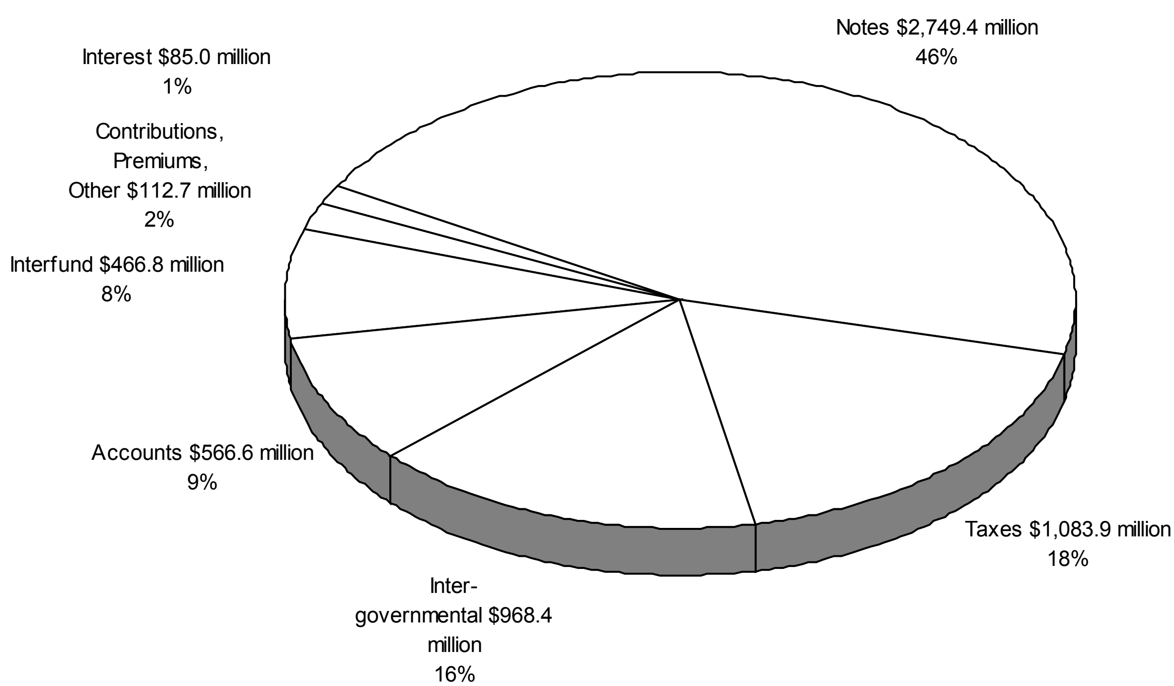
State of North Carolina
Office of the State Controller
Statewide Accounts Receivable Report
December 2001

The Office of the State Controller is responsible for the *Statewide Accounts Receivable Program*. The authority originates from North Carolina General Statute 147-86.20-.27. In fulfilling the reporting requirements, the Office of the State Controller provides you with the Statewide Accounts Receivable Report for fiscal year end June 30, 2001, displayed in a three-year analysis of receivables format.

The *Statewide Accounts Receivable Report* includes all receivables reflected in the State's Comprehensive Annual Financial Report (CAFR). These receivables are recorded in the financial statements based on generally accepted accounting principles (GAAP) for governments. Included in this report are notes receivable, taxes receivable, intergovernmental receivables (due from federal, local or other state governments), accounts receivable, interfund receivables (due from other entities within the State's financial reporting entity), contributions receivable, premiums receivable, interest receivable and other miscellaneous receivables. The following chart summarizes the State of North Carolina's receivable components:

State of North Carolina Total Receivables for the Fiscal Year Ended June 30, 2001
$6.033 billion



Total receivables increased $406 million, or 7.0%, to $6.03 billion. To explain the $406 million increase in total receivables for 2001 we need to look at several areas. The first involves notes receivable where there was a total increase of $353 million, most of which occurred in the State Education Assistance Authority, which experienced an increase of $174 million through the bond issuance of additional secondary education loans. In addition, the notes receivable for the North Carolina Housing Finance Authority grew by $109 million through the issuance of additional mortgage loans. There were also increases of $55 million in the notes of the Clean Water Revolving Loan and Grant Fund, a nonexpendable trust fund that provides loans to local governments, and $7.5 million in the 401(k) Supplemental Retirement Income Plan, a pension trust fund that provides loans to participants.

The second area in which major changes occurred is accounts receivable, which increased by $47 million. Within this category, general accounts receivable, student tuition and fees, and patient receivables in the University Funds increased by $44 million. In addition, accounts receivable increased in the Division of Medical Assistance by $22 million.

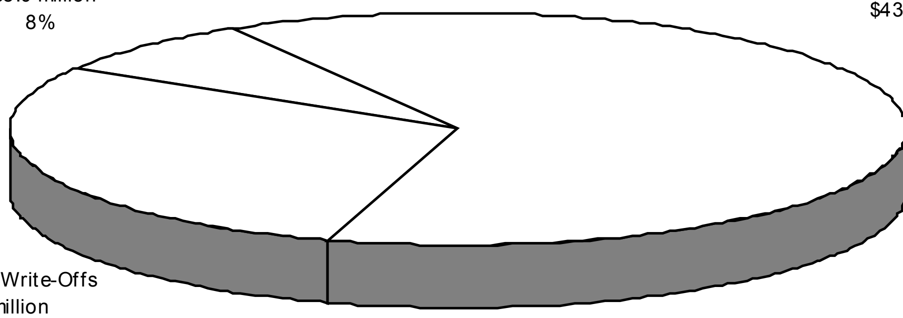
The third area in which major changes occurred is taxes receivable, which increased by $41 million as a result of an increase in collections due through June 30 but received in July. Additionally, intergovernmental receivables increased $17 million primarily due to the increase in the State Highway Fund.

Account Receivable Write-offs

Accounts receivable written off during the fiscal year ending June 30, 2001 was $681.8 million. Contractual adjustments account for the largest portion of write-offs. A decision by UNC Hospitals to write off $228 million of receivables was made based on related Medicare and Medicaid adjustments, indigent care provider adjustments, and managed care contractual adjustments. In addition, $182 million of receivables associated with the patient accounts at mental health institutions across the State were written-off by the Department of Health and Human Services. Another $153 million in contractual adjustments for Medicare and Medicaid, workers' compensation, indigent care, bad debt receivables were written-off by the University of North Carolina at Chapel Hill for the Physicians and Associates operation and the School of Dentistry.

The following chart summarizes the State of North Carolina's major write-off components:

State of North Carolina Total Write-offs for the Fiscal Year Ended June 30, 2001
$681.8 million



<u>Contractual Adjustments</u> **-** The differences between revenue at established rates and the amounts realizable from third-party payors under contractual agreements. These adjustments are made to customer, patient, business, or taxpayer accounts as the result of a contractual agreement to provide certain services or products at a previously negotiated price. The contractual adjustment is the difference between the value assigned by the State provider/supplier of the product or service and the predetermined price as negotiated with a third-party payor (*example: insurance company*).

<u>Indigent Care Write-Offs</u> - The differences between revenue at established rates and the amounts realizable from the financially responsible party for those receiving the State product or service. In this instance, the write-off is the result of the financially responsible party being **<u>unable</u>** to meet the financial obligations due to poverty or a lack of subsistence.

<u>Bad Debt Write-Offs</u> - All write-offs of bad debts other than those for contractual or indigent care reasons.

Setoff Debt Collection Program Activity

G.S. 105A, the Setoff Debt Collection Act, requires all claimant agencies and the Department of Revenue to cooperate in identifying debtors who owe money to the State through its various agencies and who qualify for refunds from the Department of Revenue. It further requires that procedures be established for setting off against any refund the sum of any debt owed to the State.

Recent changes to G.S. 105A have expanded the list of claimant agencies to include all State agencies. This change was effective January 1, 2000. The Office of the State Controller requested that the Department of Revenue provide summary debt setoff information for the last four tax years to be included in the annual Statewide Accounts Receivable Report. Summary data for the prior four tax years is reflected below.

Tax Year	**2000**	**1999**	**1998**	**1997**
Debt Setoff Occurs in Calendar Year	**2001**	**2000**	**1999**	**1998**
Gross Amount of Refunds Setoff	$24,144,003	$21,964,609	$14,721,654	$16,298,065
Collection Assistance Fee Applied Based on Prior Year Actual Expenses *	(346,767)	(700,827)	(485,146)	(787,122)
Net Amount of Refunds Paid to Claimant Agencies	$23,797,236	$21,263,782	$14,236,508	$15,510,943
DOR Administrative Expenses - Current Year	$450,000	$379,483	$860,824	$536,901
Total Setoffs (includes completed, denied and canceled setoffs)	112,965	104,255	81,219	106,589
Number of Completed Setoffs	109,127	100,870	72,418	79,530
Average Gross Setoff Amount	$221.25	$217.75	$203.79	$204.93
Average Cost per Setoff	$3.98	$3.64	$10.60	$5.04
Average Net Amount of Refunds Setoff	$218.07	$210.80	$196.59	$195.03

- Effective for the calendar year 2000, the cost of collecting child support debts is not charged against the taxpayer's refund. Instead, the gross amount of the refund is applied to the debt and the Department of Revenue receives a collection assistance fee for these debts from individual income tax collections. For the calendar year 2001, collection assistance fees for child support debts collected through setoff were $139,988, bringing the total collection assistance fees received by the Department of Revenue to $486,755.

Department of Revenue Project Collect Tax

Project Collect tax is an initiative to boost compliance with state revenue laws. The project focuses on the collection of delinquent tax debt over 90 days old and currently estimated at $150 million. Based on a new law recently passed by the NC General Assembly, every delinquent taxpayer will receive a special notice from NCDOR informing then of the amount of the debt and allowing the delinquent account holder 30 days to pay in full or set up a payment plan. If the debt is not paid within the allotted time, a 20% fee will be added to the total tax debt. In some cases the account may be referred to a private collection agency for further action.

NCDOR plans to invest in new personnel and technologies to aid citizens in becoming compliant with the state's revenue laws. The following link provides more detailed information regarding Project Tax Collect, http://www.dor.state.nc.us/collect/.

Electronic Payment Acceptance Project

The Office of the State Controller continues to evaluate alternative business practices in order to improve the Statewide Accounts Receivable Program. Session Law 1999-434 amended G.S. 146-86.10,.11,&.22 by authorizing state government agencies to maximize acceptance of electronic payments including credit/debit card payments. As a result of this legislation, the Electronic Payment of Accounts Receivable, known as the Credit/Debit Card Acceptance Project, was begun in March 2000.

The ability for state agencies to accept credit/debit card payments and electronic fund transfers is now possible through the State's Common Payment Service that provides a common payment software connection between agency applications and payment processors. The State is now positioned to conduct e-commerce on a scale that will have far-reaching impacts for improved citizen services. Policies and operational guidelines, developed in support of electronic payments, will result in more timely receipt of payments made by citizens and businesses. This should ultimately reduce agency accounts receivable.

Statewide Business Infrastructure Study

Previous reports to the General Assembly have stressed the importance of implementing new modern accounts receivable, billing and collection systems. To date, funding issues have prevented the implementation of such systems. However, recent legislation should offer an opportunity for the State to further evaluate its business infrastructure requirements.

Ratified Senate Bill 166 (SB 166), Part XVII, Section 17.1 directs the Office of State Controller (OSC) to engage a qualified consulting firm to determine the feasibility of developing and implementing a new financial business infrastructure for the State. OSC will be assisted by the Office of State Budget and Management (OSBM), the Office of Information Technology Services (ITS), and the Office of State Personnel (OSP). The consulting firm will be selected and contracted through the ITS Technical Services Contract. The study will include:

- A high-level inventory and assessment of the business systems and subsystems that provide financial, human resources, and payroll information and support to programs in State government.
- An assessment of the existing integration capabilities of these systems and the estimated costs of the current integration, or the costs to integrate these systems where that capability does not currently exist.
- The feasibility of implementing a financial business infrastructure that would include integrated operations for budgeting, accounting, payroll, human resources, revenue collection, cash management, investments, and other business functions of State government.
- A preliminary risk assessment of implementing a new financial business infrastructure.

- An estimate of the cost to develop a Request for Proposal (RFP) and to design and implement such a financial business infrastructure.

The legislation requires an interim report to the 2002 Regular Session of the 2001 General Assembly and a final report to the 2003 General Assembly, Regular Session 2003. The study excludes constituent institutions of the University of North Carolina System and the North Carolina Community Colleges System.

Need for Aggressive Attitude Towards Collecting Debt

A previous PricewaterhouseCoopers report suggested that opportunities exist for the State to increase revenues by adopting a more aggressive attitude towards collecting debt. Potential areas for quick results include decreasing the time period before bad debts are turned over to a collection agency (currently 90 days or more); passing the cost of debt collection to the debtor; and increasing the use of wage garnishment. For long-term results, the Department of Revenue has already taken steps to improve debt collection procedures as well as obtain legislation to pass the cost of debt collection on to the debtor.

The State should continue to pursue multiple strategies related to adopting a more aggressive attitude towards debt collection:

- Increase the use of debt collection tools available, i.e., collection agencies, debt set-off, and wage garnishments.
- Pass the cost of debt collection to the debtor. DOR has achieved a legislative change permitting this cost transference. The OSC suggested legislative language during the last session to expand this authority to include all State agencies. The requested provision failed.
- Decrease the time before debts are turned over to collection agencies. Consider sending only one notice to the debtor, with automatic turnover to a collection agency if no response.
- Enforce agencies' assessment of interest and penalties on delinquent debt.
- Provide staff training on a routine basis.
- Consider expanding the authority of the Department of Revenue to collect non-tax debt until other long-term automation and system changes are in place. By centralizing debt collection, the State has the opportunity to leverage existing technologies; lower overall cost, and allow other agencies to focus on their core mission.
- Continue to expand and enhance the acceptance of electronic payments. Electronic payments offer a convenience to citizens and may serve as a preventive measure for reducing bad debts.
- Continue to pursue a new accounts receivable billing and collections system through the implementation of a new administrative platform for the State.

Conclusion

The State Controller believes that by continuing to stress more consistent application of accounts receivable policies and procedures, monitoring agency activity closely, coordinating best business practices among agencies, and establishing and enforcing procedures for write-offs and setoff debt collection, the State can maximize the collection of past due accounts receivable.

Pages eight through fifteen of this document contain a three-year analysis of receivables. Please contact the Office of the State Controller if additional information is required.