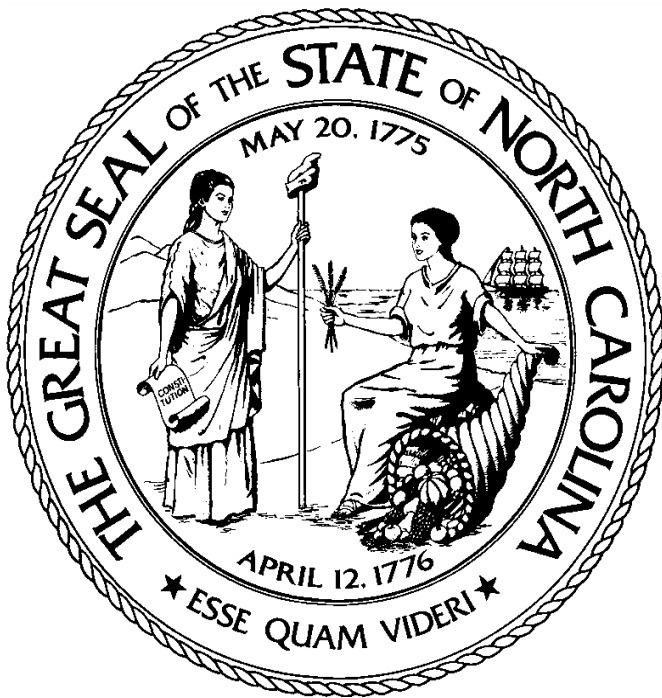

NORTH CAROLINA



STATEWIDE ACCOUNTS RECEIVABLE REPORT

***For the Year
Ended
June 30, 2012***

North Carolina Office of the State Controller

David McCoy, State Controller



State of North Carolina

Office of the State Controller

DAVID T. MCCOY
STATE CONTROLLER

February 15, 2013

The Honorable Pat McCrory, Governor
The Honorable Phil Berger, President ProTempore of the Senate
The Honorable Thom Tillis, Speaker of the House of Representatives

Attached is the Statewide Accounts Receivable Report for the year ended June 30, 2012. This legislatively mandated report is prepared in accordance with Article 6B of Chapter 147 of the North Carolina General Statutes. G.S. § 147-86.26 directs the State Controller to report annually to the Governor, the Joint Legislative Commission on Governmental Operations, and each state agency a summary of accounts receivable using information provided by state agencies and additional information as may be available.

I hope you will find this report informative and helpful. If you have any questions about any aspect of this report, my staff or I can be reached at (919) 707-0500. Finally, I would encourage your review of additional financial reports and information located on the OSC website at: <http://www.osc.nc.gov/>.

With regards, I am

Sincerely,

David McCoy

cc: Members of the North Carolina Joint Legislative
Commission on Governmental Operations
Chief Fiscal Officers

2012 Statewide Accounts Receivable Report

Introduction

The *Statewide Accounts Receivable Report* includes all receivables at June 30, 2012 reported to the Office of the State Controller (OSC) by state agencies. As defined by the North Carolina General Statutes, a receivable is an asset of the State of North Carolina (State) reflecting a debt that is owed to the State that has not been received by the state agency servicing the debt. A state agency is defined by statute as any department, institution, board, commission, committee, division, bureau, officer, official or any other entity for which the State has oversight responsibility including any university. As prescribed by statute for the statewide accounts receivable program, the term state agency does not include a community college, an area mental health, developmental disabilities and substance abuse authority, or the General Court of Justice.

The receivables disclosed in this report are based on generally accepted accounting principles (GAAP) and reflect a snapshot of amounts owed to the State at June 30, the conclusion of the State's fiscal year. This report also discloses additional information about the State's receivables at fiscal year-end such as: an aging of receivables which indicates the degree to which receivables are past due and write-offs which are receivables that agencies will not, or most likely will not, collect and have therefore deducted from their accounting records.

How the State Collects Debt

State agencies invoice businesses and individuals for services rendered through many different billing and receivable systems.

State policy provides that receivable systems of state agencies should:

- Bill accounts on a timely basis, whether the receivables are due from private entities, the federal government, localities, or state agencies and institutions;
- Maintain an accurate record of receivables transactions;
- Effectively interface with other applicable agency-based accounting systems;
- Provide an aged trial balance of receivables;
- Provide information relative to specific collection efforts on each past-due account;
- Provide realistic estimates of, and properly account for, doubtful accounts;
- Properly account for receivables that are written off;
- Recognize and report receivables in accordance with generally accepted accounting principles (GAAP);
- Comply with federal and other contractual regulations;
- Maintain a record of year-end receivable balances; and
- Provide for the accrual of interest and penalties as allowed or as required by law.

2012 Statewide Accounts Receivable Report

Types of Receivables

Taxes - Primarily consist of individual income tax, sales and use tax, and local sales tax collections.

Accounts - Primarily consist of student, patient and medical provider payments.

Intergovernmental - Primarily consists of funds due from federal and local governments.

Notes - Primarily consist of student loans, housing mortgage loans and EPA revolving loans that will be collected on a predetermined contractual basis.

Interfund - Primarily consists of funds moving between different state fund types.

Other - Primarily consists of participant contributions to the health and pension plans and State Treasurer investment earnings (distributions) owed to those funds (trust, special) that earn interest.

Aging of Receivables

An aging of receivables indicates the degree to which receivables are past-due. State agencies provide OSC an aged trial balance of receivables each fiscal year-end.

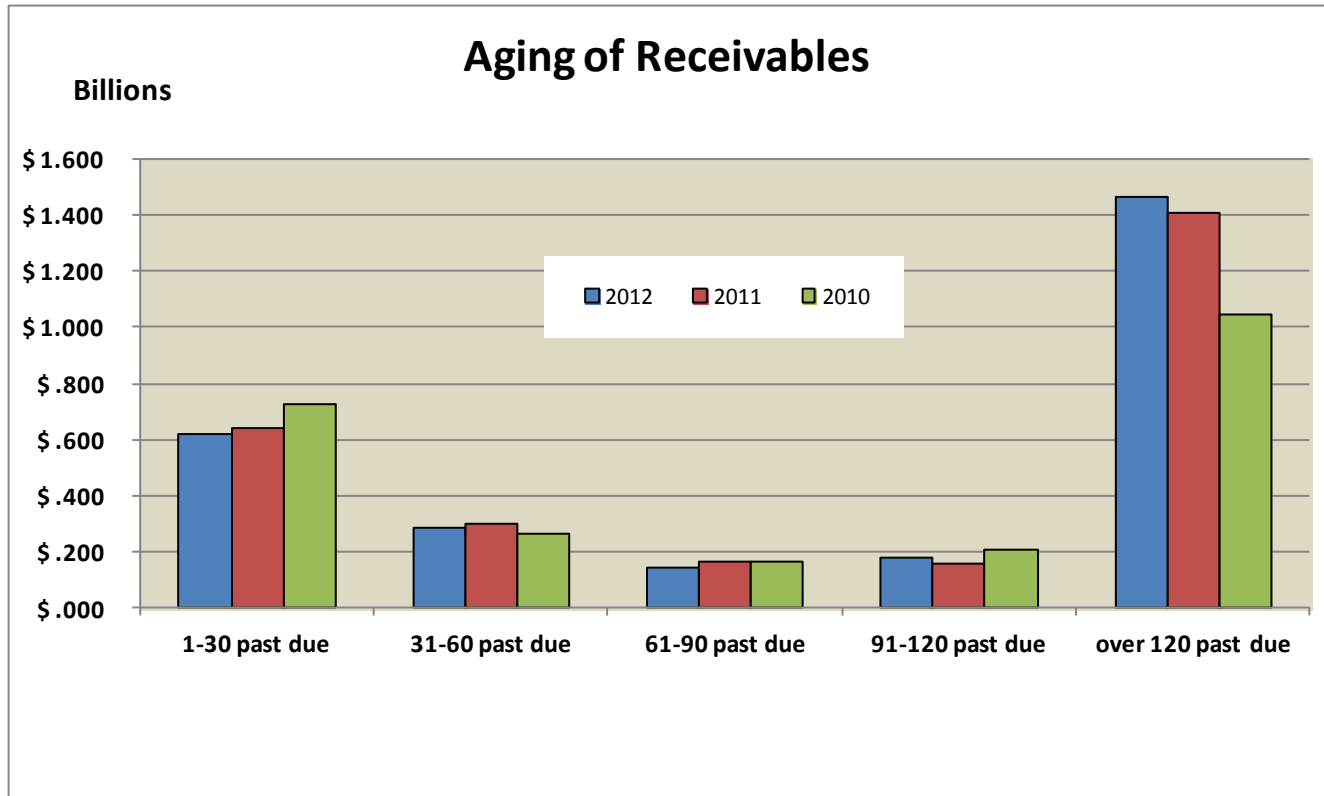
The chart below summarizes past due receivable activity at year-end 2012.
(in thousands)

<u>Past Due Receivables by Type</u>	<u>Past Due</u>					<u>Total</u>
	<u>1-30 Days</u>	<u>31-60 Days</u>	<u>61-90 Days</u>	<u>91-120 Days</u>	<u>Over 120 Days</u>	<u>Past Due</u>
Taxes Receivable	\$114,196	\$45,971	\$19,802	\$48,659	\$948,688	\$1,177,316
Accounts Receivable	228,983	120,500	47,589	67,823	302,307	767,202
Intergovernmental Receivable	3,405	2,930	1,235	1,101	4,653	13,324
Notes Receivable	260,161	113,256	72,112	62,712	195,610	703,851
Interfund Receivable	1,391	1,013	262	223	341	3,230
Other Receivable	10,177	2,443	1,820	1,619	14,896	30,955
	\$618,313	\$286,113	\$142,820	\$182,137	\$1,466,495	\$2,695,878

Accounts past-due at year-end 2012 total \$2.7 billion of total receivables. The North Carolina Department of Revenue (NCDOR), the North Carolina Department of Commerce (NCDOC), UNC Hospitals, the Department of Health and Human Services (DHHS), State Education Assistance Authority (SEAA), Housing Finance Agency (HFA), and the UNC System account for \$2.6 billion, or 97 percent, of these past due receivables. Each of these entities employs specific collection techniques to aggressively collect past due accounts receivables. Appendix A details the aging amounts by agency for fiscal 2012.

2012 Statewide Accounts Receivable Report

The chart below summarizes aging amounts for fiscal years 2012, 2011, 2010:



Year-end Amounts

The State's Comprehensive Annual Financial Report (CAFR) disclosure of receivables includes both *estimated* receivables and *invoiced* receivables, net of allowance for doubtful accounts as of June 30. The chart below summarizes CAFR total receivables by type for fiscal years 2012, 2011, 2010:

Total Receivables by Type - Fiscal Years 2012, 2011 and 2010 (in thousands)				Change FY11 to FY12	
	2012	2011	2010	Amount	Percent
Notes Receivable	\$ 5,685,461	\$ 6,174,295	\$ 7,511,711	\$ (488,834)	(7.9)%
Taxes Receivable	2,062,247	1,898,307	1,613,761	163,940	8.6%
Intergovernmental Receivables	870,682	992,800	1,213,383	(122,118)	(12.3)%
Accounts Receivable	1,554,383	1,576,858	1,491,038	(22,475)	(1.4)%
Interfund Receivables	433,127	287,700	376,967	145,427	50.5%
Contributions, Premiums, Other Receivables .	666,210	634,434	552,164	31,776	5.0%
Interest Receivable	12,326	17,183	25,894	(4,857)	(28.3)%
Total Receivables	<u>\$11,284,436</u>	<u>\$11,581,577</u>	<u>\$ 12,784,918</u>	<u>\$ (297,141)</u>	<u>(2.6)%</u>

As shown in the table above, receivables totaled \$11.3 billion for fiscal 2012, \$11.6 billion for fiscal 2011 and \$12.8 billion for fiscal 2010. Total receivables declined by \$297 million or 2.6 percent during this period. Most of this decrease was the result of no additional Federal Family Employee Loan Program volume and the payoff of current loans. In addition, interfund receivables increased by \$145 million, in part due to a Medicare payment of \$108.7 million between DHHS, UNC Hospital and Rex Hospital. The payment was received in July 2012.

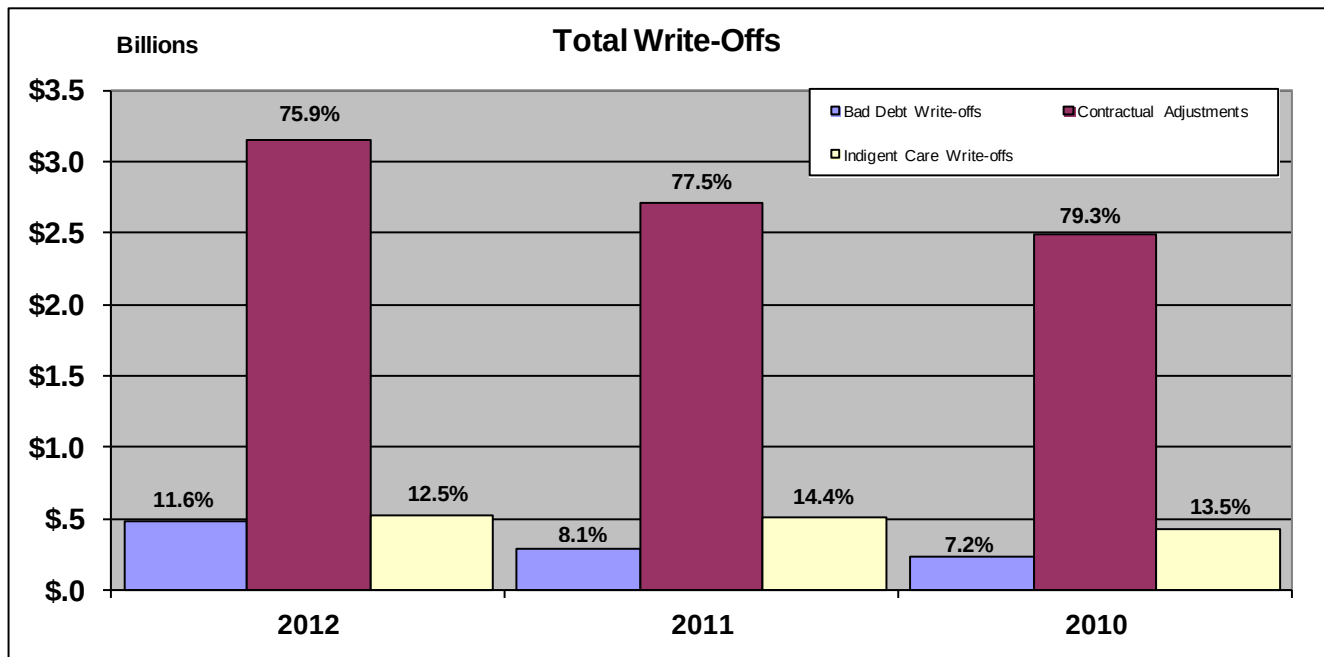
2012 Statewide Accounts Receivable Report

Write-offs

Write-offs are receivables that agencies will not, or most likely will not, collect and have been deducted from their accounting records. Write-offs are caused by bad debt adjustments (unsuccessful collection efforts), contractual adjustments or indigent care adjustments. Write-offs for year-end 2012 totaled \$4.2 billion consisting of \$482 million for bad debt, \$3.2 billion for contractual adjustments and \$518 million for indigent care. Total write-offs for 2011 were \$3.5 billion.

UNC Hospitals, including Rex Healthcare and Chatham Hospital, reported write-offs of \$2.9 billion of receivables based on Medicare and Medicaid adjustments, indigent care provider adjustments, and managed care contractual adjustments. NCDOR reported write-offs of \$138 million. UNC Chapel Hill (UNC CH) and East Carolina University (ECU) reported write-offs of \$441 million and \$252 million, respectively.

Appendix A details total agency write-offs during fiscal 2012 by receivable type. The chart below summarizes agency write-offs by type for fiscal years 2012, 2011, 2010.



Contractual Adjustments - The differences between revenue at established rates and the amounts realizable from third-party payers under contractual agreements. These adjustments are made to customer, patient, or business 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 payer (example: insurance company).

Indigent Care Adjustments - 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 **unable** to meet the financial obligations due to poverty or a lack of subsistence.

2012 Statewide Accounts Receivable Report

Bad Debt Adjustments - All write-offs of bad debts other than those for contractual or indigent care reasons.

Cost of Collection

State agencies, excluding NCDOR, reported collection activity costs totaling over \$54 million during 2012. Agencies also reported a total of 564 full-time equivalent (FTE) state employees dedicated to receivable activities during 2012. A large percentage of total collection costs and FTE reported by state agencies is attributable to patient accounts and student accounts, including student loans.

UNC Hospitals, part of the UNC Health Care System, reported 2012 collection costs of \$17.4 million and 155 FTE. The UNC-CH Physicians and Associates, also part of the UNC Health Care System, reported collection costs of \$13.2 million, and FTE of 160. ECU reported collection costs of \$3.3 million for its medical faculty practice and FTE of 65. Regarding student loans, SEAA reported that loan administration and collection are out-sourced for a cost of \$10 million for 2012.

Appendix B details by agency the collection costs and the FTE of state employees dedicated to collection activities.

Collection Activity – Attorney General

State agencies are required by statute to forward unpaid billings to the Attorney General for collection no more than 60 days after the due date of the billing. The North Carolina Department of Justice (NCDOJ) then sends a letter to debtors demanding payment. If payment is not made within 30 days, the department recommends to agencies that unpaid billings be submitted to a state contracted collection agency. As of July 1, 2012, NCDOJ has contracts with nine collection agencies.

During fiscal year 2012, a total of \$64.2 million was submitted to the Attorney General for collection on behalf of state agencies. During fiscal year 2012, \$42 million was submitted by state agencies to collection agencies, and \$7.8 million was collected at a cost of \$1.2 million.

Setoff Debt Collection Program Activity

NCDOR continues to administer the State's Setoff Debt Collection Program that requires NCDOR and state agencies to cooperate in identifying debtors who owe money to the State and who qualify for refunds from the NCDOR. The procedure for setting off against any refund the sum of any debt owed to the State resulted in \$72.2 million of net refunds to claimant agencies during the 2012 calendar year for the 2011 tax year.

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

Effective January 1, 2000, G.S. 105A expanded the list of claimant agencies to include all state agencies. OSC requested that the NCDOR provide summary debt setoff information for the last five tax years to be included in the annual Statewide Accounts Receivable Report. Summary data for the prior five tax years is reflected below (whole dollars).

2012 Statewide Accounts Receivable Report

Summary data from NCDOR for the prior five tax years is reflected below (whole dollars).

Debt Setoff Activity for Tax Years 2007-2011

Tax Year	2011	2010	2009	2008	2007
Debt Setoff Occurs in Calendar Year	2012	2011	2010	2009	2008
Gross amount of Refunds Setoff	\$73,640,930	\$67,889,978	\$60,575,209	\$57,376,802	\$49,108,212
Collection Assistance Fees applied Based on Actual Expenses	(\$1,380,525)	(\$1,294,975)	(\$1,129,410)	(\$1,098,000)	(\$930,645)
Net Amount of Refunds Paid to Claimant Agencies	\$72,260,405	\$66,595,003	\$59,445,799	\$56,278,802	\$48,177,567
DOR Administrative Expenses - Current Year	\$556,175	\$537,355	\$479,667	\$1,091,720	\$920,450
Total Setoffs (includes completed, denied, and cancelled setoffs)	311,122	291,300	259,261	253,045	222,832
Number of Completed Setoffs	305,108	287,092	253,072	248,830	216,296
Average Gross Setoff Amount	\$241.36	\$236.48	\$239.36	\$230.59	\$227.04
Average Cost per Setoff	\$1.79	\$1.85	\$1.85	\$4.31	\$4.13
Average Net Amount of Refunds Setoff	\$236.84	\$231.97	\$234.90	\$226.17	\$222.74

- 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 NCDOR receives a collection assistance fee for these debts from individual income tax collections. For the calendar year 2012, collection assistance fees for child support debts collected through setoff were \$144,940 bringing the total collection assistance fees received by the NCDOR to \$1,525,465.
- A flat collection assistance fee of \$5.00 is imposed for each debt collected through setoff.

Agency Compliance with Statewide Accounts Receivable Program

Since the 2007 fiscal year, OSC has required each state agency to complete an attestation document signed by the agency's chief executive officer and chief financial officer. All state agencies must and have returned a signed letter stating that:

- Management is responsible for complying, and has complied, with requirements of Article 6B of Chapter 147 and Chapter 105A of the North Carolina General Statutes.
- Management is responsible for establishing and maintaining, and has established and maintained, effective internal control over compliance with the requirements of Article 6B of Chapter 147 and Chapter 105A of the North Carolina General Statutes.
- Information submitted to OSC for preparation of the *Statewide Accounts Receivable Report* is materially correct and verifiable to agency records.

The ability to charge interest and penalty on past due accounts receivable is a manual process that is not supported by some billing and accounts receivable systems currently operating within state government. Future business infrastructure projects should incorporate the ability to calculate interest on past due accounts.

2012 Statewide Accounts Receivable Report

Vendor Attachment

OSC and NCDOR in September 2010 implemented a vendor attachment program. The program is authorized by G.S. 105-242(b) and G.S. 147-86.25. Phase I involves state agencies using the North Carolina Accounting System (NCAS). The program identifies vendor payments for attachment due to uncollected taxes.

In Vendor Attachment, OSC provides NCDOR a file each night of vendors who are to be paid through NCAS. NCDOR compares the file against outstanding collections cases. As matches are discovered, the process generates an attachment and garnishment notice and the funds are redirected to NCDOR before the vendor receives the payment. The funds are applied to the vendor's tax debt.

As of December 31, 2012, the program has collected approximately \$5.2 million in unpaid taxes due to the state.

2012 Statewide Accounts Receivable Report

Appendix A

Past Due Receivable Summary Aging Report

Fiscal Year Ended June 30, 2012

(in thousands)

Past Due Receivables by Department/Institution	Past Due					Total	Total
	1-30 Days	31-60 Days	61-90 Days	91-120 Days	Over 120 Days	Past Due	Write-offs
General Assembly	\$ —	\$1	\$ —	\$ —	\$ —	\$1	\$ —
Secretary of State	\$6	\$9	\$9	\$6	\$50	\$80	\$52
Office of the State Auditor	23	66	—	—	—	89	—
State Treasurer	932	2,293	1,622	619	22,930	28,396	1
Public Instruction	—	—	—	—	2	2	—
Justice	1,449	180	117	31	197	1,974	—
Agriculture	111	11	21	22	191	356	35
Labor	—	534	287	156	3,776	4,753	712
Insurance	688	3	3	—	2	696	—
Administration	—	548	112	169	165	994	—
Office of State Controller	12	12	8	7	2	41	—
Transportation	3,751	902	782	697	11,476	17,608	717
ENR	145	245	16	11	960	1,377	308
Wildlife	—	2	25	1	8	36	25
Public Safety	2,219	515	316	47	2,980	6,077	30
DHHS	102,127	63,146	7,023	25,421	148,000	345,717	440,258
ITS	386	5	110	205	1,026	1,732	—
Commerce	11,813	11,398	5,169	4,320	109,991	142,691	8,296
Revenue	111,251	39,003	17,255	47,235	892,647	1,107,391	138,144
Cultural Resources	6	1	—	—	8	15	—
UNC Hospitals	49,429	25,482	18,805	16,739	24,449	134,904	2,863,390
Education Lottery	14	6	33	15	283	351	52
Housing Finance Agency	73,597	22,032	10,155	20,246	26,001	152,031	—
Agriculture Finance Authority	—	—	—	3	222	225	2,267
North Carolina Cosmetic Arts Examiners	—	—	—	—	7	7	—
Global TransPark	2	2	10	3	16	33	—
NC Ports Authority	4,113	804	926	267	1,100	7,210	156
State Education Assistance Authority	186,903	92,522	62,505	42,702	153,481	538,113	135
Rural Economic Development Center	27	27	11	—	1,038	1,103	21
NC Health Insurance Risk Pool	54	9	11	12	(6)	80	—
Gateway University Research Park, Inc	2	2	—	6	—	10	—
UNC - Chapel Hill	42,528	13,754	9,467	7,773	29,668	103,190	441,237
North Carolina State Univ	5,154	4,951	1,464	1,988	3,690	17,247	1,049
UNC - Greensboro	115	233	185	101	3,268	3,902	414
UNC - Charlotte	3,196	621	359	3,967	—	8,143	1,887
UNC - Asheville	525	37	21	468	198	1,249	34
UNC - Wilmington	289	398	783	7	17	1,494	115
East Carolina Univ	6,336	3,582	3,535	1,271	11,084	25,808	252,130
NC A & T State Univ	569	93	212	236	1,259	2,369	433
Western Carolina Univ	524	373	845	174	796	2,712	318
Appalachian State Univ	5,411	871	183	116	3,452	10,033	273
UNC - Pembroke	321	61	38	359	2,757	3,536	208
Winston-Salem State Univ	208	120	211	659	2,258	3,456	349
Elizabeth City State Univ	186	288	14	—	1,026	1,514	444
Fayetteville State Univ	45	253	(8)	31	1,440	1,761	967
North Carolina Central Univ	3,846	718	180	6,001	4,072	14,817	—
North Carolina School of the Arts	—	—	—	46	463	509	—
North Carolina School of Science and Math	—	—	—	—	45	45	—
	\$618,313	\$286,113	\$142,820	\$182,137	\$1,466,495	\$2,695,878	\$4,154,457

2012 Statewide Accounts Receivable Report

Appendix B

Cost of Collecting Receivables by Agency Fiscal Year Ended June 30, 2012 (Whole Dollars)

<u>Agency</u>	<u>Collection Unit</u>	<u>Collection Cost</u>	<u># FTE</u>
Secretary of State	Accounts Receivable Department	\$49,228	1
Office of the State Auditor	Agency/Division Budget/Fiscal Office	25	—
Public Instruction	Other	9,441	—
Agriculture	Collection Agency/Outsourced	134,430	1
Agriculture	Payroll Section	20,689	1
Labor	Accounts Receivable Department	288,251	4
Labor	Collection Agency/Outsourced	215	—
Labor	Other	480,938	7
Insurance	Agency/Division Budget/Fiscal Office	16,286	1
Transportation	Accounts Receivable Department	354,826	11
Transportation	Collection Agency/Outsourced	40,886	—
ENR	Agency/Division Budget/Fiscal Office	398,286	2
Wildlife	Accounts Receivable Department	2,150	—
Public Safety	Accounts Receivable Department	107,995	3
Public Safety	Collection Agency/Outsourced	753	—
Public Safety	Payroll Section	7,691	—
DHHS	Accounts Receivable Department	2,464,827	47
DHHS	Collection Agency/Outsourced	165,536	3
DHHS	Other	72,047	1
ITS	Accounts Receivable Department	109,881	2
Commerce	Accounts Receivable Department	647	—
Commerce	Other	725,695	10
Commerce	Tax Department	1,284,117	20
Revenue * (see note below)	Agency/Division Budget/Fiscal Office		
UNC Hospitals	Collection Agency/Outsourced	6,046,994	—
UNC Hospitals	Patient Accounts	11,333,143	155
Education Lottery	Accounts Receivable Department	113,087	3
Education Lottery	Collection Agency/Outsourced	1,593	—
Office of Administrative Hearings	Agency/Division Budget/Fiscal Office	2	1
Housing Finance Agency	Agency/Division Budget/Fiscal Office	45,000	—
NC Ports Authority	Accounts Receivable Department	6,990	—
State Education Assistance Authority	Other	9,982,076	—
State Education Assistance Authority	Student Accounts	87,549	3
UNC - Chapel Hill	Accounts Receivable Department	6,250	1
UNC - Chapel Hill	Collection Agency/Outsourced	12,044	—
UNC - Chapel Hill	Patient Accounts	13,208,922	160
UNC - Chapel Hill	Student Accounts	40,000	1
UNC - Chapel Hill	Student Loans	1,104	1
North Carolina State Univ	Accounts Receivable Department	151,049	4
North Carolina State Univ	Collection Agency/Outsourced	183,557	—
North Carolina State Univ	Grants Office	46,477	1
North Carolina State Univ	Student Accounts	46,477	1
North Carolina State Univ	Student Loans	46,477	1
UNC - Greensboro	Collection Agency/Outsourced	56,295	—
UNC - Greensboro	Grants Office	57,465	1
UNC - Greensboro	Student Accounts	28,865	1
UNC - Greensboro	Student Loans	51,079	1

2012 Statewide Accounts Receivable Report

Appendix B

UNC - Charlotte	Collection Agency/Outsourced	64,473	—
UNC - Charlotte	Student Accounts	14,930	2
UNC - Charlotte	Student Loans	22,003	2
UNC - Asheville	Student Accounts	321	—
UNC - Asheville	Student Loans	3,781	—
UNC - Wilmington	Accounts Receivable Department	22,500	1
UNC - Wilmington	Collection Agency/Outsourced	63,116	—
UNC - Wilmington	Other	2,269	—
UNC - Wilmington	Student Accounts	49,150	1
UNC - Wilmington	Student Loans	9,641	—
East Carolina Univ	Collection Agency/Outsourced	301,938	—
East Carolina Univ	Grants Office	51,989	1
East Carolina Univ	Other	57,009	2
East Carolina Univ	Patient Accounts	3,272,109	65
East Carolina Univ	Student Accounts	730,268	12
East Carolina Univ	Student Loans	218,486	4
NC A & T State Univ	Accounts Receivable Department	76,681	1
NC A & T State Univ	Collection Agency/Outsourced	48,187	—
NC A & T State Univ	Student Loans	178,885	2
Western Carolina Univ	Student Accounts	106,384	2
Appalachian State Univ	Collection Agency/Outsourced	54,774	—
Appalachian State Univ	Grants Office	47,000	1
Appalachian State Univ	Student Accounts	120,307	3
Appalachian State Univ	Student Loans	25,800	1
UNC - Pembroke	Accounts Receivable Department	12,096	—
UNC - Pembroke	Student Accounts	13,425	—
UNC - Pembroke	Student Loans	11,708	—
Winston-Salem State Univ	Collection Agency/Outsourced	4,415	—
Winston-Salem State Univ	Student Loans	5,295	1
Elizabeth City State Univ	Accounts Receivable Department	11,422	—
Fayetteville State Univ	Collection Agency/Outsourced	50,607	—
Fayetteville State Univ	Other	36,848	—
Fayetteville State Univ	Student Loans	32,607	—
North Carolina Central Univ	Collection Agency/Outsourced	22,081	12
North Carolina Central Univ	Student Accounts	541	1
North Carolina School of the Arts	Student Accounts	11,054	—
North Carolina School of the Arts	Student Loans	34,592	1
Total		\$54,076,027	564.00

#FTE -Full Time Equivalent positions utilized by an entity for collections

One of the core functions of the NCDOR is the collection of state taxes owed to the State of North Carolina. Collection activities in the Department are so varied and widespread that it is not reasonably possible to determine the portion of the Department's budget that is directly and indirectly attributable to the cost of collecting past due taxes (accounts receivables), nor is it reasonably possible to determine the cost of collecting taxes that have not yet been assigned the status of an account receivable.