



EXECUTIVE SUMMARY

In response to Senate Bill 39, which ratified Chapter 105A of the General Statutes (“An Act to Revise the Setoff Debt Collection Act”) during the last legislative session and responsibilities related to GS 147-86.20-27 (Statewide Accounts Receivable Program), the Office of the State Controller initiated a comprehensive study related to accounts receivable, collection of bad debts, and debt set off procedures for the State government environment. Coopers and Lybrand L.L.P. (C&L), partnered with the Office of the State Controller (OSC), conducted this study to examine opportunities for improvement for the State of North Carolina’s accounts receivable (A/R) function.

The objective included developing a series of issues and recommendations for implementation of a statewide A/R system and addressing the feasibility of creating a clearinghouse for bad debt collection information. The scope of this study included the processes and the technologies used for A/R and bad debt collection comparable to Best Practice organizations. The project approach involved gathering information through a combination of structured interview sessions with representative State agencies, reviewing state policies and procedures, and executing follow up calls with the appropriate agency staff. This report provides a financial overview of the participating agencies, a summary of current technology, the findings of the study, as well as conclusions and recommendations for the State of North Carolina.

KEY TECHNOLOGY OBSERVATIONS

Several major technology observations pertaining to the State of North Carolina’s A/R and bad debt collection systems emerged:

- A small percentage of systems (25%) have the ability to calculate interest and penalty charges on late payments.
- A large number of agencies report a low level of inter-agency and intra-agency data sharing.
- Best Practice technologies are rarely used in North Carolina. Technologies such as Imaging, Workflow, and EC/EDI can increase the turn around time and increase data accuracy. Only 12% of the systems have implemented imaging, 0% have implemented Workflow, and 9% have implemented EC/EDI.
- Only 41% of the systems are believed to be Year 2000 compliant.
- None of the agencies were able to provide a technology plan for A/R related systems.



FINDINGS

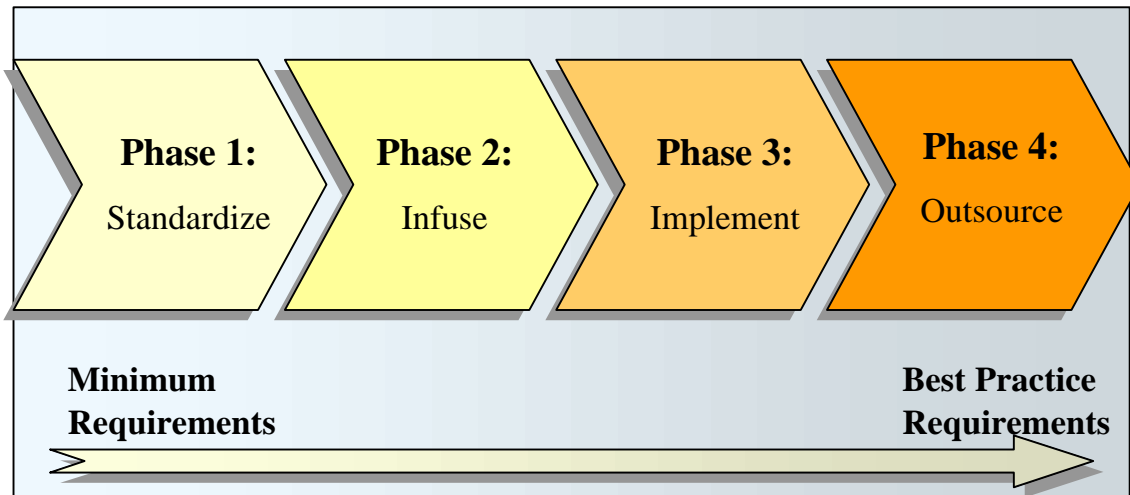
The following are additional findings and observations derived from North Carolina agency interviews, interviews with Best Practice companies, and additional research conducted by the C&L Team.

- Best Practice organizations have systems in place that allow them to monitor A/R performance and effectiveness. North Carolina does not monitor the appropriate key performance indicators and goals. An example of some of the metrics that North Carolina should monitor to improve operations is A/R days on hand, processing costs per remittance, FTEs per \$ billion of A/R, and Write Offs as a percent of A/R.
- Best Practice organizations have standardized processes for A/R and bad debt collection. North Carolina's processes are neither efficient nor linear for A/R or bad debt collection. Since the processes are not standard, aging and bad debt collection practices are widely inconsistent. For example, North Carolina's most effective agency collects 36% of A/R in the first 30 days while the least effective collects only 7%. In addition to non-standard processes, North Carolina prioritizes bad debt collections differently than Best Practice organizations. Best Practice organizations focus first on the dollar amount of the debt when prioritizing collections, while North Carolina focuses first on the age of the accounts.
- Best Practice organizations have standardized, centralized, and integrated systems for A/R processing and bad debt collection. North Carolina agencies have a wide variety of systems. In order to get a statewide view of the current A/R status, each of the numerous systems would have to be queried. Best Practice organizations use imaging, workflow, and EC/EDI in conjunction with their A/R systems to integrate their systems. These technologies allow agencies and divisions to easily share and transfer information which North Carolina is currently unable to do. Best Practice organizations that have implemented new technologies and have centralized and outsourced bad debt collections have experienced a 28% increase in A/R collections.
- Best Practice organizations use various methods to collect bad debt. Best Practice organizations use tax set off for 25% of their bad debt collection while North Carolina only sets off approximately 5%. Other debt collection methods such as wage garnishment, use of collection agencies, and administering interest and penalties on overdue accounts are effectively used in Best Practice organizations for bad debt collection while North Carolina makes very little use of these methods. The limited use is due primarily to statutory restrictions and system limitations.



RECOMMENDATIONS

The findings and observations led to several recommendations. These recommendations provide four phases in order for the State of North Carolina to fulfill the minimum requirements toward achieving Best Practice standards. The phases and steps are as follows:



Phase 1: Standardize

- **Develop an integrated and standardized agency level technology plan for A/R, including agency billing requirements.** A technology plan must be more than an architectural schema. It must also be accountable to performance metrics. To ensure that these metrics are achieved, standard policies and procedures must be in place and enforced through the technology plan. Standardization allows for a 25%-40% reduction in technology costs and allows the state to take advantage of volume discounts. Standardization is required for future consolidation and integration.
- **Redesign A/R and debt set off processes and systems to standardize bad debt collections, maximize automation, and minimize manual processes.** A/R and bad debt collection processes should be similar across agencies to ensure a uniform view of A/R and bad debt collection. Integrating technology into the processes will minimize manual efforts while streamlining the process.
- **Continue the Requirements Analysis phase to determine the best way to implement new technologies related to A/R.** A requirements analysis allows for proper funding and budgets to be prepared for system modifications. These system modifications must be consistent among all state agencies. Requirements



are 85 times more expensive to include during post-implementation than during the initial requirements analysis.

Phase 2: Infuse

- **Implement an integrated A/R system that utilizes imaging and workflow technologies.** Best Practice organizations aggressively invest in imaging and workflow technologies. Imaging and workflow technologies can streamline and dramatically reduce overall process time for both A/R processing and bad debt processing and collections. Organizations armed with these technologies can reduce document retrieval time by 60%, increase transactional volume by 20%-50%, decrease paper storage and net floor space by 50%-80%, and decrease mailing and copying costs by 50%-90%.
- **Implement an integrated A/R system that utilizes EC/EDI technology.** Best Practice organizations have automated their A/R collection process through Electronic Commerce (EC) and Electronic Data Interchange (EDI). EC/EDI technologies facilitate information flow and easy payment. Organizations armed with EC/EDI can substantially decrease invoice reconciliation costs, decrease the cost of purchase orders by up to 80%, and decrease the cost per invoice by 56%.

Phase 3: Implement

- **Establish and administer a highly automated data warehouse for accounts receivable information for state government agencies.** A data warehouse captures complete demographic information, historical information, and payment information for each debtor. Each agency could access the information and have the ability to query the information.
- **Continue to explore and analyze the possibilities of expanding wage garnishment to further increase bad debt collections.** Current legislation permits the limited use of wage garnishment; however, further legislation is needed to expand the usage to include other forms of debt. This would increase the number of state entities that are able to utilize this method of bad debt collection. With advanced technologies in place to speed information flow of debtors across and between agencies, wage garnishment can be used more effectively as an incentive to collect outstanding A/R.
- **Implement statewide the ability to assess interest and penalties on accounts receivable.** Best Practice organizations with integrated systems calculate interest and penalties, but a majority (75%) of North Carolina agencies do not have this



ability. Along with interest and penalty fees, credit card payments provide incentive to debtors and increased bad debt collections to State agencies. However, current legislation on discount fees conflicts with standard credit vendor agreements, and limits the acceptance of credit cards by State agencies. By accepting credit card payments and levying interest and penalty fees on all A/R, North Carolina will be able to collect a greater percentage of total A/R through ease or incentive.

- **Establish and administer a highly automated and centralized clearinghouse for bad debt collection.** States that utilize centralized data stores, such as the State of Minnesota, have increased tax set off collections to 25%. North Carolina could increase tax set off by implementing a data store of information for all agencies to share. The information clearinghouse would support future outsourcing. The DOR currently provides debt set off and has the expertise to administer the clearinghouse activities, but would need additional resources to operate the centralized clearinghouse.

Phase 4: Outsource

- **Outsource, but administer under the control of DOR, the bad debt collection process.** A phased outsourcing plan can accommodate local government participation in debt set off as required by Senate Bill 39. However, a system does not currently exist for this process. States that have outsourced bad debt collection and implemented new technology, such as Minnesota and South Carolina, have increased cash collections by an average of 28%. DOR currently provides debt set off and has the expertise to administer the clearinghouse with additional resources.

NEXT STEPS

The State of North Carolina should take the following steps towards implementation:

- OSC should brief the State Legislature on the current state of the accounts receivable technological environment.
- OSC should ask the State for funding to begin Phase 1 Recommendations.
- OSC should allocate funds and secure contractor support to facilitate Phase 1 Recommendations and initial clearinghouse activities.



CONCLUSION

By adopting an aggressive approach, the State of North Carolina can improve the accounts receivable function and achieve substantial savings in a short time frame by using proven methods and technologies to develop an integrated A/R and bad debt collection system.