

COUNTY OF SACRAMENTO  
CALIFORNIA

For the Agenda of:  
May 11, 2005

To: Board of Supervisors

From: Department of Revenue Recovery

Subject: Conceptual Approval Of Replacement Of Obsolete Accounts Receivable  
Computer System

Contacts: Erik Parseghian, Assistant Director (875-7635)  
Dan Stevens, IT Manager (875-4984)

**Overview**

The Sacramento County Department of Revenue Recovery (DRR) is working to replace their obsolete, deteriorating collection system. The hardware and software that comprises DRR's collection system is essential to every facet of the billing and collection processes used by DRR to generate revenue for County programs, the General Fund, victims of crime, and other public and private entities.

**Recommendation**

It is recommended that the Board conceptually approve DRR's accounts receivable collection system replacement project and project direction.

**Measures/Evaluations**

The proposed project is consistent with department outcomes to provide effective billing and collection services at or below market rates, by reducing DRR's cost to collection ratio from 13% to 11%, and to increase collections by improving its recovery rate from 32% to 38% within 2 years of system implementation.

**Fiscal Impact**

This project will be completed with no net impact to DRR customers or to the General Fund. Debt service payments will be offset through a combination of cost savings in current system expenditures and revenue increases as a result of the new system.

**BACKGROUND**

The current DRR system, Columbia Accounts Receivable System (CARS), was purchased from Columbia Ultimate Business Systems in 1997 because DRR's mainframe system at that time was not Year 2000 (Y2K) compliant. The County's Systems and Data Processing Department (S&DP, now the Office of Communications and Information Technology, (OCIT) evaluated system replacement options with DRR and determined a custom built

system would best meet DRR requirements. However, S&DP resources were fully committed to bringing county systems into Y2K compliance, and the implementation time needed to develop a new system for DRR extended beyond the County's conversion deadline. Alameda County was in the process of looking at similar alternatives as DRR and had issued an RFP that had resulted with a proposed system from Columbia Ultimate. Due to time constraints, Sacramento County elected to use Alameda's RFP to enter into a contract with Columbia Ultimate. Even though the Columbia Ultimate system would require significant custom programming to meet basic DRR requirements, they were the only vendor who pledged to a completed system implementation that met Y2K deadlines. The vendor failed to meet a number of deliverables, therefore resulting in an inadequately performing system. Coupled with poor vendor support, the inadequacies of the CARS system were responsible for a loss of \$2 million in collections during the first 2 years of use. This prompted DRR to hire County IT staff to take over support and maintenance of the system.

DRR IT staff continually modifies the system to correct errors and add critical features needed to provide service to customer departments and to the public. DRR's efforts are constrained by design inadequacies in the system that results in overly complex and inefficient development projects. DRR currently has an extended backlog of requests for system corrections or new enhancements needed to improve processes. Additionally, CARS utilizes technology that is outdated, making it increasingly difficult and more expensive to locate staff and hardware resources for maintenance or major enhancements. The situation reached a critical level 2 years ago after the Court transferred its initial billing function to DRR causing the increased workload to exceed standard system capacity. Code Enforcement recently transferred its billing function to DRR, putting further strain on an overloaded system. Receivables have grown from \$256 million in 2001 to \$400 million in 2005, annual payment volume is up from 123,000 to 400,000 payments and account referrals have grown from \$92 million to \$140 million during the same time period. The current system cannot continue to sustain such growth.

## **DISCUSSION**

DRR began exploring alternatives to its current software in January 2002 as it became increasingly apparent that workload growth and new service requests were becoming incrementally more difficult to support with existing automation. The product has reached its extendable limit, thus putting the department at risk with increasing run times for batch processes that run into workday hours causing system down time. Escalating system problems affects productivity and limits DRR's ability to provide desired services to other departments. Limitations of these types result in potentially decreased or lost revenue. Despite DRR's best efforts, the ability to improve the system is limited by insufficient data structures and design. The effort to correct the current system would be extremely costly and not justifiable given the obsolescence of the technology.

Replacement of DRR's system also presents the County with opportunities to reduce overall automation costs by sharing the system with others and to improve service to the public. DRR is an active member of the County's Sacramento Multi-Agency Revenue Team (SMART). The SMART Team is a consortium of Sacramento County departments working together for

the purpose of pooling knowledge and resources in order to improve the net return to the county and associated agencies. Most of the improvements the SMART Team requires involve automation that can be met with DRR's new system.

### **Project Objectives**

The objectives of DRR's system replacement project are to provide a modern system that meets DRR's current automation needs, SMART Team needs, provide for expansion of business functions in the future, and improve customer service to the public. The new system will:

- Provide DRR with a long lasting collection system that supports its operational and business needs.
- Allow DRR and SMART Team members to share automation resources with one-time development costs in order to maximize the collection of revenue and minimize the cost of the collections effort.
- Provide a common base to allow SMART Team members to improve service to the public.
- Allow Web Access to account data for selected purposes, such as balance queries and other account information.
- Allow DRR to offer collections and billing services to agencies outside the county (e.g. cities or special districts). These services would allow them to reduce their dependency on county funds by improving their collection rate and/or reducing their cost of collections.
- Be developed using technology that is widely used so that resources can be expected to be readily available and to utilize open architecture that allows the system to interface to and exchange data with a variety of outside automation systems in the public and private sector. The new system, unlike the current automation, will comply with county standards.

### **Feasibility Study**

DRR conducted an analysis of existing processes and requirements to understand and document automation needs. A feasibility study was conducted and system replacement options analyzed. The basic choices are:

- Purchase Columbia Ultimate's (DRR's current vendor) yet to-be-developed new product
- Purchase a commercial off-the-shelf system
- Share existing County Compass system
- In-house development of a custom system

In summary, our evaluations uncovered the following:

- Columbia Ultimate's current product, Aliant, is not a viable candidate. A few years ago, they announced replacing Aliant with another product; however, they recently scrapped that effort after discovering the core software they planned to purchase could not meet their business requirements. They are in the process of starting over with a new project and the standard response to requests for an estimated completion date is "18 months" regardless of the time lapse since the last inquiry.

Based on our prior experience with Columbia Ultimate, the vendor has not demonstrated they can adequately meet DRR's long-term needs. Finally, Columbia Ultimate is not offering source code licensing, a critical requirement needed for DRR to retain the ability to modify the system using internal staff upon demand. This would result in costly custom program changes or not being able to make needed changes timely, or not at all, placing the county in jeopardy of being in noncompliance, which could result in serious adverse financial consequences.

- There was not a viable commercial off-the-shelf product available to meet DRR's requirements and cost constraints. The commercial products are designed to support private-sector collections and do not provide the flexibility, extendibility, and core features DRR requires to support its customers. Significant custom programming would be needed to implement the critical processes required to meet state cost allocation requirements, victim restitution disbursement processing, accounting for complicated joint and several orders for payment, complex payment allocation, complex state mandated court fine distribution of monies collected, and many other major critical functions that are not typical functions in a private sector collection agency.
- San Diego County's DRR recently issued an RFP for a collection system with results confirming DRR's findings. Due to time constraints, they decided to select Columbia's product as an interim solution for a couple of years. They must immediately move off their mainframe system and Columbia is the only vendor that has pledged to immediately meet the majority of their requirements within the necessary timeframes. Other vendors proposed custom systems that are too expensive and would take too long to develop and implement.

Alameda County has been researching system replacement options over the past three years with the same results. In user forums, other counties have shared the results of their research confirming there is no turnkey system that can adequately meet complex government collection requirements. There is a great deal of interest in DRR's project because of the lack of a suitable product on the market. DRR is soliciting input from other counties and involving them

in the review process at major milestones. As other government entities look at replacing their systems, it is envisioned that DRR’s new system will meet their requirements prompting requests for licensing of the new system. Licensing options can be explored with County Counsel and OCIT to determine how development costs can be recouped through such an arrangement.

- An evaluation of the County’s Compass system determined that, like other existing collection systems, the product did not meet DRR’s high-level requirements at an acceptable level. DRR has too many unique court and welfare related requirements that would require extensive, costly changes to the product.
- DRR has the ability to develop a replacement system using existing budget resources. DRR’s current needs and anticipated future needs can be met by software that is specifically designed to support its complex operational environment and allow it to continue to improve results for the referring departments and service to the public.

Development and deployment of a system specifically designed to meet the needs of public sector collections and internally maintained would provide the automation support and flexibility necessary to meet the goals of increasing overall collections, improving the recovery rate of amounts referred for collections, and reducing the cost to collections ratio.

Figure 1 below summarizes the findings of system replacement options explored.

**Figure 1 – Summary of System Replacement Options**

	Meet Requirements	Affordable	Accommodate Growth	Facilitate SMART Team Goals	Data Sharing with Other Entities	Source Code Available	Affordable Post-Implementation Support
<b>In-House System</b>	ü	ü	ü	ü	ü	ü	ü
<b>Columbia Ultimate Business Systems</b>		ü			ü		ü
<b>SAP</b>	:		ü		ü		
<b>CGI-AMS</b>	:		ü		ü	ü	
<b>FACS</b>		ü					ü
<b>Debtmaster</b>		ü					ü
<b>CollectNet</b>		ü					ü
<b>DAKCS</b>		ü					ü

: - Would have required substantial and costly modifications to meet requirements

**MEASURES/EVALUATION**

DRR operates as the County’s centralized collection function and has established operational and cost-control objectives that must be supported by modern software in order to be realized. Streamlining and automating processes will improve productivity throughout the department and reflect in performance indicators such as number of accounts worked, calls handled, and average monthly collections. Debtors will be able to use automation to adjust computer determined payment terms, within pre-defined parameters, increasing payment compliance. These are a few examples of collection related indicators that can be tracked to measure the effectiveness of the new system. To measure the impact of the new system on costs, indicators such as per unit costs and program costs can be tracked.

Outcomes are fairly straightforward for collection programs: cost to collections ratio (amount collected and at what cost) and recovery rate (amount collected of amounts referred). DRR has made significant improvement in customer costs and collections over the last several years, however costs (apart from employee medical and retirement costs) and collections are expected to remain at fairly constant levels until the new system is implemented, after which DRR expects to reduce the cost of recovery from 13% to 11%. While the change in percentage appears small, the net benefit in dollars from \$32 million to \$48 million is significant and far offsets the \$3.9 million loan needed to complete the project. DRR is a “volume discount” operation and a new system will allow DRR to provide services to new customers resulting in decreased costs and increased net revenue for all customers. The following table shows the expected change in cost-to-collection ratio after system replacement.

(in millions)	<b>FY 2003-04</b> (actual) Current system	<b>FY 2004-05</b> (est) Current system	<b>FY 2007-08</b> (est) New system	<b>FY 2008-09</b> (est) New system
<b>Net Collections</b>	\$37.1	\$43.3	\$49.3	\$54.5
<b>Net Costs</b>	\$4.8	\$5.7	\$6.0	\$6.0
<b>Cost To Collection Ratio</b>	13%	13%	12%	11%
<b>Net Return</b>	\$32.3	\$37.6	\$43.3	\$48.5

DRR expects referrals to continue to increase as a result of normal growth. As the population grows, so do court caseloads and the demand for various county services. DRR expects to improve the rate of recovery from 32% to 38% by improving collection processes. Over one-third of DRR referrals consist of accounts that cannot be collected and must be waived unless the debtor has the legally defined “ability to pay”. As such, the recovery rate is not expected to improve dramatically, however, the new system will aid DRR in processing all types of cases in a more cost effective manner aiding in cost management.

The following table shows the expected change in recovery rate after system implementation.

(in millions)	<b>FY 2003-04</b> (actual) Current system	<b>FY 2004-05</b> (est) Current system	<b>FY 2007-08</b> (est) New system	<b>FY 2008-09</b> (est) New system
<b>Net Referrals</b>	\$115.9	\$121.2	\$135.1	\$143.4
<b>Net Collections</b>	\$37.1	\$43.3	\$49.3	\$54.5
<b>Recovery Rate</b>	32%	35.7%	36.5%	38%

Another longer-term objective is to provide collections and billings services to agencies outside the county (e.g. cities or special districts) where it is beneficial to the County to do so. These services would allow them to reduce their dependency on County funds by improving

**FINANCIAL ANALYSIS**

There will be no net fiscal impact and no net cost increases to DRR customers or to the General Fund. The new system will be financed by a loan from the Fixed Asset Acquisition Fund (FAAF). DRR has identified resources currently dedicated to current system needs that can be shifted to new system project costs and Debt Service payments. The chart below summarizes the \$5.8 million cost of the project, which includes interest payments, training, and contingency post implementation support costs. Cost estimates are based upon the use of proven practices and technology. A small amount of contingency funding for system development is included in cost estimates and will be used only if needed.

**Replacement System Cost Summary**

Requirements & Software Design	\$2,830,927
Hardware	\$276,061
Software	\$80,471
Implementation	\$763,421
<b>FAAF Loan Amount</b>	<b>\$3,950,880</b>
Interest Payments	\$986,037
Post Implementation Support	\$800,000
Training	\$78,000
<b>Total</b>	<b>\$5,814,917</b>

DRR completed a Risk Assessment for the project including risk mitigation plans to minimize the potential for unexpected cost increases. In addition, DRR has already designed and developed a working model of the new system within estimated times further enhancing the confidence level in time estimates for the various deliverables of the project.

DRR will continue to explore opportunities to recover development costs by seeking out project partners and/or licensing arrangements with other counties. Any payment received under these arrangements would lower project costs and/or debt service payments.

**CONCLUSION**

DRR goals and objectives rely upon modern, reliable, well developed, and flexible automation that will allow it to rapidly respond to the complex budgetary, regulatory, and customer service environments in which they operate. After a comprehensive analysis of available alternatives, a replacement system developed in-house with OCIT participation is the option that best meets DRR operating and County budgetary requirements.

It is recommended that your Board conceptually approve this project and project direction:

- Establishing a formal project with OCIT review and feedback at major milestones.
- Cost of project to be funded with FAAF loan and debt service payments, to be absorbed within DRR budget with no net cost increase to customers or to the General Fund.
- Utilize existing County contracts to acquire necessary hardware, software, and staffing resources.
- Continue to pursue project partners to share project costs.

The County CIO/Director of OCIT has reviewed DRR’s project documentation and approach to determine the project is aligned using County Standards and best practices. He is in support of this project and its direction.

The Board’s approval of this project will also strongly support SMART Team efforts for resource sharing and reengineering of billing/collection activities in order to improve the County's net revenue from these activities. These efforts hinge on DRR’s new system as a core resource and will require a tremendous amount of collaboration, innovation, and selflessness in order for the Team to implement solutions that are best for the County as a whole.

Respectfully submitted,

APPROVED:

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CONNIE AHMED, Director  
Revenue Recovery

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TERRY SCHUTTEN  
County Executive

CONCUR:

\_\_\_\_\_  
PAT GROFF, Chief Information Officer  
Communication and Information Technology

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By: MARK NORRIS, Administrator  
Internal Services Agency

Attachments