debt submitted in August. The Department reported that the Comptroller cannot re-issue the warrant due to the new SAMS System. However, Comptroller personnel stated that office policy, not the functionality of the SAMS system, determines when warrants are re-issued. In situations where an offset payment has been issued to the claiming agency by the Comptroller and a portion of that payment subsequently must be refunded to a debtor due to an agency error, the claiming agency must issue the refund.

Department of Public Aid

The Comptroller's Offset System overstated the amount of child support receivables for our sample by almost \$624,000. According to the Comptroller's Office, the overstatement occurred due to an error in the data on the magnetic tape provided by Public Aid.

Public Aid re-certifies child support claims once a year and allows the delinquent party an opportunity to protest the amount owed. After the protest period, Public Aid submits the accounts to the Comptroller for offset against State warrants. The child support claims were re-certified in June of 1997 and submitted to the Offset System in late November 1997.

In 30 cases sampled, we found that child support receivables had been entered incorrectly into the Offset System. A date edit at Public Aid caused the existing receivable amount to be added to the balance already in the Offset System. Comptroller personnel corrected the amounts during April 1998. However, for a period of two months the debts for these 30 individuals was overstated by almost \$624,000 in the Offset System.

Recommendation Number Six:

The University of Illinois, Department of Transportation, and the Department of Public Aid should establish the controls necessary to ensure that receivables are accurately entered into the Offset System.

Agency Responses

University of Illinois: We concur. The error occurred when a new staff member in Student Financial Systems assigned to prepare the file for transmission to the Offset System failed to change a date in the program that creates the offset placement file. To prevent a duplicate placement from occurring in the future, the Credit and Collections Office verifies the accuracy of the offset placement file before Student Financial Systems submits the file to the Urbana-Champaign campus for creation of the Offset tape.

Department of Transportation: The OAG found one instance where an IDOT receivable for \$6,626.52 was submitted for offset twice. The Department recognized the error after the amount was offset and since the debtor owed the Department additional funds, the Department retained the full amount offset and did not refund any of these monies to the debtor.

Department of Public Aid: Agree. Implemented. The finding and recommendation applicable to the Department of Public Aid were specifically related to Child Support cases and the error was caused by a 'date specific edit'. The 'date edit' caused the existing receivable amount to be added to the balance already in the system for child support cases. Public Aid staff reran the accounts tape and resubmitted the tape to the Comptroller. The report stated Comptroller personnel corrected the amounts in April 1998. This was a one-time programming error and had no effect on collections. The required program changes have been made. Even though the amount referred for the Comptroller Offset was overstated for two months, the recovery was less than the total amount due for the cases in which collection activity actually occurred.

Appendix A
LEGISLATIVE AUDIT COMMISSION
RESOLUTION NUMBER 110

Legislative Audit Commission

RESOLUTION NO. 110

Presented by Senators Walsh-Demuzio

WHEREAS, the State Comptroller administers a system for intercepting payments to State employees, tax refund recipients, and State vendors on account, of debts owed to the State of Illinois, which is known as the Comptroller's Offset System; and

WHEREAS, under current law, pursuant to Section 5 of the State Collections Act of 1986, State agencies are required to submit accounts to the Comptroller's Offset System which are more than one year past due and greater than \$ 1,000;

WHEREAS, the most recent reports of Accounts Receivable identifies that 54% of the gross receivables (excluding long-term loan balances) are more than one year past due, an amount of \$2.4 billion;

WHEREAS, the reports of State agencies regarding the amount of debt more than one year past due does not correlate to the amount of claims submitted by those agencies for offset;

WHEREAS, the existence of the discrepancy between the amount of debt more than one year past due with the agencies and the amount of debt within the Comptroller's Offset System warrants additional investigation to ensure compliance with the State Collections Act of 1986;

WHEREAS, the confidentiality requirements of State and federal law, in many instances, prevent the Comptroller from independently reviewing records necessary to ensure compliance with the State Collections Act in regard to tax collections, child support, and public assistance, among others; and

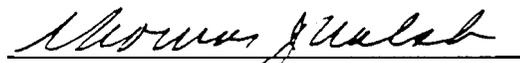
WHEREAS, the Legislative Audit Commission can direct the Auditor General to review pertinent records, and remain within the scope of these confidentiality requirements; therefore, be it

RESOLVED, BY THE LEGISLATIVE AUDIT COMMISSION that the Auditor General is directed to conduct a special audit of the 10 agencies which have the largest amount of net receivables, as identified in the Comptroller's Receivables Report for 1996, to determine whether all eligible debts have been placed in the Comptroller's Offset System, as required by law; and be it further

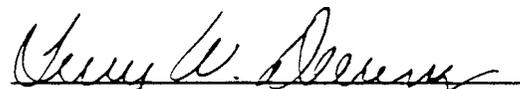
RESOLVED, that the various State agencies and other entities which may have information relevant to this audit shall cooperate fully and promptly with the Office of the Auditor General in the conduct of this audit; and be it further

RESOLVED, that the Auditor General commence this audit as soon as possible and report his findings and recommendations upon completion to the Legislative Audit Commission in accordance with the provisions of the Illinois State Auditing Act.

Adopted this 28th day of April, 1997.



Senator Thomas J. Walsh
Cochairman



Representative Terry W. Deering
Cochairman

Appendix B
SAMPLING METHODOLOGY

APPENDIX B

SAMPLING METHODOLOGY

Legislative Audit Commission Resolution #110 directed the Auditor General to determine whether all eligible debts have been placed, by the 10 agencies with the largest amount of net receivables, as identified in the Comptroller's Receivables Report for 1996. The audit took a sample of accounts receivable at each agency to test agency compliance with the State Collections Act (30 ILCS 210). The 10 agencies in the scope of this audit were:

- Department of Public Aid (DPA)
- Teachers' Retirement System (TRS)
- Department of Revenue (DOR)
- Illinois Student Assistance Commission (ISAC)
- University of Illinois (U of I)
- Department of Employment Security (DES)
- Department of Children & Family Services (DCFS)
- Department of Transportation (DOT)
- Department of Central Management Services (DCMS)
- Southern Illinois University (SIU)

In order to establish the universe for accounts receivable from which to select the sample we requested agencies to provide a listing of all debts that were \$1,000 or more and one year old as of June 30, 1997. The 10 agencies had differing degrees of automation in the tracking of accounts receivable. While reliance was placed on the agencies to supply the listing, we compared the totals for each type of receivable to the Comptroller's quarterly C-98 form at June 30, 1997 for reasonableness. The C-98 form reports the total of accounts receivable over one-year old but it also includes amounts that are under \$1,000 for individual debts.

We requested each of the agencies provide (for each debt): the identifying number (SSN or FEIN) for the debt, the vendor/individual's name, the dollar amount of the receivable, the date/age of the receivable, the source code for the receivable, whether the receivable was reported to the Comptroller's Offset System, and any unique identifier used by the agency to track the receivable. Additionally the agency was to report control totals for the listing (which were submitted on hardcopy, diskette or cartridge).

To determine if all accounts receivable were submitted to the Comptroller's Offset System the auditors selected a random sample of 100 accounts receivable at each of the 10 agencies that met the two criteria of the State Collections Act (greater than \$1,000 and over one year old) as of June 30, 1997. A sample of 100 cases at each agency exceeds the sample size of a statistically significant sample with parameters of a 90% confidence level and 10% allowable error rate - a customary sampling plan. The sample size was a consistent, manageable number for every agency and allowed for straightforward reporting. A random number generator was utilized to select cases to sample. These sample cases were referred back to the agencies for supporting documentation on the submission of the debt to the Comptroller or a reason why the debt was not referred.

To determine if State funds were paid to debtors in our fieldwork sample, we examined four sources: (1) commercial vendor data from the Comptroller for the period of July 1, 1995 through December 31, 1997; (2) State payroll data from the Comptroller for calendar years 1996 and 1997; (3) State Lottery payments made from check processing facilities from 1995-1997 and, (4) income tax return information, supplied by the Department of Revenue, for the period subsequent to the due date for each debt. The Comptroller maintains a list of appropriation account codes from which no offsets will be taken. For example, there may be legal restrictions which prohibit a particular appropriation from being offset. In our review to identify which payments could have been offset we took the list into consideration when making our calculations.

Appendix C
AGENCY
ACCOUNTS RECEIVABLE
INFORMATION

APPENDIX C

AGENCY ACCOUNTS RECEIVABLE INFORMATION

The following information was supplied by the agencies as part of an Interview Guide.

AGENCY: ILLINOIS DEPARTMENT OF PUBLIC AID

<i>Types of Accounts Receivable</i>	<ul style="list-style-type: none"> ◆ Fraud & Abuse and Damages Due to Litigation ◆ Drug Rebate - States submit calendar quarterly invoices based upon paid pharmacy claims to drug manufacturers. Rebate receipts are deposited in the General Revenue Fund. ◆ Bureau of Hospital Services - Associated with reimbursement from the County Provider Trust Fund. ◆ Third Party Liability, Federal/State Draw Downs, Payroll Overpayments, Telecommunication & Motor Pool Abuse ◆ Medical Special Payments ◆ Hospitals, Long Term Care, and Developmentally Disabled - Due to the agency assessed tax levies to hospitals. ◆ Recipient Eligibility Verification Fees - Contractors are billed monthly for access to MMIS for eligibility determination. ◆ Child Support Enforcement - When the State collects payments from a non-custodial parent who is under administrative or judicial court order to pay child support.
<i>Collection Methods</i>	<ul style="list-style-type: none"> ◆ Fraud & Abuse - notify the debtor by letter and if necessary internal offsets, private collection agencies (have one year to collect before it is returned to the agency), Offsets and referral to the Attorney General. ◆ Drug Rebate - Quarterly billing, phone calls, collection letters and faxing. ◆ Hospital Services - A notice letter and the receivable is submitted electronically from Cook County which occurs monthly per State Statute. ◆ Medical Special Payments - Internal offsets/credit adjustments, collection agencies, Attorney General and Offset. ◆ Hospitals - Phone calls, letters and internal offsets. ◆ Recipient Eligibility - Letters are mailed 30, 60 and 90 days from the due date. If the A/R greater than 120 days DMS will process credit memo, refer it to Bureau of Collections and terminate access. ◆ Child Support - Collection agencies (for 6 months), Internal Revenue Tax Refund Offset, income w/h, unemployment insurance benefit, license revocations, judicial remedies.
<i>Number of Staff Working on Accounts Receivable</i>	<ul style="list-style-type: none"> ◆ Fraud & Abuse - 4 staff working in A/R (2 are authorized to use Offset) ◆ Drug Rebate - 5 positions with one vacancy (none are devoted to Offset) ◆ Third Party Liability - 11 staff ◆ Medical Special - 4 full time staff (none are dedicated to using Offset) ◆ Hospitals - Assessment Unit has 8 FTEs (none dedicated to Offset)

<p><i>Types of Accounts Receivable that are Submitted/Not Submitted to the Comptroller's Offset System</i></p>	<p>Submitted:</p> <ul style="list-style-type: none"> ◆ Fraud & Abuse - All accounts 90 days late even if under \$1000. ◆ Medical Special Payments - after a complete review and all internal collection efforts have failed. ◆ Child Support - unless accounts are in valid protest status. 	<p>Not Submitted:</p> <ul style="list-style-type: none"> ◆ Drug Rebate ◆ Bureau of Hospital Services ◆ Hospitals, Long Term Care, and Developmentally Disabled
<p><i>Procedure for Submitting Accounts Receivable to the Offset System</i></p>	<ul style="list-style-type: none"> ◆ Fraud & Abuse -A paper form C-33 is completed as a claim becomes delinquent. ◆ Medical Special - Complete review of the hard copy. At least 3 letters to the provider. If necessary, contact Sec. Of State for additional address. Complete hard copy C-33 and forward for Offset on a quarterly basis. ◆ Child Support - Sends AFDC Accounts > \$150 and Assistance Accounts > \$500 annually via tape. 	

AGENCY: TEACHERS' RETIREMENT SYSTEM

<p><i>Types of Accounts Receivable</i></p>	<ul style="list-style-type: none"> ◆ Member Contributions - Which consists of benefit overpayments (BOP) and the 8% payments of teachers salaries that are due to TRS. A BOP situation might arise when a teacher was receiving benefits and then returned to work without notifying TRS or TRS was not notified of a member's death in a timely manner and TRS continued to make payments. ◆ Employer Early Retirement Incentive (ERI) - Allows members meeting certain age and service requirements to purchase up to five years of additional service and acquire an age enhancement of an equal number of years. ◆ Employer Contributions - School Districts are required to remit 10.5% of a teachers salary on the portion of the teachers salary that is provided through Federal Funding. These payments were due 6/30/97 but were not received until July and August. 	
<p><i>Collection Methods</i></p>	<ul style="list-style-type: none"> ◆ TRS relies mostly on internal offsets as a means of collecting BOP and other Member Contribution receivables. ◆ TRS uses a collection agency but does not have a pre-defined time limit. ◆ Accounts that are submitted to the Comptroller's Offset are also being pursued by TRS's other collection methods. 	
<p><i>Number of Staff Working on Accounts Receivable</i></p>	<p>TRS has 7 employees in their accounting department, none of which are specifically dedicated to using the Comptroller's Offset System.</p>	
<p><i>Types of Accounts Receivable that are Submitted/Not Submitted to the Comptroller's Offset System</i></p>	<ul style="list-style-type: none"> ◆ TRS only sends receivables to the Comptroller's Offset System when they have exhausted all of their other collection resources and have no other possible means of collecting the funds which they are owed. ◆ BOP is the only type of receivable that TRS would send to the Offset System. ◆ TRS does not send claims under \$1000 or less than one year old. 	

<i>Procedure for Submitting Accounts Receivable to the Offset System</i>	<p>TRS follows all of the procedures in Section 26.40.20 of the CUSAS Manual.</p> <ul style="list-style-type: none"> ◆ TRS sends receivables to the Offset System as needed via paper format. ◆ A written notice is sent to the debtor setting forth the amount and basis of the debt. The notice also advises the debtor of their right to a hearing to contest the debt within 30 days. Failure to request a hearing will terminate any right to a hearing. This notification is done for all BOP receivables.
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AGENCY: ILLINOIS DEPARTMENT OF REVENUE

<i>Types of Accounts Receivable</i>	<ul style="list-style-type: none"> ◆ Retailers' Occupation Tax ◆ Business Income Tax ◆ Individual Income Tax ◆ Withholding Income Tax ◆ Excise Taxes
<i>Collection Methods</i>	<ul style="list-style-type: none"> ◆ Internal Offset (Personal Income Tax) - If a taxpayer files the IL1040 with an overpayment, the mainframe system automatically captures this request and applies it to any outstanding personal income tax liability. Claims are internally offset prior to referral to the Comptroller's Office. ◆ Comptroller Offset - Used with other methods if warrants are identified. ◆ Professional/Liquor License and Certificate of Registration Revocation Liens ◆ Civil Action - Judgment ◆ Outside Collection Agencies - Assigned monthly for a period of 6 months unless there is significant activity. ◆ ACD Service/Call Unit - Used to promote voluntary compliance with demand letters and phone calls. ◆ Payment Agreement ◆ Wage Levy Program ◆ Bankruptcy, Bulk Sales and Interagency Debt Collection Sections ◆ Field Collections: Denial of high-risk taxpayer certificate of registration. Problems Resolution Division.
<i>Number of Staff Working on Accounts Receivable</i>	<ul style="list-style-type: none"> ◆ 320 work in tax collection ◆ 11 work in Public Aid child support collection ◆ 5 of the 320 work in the Comptroller Offset Unit
<i>Types of Accounts Receivable that are Submitted/Not Submitted to the Comptroller's Offset System</i>	<p>All tax types are sent but accounts are submitted to offset only if there is indication that there will be warrants available to offset. Our department does not randomly refer debt just in hopes that there might be a warrant that could be offset. Balances under \$100 are not referred to the Comptroller.</p>
<i>Procedure for Submitting Accounts Receivable to the Offset System</i>	<p>IDOR receives tapes from the Comptroller on a monthly basis and IDES quarterly. The IDES tapes identify the taxpayers who are employed in the State of Illinois and are matched to cases having balances with the Department of Revenue. The Comptroller's tapes identify taxpayers/businesses receiving State warrants by SSN or FEIN and are systematically matched to balance due accounts. Cases matched are distributed to the Offset Unit monthly on tape. Taxpayers are sent a 10-day demand letter; and, if a response is not received</p>

	from the taxpayer, a Notice of Intent to withhold State Warrants, is sent. If the taxpayer fails to contact the department, the C-33 is submitted to the Comptroller's Office. The taxpayer can protest, and they have 30 days to verify the balance has been paid or that the open period has been filed.
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AGENCY: ILLINOIS STUDENT ASSISTANCE COMMISSION

<i>Types of Accounts Receivable</i>	Federal Defaulted Student Loans	
<i>Collection Methods</i>	<ul style="list-style-type: none"> ◆ Internal Collections (no internal offset system) ◆ Collection Agencies - maintain accounts for 1 year with no payment before being returned to ISAC. ◆ Private Attorneys ◆ Attorney General ◆ Administrative Wage Garnishment ◆ Federal IRS Offset 	
<i>Number of Staff Working on Accounts Receivable</i>	Currently there is 1 full time staff person. In addition, two project managers support the transmission of electronic records as well as assist as needed.	
<i>Types of Accounts Receivable Submitted/Not Submitted to the Comptroller's Offset System</i>	<p>Submitted:</p> <ul style="list-style-type: none"> ◆ Accounts where no payment is made for 90 days. ◆ All defaulted student loans over \$100 that are not in repayment status. ◆ There is no agreement with the Comptroller regarding which receivables to send since ISAC is not required by LAC 110 to certify any accounts. 	<p>Not Submitted:</p> <ul style="list-style-type: none"> ◆ Accounts in various legal statuses where the offset of any state monies could violate court orders. ◆ Balances under \$100. ◆ Offsets deleted after 3yrs if no funds have been collected through the offset system.
<i>Procedure for Submitting Accounts Receivable to the Offset System</i>	<ul style="list-style-type: none"> ◆ Each new defaulter is notified of the prospect of offset. In addition, State employees receive an additional letter due to the offset of wages. ◆ Certifications occur monthly by electronic means. 	

AGENCY: UNIVERSITY OF ILLINOIS

<i>Types of Accounts Receivable</i>	<ul style="list-style-type: none"> ◆ Student Accounts Receivable (SAR) - tuition & fees, housing, and miscellaneous student charges ◆ General Accounts Receivable (GAR) - non-student charges such as parking fines, library fines, services/sales to outside parties, university room rentals ◆ Student Loans - federal loans such as Perkins, Health Professions, Nursing, and University-based loans ◆ Hospital Patient Receivables - patient bills from the hospital
<i>Collection Methods</i>	<ul style="list-style-type: none"> ◆ Collection Agencies - have approximately one year to collect on a receivable, then the account is placed with a second agency.

	<ul style="list-style-type: none"> ◆ Litigation ◆ Comptroller's Offset System ◆ Credit Bureau reporting ◆ Internal measures - includes monthly statements, letters, phone calls, payroll deduction, and holds on services such as registration and transcripts ◆ Internal Offset System - for debts owed by employees. An employee who owes monies to the University and does not pay voluntarily is automatically subject to payroll deductions. 	
<i>Number of Staff Working on Accounts Receivable</i>	<ul style="list-style-type: none"> ◆ Hospital - 15 collectors for receivables, Medicare, Medicaid, CHAMPUS, and managed care programs ◆ Student and general receivables at 3 campuses - approx. 15 full-time staff ◆ Comptroller's Offset - none specifically dedicated to the offset system 	
<i>Types of Accounts Receivable that are Submitted/Not Submitted to the Comptroller's Offset System</i>	<p>Submitted:</p> <ul style="list-style-type: none"> ◆ University-all eligible A/R to offset (Urbana-all over \$50) ◆ Hospital-only A/R deemed uncollectible by collection agencies 	<p>Not Submitted:</p> <ul style="list-style-type: none"> ◆ Death, bankruptcy, payroll deductions, and payment plans ◆ A/R pending 3rd party payment from insurance, Medicare, Medicaid, and A/R without a valid SSN
<i>Procedure for Submitting Accounts Receivable to the Comptroller's Offset System</i>	<p>The receivable is placed into internal collections, which includes collection letters and statements. If the account remains unpaid, it is sent to a collection agency. A letter is sent prior to referral to a collection agency, which gives the debtor an opportunity to contact the assessing department for further information or appeal. Accounts over \$1,000 and 1 year old are sent to the Comptroller monthly via paper or tape. A letter is sent to the debtor prior to referral to the Comptroller. The letter refers to the appeal and review process. In the past three years, the Comptroller has not accepted A/R without valid social security numbers.</p>	

AGENCY: ILLINOIS DEPARTMENT OF EMPLOYMENT SECURITY

<i>Types of Accounts Receivable</i>	<ul style="list-style-type: none"> ◆ Unemployment Taxes - money due IDES from employers paying unemployment taxes. Includes tax, penalty and interest. ◆ Overpayment Receivable - money due IDES from overpayment of unemployment benefits to recipients. ◆ Agency Receivable - money due IDES from other state governments for wages earned outside Illinois but unemployment benefits paid in Illinois. 	
<i>Collection Methods</i>	<p>Unemployment Taxes:</p> <ul style="list-style-type: none"> ◆ Statement of Account ◆ Estimated Wage Process ◆ Automated Calling System ◆ Determination and Assessment Notice ◆ Property Lien and Bank Levy ◆ Outside Collection Agency (generally has 6 mo. to collect) ◆ Comptroller Offset and Attorney General <p>No internal offset but if employer overpays</p>	<p>Benefit Overpayments</p> <ul style="list-style-type: none"> ◆ Offset Recoupment Method ◆ Collection System in IDES Benefit Payment Control Section ◆ Comptroller Offset ◆ Attorney General for prosecution <p>IDES is required by law to offset against future weekly benefit payments 25% of non-fraud and</p>

	tax, the amount is applied to the A/R.	100% of fraud overpayments.
<i>Number of Staff Working on Accounts Receivable</i>	Unemployment Taxes - 24-25 FTE staff in accounts receivable (4 dedicated to offset and bank levy work) Benefit Overpayments - 4 FTE staff in accounts receivable, will grow to 6 in 9/97 (none dedicated to offset only)	
<i>Types of Accounts Receivable Submitted/Not Submitted to the Comptroller's Offset System</i>	Submitted <ul style="list-style-type: none"> ◆ Any receivable over \$1000 and 1yr old. ◆ Benefit Payment Control will send claims under \$1000 for benefit overpayments. 	Not Submitted: <ul style="list-style-type: none"> ◆ Debts with a chance of protest Unemployment Taxes: <ul style="list-style-type: none"> ◆ Appropriation account codes that are exempt from offset ◆ Accounts less than \$1000 Benefit Overpayments: <ul style="list-style-type: none"> ◆ Receivables in default
<i>Procedure for Submitting Accounts Receivable to the Comptroller's Offset System</i>	<u>Unemployment Taxes - Regular Referral:</u> The Comptroller provides IDES with the approved vendor listing monthly. IDES runs a match against the revenue receivables file and submits the cases via tape where a hit has occurred. Mass Referral: Accounts that are still active and are returned by an outside collection agency as uncollected. Recent mass referral accounts were automatically returned to IDES after a year. Quarterly referrals are updated bimonthly. <u>Benefit Overpayments</u> - Receivables are sent to the Comptroller 45 days after the decision date. IDES still pursues other methods of collection. Benefit overpayments sent to Comptroller are not returned. For amounts collected by IDES, the Department credits the account on the tape submitted to the Comptroller monthly. When an account is determined suitable for offset, it is added to the Comptroller monthly tape.	

AGENCY: ILLINOIS DEPARTMENT OF CHILDREN & FAMILY SERVICES

<i>Types of Accounts Receivable</i>	Parental Assessment - Amounts billed to the natural parent or guardian for care and maintenance of children under DCFS care. Board Accounts Receivable - Overpayment amounts owed DCFS for overpayment of foster care services by the department. Since DCFS makes initial payments for services to substitute care providers on an estimated basis, problems in reconciling the providers' claims with the estimated payments results in overpayments. Unique Aspects: <ul style="list-style-type: none"> ◆ Low fee schedule for assessing parental/guardian payments due. The fee schedule has not been updated. ◆ Low collectibility of past due accounts. Recovery rate is approx. 6%. ◆ DCFS does not have the ability to use federal income tax return offset as does DPA for the child support payments. ◆ DCFS has proposed the DPA handle DCFS collections for parental receivables.
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<p>Collection Methods</p>	<p><u>Parental Accounts Receivable</u> Internal Process</p> <ul style="list-style-type: none"> ◆ <i>Declaration of Parents and Guardians</i> - Refusal of parent/guardian to supply information after 3 requests, results in parent/guardian being liable for full cost of care until required information is received by the Department. ◆ <i>Notice of Parental Payments Due</i> - Parent/guardian has 30 days to appeal assessment. <ul style="list-style-type: none"> • Parent/Guardian shall make payments to the Department • 50% of payments may be used for collection and contingency fees and for services provided by the Department. • Annual interest rate = prime + 3% for payments 60 days past due. <p>Administrative Hearing - Parent/guardian can contest or appeal charges at anytime during the process.</p> <p>Collection Agency - DCFS uses 2 collection agencies. Accounts remain with the collection agency for 3-4 months. Payments to collection agencies amount to 20% of collection.</p> <p>Comptroller Offset</p> <p>Attorney General - Referred for civil prosecution over \$1000. The Attorney General office is overloaded with Parental Assessment cases.</p> <p><u>Board Accounts Receivable</u> - Claims are placed in the internal offset system before being sent to Comptroller for offset. Very few board receivables are sent to the Comptroller for offset.</p>	
<p>Number of Staff Working on Accounts Receivable</p>	<ul style="list-style-type: none"> ◆ 4 full-time staff work in the receivable area ◆ none dedicated to the Comptroller Offset System 	
<p>Types of Accounts Receivable Submitted/Not Submitted to the Comptroller's Offset System</p>	<p>Submitted:</p> <p>Parental - Generally all accounts over \$1000 and 1 year old, some under \$1000</p>	<p>Not Submitted:</p> <p>Parental - Lapsed Payments or if DCFS has a bad addresses/inaccurate SSN</p> <p>Board - Generally not sent</p>
<p>Procedure for Submitting Accounts Receivable to the Comptroller's Offset System</p>	<p>Parental - DCFS files a C-33 in paper format as the account becomes past due. There is documentation for each parental receivable account sent to Offset.</p> <p>Board - Generally not sent. For those Board receivables that have been sent to the Comptroller, no documentation exists.</p>	

AGENCY: ILLINOIS DEPARTMENT OF TRANSPORTATION

<p>Types of Accounts Receivable</p>	<ul style="list-style-type: none"> ◆ Damage to vehicles ◆ Agreements with municipalities ◆ Salary overpayments ◆ Construction overpayments ◆ Highway appurtenances damage category (62% of receivables).
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Collection Methods	<ul style="list-style-type: none"> ◆ IDOT's Office of Claims and Collections (OCC) will use its own resources to obtain information on debtors. ◆ If a claim is disputable, the OCC will immediately turn it over to the Attorney General for litigation and ultimate resolution. ◆ If a receivable is outstanding for over 90 days, the OCC will turn it over to a collection agency. The OCC gives the collection agency 180 days to collect. <ul style="list-style-type: none"> • If greater than \$1000, the OCC will turn it over to the Offset System. • If less than \$1000, the OCC will judgmentally write off the receivable or turn it over to the Comptroller.
Number of Staff Working on Accounts Receivable	<p>Headquarters (Springfield): 10 people (100% receivables). District #1 (Schaumburg): 10 people (100% receivables). Other 8 Districts: 2-3 people per district (80 % receivables). All 20 employees in Springfield and Schaumburg use the Offset System.</p>
Types of Accounts Receivable Submitted/Not Submitted to the Comptroller's Offset System	<p>Submitted: The OCC sends all eligible receivables to the Offset System after it has exhausted its other collection efforts.</p> <p>Not Submitted: IDOT does not have the debtor's FEIN/SSN.</p>
Procedure for Submitting Accounts Receivable to the Offset System	<p>The OCC scans through all of its outstanding receivables each month and decides which ones to transfer to the Comptroller based on the criteria described in the preceding question. Accounts are sent monthly via magnetic tape.</p> <p>The OCC sends notification to all debtors. The notification alerts the debtor of the outstanding debt and reveals the debtor's right to a hearing where the debtor can challenge or dispute the claim. If the debtor so chooses, he/she may set up an appointment with the claim representative in the IDOT district office. At that hearing, the facts will be clarified and IDOT will dismiss or pursue the case.</p>

AGENCY: SOUTHERN ILLINOIS UNIVERSITY

Types of Accounts Receivable	<p>Edwardsville:</p> <ul style="list-style-type: none"> ◆ Student Receivables: tuition, fees, housing, parking, textbooks, overpayment, bank return ◆ Scholarships ◆ Grants ◆ Contracts ◆ Travel Advances ◆ Amnesty (Telephone Fraud) 	<p>Carbondale:</p> <ul style="list-style-type: none"> ◆ Student Tuition & Fees ◆ General Accounts Receivable: housing, fines, other receivables ◆ Student Loans
Collection Methods	<p>Edwardsville:</p> <ul style="list-style-type: none"> ◆ Internal Collection Department ◆ External Collection Agencies - given approx. 120 days to collect 	<p>Carbondale:</p> <ul style="list-style-type: none"> ◆ In-house Offset Collection - University employees are not forwarded to the State. ◆ External Collection Agencies - given 6-8 months to collect ◆ In-house Collection ◆ Comptroller's Offset System

<p><i>Number of Staff Working on Accounts Receivable</i></p>	<p>Edwardsville: Collections - 3 full time, 1 part time Receivables - 5 full time, 1 part time, 2 students Comptroller's Offset - no one person</p>	<p>Carbondale: Collectors - 3 full time Receivables - "several" Comptroller's Offset - one</p>
<p><i>Types of Accounts Receivable Submitted/Not Submitted to the Comptroller's Offset System</i></p>	<p>Edwardsville: Submitted - All eligible Student Receivables over \$25 Not Submitted - invalid SSN, bankruptcy, voluntary payroll deduction, monthly payment arrangement</p> <p>Carbondale: Submitted - All eligible Student Tuition and Fees and Student General Receivables Not Submitted - loans, bankruptcy, external collection agencies, foreign students with no SSN, in-house collections, legal, SIU payroll deductions.</p>	
<p><i>Procedure for Submitting Accounts Receivable to the Offset System</i></p>	<p>Edwardsville:</p> <ul style="list-style-type: none"> ◆ Receivables are input into the Agency Receivable Computer Program. ◆ System will run the report overnight to identify any invalid information. ◆ The report will be placed on magnetic tape. ◆ The magnetic tape is sent to the Comptroller once a month. <p>Carbondale:</p> <ul style="list-style-type: none"> ◆ All eligible receivables are identified quarterly and a standard letter notifying the individual of their balance and pending submission to the Offset System is sent to the individual's last known address. ◆ After 10 days with no response, the University forwards the claim to the State. Eligible claims are sent quarterly on a cartridge except for State employees who are sent to the Offset System every other month on paper. ◆ Many individuals enter into deferred payment plans or submit their balance to the University review process, which allows the in-house collection staff to review their records and consult with other University records and departments to ensure the receivable balance is correct. ◆ If the balance is correct, the receivable is forwarded to the State after individual notification. 	

AGENCY: ILLINOIS DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

<p><i>Types of Accounts Receivable</i></p>	<ul style="list-style-type: none"> ◆ Internal Service Funds - 7 funds that provide centralized services to user agencies including local governmental and non-profit entities. ◆ Upward Mobility Program - individuals who received tuition assistance have failed to meet the requirements for full subsidy of those assistance payments. ◆ CMS employees who have been overpaid through the payroll system ◆ Ex-State employees overpaid for Back Wage Program claims ◆ Primary areas of collection - Operating areas where money is collected but a 'receivable' is not necessarily recognized. <u>Group Insurance Reimbursements</u> - payments made by State entities for insurance premiums for member not paid through GRF or Road Fund
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<p><i>Types of Accounts Receivable (continued)</i></p>	<p><u>Direct Premium Collections</u> - insurance premiums collected directly from members while they are on leave of absence from their employment. <u>COBRA Premium Collections</u> - collections from individuals who are former State employees who no longer qualify for coverage. <u>Discrepancies</u> - between calculated insurance premiums due and the actual amount paid through payroll deduction or other means. <u>Subrogation</u> - CMS seeks reimbursement from a third party. <u>Hospital Bill Audit</u> - refunds to the State if an error is found in hospital bills submitted to vendors. <u>Refunds</u> - amounts that were paid incorrectly by State insurance providers because of an error made when paying an insurance bill.</p>
<p><i>Collection Methods</i></p>	<p>Non-State entity receivables</p> <ul style="list-style-type: none"> ◆ Phone and correspondence follow-up ◆ Collection Agency (Upward Mobility) ◆ Comptroller Offset System (Upward Mobility and payroll/back wage claims)
<p><i>Number of Staff Working on Accounts Receivable</i></p>	<p>The Comptroller's Offset System has been occasionally utilized by two staff persons to recover overpayments and tuition reimbursements.</p>
<p><i>Types of Accounts Receivable Submitted/Not Submitted to the Comptroller's Offset System</i></p>	<p>Submitted:</p> <ul style="list-style-type: none"> ◆ CMS employees who have been overpaid through payroll. ◆ State employees overpaid for Back Wage Program claim. ◆ Ex-State employees for tuition reimbursements under Upward Mobility ◆ CMS Internal Service Fund billing activity to local government units that qualify for Comptroller Offset (Surplus Property Revolving Fund, Statistical Services Revolving Fund, State Garage Revolving Fund, Communications Revolving Fund). <p>Not Submitted:</p> <ul style="list-style-type: none"> ◆ Inter-State governmental units
<p><i>Procedure for Submitting Accounts Receivable to the Offset System</i></p>	<ul style="list-style-type: none"> ◆ An attempt is made to contact the debtor by phone. Usually, an arrangement for payment is made at this time. ◆ A letter is sent notifying the debtor requiring payment in 30 days or face additional action. ◆ The receivable is processed and forwarded to the Comptroller Offset System via paper, regardless of amount. ◆ For Upward Mobility, if the Offset System is not successful in collecting the receivable, the debt is also turned over to a collection agency.

Appendix D
AGENCY RESPONSES



OFFICE OF THE COMPTROLLER
SPRINGFIELD, ILLINOIS 62706

LOLETA A. DIDRICKSON
COMPTROLLER

August 19, 1998

Honorable William G. Holland
Auditor General
Iles Park Plaza
740 East Ash Street
Springfield, IL 62703-3154

Dear General Holland:

Attached is our response to your draft report on the Special Audit of Agencies Use of the Comptroller's Offset System. We have addressed the one recommendation applicable to our Office.

As the Office that originally recommended the need for, and value of, an audit of this scope and objectives, I want to congratulate you and your staff on a very thorough and rigorous audit effort.

As much as I appreciate the quality of your audit effort, I am outraged by the results you found. That 52 percent of the accounts in your samples should have been submitted to the Comptroller's offset collection process and were not, is disappointing. How agencies can allow millions and millions of dollars owed to the State Treasury to go uncollected and not use one of our most effective collection tools, the Comptroller's Offset System, is truly disappointing. I hope the cause of these failures and possible remedial actions will receive priority attention by the Legislative Audit Commission and agency directors.

Sincerely,

A handwritten signature in cursive script that reads "Loleta A. Didrickson".

Loleta A. Didrickson
COMPTROLLER

Attachment

Recommendation Number Four:

The Comptroller should take the steps necessary to ensure its administrative rules, policies, procedures and practices regarding the use of the Offset System to collect debt from another State agency are consistent.

Agency Response

We agree. We are in the process of incorporating all statutory changes in our rules, policies, procedures and practices.



ILLINOIS

Jim Edgar, Governor

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Michael S. Schwartz, Director

August 20, 1998

Honorable William G. Holland
Auditor General
State of Illinois
Iles Park Plaza
740 East Ash
Springfield, Illinois 62703

Dear General Holland:

We are providing our response to your Special Audit of Agencies Use of the Comptroller's Offset System.

Our response to the recommendation is:

CMS will comply with the statues by submitting accounts receivable to the Offset System in compliance with statute, which excludes offsets of other state agencies. Such transactions are simply and technically a transfer of funds between different elements of the same organization (State of Illinois). Taking other State agencies to the Offset Program would create accounting and program difficulties that outweigh the benefits of using the Offset Program to transfer funds between agencies.

We continue to actively pursue our collections.

Sincerely,

Michael S. Schwartz
Director



STATE OF ILLINOIS
 JIM EDGAR, GOVERNOR
 JESS McDONALD, DIRECTOR

DEPARTMENT OF
 CHILDREN AND FAMILY SERVICES

406 EAST MONROE STREET
 SPRINGFIELD, ILLINOIS 62701-1498

217-785-2509
 217-524-3715/T

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 AUDITOR GENERAL
 SPFLD.

August 19, 1998

Mr. Mike Maziarz
 Office of the Auditor General
 740 East Ash
 Springfield, IL 62703-3 154

Dear Mr. Maziarz:

The purpose of this letter is to formally submit responses to the draft audit report your office has issued as a result of the special audit done pursuant to Legislative Audit Commission Resolution Number 110 - Comptroller's Offset System.

1. Recommendation No. 1

We agree with the finding and will implement the recommendation to submit accounts receivable to the Offset System as required by the State Collection Act and the Illinois Administrative Code.

2. Recommendation No. 2

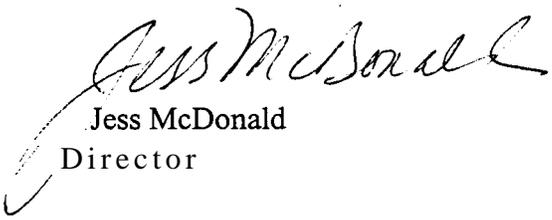
We agree with the finding and will implement the recommendation to maintain correct balances for debts in the Comptroller's Offset System to avoid incorrect withholdings from warrants paid out by the State.

3. Recommendation No. 3

We agree with the finding and will implement the recommendation to take the steps necessary to obtain correct identification numbers on individuals and other entities which owe money to the State .

If you have any questions, please contact Bill Winberg at 217/524-3756.

Sincerely,


 Jess McDonald
 Director



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AUDITOR GENERAL
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1998 AUG 21 A 9:02

VIA FAX

August 19, 1998

Mr. Mike Maziarz
Project Supervisor
Office of the Auditor General
740 East Ash
Springfield, Illinois 62703-3 154

RE: AUDIT OF AGENCIES USE OF COMPTROLLER'S OFFSET

Dear Mike:

Thank you for the opportunity to respond to the recommendations pertaining to the Department of Employment Security in the Auditor General's draft audit report on Agencies Use *Of the Comptroller's Offset System*. Enclosed are our responses to the two recommendations made in the report.

Should you have any questions concerning our responses, please contact me at (3 12) 793-9240.

Sincerely,

A handwritten signature in black ink, appearing to read "Wess L. Butler", is written over a horizontal line.

Wess L. Butler
Inspector General

Encl.

55

JIM EDGAR, GOVERNOR
LYNN Q. DOHERTY, DIRECTOR
401 SOUTH STATE STREET
CHICAGO, ILLINOIS 60605-1 269
312/793-5700

August 19, 1998

State of Illinois
Department of Employment Security

**AUDITOR GENERAL'S REPORT ON AGENCIES USE OF COMPTROLLER'S
OFFSET SYSTEM**

Response to Recommendation No. 1

We concur. As indicated in the report, we were operating under the assumption that we had an agreement with the Comptroller's Office not to refer certain categories of debt. When we were informed that no such agreement existed, we took immediate action to become compliant. An action plan was developed outlining the steps needed to identify and refer additional debt to the Comptroller's Offset System. Programming changes were begun and additional debt referred. Effective July 1998, accounts previously held for bank levy and for collection agency activity were included with the referral to the Offset system. As programming continues the amount of referred debt increases. We anticipate full compliance by February 1999.

Response to Recommendation No. 2

We concur. The Department has implemented procedures whereby receivable accounts in the Comptroller's Offset system are updated and maintained via exchange of magnetic tape on a monthly basis. These procedures have been in place since 1993. The exceptions noted in the report appear to have been caused by problems converting to the Comptroller's new computer system in July 1997. Tape exchanges in October 1997 through January 1998 that contained record changes resulted in the account balances to be erroneously zeroed out. The Comptroller's Office informed us in late January 1998 of the problem and no other runs were made until the problem was corrected in June 1998. The tape exchange is currently working as intended.





Illinois Department of Public Aid

Prescott E. Bloom Building
201 South Grand Avenue East
Springfield, Illinois 62763-0001

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SPFLD.

E-mail: dpa_webmaster@state.il.us

Internet: <http://www.state.il.us/dpa/>

AUG 19 3:47

August 19, 1998

William G. Holland
Office of the Auditor General
Hes Park Plaza
740 East Ash Street
Springfield, Illinois 62703-3 154

Dear Mr. Holland:

Attached is our response to your draft report on the Special Audit of Agencies Use of the Comptroller's Offset System. We have addressed the three recommendations applicable to our Agency.

If your staff have any questions, please have them contact Mary Fritz, Acting Chief Internal Auditor, at 557-4705.

Sincerely,

Joan Walters
Director

Attachment

**Department of Public Aid
Response to OAG's Draft Report on The Comptroller's Offset System**

Recommendation Number One:

The . . . and the Department of Public Aid, . . . should submit accounts receivable to the Offset System as required by the State Collection Act and Illinois Administrative Code.

Agency Response. Agree.

To ensure only proper delinquent account receivables are reported to the Offset System, the Agency has initiated actions to exclude account receivables which are being negotiated with the debtor from reporting to the Offset System.

Recommendation Number Two:

The . . . and the Department of Public Aid, . . . should maintain correct balances for debts in the Comptroller's Offset System to avoid incorrect withholdings from warrants paid out by the State.

Agency Response. Agree.

Recommendation Number Six:

The . . . and the Department of Public Aid should establish the controls necessary to ensure that receivables are accurately entered into the Offset System.

Agency Response. Agree. Implemented.

The finding and recommendation applicable to the Department of Public Aid were specifically related to Child Support cases and the error was caused by a 'date specific edit'. The 'date edit' caused the existing receivable amount to be added to the balance already in the system for child support cases. Public Aid staff reran the accounts tape and resubmitted the tape to the Comptroller. The report stated Comptroller personnel corrected the amounts in April 1998. This was a one-time programming error and had no effect on collections. The required program changes have been made. Even though the amount referred for the Comptroller Offset was overstated for two months, the recovery was less than the total amount due for the cases in which collection activity actually occurred.



Illinois Department of Revenue

Ken Zehnder, Director
101 West Jefferson Street
Springfield, Illinois 62702

August 19, 1998

Honorable William G. Holland
Auditor General
State of Illinois
Iles Park Plaza
740 Past Ash Street
Springfield, IL 62703-3 154

1998 AUG 19 PM 1:22

AUDITOR GENERAL
SPFLD.

Dear Auditor General,

I am pleased to respond to the Special Audit of Agencies Use of the Comptroller's Offset System. We as state tax administration agency recognize the importance of collecting all outstanding debt to the state and the role that the Comptroller's Office plays in it. In this regard we had been in communication with Comptroller's Office for some time trying to resolve differences in referral methodology outlined in comptroller's rules.

Your report is citing Department of Revenue for not referring **ALL** accounts receivable to the Offset System as required by the State Collection Act and Illinois Administrative Code. We acknowledge that our practice is different. However the Department seeks to continue its current practice for referral and has requested the Comptroller for an exemption, based on the following facts:

1. The SAMS procedure 26.40.20, page 1 of 9 states: "State agencies should use the Comptroller's Offset when it is determined to be in the best interest of the State. "

Our current selection of offset referral cases is based on our prior review that discloses there are indicators that the debt may be offset. Using this process, the department recovered through Comptroller's offset program \$388,146 out of \$2 million or 19% referred in 1997.

Current referral level: is approximately 1,100 cases per year. Referral of all required cases would result in referral of 55,000 annually. Costs to prepare a case for Comptroller's offset which include due process notification and control & maintenance of cases greatly exceed potential recoveries.

2. The Debt Collection Board has acknowledged the department's ability to collect debt and has deferred to the department's ability to collect debt and has deferred to the department's current debt collection procedures. The Board noted that "IDOR employs nearly all collection tools suggested by the Board for use by State agencies, including Comptroller offset, referral to the Attorney General's Office and use of outside collection vendors. "

"An Equal Opportunity Employer"



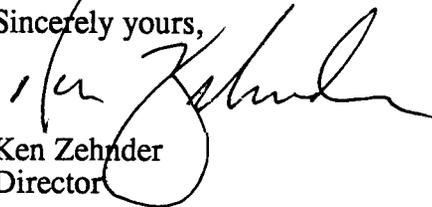
3. The department performs offsets internally. Before any refund is sent to the Comptroller, it is offset against existing debt within the department. Last year 48,373 refunds were offset for \$3,627,900. It should be noted, that these same tax refunds constitute the major source for Comptroller's offsets: approximately 80% of offset cases and over 50% of offset dollars.

We are planning to continue discussions with the Comptroller's Office and take appropriate action when the issue is resolved.

Your report also refers to a systems problem which was identified by our staff as a result of analyzing the data during the audit. The noted deficiency has already been corrected.

This response is provided with request that it be included as part of the audit report. **Synopsis** on each issue is attached.

Sincerely yours,



Ken Zehnder
Director

Attachment

RECOMMENDATION

Department of Revenue should submit accounts receivable to the Offset System as required by the State Collection Act and Illinois Administrative Code.

DEPARTMENT'S RESPONSE

Department utilizes internal offset program which last year yielded \$3.6 million compared to the \$7.1 million offset by Comptroller for all agencies.

Current Comptroller's rules, as applied to IDOR, are not cost effective. We have made Comptroller's Office and Debt Collection Board fully aware of our rationale, and have requested Comptroller's exemption. Discussions with Comptroller's office have been ongoing. Last meeting took place on August 4, 1998.

RECOMMENDATION

The Department of Revenue should take steps to ensure that accurate receivable balances are maintained and reported to the Comptroller.

DEPARTMENT'S RESPONSE

The computer systems problem identified by us has been corrected.



Illinois Department of Transportation

Office of Finance and Administration
2300 South Dirksen Parkway / Springfield, Illinois / 62764

1998 AUG 21 A 11: 10

AUG 21 1998
AUDITOR GENERAL
SPFLD.

August 19, 1998

Mr. Mike Maziarz
Audit Manager
Office of the Auditor General
lies Park Plaza
740 East Ash
Springfield, IL 62703-3154

Dear Mr. Maziarz:

In response to your letter of July 29, 1998 the attached represents the Illinois Department of Transportation's responses to the recommendations made by the Office of the Auditor General within the Special Audit of Agencies Use of the Comptroller's Offset System. We restricted our comments to the recommendations and did not comment upon assertions in the text of the report.

If you have any questions concerning our responses, please give me a call at (217) 782-7427.

Sincerely,

A handwritten signature in cursive script, appearing to read "David G. Campbell".

David G. Campbell
Bureau Chief
Accounting and Auditing

Attachment

Recommendation Number One:

The...Departments of Transportation ,.... should submit accounts receivable to the Offset System as required by the State Collection Act and Illinois Administrative Code.

Illinois Department of Transportation Response to Recommendation Number One:

The Office of the Auditor General identified 13 cases totaling \$68,228.98 which were eligible for offset but not submitted to the Comptroller's Offset System. 7 of the 13 cases mentioned in the report have been collected, and an additional case is being reduced by installment payments being made by the debtor. The OAG also identified 9 IDOT cases totaling \$48577.05 that were submitted for offset more than 12 months after the receivable was established. Of this amount, \$33563.05 has been collected by the Department. The Department will continue to collect receivables as they come due and make full use of the Comptroller's Offset System as part of its debt collection activities.

Recommendation Number Three:

The Departments of.....Transportation ,....should take the steps necessary to obtain correct identification numbers on individuals and other entities which owe money to the State so that all possible methods of collection can be pursued.

Illinois Department of Transportation Response to Recommendation Number Three:

The OAG identified 5 IDOT cases in which IDOT was unable to determine a Social Security number or a Federal Employer Identification number for the debtors. One of the primary reasons for the lack of an identification number for a debtor is due to motorist damage to IDOT property, and the only information related to the party responsible for the damage is drivers license related. Social Security numbers and Federal Employer Identification numbers are not consistently available from the Secretary of State. In the case of the Department of Revenue, for confidentiality reasons, they cannot provide this information to our Department for individuals or tax entities. For out-of-state motorists, this problem is particularly difficult to deal with because of the lack of available data from the other states. The collection agencies that attempt to recover these receivables on our behalf try to obtain this information, but in some instances, they are unable to provide the Department this data. The Department will continue to try to obtain Social Security or Federal Identification numbers for all debtors.

Recommendation Number Six:

The Department of Transportation, andshould establish the controls necessary to ensure that receivables are accurately entered into the Offset System.

Illinois Department of Transportation Response to Recommendation Number Six:

The OAG found one instance where an IDOT receivable for \$6,626.52 was submitted for offset twice. The Department recognized the error after the amount was offset and since the debtor owed the Department additional funds, the Department retained the full amount offset and did not refund any of these monies to the debtor.



SOUTHERN ILLINOIS UNIVERSITY

August 17, 1998

The Honorable William G. Holland
Auditor General State of Illinois
lles Park Plaza
740 E. Ash Street
Springfield, Illinois 62703-3154

Dear Sir:

Southern Illinois University (SIU) appreciates the opportunity to respond to the Auditor General's special audit of Agencies Use of the Comptroller's Offset System which was conducted pursuant to the Legislative Audit Commission's Resolution Number 110. Following are our responses to the recommendations that pertain to SIU;

RECOMMENDATION NUMBER 1:

The ... Southern Illinois University, ,, should submit accounts receivable to the Offset System as required by the State Collection Act and Illinois Administrative Code,

UNIVERSITY'S RESPONSE: SIU concurs with this recommendation.

RECOMMENDATION NUMBER 2:

The Southern Illinois University, ... should maintain correct balances for debts in the Comptroller's Offset System to avoid incorrect withholdings from warrants paid out by the State.

UNIVERSITY'S RESPONSE: SIU concurs with this recommendation.

Sincerely,

Ted Sanders
President

TS:kh

- C: Jo Ann Atgersinger
- Ron Cremeens
- David ~~Heth~~
- Jeff Holder
- Robert Ross
- David Werner
- Donald Wilson

Office of the President, Mailcode 6801, Carbondale, Illinois 62901-6801

Illinois
Student
Assistance
Commission



August 19, 1998

Mr. Mike Maziarz
Audit Manager
Office of the Auditor General
115 Park Plaza
740 East Ash Street
Springfield, IL 627033 154

Transmission via facsimile at 27 7/785-8222 (two pages)

Dear Mr. Maziarz:

Thank you for the opportunity to respond to the recommendations relating to the Illinois Student Assistance Commission (ISAC) contained in the Special Audit of Agencies Use of the Comptroller's Offset System conducted pursuant to LAC Resolution #110.

Recommendation #1: The Illinois Student Assistance Commission should submit accounts receivable to the Offset System as required by the State Collection Act and Illinois Administrative Code.

ISAC Response to Recommendation #1: Agreed.

All of the guaranteed student loan transactions included in the audit sample leading to this recommendation took place prior to 1995 when the agency implemented computer system changes specifically to remedy lapses in submitting accounts to be offset in the Comptroller's system. We believe that when only post-1995 accounts are considered, the agency is complying with the State Collection Act and the Illinois Administrative Code.

Other ISAC transactions that were part of the audit sample leading to this recommendation emanate from several small postsecondary grant programs that convert to loans if certain statutory service obligations on the part of the grant recipient are not met (i.e., failing to teach in underserved geographic areas of the state). These programs were transferred to ISAC from the State Board of Education in the early 1990s. At the time of transfer, all program operations were maintained using a manual system (i.e., grants were recorded on paper ledgers and no collection efforts were made). As ISAC has been able to allocate data processing resources to automate these programs, progress has been made in computerizing the operation of the programs. The next phase of development includes analyzing whether or not it is more economical to create an internal collections system capable of transferring offsets to the Comptroller's System using automated means or to place accounts with a private collection firm.

Recommendation #2: The Illinois Student Assistance Commission should maintain correct balances for debts in the Comptroller's Offset System to avoid incorrect withholdings from warrants paid out by the State.

ISAC Response to Recommendation #2: Agreed. ---

The agency is **currently** in the midst of redesigning its computer systems which manages ISAC's internal and external collection efforts. One of the areas already targeted for remediation is the **frequency** and monetary level at which defaulted **loan** account balances can be updated after initial electronic submission to the Offset System. ISAC's current computer system limits balance updates to increases of at least \$300 or decreases of \$500.

Again, thank you for the opportunity to respond to these recommendations. Please do not hesitate to contact me (217/782-2020) or Marcia Thompson (217/785-9278) if you have any questions or need more information.

Sincerely,



Larry E. Matejka
Executive Director

cc: Executive Staff, ISAC
L. Dietrich, ISAC
S. Henriksen, ISAC
C. Peterson, ISAC
A. Bilski, ISAC

U N I V E R S I T Y O F I L L I N O I S
Chicago • Springfield • Urbana-Champaign

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1998 AUG 17 P 12:09

Office of Business and Financial Affairs
346 Henry Administration Building
506 South Wright Street
Urbana, IL 61801

August 13, 1998

Mr. Mike Maziarz
Audit Manager
Auditor General's Office
Iles Park Plaza
740 East Ash
Springfield, Illinois 62703-3 154

Dear Mr. Maziarz:

Thank you for the opportunity to respond to the audit findings in the Draft Report of the Special Audit of Agencies Use of the Comptroller's Offset System. Attached are the combined University of Illinois responses to the findings that pertain directly to the University.

Please feel free to contact me if you have any questions.

Sincerely,



Peter J. Czajkowski
Interim Associate Vice President
for Business and Finance

dak

Enclosure

c: C. Bazzani
K. Kral
C. Long
M. Provenzano
C. Stanislao
T. Gardner
S. Pelg

UNIVERSITY OF ILLINOIS
Special Audit of Agencies Use
of the Comptroller's Offset System

For the Year Ended June 30,1997

Auditor's Recommendation #1

The University of Illinois, ... should submit accounts receivable to the Offset System as required by the State Collection Act and Illinois Administrative Code.

University Response

We concur and will comply with the State Collection Act and Illinois Administrative Code.

Auditor's Recommendation #2

The ... University of Illinois, ... should maintain correct balances for debts in the Comptroller's Offset System to avoid incorrect withholdings from warrants paid out by the State.

University Response

We concur.

Auditor's Recommendation #4

The Comptroller should take the steps necessary to ensure its administrative rules, policies, procedures and practices regarding the use of the Offset System to collect debt from another State agency are consistent.

University Response

Not applicable.

Auditor's Recommendation #5

The University of Illinois.. . should take steps to ensure that accurate receivable balances are maintained and reported to the Comptroller.

University Response

We concur with this recommendation and have taken steps to insure that accurate receivable balances are reported to the Comptroller. All prior quarterly Accounts Receivable reports have been resubmitted with the data restated.

Auditor's Recommendation #6

The University of Illinois, ... should establish the controls necessary to ensure that receivables are accurately entered into the Offset System.

University Response

We concur. This error occurred when a new staff member in Student Financial Systems assigned to prepare the file for transmission to the Offset System failed to change a date in the program that creates the offset placement file.

To prevent a duplicate placement from occurring in the future, the Credit and Collections Office verifies the accuracy of the offset placement file before Student Financial Systems submits the file to the Urbana-Champaign campus for creation of the Offset tape.

8/13/98