

# Minerals Management Service

## Debt Collection Study

June 2006



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**LUKENS ENERGY GROUP**  
A Black & Veatch Company

# **I. INTRODUCTION AND SCOPE**

Minerals Management Service (MMS) has requested Lukens Energy Group (LEG), a Black & Veatch Company, to provide assistance in analyzing its current debt collection process. Specifically, MMS would like to develop a cost study to help determine if the current write-off thresholds in the collection of debts are appropriate.

Following is a summary of the scope of work:

1. Review existing MMS documents and information related to the debt collection function; including previous cost studies.
2. Conduct on-site employee interviews to fully understand the process steps and determine the average time and costs to complete specific steps of the accounts receivable collection process.
3. Analyze cost accounting information and assign costs to each of the steps required in the review process. Among the factors taken into consideration are: the average time to complete the review of an invoice, the average time to complete the follow-up process, and research effort to identify lease, lessee, and ownership information. This information will be utilized to determine if the current write-off thresholds are adequate.
4. Provide support for a recommended write off level.
5. Provide a report to summarize the findings and conclusions.

In addition to the above-mentioned scope, LEG will provide comments and observations concerning the existing debt collection process, as well as comments related to a future process of debt collection activity for royalty payments.

## II. FINDINGS AND CONCLUSIONS

Based on the assumptions outlined in this report and the analysis of the debt collection processes and associated costs, we recommend that the debt collection write-off limit for all federal leases be (b)(2)High, (b)(5)

(b)(5), (b)(2)High, (b)(5) threshold to the following:

Invoice level -	(b)(5) (b)(2) high
Lease level -	
Lessee level -	

In addition, the bad debt write-off guidelines for Indian leases should be

(b)(2)High, (b)(5)

It should be noted that our findings and conclusions are primarily focused on the existing process related to invoicing for FIN payments associated with lease rental payments, well fees, minimum royalties, as well as INT payments related to interest. In our review of the bad debt collection process, there is a

(b)(2)High, (b)(5)

Financial Management has stated that they will follow the same bad debt collection process (b)(2)High, (b)(5)

(b)(2) high (b) (5)

Additional observations and suggestions are included in Section VIII regarding the overall debt collection process.

### III. BACKGROUND

MMS has a longstanding and well established process to monitor, track, and pursue delinquent invoices. MMS currently utilizes an internal bad debt write-off threshold of (b)(5)  
(b)(2)  
high for all federal leases and (b)(5)  
(b)(2)  
high for Indian leases.

According to Sec. 285.12 of the Debt Collection Improvement Act of 1996, “a creditor agency shall transfer any debt that is more than 180 days delinquent to Treasury for debt collection services. For accounting and reporting purposes, the debt remains on the books and records of the agency which transferred the debt.”

An audit (“CFO Audit”) completed in 2005 suggested that “MMS did not have adequate controls to ensure that delinquent receivables were properly identified for referral to the U.S. Department of the Treasury (Treasury) for collection or offset in a timely manner”. In its response, MMS concurred with the audit finding and stated that a project has been undertaken to resolve and reduce aged unmatched payments.

Based on the CFO Audit findings, MMS is re-evaluating the entire debt collection process in order to determine if the current write-off thresholds accurately reflect the cost of pursuing a past-due debt. Finding an adequate write-off level is crucial in order to increase the overall efficiency of the debt collection process. A write-off level that is too low could result in pursuing debts which have a value that is less than the cost of debt collection activities, and therefore is not cost effective. In addition, streamlining of the debt collection process will allow MMS a better opportunity to meet the 180 day target.

On the other hand, a write-off level that is too high could negatively impact the total amount of debt collected. This is especially true for functional steps in the debt collection process that have a relatively low cost, but a high success rate.

**MMS is considering**

(b)(2)High, (b)(5)

(b)(2) high (b) (5)

(b)(2) high (b) (5)

**indicated within the accounting system. MMS Financial Management is currently evaluating the best way to handle**

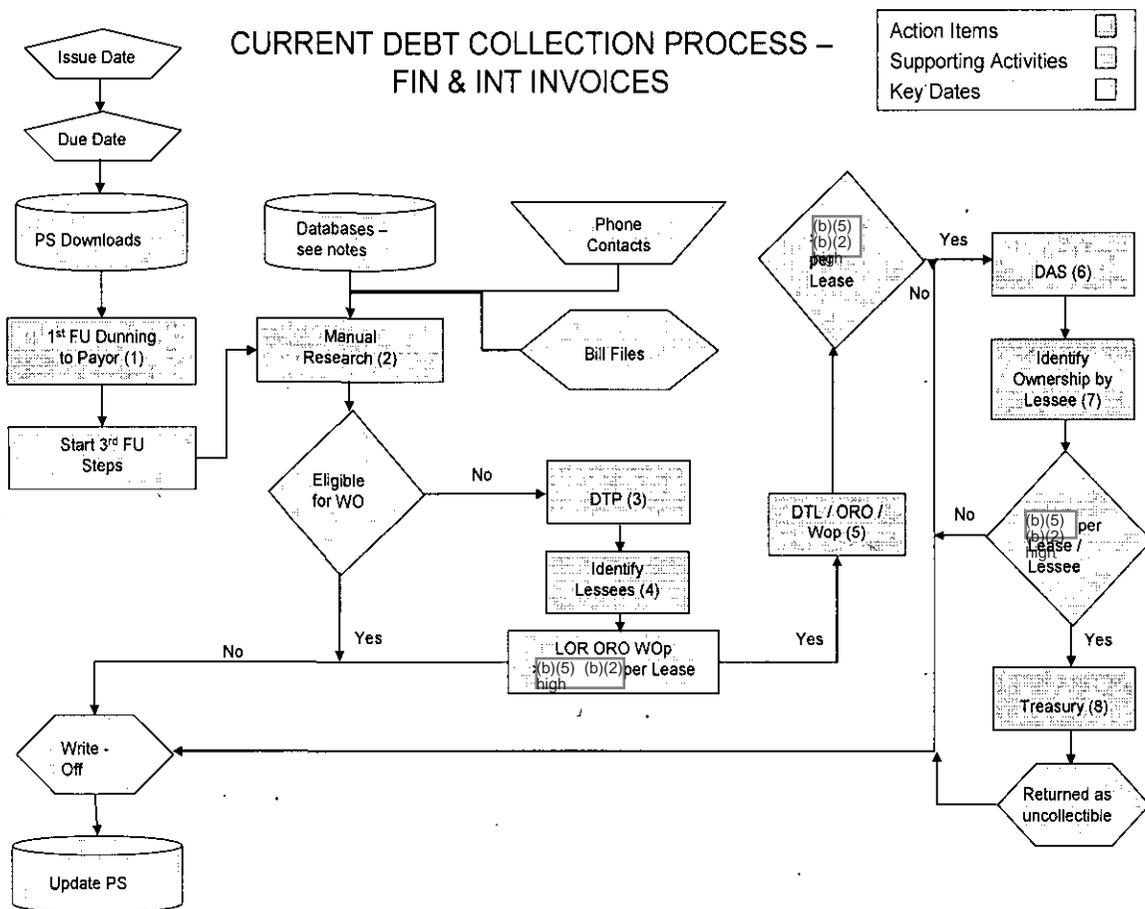
(b)(2)High, (b)(5)

# IV. REVIEW OF THE DEBT COLLECTION PROCESS

## Functions in the Debt Collection Process

LEG identified eight different functions within the debt collection process. Figure 1 below is a diagram that graphically represents the debt collection process from start to finish. The process is composed of the eight functions described below. If no payment or only partial payment is received, follow-up activities continue until the debt is referred to Treasury. If the debt is put on hold (e.g. the debtor files for bankruptcy or files an appeal, etc), all collection activities are suspended.

**Figure 1: Debt Collection Process Flow Diagram**



1. **Send “Dunning Letter” to the Payor:** This step initiates the collection process. If an invoice has not been paid on its due date, the system immediately generates a letter to inform the debtor (i. e. payor) about the late payment status. This step of the process takes place approximately 1 to 6 days after the due date shown on the invoice. The Dunning Letters are automatically generated by the Debt Collection system and require little or no administrative time and effort.
2. **Perform Manual Research on Invoices:** At this stage, MMS verifies that the debt is still past due and that there are no pending payments associated with the debtor’s account. MMS also confirms that the payment has not been submitted as part of a different payment or that it has not been placed under a different account. Additionally, MMS must verify that the past-due invoice has not been placed on hold (e.g. debtor has filed for bankruptcy, debtor has filed an appeal, etc.) under which all follow-up activities are suspended.

It is important to note that research starts after the dunning letter is sent out and continues throughout the entire debt collection process, depending on the level of detail required at each step. For example, functions 4, 7, and 8 are considered as extensions of function 2. The work in each subsequent step will build upon the foundation from previous work. In aggregate, these four functions bear the majority of the time involved in the debt collection effort.

3. **Send “Demand to Payor” (DTP) letter:** If no payments or partial payments have been collected after sending out the dunning letter, the system will generate a second letter. This time the letter carries a more severe message and demands the payor to pay immediately. The DTP letter informs the payor of his right to appeal within 30 days of the notice. Also, it lists a series of collection actions that might be taken if payment is not received. This step takes place approximately 30 days after a dunning letter is sent out.

Prior to sending out a DTP letter, MMS needs to verify that the invoice in question is at least <sup>(b)(5)</sup>  
<sup>(b)(2)</sup> high (for Federal debts), or <sup>(b)(5)</sup>  
<sup>(b)(2)</sup> high (for Indian debts). If the invoice is under the threshold levels, the debt collection process stops at this point and the debt is subsequently written off.

4. **Identify Lessee of Record (LOR), Operating Rights Owner (ORO), or Well Operator (WOp):** If no payment or partial payment has been received at this stage, MMS needs to directly contact the LOR, ORO, or WOp responsible for the amount past due. For federal leases, MMS has at its disposal two databases where they can research information regarding the LOR. The two databases are: LR2000 and TIMS. The former is a database maintained by the Bureau of Land Management, and the latter is a database system controlled by MMS's offshore division for OCS leases. Alternatively, if the invoice is non-RSFA (Royalty Simplification and Fairness Act), MMS must contact the Bureau of Indian Affairs (BIA) to obtain the LOR, ORO information. Almost all communication with BIA is manual.
5. **Send "Demand to LOR / ORO or WOp" (DTL) letter:** If at this point the debt is still past due, and MMS has located the necessary LOR, ORO or WOp information, MMS will send out a letter to these parties informing them about their obligation to pay. As with the DTP letter, this notice gives the LOR 30 days to appeal, and it lists a number of follow-up actions that MMS might take if no payment is received. This step takes place approximately 30-40 days after the DTP letter is sent out.

Prior to sending out the DTL letter, MMS needs to verify that the debt is in excess of the approved thresholds. At this point write-off levels are checked on a per lease basis. Federal debts under <sup>(b)(5)</sup>  
<sup>(b)(2)</sup> high lease or Indian debts under <sup>(b)(5)</sup>  
<sup>(b)(2)</sup> high lease are written off and the debt collection process is terminated.

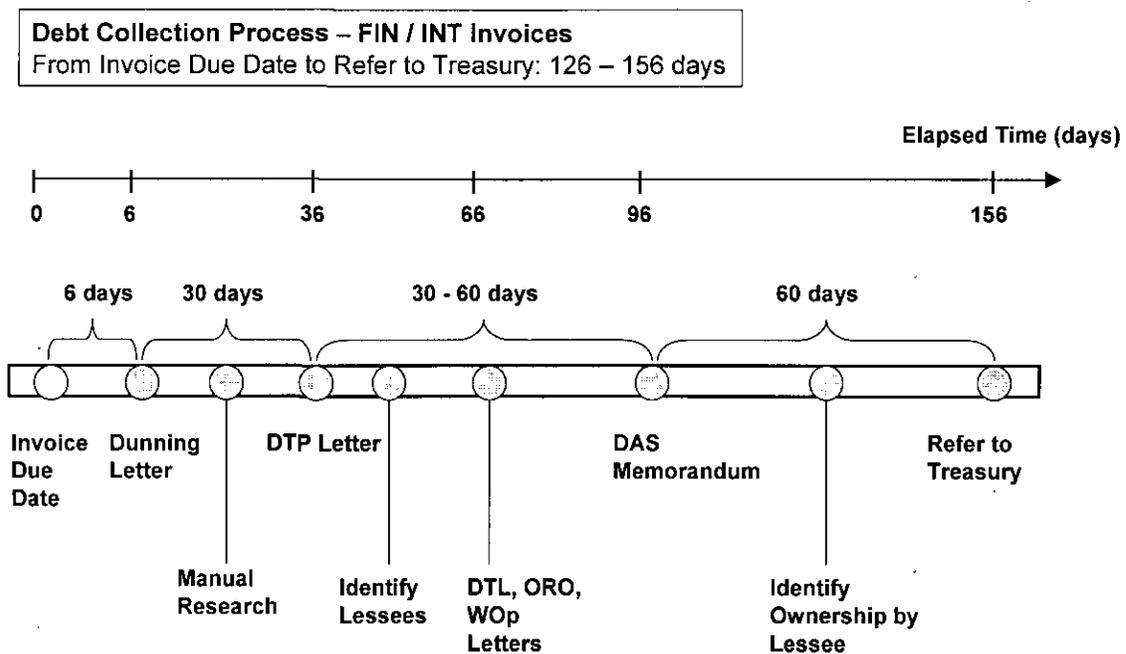
6. **Send “Demand against Surety” (DAS) memorandum:** This step consists of contacting the Bureau of Land Management, Offshore Minerals Management, and Bureau of Indian Affairs and requesting they draw on the lease surety to satisfy the debt. This action is in compliance with debt collection procedures described in the BIA / BLM / MMS Tripartite memorandum of understanding. Typically, the DAS memorandum is sent out approximately 30 days after the DTL letter. The debt must be greater than (b)(5) (b)(2) high for federal leases or (b)(5) (b)(2) high for Indian leases, in order to send out the DAS memorandum.
7. **Identify Ownership by Lessee:** This function is a continuation of steps 2 and 4. If no payment has been received at this stage, MMS needs to research the ownership percentage that corresponds to each lessee. Sometimes this information is available through the LR2000 or TIMS databases. If this information is not listed in the referenced databases, more extensive research is performed. The ownership percentage needs to be identified prior to referring the debt to the Department of Treasury for collection.
8. **Refer debt to Treasury:** If all collection efforts have been unsuccessful, the debt is then referred to the Department of Treasury. According to the Debt Collection Improvement Act (DCIA) of 1996, agencies are required to transfer outstanding debt that is more than 180 days delinquent to the Department of Treasury for collection. The closing step of the debt collection process takes place approximately 60 days after sending out the DAS memorandum to the leasing agencies.

Prior to transferring a debt to Treasury, MMS will verify the debt is above write-off thresholds ((b)(5) (b)(2) high for federal lessees and (b)(5) (b)(2) high for Indian lessees).

Figure 2 below shows a timeline of the debt collection process. Optimally, the entire process is estimated to take between 126 to 156 days from the due date of the invoice to the time when the debt is transferred to the Department of Treasury. However, due to delays in receiving information, especially at the lease and lessee level from other agencies, the total debt collection process is not always completed within the 180 day timeframe. MMS has indicated that it is not uncommon to experience significant delays in retrieval of LOR information. Other factors that may delay the completion of the process includes appeals, settlement discussions, etc.

As Figure 2 points out, developing the information necessary to present a Demand to Surety and refer to Treasury take up almost one-third to one-half of the total elapsed timeframe. As such, functional steps 6, 7, and 8 should be reviewed carefully for ways to streamline the process. The remaining one-third to one-half of the time is dedicated to sending out letters and performing research on the delinquent accounts.

**Figure 2: Debt Collection Timeline**



## V. Assumptions Used in the Cost Analysis

Based on the eight functions identified and described in Section IV, LEG designed a simple spreadsheet model to measure the cost of debt collection at each of the functional steps. The model uses a set of assumptions that were developed based on information received from MMS.

### Cost Assumptions

MMS provided LEG with spreadsheets (“ABC spreadsheets”) containing historical costs related to debt collection activities from 2004 through 2006. The ABC spreadsheets show costs associated with various cost accounting codes. Based on discussions with MMS, LEG determined that code F56 (“Coordinate with Treasury – Debt Collection”) during Fiscal Year 2006 would be the most accurate indicator. During FY 2004, only the Office of Enforcement recorded time under F56, and during FY 2005 this accounting code was not used by the Financial Management Department. In addition, the cost data from FY 2006 did not require any modifications. Due to these circumstances, LEG decided to only include cost data from FY 2006 in our analysis. MMS also indicated that the overall work level had not significantly changed from 2004 thru 2006.

The data available for 2006 in the ABC spreadsheets only reflects the costs incurred in the first two quarters of the fiscal year (October 2005 through March 2006). To reflect a full year, LEG annualized the costs reported in the ABC spreadsheet. The costs reported under work code F56 for the first two quarters of FY 2006 were (b)(2) high (b) (5),  
(b)(5). Therefore, LEG estimated the annual costs of debt collection activities at (b)(2) high (b) (5),  
(b)(5).

LEG also assumed a salary burden rate of 30%. This percentage of the total costs was added in order to capture the expenses that are over and above the direct costs reported in the ABC spreadsheets. For example, overhead costs might include the cost of health insurance, pension plans, and any other direct or indirect costs. Adjusting for burden produced a total annual cost of (b)(2) high (b) (5),  
(b)(5) for the debt collection process.

Based on information provided by MMS, LEG was able to assign distribution percentages to break down the total cost spent on the debt collection process. According to the data received, two offices perform debt collection activities: Office 3500 (Financial Management) and Office 3700 (Office of Enforcement). Office 3500 is mainly responsible for collection activities related to functions 1 thru 6, whereas Office 3700 has primary responsibility for functions 7 and 8.

Table 1 shows the distribution percentages associated with the eight different functions. Although the two offices work collaboratively in the collection effort; LEG separated the costs billed by Office 3500 from the costs billed by Office 3700. This provided a more detailed view of the cost breakdown by Office.

As seen in the table below, the majority of the costs experienced by Office 3500 are generated by functions 2 and 4. The majority of the costs incurred by Office 3700 are in Function 8.

**Table 1: Distribution Percentages**

Function	%
1. Send Dunning letter to Payor	(b)(2) high (b) (5), (b)(5)
2. Perform manual research on invoices	
3. Send DTP	
4. Identify LOR (manual research)	
5. ID and Send DTL to LOR/ORO/Wop	
6. ID and Send DAS memorandum	
7. Identify ownership percentage by LOR	
8. Refer debt to Treasury	

}

}

Office 3500

Office 3700

It is also assumed that Function 1 is almost totally automated and, therefore, has almost no administrative expense. Consequently, we do not assign any portion of the total costs to this function.

A main assumption used in developing the percentages was that the majority of costs are encountered in research activities (i.e. functions 2, 4, 7 and 8). MMS personnel verified that research activities consume most of their time and effort. The allocation between steps 2, 4, 7, and 8 is important in analyzing the incremental costs at each step of the process. It is assumed that the overall research effort is cumulative, so that incremental time spent in step 4 is building off of the work completed in step 2, etc. If this allocation materially changes, then the cost on a per lease basis should be revisited

**Activity Assumptions**

Our analysis also assumes that write-off thresholds can be measured at three different levels: by invoice, by lease, and by lessee. To incorporate this approach in our analysis, LEG estimated the number of invoices, leases, and lessees typically involved at each stage of the process.

Table 2 highlights the activity assumptions for each function in the process.

**Table 2: Number of invoices, leases and lessees**

Function	# of Invoices	# of Leases	# of Lessees
1. Send Dunning letter to Payor	750	-	-
2. Perform manual research on invoices	338	-	-
3. Send DTP	338	-	-
4. Identify LOR (manual research)	-	300	-
5. ID and Send DTL to LOR/ORO/Wop	-	300	-
6. ID and Send DAS memorandum	-	129	-
7. Identify ownership percentage by LOR	-	-	375
8. Refer debt to Treasury	-	-	375

As shown in Table 2, lessee activity is only recorded for functions 7 and 8. Functions 1 thru 3 only show activity at the invoice level, whereas functions 4 thru 6 only show activity at the lease level. To estimate the number of lessees throughout the process (i.e. most common denominator), LEG used the numbers at the invoice and lease levels to extrapolate values for lessee activity. For example, to determine the number of lessees at functions 2 and 3 MMS recommended using a rule of thumb ratio of 5 lessees per invoice. Similarly, MMS suggested using a ratio of 3 lessees per lease to estimate the number of lessees involved in functions 4 thru 6. The estimated number of lessees ultimately behind the debt collection process is show in Table 3 below.

**Table 3: Number of lessees at stages of the process**

<b>Function</b>	<b># of Lessees - Entire DC Process</b>
1. Send Dunning letter to Payor	
2. Perform manual research on invoices	1,700
3. Send DTP	1,700
4. Identify LOR (manual research)	900
5. ID and Send DTL to LOR/ORO/Wop	900
6. ID and Send DAS memorandum	400
7. Identify ownership percentage by LOR	375
8. Refer debt to Treasury	375

Taking a closer look at activity numbers will provide some insight into the effectiveness rate for each functional step. For example, as shown in Table 3, Demand to Lessee letters are sent out each year are approximately 900 lessees. This number then decreases considerably to 400 for Function 6 - Demand against Surety; and suggests a relatively high effectiveness rate. However, we should not assume that 100% of the effectiveness rate is due to successful collections, since we do not know how many lessees were put on a hold status or how many debts were written off versus the number of debts collected. Nonetheless, it is instructive to consider the effectiveness rate for key Functions when analyzing a write-off threshold.

## VI. ANALYSIS OF WRITE OFF THRESHOLDS

The LEG analysis assumes that write-off thresholds can be measured on three different levels: by invoice, by lease, and by lessee. The payor is the first party MMS contacts when a debt is past-due- at the invoice level; however, according to the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (RSFA), “the person owning operating rights in a lease shall be primarily liable for its pro rata share of payment obligations under the lease. If the person owning the legal record title in a lease is other than the operating rights owner, the person owning the legal record title shall be secondarily liable for its pro rata share of such payment obligations under the lease.”

Arguably a past-due debt is the ultimate responsibility of the Operating Rights Owners (ORO) of the lease. Alternatively, the Lessee of Record (LOR) is secondarily responsible for the debt. Since the ORO contact information is rarely available in the MMS, BLM, or BIA databases, MMS concentrates their collection efforts on the Lessee of Record as being the lowest level common denominator.

Exhibits A and B in the Appendix Section provide the details of our analysis of incremental costs for each functional step. Based on the assumptions discussed in Section V, LEG calculated a threshold expense at the invoice, lease, and lessee levels. Table 4, below, summarizes the results:

**Table 4: Results of Incremental Cost Analysis**

Function	Incremental Unit Cost (\$/Invoice)	Total Unit Cost (\$/Invoice)	Incremental Unit Cost (\$/Lease)	Total Unit Cost (\$/Lease)	Incremental Unit Cost (\$/Lessee)	Total Unit Cost (\$/Lessee)	Incremental Unit Cost (\$/Lessee) - Entire DC Process	Total Unit Cost (\$/Lessee) - Entire DC Process
1. Send Dunning letter to Payor 2. Perform manual research on invoices 3. Send DTP 4. Identify LOR (manual research) 5. ID and Send DTL to LOR/ORO/Wop 6. ID and Send DAS memorandum 7. Identify ownership percentage by LOR 8. Refer debt to Treasury	(b)(5) (b)(2) high							

Table 4 shows the incremental and total cost for each level. For example, the total unit cost at Function 3 will be equal to the sum of the incremental unit costs of Functions 1 thru 3 and provides a ceiling cost to consider for pursuing debt collection at the invoice level.

In addition to the cost per function per level, we need to consider the effectiveness rate at each functional step. Optimally, we would want to avoid steps that have a low probability of success and pursue steps that have a high probability of success. As an example, if a functional step costs \$100 and the effectiveness rate is only 10%, then we would want to establish a relatively high write-off level: (i.e.  $\$100 \times (1-.1)$  or \$90). Alternatively, if a functional step has a high effectiveness rate, then we do not want to write-off delinquent amounts since the functional step will lead to successful efforts. As an example, if the functional step costs \$100 and the effectiveness is 90%, then the suggested write-off amount would be low. (i.e.  $\$100 \times (1-.90)$  or \$10).

At the invoice level, our analysis indicates that the cost of pursuing a delinquent invoice equals  $\$ \begin{matrix} (b)(5) \\ (b)(2) \\ \text{high} \end{matrix}$  per invoice. Since invoice activity is only relevant for the first three steps of the process, the estimation of costs at the invoice level ends after a Demand Letter to the payor. At this point, activity transfers to the lease / lessee levels.

Based on discussions with Financial Management personnel, LEG determined that the effectiveness rate associated with sending out a DTP letter was approximately  $\begin{matrix} (b)(5) \\ (b)(2) \\ \text{high} \end{matrix}$ . LEG used this rate in conjunction with the estimated cost of collection activities to define a new write-off threshold. According to our calculations, the new write off threshold at this level of activity should be set at  $\begin{matrix} (b)(5) \\ (b)(2) \\ \text{high} \end{matrix}$  per invoice, which is approximately equal to  $\begin{matrix} (b)(5) \\ (b)(2) \\ \text{high} \end{matrix}$ .

We also looked at the total delinquent invoices for FY 2005, and determined that a  $\begin{matrix} (b)(5) \\ (b)(2) \\ \text{high} \end{matrix}$  write-off threshold only accounts for  $\begin{matrix} (b)(5) \\ (b)(2) \\ \text{high} \end{matrix}$  of the invoices. If we  $\begin{matrix} (b)(5) \\ (b)(2) \\ \text{high} \end{matrix}$   $\begin{matrix} (b)(5) \\ (b)(2) \\ \text{high} \end{matrix}$  as indicated above, MMS can potentially  $\begin{matrix} (b)(2) \\ \text{High} \end{matrix}$  of the debt collection activity at the invoice level. MMS would be able to eliminate  $\begin{matrix} (b)(5) \\ (b)(2) \\ \text{high} \end{matrix}$  of delinquent debts processed at the early stages of the collection process.

Table 5 shows the distribution of all delinquent invoices that generated a dunning letter during FY 2005 and shows the percentages associated with the dollar value of delinquent invoices.

**Table 5: Distribution of delinquent invoices by dollar amount**

Bin	Frequency (%)	Cummulative Frequency (%)
≤ \$100	(b)(2) high (b) (5)	
\$101 - \$200		
\$201 - \$300		
\$301 - \$400		
\$401 - \$500		
\$501 - \$750		
\$751 - \$\$1000		
\$1001 - \$1500		
\$1501 - \$2000		
\$2001 - \$2500		
\$2501 - \$3000		
\$3,001 - \$5,000		
\$5,001 - \$10,000		
\$10,001 - \$70,000		

The summary analysis in Table 4 also indicates that at the lease level the total cost of debt collection activities is (b)(5) (b)(2) high per lease. Based on the assumptions outlined in Section IV and information provided by MMS, the DTL letters appear to have an effectiveness rate of approximately (b)(5) (b)(2) high. Applying the same analysis as shown at the invoice level, we find that at this stage of activity MMS should write off debts that are (b)(5) (b)(2) high per lease (i.e. (b)(5) (b)(2) high (b)(5) (b)(2) high).

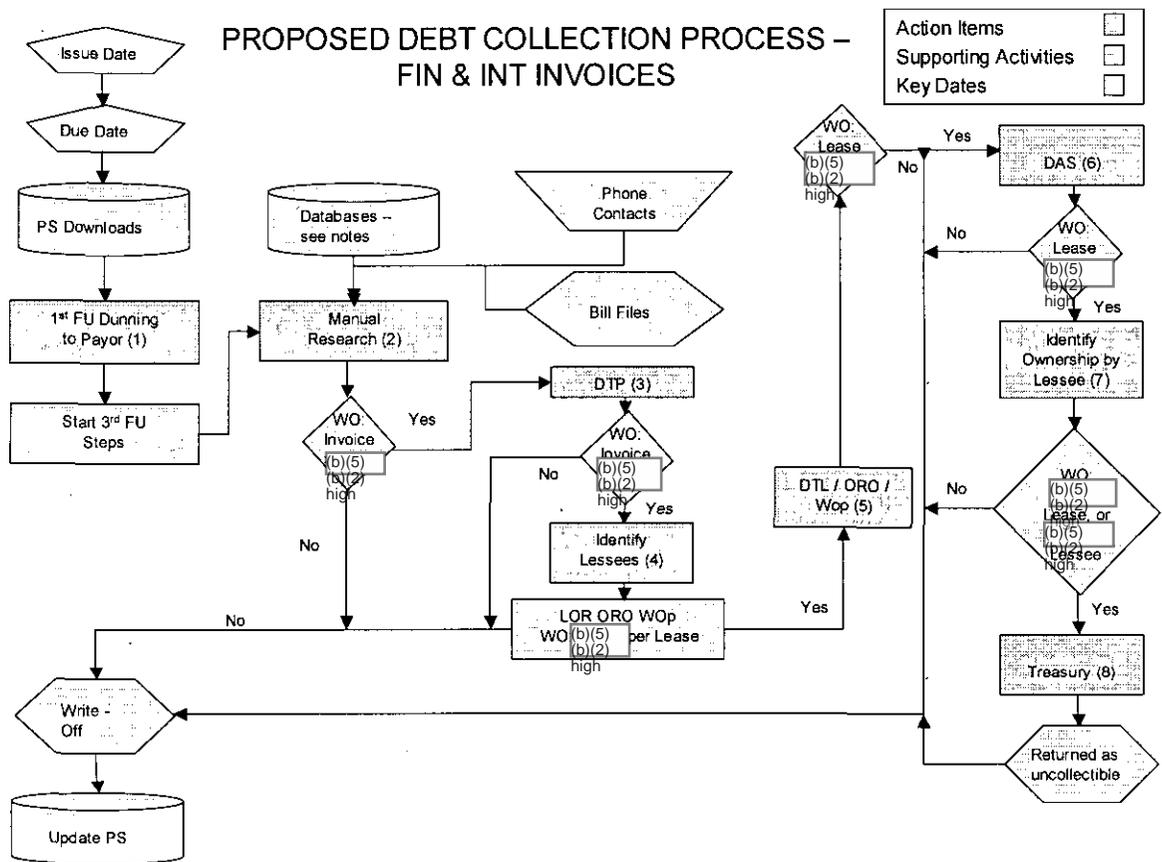
LEG found that the total cost throughout the debt collection process is approximately (b)(5) (b)(2) high at the lessee level. However, the lessee level is only required during the latter stages of the debt collection process, so we used the cost of (b)(5) (b)(2) high per lessee for steps 7 and 8. Since the effectiveness rate at the Treasury step is (b)(2) high (b)(5) (b)(2) high (b)(5) (b)(2) high, this means that MMS should establish a write off threshold of approximately (b)(5) (b)(2) high at this point in the process. (b)(5) (b)(2) high.

(b)(5) (b)(2) high The lessee write-off level would avoid pursuing delinquent amounts, at the lessee level, that (b)(2)High, (b)(5) (b)(2) high (b) (5).

Exhibit C in the Appendix section shows the new write-off thresholds and the assumptions utilized to calculate them.

Figure 3 illustrates the proposed write-off thresholds at the different stages of the debt collection process.

**Figure 3: Debt Collection Process Flow Diagram with Proposed Write-Off Thresholds**



**VII.** (b)(2) high (b) (5) **DEBT COLLECTION**

As mentioned, this study is focused on the costs and write-off levels of the existing debt collection process. MMS is evaluating (b)(2)High, (b)(5) (b)(2)High, (b)(5) into their current process. Based on current regulatory guidelines, the payor is required to (b)(2) high (b) (5)

(b)(2)High, (b)(5)

## VIII. GENERAL OBSERVATIONS AND COMMENTS

Although beyond the primary scope of this report, LEG offers the following comments based on our assessment of the current debt collection process. As highlighted in Figure 2, the debt collection process becomes more labor-intensive the greater detail required and the longer an account is open. Also, the effectiveness rate at various stages of the process should influence decisions about continuing to pursue the debt. In addition, MMS has a target of having all outstanding debts referred to Treasury within 180 days. This creates a tradeoff of diligent pursuit of legitimate bad debts and a rush to have the bad debt referred to Treasury in the prescribed timeframe.

General observations:

1. The level of detail required to submit an account to a surety company requires extensive research, and the (b)(2)High, (b)(5) (b)(2) high (b) (5) We would suggest that MMS consider (b)(5) (b)(2) high
2. Second, the level of detail required and (b)(2)High success rate for items referred to Treasury suggests that this process should be (b)(5) (b)(2) high (b)(5) (b)(2) high
3. The suggested (b)(5) (b)(2) high (b)(5) (b)(2) high

It is suggested that MMS (b)(5) (b)(2) high statistics to better understand the ongoing cost / benefit of pursuing debt

(b)(5) (b)(2) high

(b)(5) (b)(2) high With this information, MMS can better allocate and manage available resources to maximize effectiveness of the Debt Collection Process.

# APPENDIX

## EXHIBIT A – Calculation of cost for each functional step

	(A)	(B)	(C)	(D)	(E)	(F)	(G)
Function	Cost Allocation %	# of Invoices	# of Leases	# of Lessees	# of Lessees - Entire DC Process	Total Labor & Overhead Costs by Function (\$)	
1. Send Dunning letter to Payor	(b)(2) high (b) (5)					(b)(2) high (b) (5)	
2. Perform manual research on invoices					1,700		
3. Send DTP					1,700		
4. Identify LOR (manual research)					900		
5. ID and Send DTL to LOR/ORO/Wop					900		
6. ID and Send DAS memorandum					400		
7. Identify ownership percentage by LOR					375		
8. Refer debt to Treasury					375		

	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)
Function	Incremental Unit Cost (\$/Invoice)	Total Unit Cost (\$/Invoice)	Incremental Unit Cost (\$/Lease)	Total Unit Cost (\$/Lease)	Incremental Unit Cost (\$/Lessee)	Total Unit Cost (\$/Lessee)	Incremental Unit Cost (\$/Lessee) - Entire DC Process	Total Unit Cost (\$/Lessee) - Entire DC Process
1. Send Dunning letter to Payor	(b)(2) high (b) (5)							
2. Perform manual research on invoices								
3. Send DTP								
4. Identify LOR (manual research)								
5. ID and Send DTL to LOR/ORO/Wop								
6. ID and Send DAS memorandum								
7. Identify ownership percentage by LOR								
8. Refer debt to Treasury								

## **EXHIBIT B - Descriptions**

1. Column A shows the 8 different functions that we have identified as part of the debt collection process.
2. Column B shows the allocation percentages we have assigned to each of the activities listed in column A.
3. Column C shows the number of invoices that we assumed to be involved between functions 1 thru 3.
4. Column D shows the number of leases that we assumed to be involved between functions 4 thru 6.
5. Column E shows the number of lessees that we assumed to be involved between functions 7 and 8.
6. Column F shows the number of lessees that we assumed to be involved throughout the entire debt collection process.
7. Column G calculates the \$ amount related to each function by multiplying the total cost in FY 2006 by the allocation percentage of each function (Column B).
8. Column H calculates the cost of each individual step at the invoice level by dividing the cost of each function (Column G) by the number of invoices at that particular stage (Column C).
9. Column I shows the cumulative cost of the debt collection activities at the invoice level.
10. Column J calculates the cost of each individual step at the lease level by dividing the cost of each function (Column G) by the number of leases at that particular stage (Column D).
11. Column K shows the cumulative cost of the debt collection activities at the lease level.
12. Column L calculates the cost of each individual step at the lessee level by dividing the cost of each function (Column G) by the number of lessees at that particular stage (Column E).
13. Column M shows the cumulative cost of the debt collection activities at the lessee level.
14. Column N calculates the cost of each individual step at the lessee level by dividing the cost of each function (Column G) by the number of lessees at that particular stage (Column F).
15. Column O shows the cumulative cost of the debt collection activities at the lessee level for the entire debt collection process.

# EXHIBIT C – Write-off threshold worksheet

## At the invoice level

<b>\$/Invoice</b>	
Total Invoice Unit Cost	(b)(5) (b)(2) high
DTP Effectiveness	
Adjusted Threshold	
Adjusted Threshold (Round-up / Round-down)	

## At the lease level

<b>\$/Lease</b>	
Total Invoice Unit Cost	(b)(5) (b)(2) high
DTL Effectiveness	
Adjusted Threshold	
Adjusted Threshold (Round-up / Round-down)	

## At the lessee level

<b>\$/Lessee</b>	
Total Invoice Unit Cost	(b)(5) (b)(2) high
Treasury Effectiveness	
Adjusted Threshold	
Adjusted Threshold (Round-up / Round-down)	