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# Vendor Offset Training Guide

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# I. The Vendor Offset Subsystem

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## A. Business Need

The State of Colorado currently carries over \$387 million in delinquent receivables including such items as back taxes, unpaid student loans, and fees and fines receivable. The state has multiple programs at work to collect those delinquent amounts. In addition to individual agency collection efforts to collect delinquent amounts, there is also a statewide collection agency system and a program that offsets delinquent debts against tax refunds.

The state will increase its collection of delinquent debts by adding yet another program that will offset payments to vendors who owe the state money. The state regularly pays over 160,000 vendors, and collection of delinquent debts through an offset of payments to those vendors would be an efficient method of collecting legitimate debts.

A committee of sixteen state employees representing nine separate agencies in four departments has been meeting since August, 1996 to develop an offset process that works effectively for all agencies of the state and is in the best interests of the citizens of the state.

## B. Financing the System

Legislation requires the state controller to charge for the service to recover costs of implementation. Start-up costs are estimated to be in the range of \$.3 M to \$.4 M. If the more conservative figure is assumed, a collection fee assessment of 14 percent should recover all start-up costs in a period of five years.

$$\frac{\$.4 \text{ M start-up costs}}{\$.3 \text{ M collections}} = \$13.3\% \sim 14\%$$

While not every claiming agency will necessarily be able to structure their payment for this service as a deductible fee (there are some federal prohibitions from deducting fees), all claiming agencies agree that such a rate is reasonable and have agreed to pay for this service through the initial years until the start-up costs are recovered

## C. General Information

The Vendor Offset Subsystem is a tool that claiming agencies may use to collect debts owed to the state. The Colorado Financial Reporting System (COFRS) is not the official record for documenting claim amounts or debtor balances. The ultimate responsibility for the collection of the debt, applying the collected funds to debtor accounts, and maintenance of debtor records within COFRS remains with the claiming agency. They maintain control of the debt and the documentation supporting the debt.

The vendor offset process would apply only to those individuals and companies paid from the Colorado Financial Reporting System (COFRS). As a matter of policy, neither employees nor governments listed in the vendor file are subject to offset. Payments required by statute or enforceable by entitlement may be exempted from offset. A specific table has been designed to insulate those payments.

Agencies authorized to use the vendor offset system will receive access to an extract of the COFRS Vendor File to determine which COFRS vendors might be delinquent debtors on the claiming agency's system. When a match is found, the state will contact the vendor by mail to inform the vendor that it is the agency's intent to have the State Controller intercept future payments to the vendor. Disputes will be directed to the claiming agency. If the vendor does not respond, or in responding is unable to successfully dispute the debt, the vendor's record on the COFRS *Debtor Vendor Table* will be activated to allow offset of payments to that vendor. Access to that table is limited to the Vendor Offset administrator and claiming agency personnel. The access is controlled through the COFRS security process.

## D. Notice

The Vendor Offset Implementation Committee and legislators were very concerned that vendor/debtors be given fair warning of the existence of this process and every opportunity to extinguish their claim before offset was invoked. They wanted to ensure vendors understand the system and have "due process" under the law. The following notice opportunities were identified and incorporated into the Vendor Offset Program:

1. Applications to do business with the state notify prospective vendors that payments are subject to offset.
2. Vendor "terms and conditions" on purchase orders and contracts notify contractors of existence of the law.
3. When a delinquent vendor is added to the Debtor Vendor Table (DVND), a *Notice of Intent to Offset* letter is produced by the system for the claiming agency. It is mailed by the State Controller's Office and informs the vendor that they have 10 days to pay their debt or they will be subject to the vendor offset process.
4. The warrant stub of the offset payment carries a notice that all or part of the payment was offset pursuant to CRS 24-30-202.4.
5. Vendors that have their payments fully or partially offset receive a *Notice of Offset* letter with details of the offset and claiming agency contact information.
6. HB97-1207 requires that notice be included in all contracts executed after July 1, 1997.

## **E. Priority of Offsets**

Offsets occur and are posted to the debtor's records in the established priority order as defined in centrally controlled COFRS tables. Each debtor record entered on the *Debtor Vendor Table* has a debt reason code which has been assigned an offset priority. The current offset priority of debts by withholding type is:

1. Backup Withholding and IRS Levies,
2. Vendor Offsets Relating to Debts owed the State of Colorado,
  - (1) Child support payments and arrearages (IHA),
  - (2) Back taxes (TBA),
  - (3) Other state debts assigned to Central Collections (AEB),
  - (4) Defaulted student loans (GDA),
3. Vendor Garnishments.

## **F. Disposition of Amounts Collected**

Withheld offset amounts are initially transferred into the vendor offset holding account. Claiming agencies provide the *fund, reporting category* and *program* account codes that are used to transfer the offset amounts from the holding account into their agency. [Those accounts are entered on the *Claiming Agency Table* (CAGT).]

The Vendor Offset process accumulates withheld amounts for each claiming agency and generates an automatic Journal Voucher (JV) daily to transfer the amount out of the vendor offset holding account, to the claiming agency. The 14% loan repayment fee is retained in the vendor offset implementation fund, and is not included in the journal entry to the claiming agency.

## **G. Over Collections**

Should a claiming agency receive a payment outside of COFRS from a debtor, that agency must replace the claim amount on the *Debtor Vendor Table* with the lower adjusted amount or apply a status of *closed* to the record.

If the claiming agency offsets an amount in excess of the amount actually owed, it is the responsibility of the claiming agency to refund the excess amount. The bulk of these refunds will occur due to timing problems when a debtor pays the claiming agency directly, concurrent with the processing of the offset. Refunds must be prompt and may be processed through the COFRS disbursement system in case a lower priority debt remains unpaid.

It shall be the responsibility of the claiming agency to send the vendor an explanation for the over withholding. Letters to debtors will indicate that a refund from one agency does not indicate that no other agency has an outstanding receivable.

Fees for over-collection are retained by the vendor offset implementation fund. The claiming agency must, however, refund the full amount that was over-collected to the debtor vendor.

## **H. Disputes**

Disputes regarding payments which are offset will be handled by the agency receiving the intercepted payment. Claiming agencies will be expected to indemnify agencies attempting to pay vendors should the vendor sue for non-payment. Claiming agencies will also indemnify the state controller for payments intercepted in their behalf. Should multiple agencies be involved due to multiple claims, defense will be coordinated by the State Controller's Office and net costs of litigation will be prorated amount the claiming agencies benefited in proportion to the disputed amount received by those agencies.

## **I. Delinquent Receivables Accounting**

Accounting for delinquent receivables is currently being done on COFRS, and no additional accounting entries by claiming agencies are necessary within COFRS when a debtor is added to the *Debtor Vendor Table*.

## II. Vendor Offset Tables and Transaction Overview:

### A. Tables:

The following centrally controlled tables are set up by the State Controllers Office. Information from these tables is used to validate transactions and to obtain information needed during processing and reporting:

AGDR	Agency Debt Reason Code	Authorizes claiming agencies to use the Vendor Offset subsystem and identifies which debt reason codes a particular claiming agency may use. (Agency must exist on CNTC, debt reason must exist on DRCT).
CAGT	Claiming Agency Table	Partially defines the accounting distributions used to transfer offset amounts to the claiming agencies. The remainder of the accounting information is uniformly programmed within COFRS.
CNTC	Contact for Claiming Agency Table	Defines contacts for each claiming agency. Claiming agencies may have multiple contacts. They are differentiated by <i>contact code</i> . The contact information is printed on the <i>Notice of Intent to Offset</i> and the <i>Notice of Offset</i> and is available in the Warrant Intercept Table (WAIT). A default contact code must be set up for each claiming agency in which the contact code field is left blank (the default contact).
DRCT	Debt Reason Code Table	Defines the types of debts that are eligible for offset. For example, delinquent student loans, past due child support, delinquent state income taxes, and other delinquent debts owed to the state.
DSCT	Debt Status Code Table	Defines valid status codes for debtor vendor records on the Debtor Vendor Table (DVND). Variations of 3 status codes are available: Active, Hold, and Closed.
NITX	Notice of Intent Text Table	Defines text printed on the Notice of Intent to Offset
NOTX	Notice of Offset Text Table	Defines text printed on the Notice of Offset Letter
VOIE	Vendor Offset Intercept Exception Table	Identifies global exceptions from the vendor offset process. For example, the vendor entity type G (government) is currently exempted from offset.
VOPE	Vendor Offset Payment Exception Table	Identifies specific payment vouchers ineligible for offset.
VOPT	Vendor Offset Parameter Table	Defines options and controls governing the use of the Vendor Offset Subsystem. For example, default status codes the number of lag days until a DVND record is activated, minimum claim amounts, loan repayment percentage.
WHTT	Withholding Type Table	Defines basic withholding types including vendor offsets, vendor garnishments, IRS Levies, and IRS backup withholding. The different withholding types require distinct text on debtor vendor notices and on offset warrants.
WRTX	Warrant Text Table	Defines text printed on the stub of warrants which were offset.

**The following system maintained tables are updated during transaction processing. They are used by SCO for Vendor Offset administration:**

DVAT	Debtor Vendor Activity Table	Provides an audit trail of historical activity for all debtor vendors by TIN. Lists payment offsets, warrant cancellations, and Notice activity.
DVST	Debtor Vendor Summary Table	Displays a complete record for each debtor vendor across agencies, includes the claim amount, the offset amount and the balance eligible for offset. (Key is TIN).

**The following system maintained tables are used by claiming agencies as reference tables:**

DVND	Debtor Vendor Table	DVND displays a complete record for each debtor vendor including the claim amount, the offset amount and the balance eligible for offset. (Key is claiming agency).
DVAA	Debtor Vendor Agency Activity Table	Provides an audit trail of historical activity for all debtor vendors by claiming agency. Lists payment offsets, warrant cancellations, and Notice activity.

**The following hybrid tables have fields that may be added or modified by claiming agencies:**

DVSC	Debtor Vendor Status Change Table	<b>DVSC</b> - Debtor Vendor Status Change Table allows users to change the status of a vendor without creating a VO transaction for the vendor. Update this table when the status of a debtor vendor changes. See the DSCT Table for available status codes. Can not override the required lag days between <i>Notice of Intent to Offset</i> and claim activation).
NIOT	Notice of Intent to Offset Letter Table	Used by claiming agencies to issue a duplicate Notice of Intent to Offset.
NORT	Notice of Offset Request Table	Used by claiming agencies to issue a duplicate Notice of Offset.

**The following system maintained tables are used by all agencies as reference tables:**

CNTC	Contact for Claiming Agency Table	Defines claiming agency contacts by contact code. Paying agencies may reference this table to find contact information for their vendors. The keys are agency and contact code. Claiming agencies may have multiple contact codes. Each debtor vendor is assigned a contact code. The Contact table includes all claiming agency contact information. Look on the WAIT table to find the specific contact code for a vendor.
WAIT	Warrant Intercept Table	Lists all warrants from which amounts were intercepted. Provides the claiming agency, contact code, contact telephone number, and amount intercepted. The key is the bank account code (enter 0001) and warrant number.

**C. Transaction:**

VO Transaction:

- The Debtor Vendor Setup transaction permits claiming agencies to add or modify records on the *Debtor Vendor Table* (DVND).
- This transaction may be entered or modified online or interfaced into COFRS.
- See COFRS User Manual, Volume 5, Specialized Subsystems and Reports, Vendor Offset Subsystem (VOS), page 3.VO.1-3.

**III. Vendor Offset Process Flow**

A) Vendor - employee match process is run weekly by COFRS.

- EMPL system *employee file* is matched against the COFRS Vendor File by SSN and correctly populates the EMPLOYEE field on VEND with a value of Y or N.

B) VEND Table extract file made available to claiming agencies daily.

- Extract provides list of vendor records eligible for offset.
  - Extract does not currently include miscellaneous vendors, governments, and classified employees.
- C) Claiming agencies match their debtor files to the COFRS Vendor File extract.
- Matches are reviewed and validated by claiming agency
  - Interface file to enter Vendor Offset (VO) transactions into COFRS is created.
- D) Vendor offset claims are established in COFRS
- Claiming agencies interface VO transactions to establish debtor records in DVND.
  - System automatically puts the debtor record on hold for required lag period.
- E) Debtor's are notified.
- Produce *Notice of Intent to Offset* Letter.
  - Start the lag days counter.
  - Automatically activate the debt after the lag period.
- F) Payment vouchers are identified and offset.
- Identify potential intercepts on scheduled payment reports (EAP04 & EAP11).
  - Change EFT payments to printed warrants.
  - Deduct the offset from each warrant.
  - Print warrant or remittance advice (zero warrant).
  - Post intercepted funds into vendor offset holding account.
- G) Notification of offset is created (same night that warrant is offset.)
- Send warrant.
  - Send *Notice of Offset* Letter to debtor.
  - Send offset information to claiming agencies.

- Populate original Offset Notice date in DVAA.
- Generate detailed information used by claiming agencies to post credits to debtor accounts.
- SCO delivers Notice of Intent to Offset to Mail Services for Mailing.

H) Offset amounts are transferred to claiming agencies.

- Transfer offset cash from holding account to claiming agencies.
- Automatic JV transfers summarized amount (offset amount minus 14% loan repayment fee).

I) COFRS reports are produced.

- Identify and mark warrants that were offset.

#### IV. Initial COFRS Security Setup for Vendor Offset Tables:

	Table Name	Security Group		
		VADM	VOFF	INQ
Reference / User Tables				
1.	AGDR	ACD	S	
2.	CAGT	ACD	S	
3.	CNTC	ACD		S
4.	DRCT	ACD		S
5.	DSCT	ACD		S
6.	NITX	ACD		S
7.	NOTX	ACD		S
8.	PDRC	ACD		S
9.	VOIE	ACD		
10.	VOPE	ACD		
11.	VOPT	ACD		S
12.	WHTT	ACD		S
13.	WRTX	ACD		S
Application/Hybrid Tables				
14.	DVAA	S	S	
15.	DVAT	S		
16.	DVND	S	S	
17.	DVSC	C	CS	
18.	DVST	S		
19.	NIOT	AD	A	
20.	NORT	C	C	
21.	WAIT	S		S
.Document				
1.	VO	ACDP	ACDP	

## V. Paying Agency Procedures

### A. Procedure Steps To Locate Claiming Agency Contact Information For A Vendor:

Obtain warrant number:

1. From the vendor, or
2. From the OPVL table

Go to the WAIT Table

1. Enter S in the ACTION field
2. Enter 0001 in the BANK ACCOUNT field
3. Enter AD and the 11 digit warrant number
4. Hit Enter.

Tell the vendor

1. Which agency(s) offset the payment (AGENCY field).
2. The claiming agency CONTACT CODE.
3. The claiming agency contact telephone number(s) (CONTACT NUMBER field).

If the vendor wants the claiming agency address:

1. Go to the CNTC Table
2. Enter S in the ACTION field
3. Enter the claiming agency code in the AGENCY field
4. Enter the contact code
5. Hit enter

## VI. Claiming Agency Procedures

### A. Procedure Steps to Change A Status Code Via The DVSC Table

**DVSC** - Debtor Vendor Status Change Table allows users to change the status of a vendor without creating a VO transaction for the vendor. Update this table when the status of a debtor vendor changes. See the DSCT Table for available status codes. The system will not allow you to not override the required lag days between *Notice of Intent to Offset* and claim activation).

Go to the DVSC Table.

1. Enter S in the ACTION field.
2. Enter your COFRS agency code in the AGENCY field.
3. Enter the debtor vendor's TIN in the TIN field.
4. Hit enter.
5. Enter C in the ACTION field.
6. Enter a valid status code in the STATUS field.
7. Hit enter.

**B. Procedure Steps to Request A Duplicate Notice Of Intent To Offset On The NIOT Table**

**NIOT** - The Notice of Intent to Offset Letter Table allows users to look up the date that a *Notice of Intent to Offset Notice* was sent to debtor vendor. It allows the user to issue a duplicate notice without processing a VO transaction. A duplicate notice can not be sent if the NOTICE SENT field is blank.

Go to the NIOT Table.

1. Enter A in the ACTION field.
2. Enter your COFRS agency code in the AGENCY field.
3. Enter the debtor vendor's TIN in the TIN field.
4. Enter the Debt Reason Code in the DEBT REASON field.
5. Leave the DATE REQUESTED field blank – it defaults to the current date
6. Hit enter.

**C. Procedure Steps to Request A Duplicate Notice Of Offset On The NORT Table:**

**NORT** - Notice of Offset Request Table allows the user to issue a duplicate *Notice of Offset* to a debtor vendor.

Obtain the warrant number from the debtor vendor or the DVAA Table.

Go to the NORT Table.

1. Enter S in the ACTION CODE field.
2. Enter 0001 in the BANK ACCT field.
3. Enter AD and the 11 digit warrant number.
4. Enter your COFRS agency code in the AGENCY field.
5. Enter the Debt Reason Code in the DEBT REASON field.
6. Hit enter.
7. Enter C in the ACTION field
8. Enter Y in the SEND LETTER field.
9. Leave the DATE REQUESTED field blank – it defaults to the current date.
10. Hit enter.

## VII. Reports

### A. Vendor Offset Reports

Report Name	Distribution	Frequency	Purpose
NOOLR	Claiming agencies and SCO	Daily	Reports detailed offset activity by: Claiming agency; debtor TIN; debtor name; debt reason; warrant number, reference; offset amount.
EAP25R	Claiming agencies and SCO	Daily	Reports daily cash transferred by JV to claiming agencies by: Claiming agency; document number; debt reason; fund; BS account; reporting category; program; transfer amount.

### B. Existing COFRS Reports Modified to Identify Vendor Offset.

EAP04R	Scheduled Payment Turnaround Report	Added "W" in the HOLD column
EAP06R	Voucher Payment Warrants Register	Shows offset amount
EAP11R	EFT Scheduled Payment Turnaround Report	Added "W" in the HOLD column
EAP16R	Warrants Expiration Detail Report	Shows offset amount
EAP17R	Warrants Expiration Summary Report	Shows offset amount
EAP18R	Warrants Expiration Detail Notification Report	Shows offset amount
EAP23R	Agency Warrant Listing By Payment Voucher	Shows offset amount
GNL04R	General Ledger Detail Report By Fund Within Agency	Shows offset amount
GNL15R	Document Suspense File Status Report	
GNL21R	General Ledger Year-to-date Detail Report By Fund Within Agency	
GNL25R	Document Suspense File Status Report	

## VIII. Vendor Offset Definitions

**Claiming Agency** - An agency which is authorized to use the Vendor Offset subsystem to offset payments.

**Claim Amount** - The amount eligible for offset from a debtor vendor.

**Debtor Notification** - Debtors are notified by the claiming agency prior to being added to the Vendor Offset system. A *Notice of Intent to Offset* is automatically produced by the system and mailed by SCO when the debtor is added to the Debtor Vendor Table (DVND). A *Notice of Offset* is produced and mailed by SCO each time a payment is intercepted.

**Debtor Status Code** - Indicates whether the Debtor Vendor Table record status is *active*, on *hold*, or *closed*. See the Debtor Vendor Status Change (DVSC) Table.

**Debtor Vendor** - A vendor with a record on DVND.

**Debtor Vendor Setup Transaction (VO)** - Adds or modifies a record on the Debtor Vendor Table (DVND).

**Disputed Debt** - Occurs when a debtor notifies a Department that there is a disagreement as to the identity of the debtor, the amount or the existence of a debt.

**Discharge** - The dissolution of a debt, either through full payment, intercept, settlement or write-off.

**Lag period** - The lag period is the number of days between the date on the *Notice of Intent to Offset* and the activation of the claim.

**Notice of Intent to Offset** - Notice issued to debtor vendors stating that their debt may be discharged through the Vendor Offset process.

**Notice of Offset** - Notice issued to debtor vendors when an offset occurs.

**Paying Agency** - An agency whose payment voucher was offset in whole or in part.

**Status** - Records on DVND have a status of active, held, or closed. A claiming agency may change the claim status on the DVSC table.

**TIN** - Taxpayer Identification Number. A TIN can be a Social Security Number (SSN) or an Employee Identification Number (EIN). Claiming agency debtor records are matched against COFRS Vendor File (VEND) records using the TIN. Debtor vendor records must have a TIN.

**Vendor Offset** - An action performed by the Office of the State Controller in accordance with CRS 24-30-202.4 to discharge a delinquent debt by intercepting the amount of the debt from a COFRS payment voucher.

**Vendor Code** - A field on the COFRS Vendor Table (VEND). Vendors on VEND have more than one vendor code if payments must be made to more than one address. Payment vouchers are entered by vendor code.

**Vendor Offset Subsystem** - An automated accounting subsystem of COFRS that identifies and intercepts payments from eligible vendors during the nightly automated disbursement (AD) process.

**Withholding Type** - Current withholding types are: (1) Backup Withholding and IRS Levies; (2) Vendor Offsets Relating to Debts owed the State of Colorado (i.e. child support payments and arrearages, back taxes, other state debts assigned to Central Collections, and defaulted student loans); (3) Vendor Garnishments. The different withholding types require that different percentages of payments be withheld, different notices be sent, etc.

**Zero Warrant** - A warrant from which the total payment amount was offset.