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# North Carolina Office of the State Controller

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Bad Debt Clearinghouse  
Proof of Concept Prototype  
May 31, 2000



# Agenda

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- Section 1 - Introduction
- Section 2 - Agency Participation
- Section 3 - Prototype Findings
- Section 4 - Potential Benefits
- Section 5 - Lessons Learned
- Section 6 - Recommendations
- Section 7 - Next Steps



# Introduction- Overview

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- The North Carolina Office of the State Controller (OSC) in response to Session Law 1999-237 is required to investigate the feasibility of a bad debt clearinghouse.
- Why are we doing the study?
  - External infrastructure does not exist to support extensive in-house collection of challenging debt
  - Significant debt (approximately \$300M) is not being pursued
  - Agreements have been secured by the Attorney General’s Office with two collection agencies.\* Previously, these contracts were most often employed by state universities and colleges .

*\* The Attorney General’s office is currently in negotiations to secure agreements with up to 5 agencies*



# Agency Participation

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As the legislation allowed for state and local government participation, the prototype participants included the following :

## Department of Revenue

- Out-of-State taxes
- 1000 cases
- \$1,500,000 debt

## Department of Labor

- OSHA penalties and fees
- 562 cases
- \$1,412,777 debt

## City of Raleigh

- Water and sewer debt
- 17,106 cases
- \$1,600,500 debt

An agreement was reached with Windham Collections to perform all collection functions for the prototype phase.

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# Prototype Findings

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As a result of the initial 90-day prototype, the following findings were observed:

- Agency participation was restricted due to privacy issues (ESC, DHHS Mental Health, and DOR)
- Several collection accounts were removed from the prototype (up to 20%) after submission as invalid.
- Successful debt collection dramatically decreases over time
- After the initial 60-day trial period, the following results were seen:
  - Debt submitted: \$2.7M
  - Debt collected to date: \$71K
- Additional collections are expected in next 30-day period



# Potential Benefit

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Source	Estimated Revenue
Dept. of Revenue	\$292K
Dept. of Labor	\$64K
City of Raleigh	\$179K
Additional Agency participation	<u>\$200K</u>
<b>Total</b>	<b>\$735K</b>

## Intangible

- Centralized resource commitment
- Reduced collection time



# Lessons Learned

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Some North Carolina state agencies were unable to participate due to the following reasons:

- Technical restrictions did not allow electronic data interchange.
- Information sensitivity restricted the sharing of debtor information.
- Collections fees cannot be levied against certain debts.



# Summary Recommendations

## Recommendation

Define participation criteria for state agencies facilitating independent and central collections.



- ## Projected Result
- Increased collectibility
  - Fewer debts removed from the system

Continue Prototype for 1 year, and expand current participation to include additional agencies.



- Increased measurement

Use debt collections to fund ongoing collection activities through collection agency fees.



- No new allocations required for collections



# Next Steps

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The following are tasks still to be completed:

- Work with the AG's office in securing new collection agency relationships 6/00
- Register additional agencies for prototype 6/00-6/01
- Define qualification criteria 6/00-9/00
- Continue prototype for 1 year period 6/00-6/01
- Review clearinghouse management 6/00-6/01

*The State of North Carolina will increase revenue while defining a state-wide collection strategy by maintaining the Bad Debt Clearinghouse for one year.*

