



**MINUTES
CASH MANAGEMENT REVIEW BOARD
SPECIAL MEETING OF NOVEMBER 21, 2013
HOUSE COMMITTEE ROOM 3
STATE CAPITOL BUILDING**

The items listed on the Agenda are incorporated and considered to be a part of the minutes herein.

Treasurer John N. Kennedy called the meeting to order. Laura Lapeze called the roll.

MEMBERS PRESENT:

Ray Stockstill, Deputy Commissioner, designee for Commissioner Kristy Nicholls
Tom Cole, designee for Legislative Auditor (non-voting member)
John Kennedy, State Treasurer

OTHER PERSONS PRESENT:

Representative Chris Broadwater
Tim Barfield, Secretary, Louisiana Department of Revenue
Jarrod Coniglio, Deputy Secretary, Louisiana Department of Revenue
Jason Decuir, Executive Counsel, Louisiana Department of Revenue
Rick McGimsey, Assistant Attorney General
Afranie Adamako, Statewide Reporting and Accounting Policy Director
Ron Henson, First Assistant State Treasurer
Jim Napper, Executive Counsel, State Treasury
Laura Lapeze, CFO, State Treasury
Marella Houghton, CPA, State Treasury Fiscal Control Manager

Ray Stockstill moved for approval of the minutes for the April 4, 2013 meeting, seconded by Tom Cole, and without objection, the minutes were approved.

Treasurer Kennedy turned the meeting over to the Louisiana Department of Revenue and the Attorney General's Office to discuss the implementation and status of Act 399 and the Office of Debt Recovery. Treasurer Kennedy requested the following specific topics be discussed: (1) details regarding the progress of the Office of Debt Recovery created by Representative Broadwater's bill; (2) specifics as to how the Cash Management Review Board (CMRB) can assist; (3) details concerning the progress made on the collection of debt from Non-Governmental Organizations (NGOs) the Treasurer's Office turned over to the Office of Debt Recovery; (4) and address whether the Office of Debt Recovery is willing to help collect the ethics fines at the Ethics Commission.

Secretary Barfield opened with a summary of the Office of Debt Recovery's Program Status Report. Secretary Barfield emphasized that the Office of Debt Recovery is only a component of Act 399 focusing on collecting final delinquent debts, which are debts 60 days old or older. The second component of Act 399 focuses on non-final debts, which will be collected by the Attorney General's Office. Delinquent debts exempt from collection by the Office of Debt Recovery are as follows: (1) debt that was previously under contract or will be under contract by January 1, 2014 with the Attorney General's Office; (2) certain debt from the Department of Children and Family Services, including child support collections; (3) and certain debt from the Louisiana Workforce Commission, including unemployment compensation debts. Secretary Barfield noted that child support and unemployment compensation have significant federal components and are largely controlled by federal mandates.



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Secretary Barfield stated that Act 399 grants authorization for the use of Financial Institutions Data Match (FIDM), a highly automated tool that permits the Office of Debt Recovery to levy the bank accounts of debtors, where the debt is considered final. Certain data concerning debts and debtors will be collected and distributed to participating financial institutions through a vendor. Upon each match of debts and debtors, the Office of Debt Recovery will immediately levy the funds in the debtor's bank account. The Office of Debt Recovery has gained participation from a significant number of banks, currently over 40, and expects to gain more. Financial Institutions Data Match (FIDM) will be live January 1, 2014.

Rick McGimsey explained the debt owed by NGOs is non-final debt and collection of this debt is the responsibility of the Attorney General's Office. The Attorney General's Office is focusing on bringing the NGOs' debt to final status, which requires litigation, and obtaining payment by seizing assets. Demand letters are scheduled to be mailed next week and collection efforts will depend upon the response of the NGOs.

The Attorney General's Office currently has a collection contract with 56 agencies, including the Board of Ethics. In the event that the Ethics Commission sends a debt for collection to the Attorney General's Office, it is trusted that the debt has already gone through an administrative process and deemed final. The Attorney General's Office is willing to send data concerning final debt to the Office of Debt Recovery to levy the debtor's bank account.

Secretary Barfield commented on the benefits of Act 399. The Office of Debt Recovery provides the state of Louisiana with an office that is going to specialize and become highly proficient in collecting debt owed to the state. The new partnership between the Office of Debt Recovery and the Attorney General's Office will increase the state's probability to collect debt in full. Act 399 provides statutory authorization for the use of collection tools, namely FIDM. State agencies will be granted access to certain debt collection tools; however, specific tools will remain unique to the Louisiana Department of Revenue and the Office of Debt Recovery. All debt, whether under the Office of Debt Recovery or not, will be included in the electronic debt registry, allowing for better tracking of debt and improving the accuracy of statistics.

Secretary Barfield discussed the future development of the Office of Debt Recovery. The Office of Debt Recovery is flexible in its ability to modify new practices, guaranteeing the state higher returns. It will be highly efficient and highly automated. The Office of Debt Recovery is currently in contact with the Office of Statewide Reporting and Accounting Policy (OSRAP) to collect all data that agencies are carrying on the books which may be potentially specific to debt. The Office of Debt Recovery will use this data to determine which debts are final and which debts are non-final. The Attorney General's Office brings debt to finality, providing legal assistance and representation to the Office of Debt Recovery, as well as serving as an outside collection source. The Office of Debt Recovery is structured to have (1) an electronic debt registry; (2) a sophisticated and consolidated debt management system; (3) automated collection tools, including additional tools to help with federal and state offsets; (4) and capabilities to improve tracking and reporting.



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Treasurer Kennedy inquired about the probability of the Office of Debt Recovery learning if a debtor has other business with the state. The Office of Debt Recovery plans to use an existing tool, similar to FIDM, and is in the act of finalizing the contract. DLINKS, has access to federal databases and has the capability to match debtor data to the debtor. Upon match, any payments will be offset and sent to the Office of Debt Recovery until the debt is satisfied. Before the Office of Debt Recovery can begin practicing state offsets, certain capabilities must be gained. The Office of Debt Recovery expects to begin practicing federal offsets by the first quarter of next year, and begin practicing state offsets by the following year.

Secretary Barfield expanded on challenges the Office of Debt Recovery will incur while implementing DLINKS for state offsets and becoming fully automated. Every state agency has confidentiality obligations under statutes and contracts. Since the Office of Debt Recovery has a considerable amount of federal taxpayer information residing in its system, they are also bound by confidentiality obligations under L.R. Statute 47:1508 and IRS Publication 1075. Another challenge is that agencies currently use outside debt collection agencies, and the Office of Debt Recovery is sensitive to not disrupt any existing debt collection practices. Additional challenges noted were that every debt type has its own unique attributes and characteristics and that analysis is required; however, the Office of Debt Recovery anticipates using DLINKS by the first quarter of calendar 2015.

Representative Broadwater suggested that the Office of Contractual Review could be a good resource for learning what contracts are currently in place, and encouraged the Office of Debt Recovery to convert the NGOs' non-final debt to final debt, particularly the organizations that own assets funded by the state. The Office of Debt Recovery may also utilize Capital Outlay projects in House Bill 2 and alert legislators of any found assets.

Representative Broadwater inquired if there will be a tool that allows for some type of identity resolution. The Office of Debt Recovery is committed to using the expertise of outside debt collection agencies, including the Attorney General's Office. These entities have automated and sophisticated tools to track any changes in debtor's addresses, phone numbers, or statuses. Representative Broadwater emphasized that any contract with an outside debt collection agency is subject to review by the Cash Management Review Board.

Representative Broadwater inquired about the Office of Debt Recovery helping to collect fines administered by the Board of Ethics. Acknowledging that the Board of Ethics has a contract with the Attorney General's Office, there was concern of whether the Office of Debt Recovery will have the ability to begin utilizing FIDM and DLINKS for the collection of ethics fines. Per Act 399, debt that was previously under contract or will be under contract by January 1, 2014 with the Attorney General's Office is exempt from collection directly through the Office of Debt Recovery. Regardless, the debt will be collected by either the Attorney General's Office or the Office of Debt Recovery. Considering the Attorney General's Office has access to the same debt collection tools as the Office of Debt Recovery, FIDM and DLINKS will be utilized by both agencies once the tools are in place. Representative Broadwater suggested legislative updates will be needed going forward. Secretary Barfield committed to keeping a list of issues and potential problems going forward and



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work with Representative Broadwater. Representative Broadwater suggested possibly adding an additional tool in the future prohibiting someone from running for office if they have any outstanding ethics fines and/or unpaid state taxes.

Mr. Stockstill asked for clarification as to what debt will stay with the Office of Debt Recovery and what debt will be sent to the Attorney General's Office. Secretary Barfield said non-final debt 60 days old will go to the Attorney General's Office. The first step to be utilized by the Attorney General's Office will be to determine if the Office of Debt Recovery's debt collections tools can be used to collect the debt. Secretary Barfield cautioned that which agency the debt goes to varies agency by agency, debt type by debt type. The debt might have to stay at the agency longer than 60 days depending on what administrative procedures the agency has to follow.

Mr. Stockstill inquired if the state could generate revenue from the collection process of non-final debt. As allowed in statute, the Attorney General's Office charges a collection fee of twenty-five percent. In the event that debt is sent to the Attorney General's Office for reasons of being under contract or identified as non-final debt, the Attorney General's Office will charge a twenty-five percent fee once the debt is collected before sending the balance to the agency. Certain debt, like student loan debt, has existing, additional collection fees, such as a built-in promissory note. Representative Broadwater cautioned the Attorney General's Office not to keep money that was not earned. He suggested that the full balance of debts collected be returned back to the agency if the Attorney General's Office exerted no effort in collection and only held the collection contract with an agency. Secretary Barfield assured Representative Broadwater that collection fees would only be assessed when the effort was made to collect the debt.

Treasurer Kennedy inquired if a non-profit entity lost its non-profit status, would its income be subject to state and federal income tax. Secretary Barfield stated that the general answer is yes, subject to federal Adjusted Gross Income (AGI), which is the basis for tax computation. Treasurer Kennedy asked that the Office of Debt Recovery look at the NGOs from a tax angle. NGOs have tangible assets that were paid for by taxpayers, and some have contracts with state agencies. Treasurer Kennedy was concerned that since the NGOs were removed from the state budget, they are entering into consulting contracts with state agencies. He asked the Attorney General's Office and the Office of Debt Recovery to research which of the NGOs hold such contracts when performing their collection efforts.

Treasurer Kennedy commented that the Office of Debt Recovery could be the most valuable cash management tool ever implemented, and thanked the Attorney General's Office and the Office of Debt Recovery for their work and support.

Treasurer Kennedy turned the meeting over to Mr. Rodney Braxton with Southern Strategy Group and Sallie Mae representatives, Mr. David Lind, National Account Executive, and Mr. Doug St. Peters, Vice-President/Portfolio Management. Mr. Lind wanted to update the Board on Sallie Mae's approach for Louisiana Office of Student Financial Assistance (LOSFA) collections. Topics previously discussed with the Board were (1) Centralized Collection Unit models review; (2) the approach to portfolio management; (3) key functions of portfolio management; (4) working with a



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portfolio manager; (5) Sallie Mae's portfolio management service; (6) driving success; and (7) considerations the state should take into perspective.

Mr. Lind suggested that the Office of Debt Recovery consider working with a private partner for some of its collection processes. Mr. St. Peters explained the three core functions of portfolio management: (1) operations, (2) systems support, and (3) collection agency reporting and analysis. Mr. Lind also identified key benefits of a portfolio management system include consolidating functions, reducing administrative costs, accessing scaled-market buying power and audit/compliance controls. Mr. Lind stated that Sallie Mae is the largest and most effective manager of defaulted student loan portfolios in the United States. Sallie Mae has accomplished this is by:

- Creating customized recovery strategies
- Selecting and managing the best collection agency network
- Developing objective structured performance evaluation metrics
- Results orientation compensation structures for agencies
- Maximum leverage of IT resources
- Automated inventory placement, monitoring, and recall
- Communication
- Compliance—both on and offsite auditing ensures compliance with all regulations and policies
- Years of experience and proven results

Mr. Lind stated that a collaboration with Sallie Mae could enhance what the state is currently doing in the area of debt collection. Additionally, collecting private debt is very different from collecting federal debt.

Treasurer Kennedy asked specifically what benefits Sallie Mae can offer the state to improve its efforts on all levels. Mr. St. Peters identified the following benefits: (1) ability to systematically rotate inventory, (2) credit rehabilitation of constituents, (3) market buying power, and (4) bypassing the RFP process to onboard and off board agencies. Treasurer Kennedy suggested that Sallie Mae representatives further discuss the benefits with Secretary Barfield, Rick McGimsey and Representative Broadwater.

Having no further business to discuss, Treasurer Kennedy adjourned the meeting.