

SACRAMENTO COUNTY'S REVENUE RECOVERY: \$658 MILLION IN UNCOLLECTED DEBT AND RISING

SUMMARY

Sacramento County has a dysfunctional, inefficient, and costly system to collect revenues owed to the County. This revenue collection program not only has failed to collect more revenue, but it has also failed to track where the money is, and it has caused turmoil in the lives of persons trying to satisfy their fiscal obligations. County departments do not have information to successfully implement their programs because this revenue collection program fails to document or track payments consistently. The Department of Revenue Recovery (DRR) has not been responsive to concerns about its shortcomings, and continues to invest more taxpayers' dollars in a system which does not work.

There has been an appalling lack of oversight ranging from a questionable \$4.4 million no-bid contract to a lack of rigorous analysis of day-to-day operations. Internal audits of this system have been ignored or arbitrarily terminated. It seems the oversight and concern about some very significant problems has been lacking from the Board of Supervisors (Board), the County Executive Office (CEO) or County Department Directors. When there is a system that only collects 6% of the money owed the County, and of that 6%, over 20% of those collectibles have been mischaracterized, the system is failing. This is unconscionable and the Board and the CEO need to address this travesty with some urgency.

Sacramento County taxpayers continue to incur costs for this ineffective debt collection program, which has failed to improve fiscal accountability. It is time for the Board to stop the misuse of taxpayers' dollars for this program; realize the significantly diminished return of this investment; explore other viable, industry-proven revenue recovery alternatives; and rectify the problems of the \$658 million uncollected debt which is continuing to rise.

DRR is the primary revenue collection and financial services office for Sacramento County. DRR furnishes County agency clients (clients) with centralized billing and collection services for the recovery of their revenue, including victim restitution, court ordered fines, welfare overpayments, associated fees, and other debts owed to the County. Management states

that it is the department's goal to assist these agency clients in achieving revenue collection goals and reducing taxpayers' financial burden by holding specific debtors accountable for payment.

The Grand Jury review included a ten year comparison of the current and former revenue collection systems and the distinction between DRR's annual revenue collections and the level of outstanding debt. Our survey revealed that DRR intentionally disregarded the outstanding debt when determining the department's annual collection goals. According to the 2015 year-end totals, the outstanding liability surpassed \$658 million and is increasing rapidly. Conversely, DRR's revenue recovery efforts netted only \$43 million for this same period, a meager 6% of the outstanding debt. The analysis revealed that these poor collection results were the direct outcome of management failing to focus its efforts on reducing the outstanding debt, as well as the impact of the dysfunctional Debt Management and Collection System (DMACS)

Prior to February 2009, DRR used a different revenue recovery collection system. This former system was regularly maintained by the County Information Technology Department (IT). At that time, the system created, monitored, maintained, and preserved all of DRR's account and collection data, which are vital components to its success. Neither the developer of the then-existing recovery program nor other software developers were aware of DRR's plan to upgrade or replace its existing program and were never afforded an opportunity to submit a bid for such an upgrade.

Witness testimony revealed that DRR did not use the Sacramento County competitive bid-and-purchase process in order to develop the DMACS as a replacement for its former program. DRR executive staff hired a former vendor, now software developer, to design and develop the DMACS revenue collection program to be used in conjunction with County IT staff.

The initial cost estimate to initiate the DMACS program was \$4.4 million. Local media were critical and numerous letters from the public opposed the cost associated with the implementation of a new program with questions raised about a potential conflict of interest. Despite the media and public outcry, the County Board of Supervisors, on DRR's recommendation, awarded the DMACS contract to a former County IT vendor who, in addition, was a former roommate of the DMACS Project Manager. This led DRR to decline the purchase of a \$1.4 million upgrade to its existing time-tested system, to dismiss the local media and public dissent, and to proceed with

the \$4.4 million dollar development of the DMACS necessitating ongoing developer input, coding, and maintenance.

Over the last seven years, there have been three contract extensions with the DMACS developer costing taxpayers more than \$12 million. The Grand Jury is concerned with DRR considering further investment of taxpayers' funds into this system, as it lacks full functionality to recover overdue debt. The failure of this system is reflected in the spiraling growth of the outstanding debt from \$370 million in 2008, prior to the launch of DMACS, to more than \$658 million and still rising.

An integral part of the Grand Jury investigation was the live demonstration of the now seven-year-old DMACS, which led to the question: After this lengthy amount of time and expenditure of taxpayers' dollars, why has the DMACS not resolved all of the original operational issues? Many functions of this program continue to be inoperable. Prior to exercising any further contract extensions with the DMACS developer, DRR needs to study other collection alternatives to replace the DMACS.

Furthermore, our inquiry uncovered that DRR did not maintain an archive of the data from its former revenue collection program to support account migration from the old system to the new. Without such an archive of this significant information, DRR is unable to reconcile these accounts prior to February 2009, the DMACS launch. DRR's failure to reconcile these older accounts may preclude them from any further collection activity because of the statute of limitations regarding debt collections.

Of equal concern is that DMACS has been duplicating both debtor accounts and charges since its release in 2009. When asked if there is any evidence of debtors making such payments, several witnesses confirmed that it is a common occurrence. Nevertheless, DRR does not consider these accounts and charges as a department priority. This burdens the debtor with initiating any action before a duplicate account is corrected, merged, and/or removed from the account. Over \$5 million has been placed in an Unallocated Trust Account (UTA) where neither debtors nor agency clients get credit for these payments, and little or no effort is going into resolving over 53,000 unallocated transactions. Not only is DRR not collecting an increasing debt that is owed to the County, but it also appears not to know how to accurately credit the money it does collect.

BACKGROUND

The Sacramento County Grand Jury initiated an investigation after a credible complaint was received regarding DRR and its DMACS program. The DMACS has been an expensive and ineffective revenue collector that has failed to increase the agency clients' revenue recovery.

In 2005, DRR management advised the Board that replacing its antiquated system would enhance the DRR's collection productivity. Notwithstanding the local media and public outcry against the creation of the unproven program, the Board authorized DRR to develop the DMACS.

According to witness testimony, DRR, through a no-bid process, awarded a \$4.4 million system development contract to a contractor who was the former roommate of the DMACS Project Manager.

This developer designed the DMACS around an automated digital dialer (dialer) that serves as the system's backbone. On a daily basis the Debt Management and Collection System generates lists of names and telephone numbers for the thousands of due-and-owing accounts DRR is tasked with processing. The dialer automatically calls delinquent debtors. Upon contact with the debtor, the collector discusses the terms of the debt, the debtor's ability to pay, and the method of payment.

The DMACS designer failed to anticipate changing technology that allows debtors to screen, block, and/or ignore collection calls from automated dialers. By not seeking and integrating other collection alternatives, this omission magnified the already difficult task of recovering these debts.

METHODOLOGY

The Grand Jury analyzed thousands of documents and materials regarding DRR internal operations: its policies, procedures, documentation, and processes as relates to the DMACS. Specifically, we reviewed the following:

- Local media and public opposition to the development of the DMACS
- The DRR management proposal to the Board of Supervisors for the purchase of the DMACS
- Sacramento County Purchasing Codes
- An independent technical analysis of the DMACS functionality
- Sacramento County and Department of Revenue Recovery websites

In addition, the Grand Jury interviewed 23 past and present County employees.

DISCUSSION

DRR Management

Who is Minding DRR Operations?

The Department of Revenue Recovery's stated purpose is to ensure that taxpayers do not suffer the consequences of indebtedness that is a debtor's legal responsibility. However, as detailed in this report, the opposite is true. The Grand Jury is concerned that DRR reported that annual revenue collections range from 6%-8% of the outstanding debt with no apparent plan to improve collection efforts. Hundreds of millions of dollars in debtors' accounts are unmanaged and unresolved for years without any debtor consequence. It was troubling to the Grand Jury that the Board and CEO have shown little interest or concern about this loss of needed revenue to the County. There seems to be insufficient attention paid to the poor performance and problems that permeate DRR.

Through numerous interviews, we discovered that DRR's management objective is to meet the prior year's collections or maintain the "status quo." Furthermore, there is no evidence of any alternatives for revenue recovery, while the debt continues to soar. According to witnesses' testimony, the DMACS does not have the requisite collection tools, and DRR management does not have the management reports needed to monitor, measure, and manage the debt. During our investigation, we requested a Debt Management and Collection System report identifying the annual revenue collected and outstanding debt owed to the County. According to IT witness testimony, this report was not a management tool within the DMACS program. Moreover, County IT told the Grand Jury that this was the first and only time this report had been requested.

In further examination of DRR's operations, witness interviews revealed that management allows updates and/or upgrades to the DMACS with minimal end-user testing, which frequently results in system conflicts that disrupt the staff's collection activities.

Moreover, witness testimony confirmed that DRR management ignores staff suggestions for improving department operations and communication among DRR managers is wholly inadequate. Several witnesses informed the Grand Jury that they are kept "out of the loop" when it comes to addressing the numerous operational and technical components of the DMACS.

We believe that DRR must explore other revenue collection alternatives to improve revenue collection and cease this upward spiraling trend of outstanding debt owed to the County.

FINDINGS

- F1. DRR fails to collect the hundreds of millions of dollars in outstanding debts owed to the County.
- F2. DRR management rarely uses reports to manage collection activity and workload.
- F3. DRR management fails to work together effectively to manage the Department and the revenue collection activities.
- F4. The Board and CEO have not exhibited any apparent concerns or provided adequate oversight for the collection of revenue through the DRR.

RECOMMENDATIONS

- R1. DRR should employ alternative solutions to recover the hundreds of millions in outstanding debt owed to the County.
- R2. DRR should develop and use collection activity reports to effectively manage DRR's collection activities and workload.
- R3. DRR management should work together to manage and improve the department's revenue collection efforts and reduce the outstanding debt owed to the County.
- R4. The Board and CEO should consider a management review of the Department of Revenue Recovery.

Sacramento County Bid Policy

Bid or No-Bid: That is the Question.

Sacramento County policy is to use a competitive selection process before contracting for services. A decision was made in this case to dispense with the competitive selection. DRR elected to proceed with a \$4.4 million no-bid contract to this former IT vendor, now software developer, and incur the expense for the design and development of the DMACS.

We find that exempting contracts of this complexity, importance, and magnitude is very problematic. This is particularly true with the DMACS contract, which has been fraught with problems from the outset and has been dysfunctional for seven years at taxpayers' expense.

FINDING

- F5. DRR did not use a competitive bid process to secure services on the County's behalf. The Board of Supervisors approved and awarded a \$4.4 million contract for the development of the DMACS.

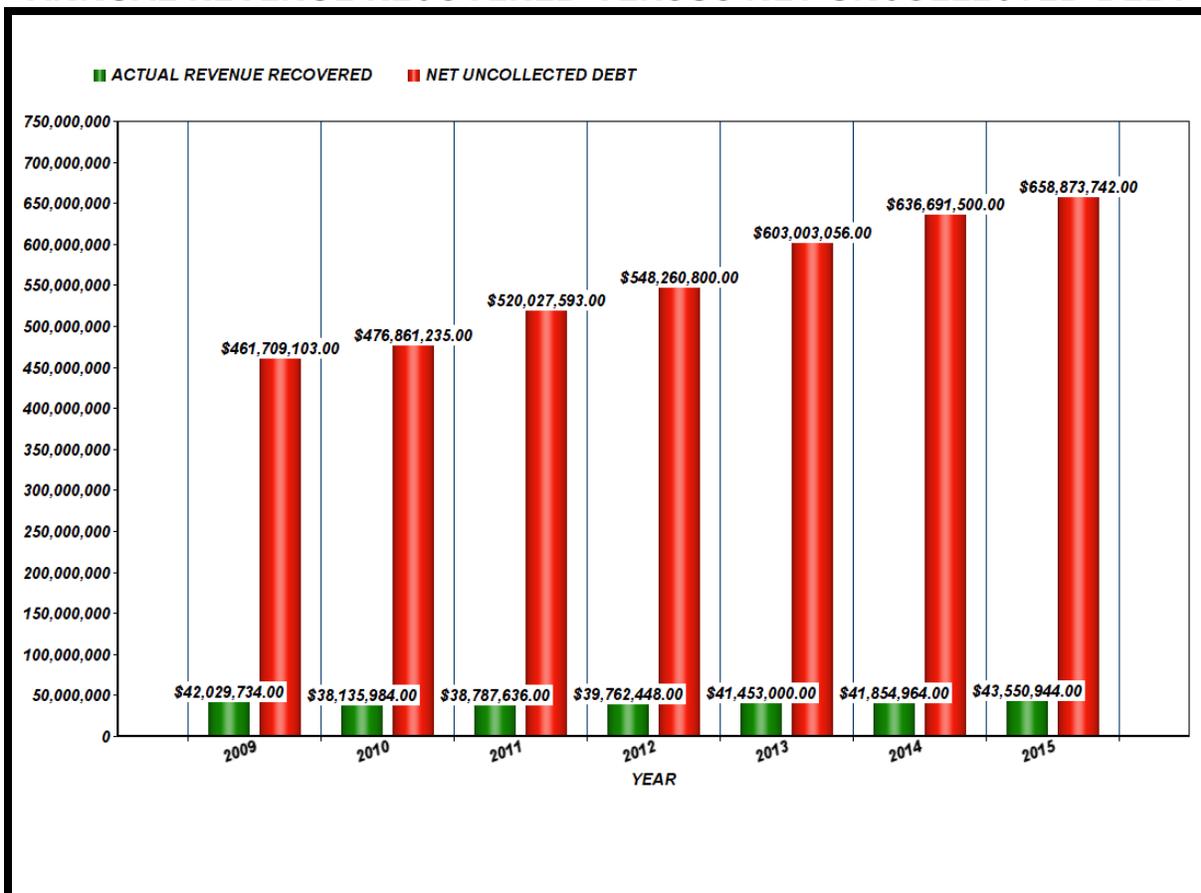
RECOMMENDATION

- R5. The Board of Supervisors should require County agencies to use a competitive bid process to contract for services over a specified dollar amount.

Revenue Collection Trends and Escalating Debt *A Chart Speaks Louder than Words!*

The DMACS is entering its seventh year of operations, and DRR’s revenue collections consistently fail to reach its annual projected goals. Revenue collections continue to be inadequate because the DRR lacks the essential collection improvement tools. Analyzing the DMACS statistical data and accompanying figures conveyed a low growth for revenue recovery and the resultant rapidly escalating delinquent debt. The DRR proposal explicitly indicated that DRR, and the DMACS, would proliferate the revenue recovery rate from 32% to 38% by 2011. Recovery is 6%, not anywhere near the target. Conversely, the chart below depicts the Debt Management and Collection System’s annual revenue recovery rates have, in fact, failed to achieve the 2008, pre-conversion value of \$45 million.

**DEPARTMENT OF REVENUE RECOVERY
ANNUAL REVENUE RECOVERED VERSUS NET UNCOLLECTED DEBT**



SACRAMENTO COUNTY’S REVENUE RECOVERY: \$658 MILLION IN UNCOLLECTED DEBT AND RISING

FINDINGS

- F6. DRR failed to monitor its revenue recovery system and adjust collection efforts to reduce the outstanding debt.
- F7. DRR has failed to meet its proposed revenue recovery collection goals of 38% and has not considered any other cost-effective revenue collection alternatives.

RECOMMENDATIONS

- R6. DRR should regularly monitor its revenue collection system and adjust collection efforts to reduce the outstanding debt owed to the County.
- R7. DRR should consider other cost-effective replacement alternatives for the DMACS.

Ineffective Revenue Collection, Account Monitoring, and Reporting

Focus on the Bottom Line!

During the investigation, the Grand Jury learned that after an account is established in the Debt Management and Collection System, the Department of Revenue Recovery does not actively monitor or conduct periodic collection activity reviews of debtor accounts. To date, a collection matter may be reviewed and/or corrected only if a debtor or County client employee contacts DRR for customer assistance.

DRR has established payment plans based on an individual's ability to pay. DRR's payment plan policy has specific guidelines, but these guidelines are inconsistently applied. Additionally, our investigation revealed that it is common for a debtor to pay minimal amounts, which results in the debtor taking several years to satisfy the debt without consequence.

DRR utilizes the Franchise Tax Board (FTB) Tax Offset Program to collect funds on debtor accounts that are beyond 120 days delinquent. Most of the debtor accounts referred to FTB are deemed uncollectible and returned to DRR for further disposition. Despite the unlikely probability of recovering any revenue from these uncollectible accounts, DRR restores them to the DMACS.

Witness testimony further verified the DMACS does not produce delinquent account activity reports, which could serve to direct collection staff and improve their revenue collection activity. DRR's waste of collection resources on uncollectible debtor accounts remains problematic.

FINDINGS

- F8. DRR does not have an established method for monitoring agency client accounts.
- F9. DRR does not provide its agency clients with updates of debtor account collections on a regular basis.
- F10. DRR's established payment policy guidelines are not consistently followed.
- F11. DRR does not review debtor account activity to assess collectibility or regularly use the FTB Tax Offset Program to successfully improve revenue recovery.

RECOMMENDATIONS

- R8. DRR should establish a method for monitoring agency client accounts.
- R9. DRR should provide its agency clients with updates of debtor account collection activity on a regular basis.
- R10. DRR should consistently follow their established guidelines for payment plans.
- R11. DRR should review debtor account activity to determine collectibility and use the FTB Tax Offset Program regularly to effectively improve revenue collections.

Unallocated Trust Account: *Credit Where Credit is Due!*

The Grand Jury review of DRR operations uncovered a DMACS account labeled the Unallocated Trust Account (UTA). This DRR account consists of millions of dollars in debtors' payments that have not been posted to specified debtors' accounts in the Debt Management and Collection System.

On a daily basis, the Department of Revenue Recovery cashiers credit debtor payments with specified account information into the DMACS. However, it is not unusual for DRR cashiers to process a debtor payment without this account information and post it in the UTA. Very little effort is undertaken by the Department of Revenue Recovery's cashiers to search the DMACS and locate a specific debtor account, and credit the debtor payment instead of the UTA. Payments posted to the Unallocated Trust Account remain there until a debtor contacts DRR to report a dispute on their DMACS account.

The DMACS does not produce a daily transaction record or exception report to validate debtor payments were credited to a particular account or posted to the UTA, which requires another division within DRR to manually research and credit the payment to the correct debtor account in the DMACS.

Over 53,000 transactions of unresolved debtor payments, although not credited, have been received and deposited into the UTA. That recovered revenue exceeds \$5 million on behalf of DRR agency clients. The funds remain undistributed because of missing debtor account or client information. DRR does not consider the research and posting of these payments to be a priority.

Our investigation did not find any policy or reason why DRR deposits these payments in the UTA instead of returning the payment to the debtor requesting account information. Absent a DRR policy or procedure regarding the timely handling of insufficient debtor account information, the delay of posting debtor payments and subsequent distribution of this revenue will remain unresolved.

FINDINGS

- F12. Revenue collected by DRR with incomplete debtor account information is not being posted to debtor accounts in the DMACS when received.
- F13. DRR does not have the tools or reports to verify daily payment transactions and/or identify payments received with inadequate debtor account information.
- F14. DRR rarely distributes funds held in the Unallocated Trust Account to its agency clients.
- F15. DRR does not reconcile the issues associated with the over 53,000 transactions in the Unallocated Trust Account.
- F16. DRR does not have a policy or procedure for processing payments that are missing debtor account information.
- F17. DRR has no plan to reconcile and close the Unallocated Trust Account.

RECOMMENDATIONS

- R12. A debtor account should be identified and matched in the DMACS before payments can be posted in an established time frame.
- R13. DRR should develop and implement a daily transaction/exception report that will list daily collections, the accounts where payments were applied, and identify the payments with inadequate debtor account information that were deposited in the Unallocated Trust Account.
- R14. DRR should distribute the funds held in the Unallocated Account to its agency clients.
- R15. DRR should reconcile the over 53,000 transactions in the Unallocated Trust Account by January 31, 2017.
- R16. DRR should implement a policy or procedure for processing payments that are missing debtor account information.
- R17. DRR should implement a plan to close the Unallocated Trust Account.

Duplicate Accounts

Divide and Conquer!

During our investigation, we discovered that the DMACS has created over 12,000 duplicate accounts and account charges are valued in excess of \$3 million. Several witnesses reported that the duplication of accounts and/or charges is a DMACS programming issue. Additionally, the same witnesses estimated that it would take approximately one year to manually identify and remediate these duplicate accounts and charges. As of December 2015, the DMACS debtor account duplication problem remains unresolved.

FINDINGS

- F18. The DMACS creates duplicate accounts and/or charges which DRR staff is unable to explain or resolve.
- F19. Resolution of duplicate debtor accounts and/or charges does not appear to be a DRR priority.
- F20. There is evidence of debtors' payments to DRR on duplicate accounts.

RECOMMENDATIONS

- R18. DRR should correct the reason(s) the DMACS is duplicating debtor accounts and/or charges.
- R19. DRR should prioritize the resolution of the duplicate debtor accounts and/or charges.
- R20. DRR should refund all monies owed to debtors that have made payments on duplicate accounts.

Refunds for Overpayment *Return to Sender!*

When an overpayment occurs in a debtor's account, DRR is expected to issue a refund. Until recently, the DMACS did not have a way of reporting the overpayments. The Grand Jury determined that the only time these refunds are issued is when a debtor contacts DRR to dispute the account information and request a refund.

DRR recently developed a report from the DMACS called the Refund Review Band (RRB). This RRB lists overpayments on debtor's accounts. As of October 2015, the Grand Jury determined there were approximately 30,000 accounts due refunds in excess of \$1.4 million. Witness testimony reported that due to the substantial number of refunds in the RRB, DRR staff was focusing its efforts on issuing refunds on debtor accounts from July 2015 to present. All refunds that existed on debtor accounts before July 2015 are not considered a DRR priority and these refunds remain on the debtor account without further action. It is inappropriate for DRR to hold money owed an individual and make no effort to pay anything back unless it gets a request. This raises serious ethical and potential legal questions.

FINDINGS

- F21. Approximately 30,000 debtor accounts are due refunds in excess of \$1.4 million.
- F22. DRR does not consider processing refunds due on accounts established before July 2015 as a department priority.

RECOMMENDATIONS

- R21. DRR should use the Refund Review Band effectively and issue refunds for all overpayment monies in an established time frame.
- R22. DRR should elevate the department's priority for the refund of all overpayments.

Audit Unit's Review of the System

Did the County Get What it Paid For?

In early 2014, the County's Department of Finance (DOF) internal audit unit (auditors) began the initial system review of the DMACS. This system review was the result of DRR's failure to provide sufficient debtor financial documentation in support of DRR's request to discharge debtor accounts deemed uncollectible. The auditors' findings, along with the preliminary report, identified a significant number of issues involving supporting documentation for uncollectible debtor account write-offs, absence of debtor account information, and user access to the DMACS.

After the initial system review was completed, the auditors presented DRR with a report of their preliminary findings which were discussed with management. DRR management instructed the DOF to cease the release of the auditors' preliminary report until DRR had an opportunity to do its own internal system review. The Grand Jury was concerned with the manner in which DRR interfered with the release of the DOF auditors' report.

In November 2014, the auditors continued their system review. During this phase of the system review, the auditors informed the DOF audit management that several system and internal financial accounting control issues were occurring in DRR with the DMACS. It was the auditors' belief that there could be *potential* fraud and other financial irregularities. Subsequently, the auditors were directed to immediately cease their system review. No further system review has been performed; no final report was ever issued, and no discussion was held with County executives.

FINDINGS

- F23. Significant issues were identified during the DOF auditors' initial system review, preliminary findings were discussed with DRR management but a final report was never submitted to the Board for approval.
- F24. Issues regarding *potential* fraud and other irregularities were identified during the DOF auditors' subsequent system review. DRR obstructed the release of any subsequent findings and/or a subsequent final report, which should have been submitted to the Board for approval.
- F25. DRR terminated any further action by the DOF auditors during both system reviews.

RECOMMENDATIONS

- R23. DOF should submit the initial DRR system review report to the Board for its review and approval.
- R24. DOF auditors should prepare a report for the subsequent DRR system review and present it to DRR and the Board for review and approval.
- R25. DOF should follow all County audit reporting standards when conducting a department review.

Poor Monitoring and Oversight of User Access Rights ***DRR Oversight, Unseen!***

During the auditors' system review of the DMACS, they identified several individuals with unlimited user access rights to the DMACS debtor account and collection activity data, without DRR oversight or monitoring. While DRR has taken action to curtail the unlimited user access rights for most DRR employees, it is significant to note that County IT staff and the DMACS developer continue to have unlimited user access rights to the DMACS account and collection activity data. Furthermore, the individuals with unlimited user access rights to the DMACS account and collection activity data can adjust, delete, or modify debtor accounts and collection activity and make changes to the general ledger without restriction, tracking, or department authorization.

FINDINGS

- F26. There is inadequate monitoring of unlimited user access rights to the DMACS debtor account and collection data.
- F27. There is no oversight of the individuals with unlimited user access rights to the DMACS.

RECOMMENDATIONS

- R26. DRR should monitor and control all user access to the DMACS debtor accounts and collection data with written authorization that includes time limits and revocation of the user access rights upon completion of tasks to be performed.
- R27. DRR should provide oversight for the County IT and the contract developer's unlimited user access rights.

CONCLUSION

DRR's stated purpose is to ensure that taxpayers do not bear the added burden of indebtedness that is the legal responsibility of the debtor. This report details the opposite is true. The Grand Jury remains concerned that DRR and the DMACS reported annual revenue collections range from 6%-8% of the outstanding debt with no apparent plan to improve collection efforts. Hundreds of millions of dollars in debtor accounts go unmanaged and uncollected for years without any debtor consequence. There are insufficient checks and balances in this system and there is no acceptable tracking of payments that have been made. Individuals and Departments cannot get accurate fiscal information and this failure has real life consequences.

The questionable \$4.4 million no-bid contract to develop the Debt Management and Collection System has burgeoned into a \$12 million taxpayers' investment and still lacks full functionality. Seven long years later, the DMACS still requires developer input for simple maintenance and coding operations. Staff are frustrated that their suggestions, concerns, and input regarding the DMACS appear to be routinely minimized.

DRR's failure to effectively collect debt is abundantly clear. The 2015 year-end reports \$43 million in revenue recovered, a meager 6% of the outstanding debt owed to the County. On the other hand, the uncollected debt soared past \$658 million and is escalating. DRR management should improve their insufficient collection efforts and explore other industry-proven revenue collection alternatives and focus the DRR goals to collect the debt and distribute those funds to their agency clients.

RESTATEMENT OF FINDINGS

- F1. DRR fails to collect the hundreds of millions of dollars in outstanding debts owed to the County.
- F2. DRR management rarely uses reports to manage collection activity and workload.
- F3. DRR management fails to work together effectively to manage the department and the revenue collection activities.

- F4. The Board and CEO have not exhibited any apparent concerns or provided adequate oversight for the collection of revenue through the DRR.
- F5. DRR did not use a competitive bid process to secure services on the County's behalf. The Board of Supervisors approved and awarded a \$4.4 million contract for the development of the DMACs.
- F6. DRR failed to monitor its revenue recovery system and adjust collection efforts to reduce the outstanding debt.
- F7. DRR has failed to meet its proposed revenue recovery collection goals of 38% and has not considered any other cost-effective revenue collection alternatives.
- F8. DRR does not have an established method for monitoring agency client accounts.
- F9. DRR does not provide its agency clients with updates of debtor account collections on a regular basis.
- F10. DRR's established payment policy guidelines are not consistently followed.
- F11. DRR does not review debtor account activity to assess collectibility or regularly use the FTB Tax Offset Program to successfully improve revenue recovery.
- F12. Revenue collected by DRR with incomplete debtor account information is not being posted to debtor accounts in the DMACS when received.
- F13. DRR does not have the tools or reports to verify daily payment transactions and/or identify payments received with inadequate debtor account information.
- F14. DRR rarely distributes funds held in the Unallocated Trust Account to its agency clients.
- F15. DRR does not reconcile the issues associated with the over 53,000 transactions in the Unallocated Trust Account

- F16. DRR does not have a policy or procedure for processing payments that are missing debtor account information.
- F17. DRR has no plan to reconcile and close the Unallocated Trust Account.
- F18. The DMACS creates duplicate accounts and/or charges which DRR staff is unable to explain or resolve.
- F19. Resolution of duplicate debtor accounts and/or charges does not appear to be a DRR priority.
- F20. There is evidence of debtors' payments to DRR on duplicate accounts.
- F21. Approximately 30,000 debtor accounts are due refunds in excess of \$1.4 million.
- F22. DRR does not consider processing refunds due on accounts established before July 2015 as a department priority.
- F23. Significant issues were identified during the DOF auditors' initial system review, preliminary findings were discussed with DRR management but a final report was never submitted to the Board for approval.
- F24. Issues regarding *potential* fraud and other irregularities were identified during the DOF auditors' subsequent system review. DRR obstructed the release of any subsequent findings and/or a subsequent final report, which should have been submitted to the Board for approval.
- F25. DRR terminated any further action by the DOF auditors during both system reviews.
- F26. There is inadequate monitoring of unlimited user access rights to the DMACS debtor account and collection data.
- F27. There is no oversight of the individuals with unlimited user access rights to the DMACS.

RESTATEMENT OF RECOMMENDATIONS

- R1. DRR should employ alternative solutions to recover the hundreds of millions of dollars in outstanding debt owed to the County.
- R2. DRR should develop and use collection activity reports to effectively manage DRR's collection activities and workload.
- R3. DRR management should work together to manage and improve the department's revenue collection efforts and reduce the outstanding debt owed to the County.
- R4. The Board and CEO should consider a management review of the Department of Revenue Recovery.
- R5. The Board of Supervisors should require County agencies to use a competitive bid process to contract for services over a specified dollar amount.
- R6. DRR should regularly monitor its revenue collection system and adjust collection efforts to reduce the outstanding debt owed to the County.
- R7. DRR should consider other cost-effective replacement alternatives for the DMACS.
- R8. DRR should establish a method for monitoring agency client accounts.
- R9. DRR should provide its agency clients with updates of debtor account collection activity on a regular basis.
- R10. DRR should consistently follow their established guidelines for payment plans.
- R11. DRR should review debtor account activity to determine collectibility and use the FTB Tax Offset Program regularly to effectively improve revenue collections.
- R12. A debtor account should be identified and matched in the DMACS before payments can be posted in an established time frame.
- R13. DRR should develop and implement a daily transaction/exception report that will list daily collections, the accounts where payments were applied, and identify the payments with inadequate debtor account information that were deposited in the Unallocated Trust Account.

- R14. DRR should distribute the funds held in the Unallocated Account to its agency clients.
- R15. DRR should reconcile the over 53,000 transactions in the Unallocated Trust Account by January 31, 2017.
- R16. DRR should implement a policy or procedure for processing payments that are missing debtor account information.
- R17. DRR should implement a plan to close the Unallocated Trust Account.
- R18. DRR should correct the reason(s) the DMACS is duplicating debtor accounts and/or charges.
- R19. DRR should prioritize the resolution of the duplicate debtor accounts and/or charges.
- R20. DRR should refund all monies owed to debtors that have made payments on duplicate accounts.
- R21. DRR should use the Refund Review Band effectively and issue refunds for all overpayment monies in an established time frame.
- R22. DRR should elevate the department's priority for the refund of all overpayments.
- R23. DOF should submit the initial DRR system review report to the Board for its review and approval.
- R24. DOF auditors should prepare a report for the subsequent DRR system review and present it to DRR and the Board for review and approval.
- R25. DOF should follow all County audit reporting standards when conducting a department review.
- R26. DRR should monitor and control all user access to the DMACS debtor accounts and collection data with written authorization that includes time limits and revocation of the user access rights upon completion of tasks to be performed.
- R27. DRR should provide oversight for the County IT and the contract developer's unlimited user access rights.

REQUEST FOR RESPONSES

Penal Code sections 933 and 933.05 require that the following officials submit specific responses to the findings and recommendations in this report to the Presiding Judge of the Sacramento County Superior Court by September 29, 2016:

- Director, Sacramento County Department of Revenue Recovery-All Findings and Recommendations
- Director, Sacramento County Department of Finance-Findings 23, 24 & 25 and Recommendations 23, 24 & 25.
- County Executive, Sacramento County Executive's Office-Finding 4 and Recommendation 4.
- Sacramento County Board of Supervisors-All Findings and Recommendations

Mail or hand-deliver a hard copy of the response to:

Kevin R. Culhane, Presiding Judge
Sacramento County Superior Court
720 9th Street, Department 47
Sacramento, California 95814

In addition, email the response to:

Becky Castaneda, Grand Jury Coordinator at castanb@saccourt.com