

**KCTCS – Office of Business Services Best Practices: One Way To Deal With
Difficult Budgetary Times**

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Abstract

In today's tough economic times colleges and universities are faced with declining state revenues, dramatic downturns in endowment and reductions in philanthropic contributions all the while having to fight to control cost and limit tuition increases. Further, as the cost of student tuition increases, student receivables have increase proportionately or at even a greater rate. In light of the growth in student accounts receivable, the Kentucky Community and Technical College System (KCTCS) in 2006 reviewed its student accounts receivable as a means to reduce the about of bad debt it was writing off. In doing so a few things popped out – student account receivables and the gap between the reserve for doubtful accounts and write offs was growing steady. KCTCS had in its 10 short years of existence roughly \$10 million in written off uncollectable tuition. To address this “opportunity” KCTCS brainstormed ideas. One idea from the brainstorming was how the Federal government offsets income tax returns and could KCTCS working with the Commonwealth of Kentucky do this for its student accounts receivable. As a result, KCTCS contacted the Kentucky Department of Revenue (KyDOR) for such a possibility at the state level. Below is a summary of accomplishments and the improved process.

Need:

- *To increase collections on student account receivables.*

Problem

- *Lack of success in the collection of past due student receivable accounts.*
- *Lack of internal resources to staff the collection appropriately.*
- *Less than expected success by outsourced collection agencies.*

Solution

- *KCTCS was able to put in place a process that would serve as the prototype for all higher education in Kentucky to use the Commonwealth of Kentucky for collection of past due accounts. This includes the use of tax offsets, liens, and seizure of property – personal and real – in the course of collection of debt owed.*
- *Better collection, cost avoidance and reduction.*

Gains

- *Better payment of student receivables on the front end as well as any that have to be referred to collections by the Kentucky Department of Revenue.*
- *Modeled the process and procedure so that Kentucky's other higher education institutions can use the process and the Kentucky Department of Revenue as their collection agent.*
- *Amended Kentucky law to allow the higher education institutions to retain the collected receivables (versus collections being returned to the state's general fund) and to not have to absorb the cost of collection (the 25% collection cost added as an administrative fee is absorbed by the person in default, KCTCS is made whole via the collection process).*

Introduction of the Organization

Created by the Postsecondary Education Improvement Act of 1997, the Kentucky Community and Technical College System (KCTCS) are 16 two-year colleges (67 campuses) that provide quality postsecondary education and workforce training. KCTCS colleges are committed to making education accessible, relevant and responsive to the needs of students, employers and communities. KCTCS campuses are strategically located across the Commonwealth, from Ashland to Paducah, from Covington to Bowling Green. KCTCS is the largest provider of internet-based courses in the state offering more than 3,000 online courses.

KCTCS colleges confer three types of credentials – certificates, diplomas and associate degrees including: Associate in Arts, Associate in Science and Associate in Applied Science, upon students who complete credit programs. While KCTCS' historical mission has been to provide general education, KCTCS is increasing its focus on occupational/technical education. KCTCS colleges have instituted approximately 3,000 new programs and program options since 1998. KCTCS forges partnerships between colleges and businesses to provide Kentucky workers with the skills required today and to help industries and individuals develop the capabilities they will need tomorrow.

While focusing on quality, KCTCS colleges are the best value in postsecondary education in Kentucky. Year in and year out, KCTCS tuition and charges are the lowest in the Commonwealth. Students at community and technical colleges benefit from a single, simple tuition and charge structure. KCTCS has and continues to seek efficiencies of operations –

everything from outsourcing functions of its information technology such as managed services for its computer servers to vendor check printing by ADP to student financial aid residual refunds by Higher One. This is especially so in light of receiving almost \$18 million in state appropriation reductions in the past three fiscal years alone.

In summary, KCTCS prides itself in being recognized as the nation's best comprehensive community and technical college system and in pursuing efficiencies and providing the public a sound return on its investment.

Statement (restatement) of the Problem/Initiative

Historically, KCTCS was plagued with large student accounts receivable. As of October 2007, for the prior five years dating back to fall of 2002, approximately \$7.9 million past due accounts had been written off. KCTCS had on prior occasion established five contracts with various collections agencies as a means to collect on past due student receivable accounts. Colleges were encouraged to pick and choose from among the five agencies in effort to help determine which of the collection agencies had the best success rate for collections. Efforts including outsourcing the past due accounts to various collection agencies proved less than fruitful. In searching for ways to better manage its student receivables, KCTCS approached the KyDOR as a possibility of using the State's authority to impose tax refund offsets as a means of collection. Through various meetings between KCTCS and the KyDOR staff a process was put in place to refer KCTCS' past due accounts as a pilot. Depending on the success of the pilot, KCTCS would use the KyDOR as the sole source for past due accounts referral and phase out the use of its five currently contracted collection agencies. One obstacle of the agreement for both a short and long

term basis was that Kentucky law (KRS 45.239(4) and KRS 45.241 et. seq.) required any collections by the KyDOR to be returned to the Commonwealth of Kentucky's general fund and not to the entity having the past due account(s). Through various meetings and a letter of petition, an agreement was struck to allow KCTCS to be remitted all funds collected by the KyDOR on its behalf with the KyDOR charging and retaining only a twenty-five (25) percent administrative fee. This fee was the same rate paid by KCTCS for accounts outsourced with its five contracted collection agencies.

Design

The challenge was to develop a secure means to interface KCTCS' enterprise resource system (PeopleSoft) file structure and the KyDOR's administrative software. To keep the process simple, KCTCS developed an additional data entry panel within PeopleSoft allowing college personnel to enter a student determined ready for referral to the KyDOR for collections. Each college is required to follow steps of review and verification of student account balances for accuracy prior to the receivable being sent to the KyDOR. Once the student's account has been identified for referral for collection the college will enter the student ID, verify the student has an active address, enter a campus code, and the term of the debt owed. A process is run bi-weekly from the KCTCS System Office that creates an XML file that is transmitted to the KyDOR through a secure FTP site. When this process runs it also automatically places a collection hold on the student's account which blocks the student from any future enrollment. Similarly, when payment is received from the KyDOR it is in the same XML file format. KCTCS personnel manually download the KyDOR file and then upload it into KCTCS' administrative system

(PeopleSoft) where the file is group posted and picked up in an automated nightly posting process.

It should be noted that once the account is referred to the KyDOR the collection process must run its course. Negotiations with the student are no longer the responsibility of the college. Rather, any negotiation terms of payment with the student is through the KyDOR as KCTCS has exhausted its internal processes prior to referring the account to the KyDOR. Once the account is referred, the KyDOR works with the student to establish terms and length of repayment. Payments by students are made directly to the KyDOR and not the college. KCTCS receives payment and account update information from the KyDOR monthly. Because payments are received only once a month, the colleges were granted access to the KyDOR's administrative system for purposes of verifying payments collected but not yet transmitted to KCTCS. This online view access enables review of collection/payment information in real time. With the payment information confirmed a college can remove the financial hold on the student's account enabling students who have settled their account to re-enroll in future terms without the delay of having to wait until their payment posted to their account with the college. This process required signoffs of state government to grant access and perform data entry into Commonwealth of Kentucky's secure database and to do so at remote locations external to the KyDOR and its local area network. For example, the following forms had to be completed by each person granted access to the KyDOR collection system – Acknowledgement of Confidentiality, Agency Security Procedures Form, Security Form for Entering Debt, Drive License Identification Form, the KyDOR Confidential Computer Information Form, etc., etc., a total of 8 different forms in all. After a number of meetings by various parties from state government (both within and external

to the KyDOR) and with KCTCS staff (Treasury, Technology Solutions, Business Services and Accounting) a lot of work on both sides behind the scenes a workable process was identified. Jefferson Community and Technical College, KCTCS' largest college with more than 12,000 for credit enrollment and over \$600,000 in past due student accounts receivable was selected as the initial pilot college beginning in October 2007.

Implementation

Within Jefferson's initial piloting, the College referred \$136,005 in delinquent accounts. Of these referred accounts, \$74,252 or roughly 54% was collected and any process nuances were identified. Over the course of eight months of testing and collection, when all parties were confident in the process (with revisions made as nuances were discovered) KCTCS began the transition to roll out the process of enabling all 16 colleges to be a part of this new collection method. The contracts with the five outsourced collection agencies were allowed to expire with a phase-out period of an additional six months for any accounts in transition to be collected or turned over to the KyDOR by the end of December 2008. The transition to migrate all colleges to the KyDOR was to take place over a period of the next 12 to 18 months with colleges being transitioned in three phases. However, given the success and eagerness of the colleges, all but two colleges were referring delinquent accounts to the KyDOR by December 2008. The remaining two colleges referred debt by spring 2009.

The paradigm put in place a process so that every other Tuesday an automated process was ran by the KCTCS System Office producing a XML file for college entered data that was then transmitted to the KyDOR in a secure FTP format. Prior to being able to view data within the

KyDOR system, KCTCS personnel were required to sign confidentiality agreements, etc. Upon entering the delinquent accounts data, college personnel were required to review and re-verify that accounts entered were correct. Checking and rechecking of the data was imperative to the referral for collection with the KyDOR. Moreover, confirmation as to the assurance that any KCTCS college referring collections to the KyDOR had in fact used due diligence by ensuring that 30 and 60 days notice letters outlining what could happen if the account was not settled, including referral to the KyDOR and the legal ability of tax refund offsets, liens and seizures had been made.

Benefits

The benefits are clear: in turning over \$7.9 million in delinquent uncollectable accounts (previously turned over to collection agencies and written off) to the KyDOR dating back to fall 2002, \$1.6 million has been recovered with more recoveries continuing monthly. As is, KCTCS accounts receivable are down and word has spread among KCTCS' students about the use of the KyDOR and their ability to perform tax offsets, liens and seizures. As a result of using the KyDOR we have seen a major increase in the number of current accounts that have been paid in full compared to previous years. So far, KCTCS has seen an average recovery of 20 percent for delinquent accounts that were previously considered un-recoverable. Some colleges have recovered as much as 37% of what was deemed un-recoverable debt using the KyDOR paradigm. Expectation is that KCTCS colleges' doubtful accounts will continue to decline as the word travels throughout the Commonwealth that KCTCS uses the KyDOR and the KyDOR has and uses its legal ability to employ tax offsets, liens, and seizure of property to collect debt owed to KCTCS.

Also of note worthy mention because of the success in the collection of KCTCS' delinquent accounts, interest was spurred by Kentucky's other public higher education institutions. Currently, the KyDOR is in the initial stages of expanding the paradigm developed with KCTCS to include all of Kentucky other state public universities --- a win-win for all.

Retrospect

In retrospect things went well – very well – better than one could have ever anticipated once the file structure and process was defined to enable data to be securely and seamlessly transferred to the KyDOR. In summary, what started out as brainstorming to reduce a ever growing problem of delinquent student accounts with little hope of collection turned into a model of success with positive spillover effect for all Kentucky's public higher education institutions.