

## **University of Georgia Accounts Receivable Procedures For Departmental Sales and Service Accounts**

### **Summary**

Many UGA departments are authorized to provide services or products to customers. These services or products are normally provided as an adjunct to instruction or research activities. In order to effect early conversion of receivables to cash and minimize credit losses, UGA must maintain a diligent program for managing receivables. This procedure document explains the core accounts receivable functions including:

- 1) departmental maintenance and physical security of records,
- 2) division of responsibility,
- 3) granting credit,
- 4) billing the customer,
- 5) collections,
- 6) analyzing receivables and reporting on outstanding accounts, and
- 7) uncollectible accounts and providing for bad debts.

### **Departmental Maintenance and Physical Security of Records**

The physical paperwork providing proof of the receivable and any computerized records regarding the billing or collection efforts and the outstanding balance should be stored according to current Records Retention Standards published by the State of Georgia. Even though records retention standards may allow destroying of paper documents and related electronic records after a certain period time, institutions should be diligent in protecting all physical paperwork and electronic records that provide proof of the receivable. These paper documents providing proof of receivables may be very valuable in future collections, and may be checked during audits by state and internal auditors. If electronic archiving of data systems will destroy or make inaccessible these receivable records, then the institution should print and file this information for use.

All invoices should have unique reference numbers that will appear in the computer-produced records. These reference numbers will be consecutive within each of the document series involved. The numbered documents will be filed in the departmental business office and must be available for review by auditors. Additionally, payments applied to the account balance should be recorded in a log or the department may use pre-numbered receipts.

An aged listing of individual receivable balances should be prepared by the department at least monthly and should reflect the results of billing and collection follow-up activity. The aging format required to be used is provided as the *Departmental Sales Accounts Receivable Aged Analysis*. The department should ensure that subsidiary ledger records (including those maintained outside the department's official business office) are reconciled to the control account balances at least quarterly. Management above the level responsible for supervising the billing and collection follow-up function should review outstanding balances and the aged analysis on a routine basis. It is the responsibility of the individual department to ensure that the appropriate accounts receivable balances are recorded on the University's financial accounting system at each fiscal year end. Please refer to the section titled "Year-end Procedure" contained in this document.

## **Division of Responsibility**

To the extent possible, personnel responsible for the following activities should be functionally divided. If the department is not staffed with enough personnel to perform each function individually, a system of independent review regarding the following, should be established and performed on a regular basis:

1. Establishment of credit.
2. Billing functions. Billings to individual customers should be accessible only to billing activity personnel.
3. Recording of cash and other collections (check and credit card, for example). Collection stations will record cash/check/credit card payments and the recording of the payment will be the only function related to receivables performed by such collection stations.
4. Approval of write-off requests and other types of non-cash credits, such as cancellations. Non-cash credits should be approved by management levels above the supervisors of the functional divisions involved.
5. Processing of documents. Input data should not be originated by computer facilities and operations personnel.
6. Accounting.
  - A control account should be maintained in the school/college/division/departmental official business office.
  - Subsidiary accounts maintained outside the school/college/division/department official business office should be reconciled to the control account.
  - A subsidiary record of balances written-off as uncollectible should be maintained by the official business office.
7. Collection follow-up. Collection activity should not be performed by personnel who prepare the billing or record payments.

## **Granting Credit**

Credit may be granted to those receiving the departmental sale or service including the general public, students, and staff. Although cash should be collected whenever possible, credit may be granted when there are no facilities for the collection of cash, or when non-collection of cash is deemed to be in the best interest of the department and the University. In these cases, prudence with respect to the credit risk incurred must be observed at the time of transaction.

Credit is automatically extended to governmental units and foundations during the time claims for reimbursement are outstanding. Diligence must be exercised to insure timely billing and collection efforts and to minimize uncollectible receivables.

Implicit in the granting of credit is the intention that payment will be made in full upon customer's receipt of a bill. UGA departments granting credit should take the necessary steps to evaluate the ability of the customer to pay. While formal "credit evaluation" procedures are not required, UGA departments can develop procedures to evaluate the credit worthiness of the customer and at a minimum, the department should be knowledgeable about their customer's general business practices and payment capacity. Any formal arrangements regularly authorizing credit for more than thirty (30) days must be approved by the appropriate dean, director or department head unless other institutional or BOR policies or regulations operate to the contrary.

### **Billing the Customer**

Prompt billing after services are provided or goods are delivered is essential for effective management of receivables. Information must be maintained on the status of all unbilled accounts to insure that all actions necessary for the preparation of the bill have been taken as required. This will allow the bill to be issued as expeditiously as possible. The invoice issued to the customer should clearly state the payment due date.

During the course of the fiscal year, when the invoice is generated, the department should record on their internal accounts receivable records, a debit to accounts receivable in the amount of the invoice and a credit to revenue.

The accounting entry to be recorded on the department's internal accounts receivable records is:

Dr. Accounts Receivable \$\$\$  
Cr. Dept Sales Revenue \$\$\$

At each fiscal year end, departments will need to record on the UGA Financial Accounting System, accounts receivable balances and the corresponding revenue per their internal accounts receivable records. Departments will prepare a journal voucher and supporting documentation as outlined in this procedures document in the section titled "Year-end Procedures".

### **Collections**

After bills have been issued to the customer, the timing of the outstanding bill should be tracked so that the receivable can be aged. UGA departments must maintain an aging schedule in the format provided as the *Departmental Sales Accounts Receivable Aged Analysis*.

Follow-up correspondence should be sent to the customer if payment is not received by the due date listed on the invoice. A series of collection letters (*sample invoices*) should be issued to the customer. If payment is not received as a result of these collection letters, phone calls should be placed to the customer. The following chart provides guidelines for minimum collection efforts on past due accounts receivable.

THE UNIVERSITY OF GEORGIA					
MINIMUM COLLECTION EFFORTS					
AMOUNTS DUE FROM EMPLOYEES AND THE GENERAL PUBLIC					
ACTIONS REQUIRED TO BE TAKEN BY DOLLAR AMOUNT					
Activity	2nd Billing (Copy of Original)	3rd Billing (Past Due Stamp)*	4th Notice (Statement of intent to seek legal collections)*	Final Notice Payable in 10 days or sent to collections*	Referral to Collection Agency
Days since Payment Due	30 days	60 days	90 days	120 days	after 120 days and prior to 180 days
Amount of Bill					
Up to \$100	X	X			
\$100 - \$300	X	X	X		
Over \$300	X	X	X	X	X

\* In addition to invoicing and other collection correspondence, phone calls should also be a part of the department's collection efforts.

When the customer remits payment on the invoice, the department will record the receipt on their internal accounts receivable records, by debiting cash and crediting accounts receivable.

The accounting entry to be recorded on the department's internal accounts receivable records is:

Dr. Cash    \$\$\$  
                     Cr. Accounts Receivable    \$\$\$

When the cash/payment is received, the department will prepare a deposit transmittal which indicates the revenue account to be credited. All revenues should be deposited to the appropriate revenue object code (example: 41XXX). The deposit transmittal is then processed by the Bursar's Office and the accounting entries are posted to the UGA Financial Accounting system according to the account number(s) specified in the deposit transmittal.

When departments receive payment on accounts that were recorded as receivables on the UGA Financial Accounting system at fiscal year end, the department must record the payment to their internal accounts receivable records and designate on the deposit transmittal, the UGA Financial system accounts receivable account number as the number to which the payment will be credited. By depositing the payment to the UGA Financial System accounts receivable account number, the UGA Financial System accounts receivable balance will be properly reduced.

### Collection Agencies

Collection of receivables is primarily a responsibility of the institution. In general, unless there has been evidence of good faith intention to pay, accounts greater than \$300 which are at least 120 days past due, but not more than 180 days past due, should be referred to collection. It may not always be cost effective to refer all accounts greater than \$300 for external collection. In order to maximize collection effectiveness once it is determined that assignment to a collection agency is needed and is cost effective, accounts should be referred as soon as internal collection efforts are completed. Collection agencies should not retain accounts for more than twelve (12)

months. Once an account is referred to a collection agency, the department may not perform any collection efforts on the account as long as it is held by the collection agency.

Departments should discuss the use of external collection agencies with the Accounts Receivable Department. If the department wishes to contract with a collection agency for the department's specific needs, they should contact the Accounts Receivable department for guidance. Procurement requirements for contracting with service providers must be followed.

### **Analyzing Receivables and Reporting on Outstanding Accounts**

Adequate information concerning the age of outstanding bills and claims is essential for proper overall control of accounts receivable and related reserves for bad debts. Departments should follow these standards and incorporate them into their procedures:

1. Aging information must be collected, maintained, reported, and acted upon in a standardized and consistent manner. The aging should be updated and reviewed at least monthly. The aging should be reviewed by management above the supervisory level that oversees the accounts receivable functions.
2. Levels of effort in record keeping and collection should be commensurate with collection value.

In general, bills must be collected as expeditiously as possible, but the cost of collection must not be allowed to exceed the expected revenue.

The University of Georgia must submit an aged receivable analysis to the Board of Regents twice each year. To complete this reporting requirement, each department recording receivables to the UGA Financial Accounting System will submit an analysis of receivables to the Accounts Receivable Department in accordance with the schedule indicated below.

<b>Date of Analysis</b>	<b>Date Due to Accounts Receivable</b>
As of December 31 <sup>st</sup>	February 1 <sup>st</sup>
As of June 30 <sup>th</sup>	August 10 <sup>th</sup>

The analysis submitted to Accounts Receivable must be completed in the format provided as the *Departmental Sales Accounts Receivable Aged Analysis*. Departments should maintain all the detail supporting the analysis provided to Accounts Receivable.

### **Uncollectible Accounts and Providing for Bad Debts**

Senate Bill 73, codified as OCGA Section 50-16-18, provides state agencies with a mechanism for writing off debts of an immaterial nature owed to the state. The materiality threshold, as specified by the legislation, is "\$3,000.00 or less for the institutions of the Board of Regents of the University System of Georgia."

This legislation authorizes state agencies and departments

. . .to develop appropriate standards, in conjunction with the Department of Audits and Accounts, which will provide a mechanism to consider administratively discharging any obligation or charge in favor of such agency or department when such obligation or charge is . . . . \$3,000 or any lesser amount for the institutions of the Board of Regents of the University System of Georgia.

### **Reserve and Write-Off Procedures**

All accounting entries for uncollectible accounts, both the reserves for uncollectible accounts and the write-off of uncollectible accounts, will be initiated by the Accounts Receivable Department. These entries are made for receivable accounts recorded on the UGA Financial Accounting System and departments will need to make entries on their internal accounts receivable records to show the reserves and write-offs. Departments will also need to provide the necessary uncollectible account information to Accounts Receivable for the accounting entries to be processed on the UGA Financial Accounting System. The following guidelines will be followed by Accounts Receivable to prepare the necessary accounting entries for reserves and write-offs.

The Governmental Accounting Standards Board (GASB) requires that bad debts be treated as a contra-revenue rather than an expense for financial reporting purposes. Budgetary reporting for Georgia also allows for like treatment for bad debts. This treatment effectively reduces revenue for debts that are not probable for collection. In order for that realized revenue will be reflected properly, bad debts must be regularly recognized in the accounts of the University as follows:

1. All uncollectible accounts will be reserved as specific accounts aged and consequently deemed to be uncollectible. Generally, debts aged more than one hundred twenty (120) days from the billing date are potentially no longer probable for collection. Circumstances may arise when specific accounts become uncollectible earlier than one hundred twenty (120) days.
2. When uncollectible accounts are reserved, a funding source must be identified to fund the reserve. The departmental sales revenue account related to the uncollectible receivable will be the funding source used in the journal entry to record the reserve for bad debt.
3. When accounts receivable of \$3,000 or less are ultimately determined uncollectible and due diligence for collection has taken place, the receivable will be written-off. When an account is written-off, the accounts receivable account should be credited and the Allowance for Doubtful Accounts Receivable account should be debited. This eliminates the receivable from the books of the campus in compliance with Georgia law.

Write-off of receivables is based upon the aggregate of the debtor, not on individual transactions. For example, a customer may owe \$4,000 in aggregate, with ten transactions of which no single transaction exceeds \$3,000. In this case, the \$4,000 cannot be written-off.

4. The accounts receivable should be analyzed to determine if all receivables aged more than one hundred twenty (120) days are collectible. After due diligence collection efforts, and submission to a collection agency, the bad debts (less than \$3,000) should be written off against existing reserve accounts, as described in item #3 above.

5. Departments should seek assistance from Accounts Receivable when accounts assigned to collection agencies need to be written-off.
6. Approval for reserve and write-off transactions has been delegated to the chief business officer at each University. The Accounts Receivable Department will obtain such approval at the University level. Additional and final approval for reserves and write-offs will be made by the state auditors.

Departments should provide information regarding uncollectible accounts to the Accounts Receivable Department in June of each fiscal year. The department will need to provide the information to Accounts Receivable in the format provided as *Request to Reserve for Uncollectible Accounts Receivable* and *Request to Write-Off Uncollectible Accounts Less than \$3,000*. Also refer to the section in this document titled “Year-End Procedures” for more information.

### **Death of a Debtor**

A claim against the estate of a Georgia resident must be prepared in accordance with specific regulations and filed within six (6) months after first publication of notice to creditors. Therefore, in order to assure that the University’s interests are fully protected, help from the Office of Legal Affairs and Accounts Receivable, as appropriate, is to be sought whenever an institution receives notification that a person owing money to the institution has died.

### **Recoveries**

All recoveries will be recorded by reversing the entry made to create the allowance for uncollectible accounts, with the exception of uncollectible accounts charged to bad debts expense. Recoveries of this nature will be recorded as miscellaneous income. If a department receives a payment on an account which has been written off or reserved, they should contact Accounts Receivable for assistance.

### **Year End Procedures**

Departments with accounts receivable will need to complete several requirements prior to each fiscal year end. These requirements are outlined as follows:

#### **Journal Vouchers to Record Accounts Receivable Balances at Year End**

Departments will prepare a journal voucher and supporting aged analysis report to record accounts receivable balances as of June 30 of each year (reference this *sample journal entry*). The *Departmental Sales Accounts Receivable Aged Analysis* must accompany the journal voucher. The journal voucher, the aged analysis, and a copy of the invoice for each receivable should be submitted to the Accounts Receivable Department by the cut-off deadline for non-personal services journal vouchers. The journal voucher should only be prepared for the amount of accounts receivable which need to be recorded and the accompanying aged analysis should identify those amounts which comprise the total of the journal voucher.

Example: At June 30, 2005, Dept. X submits a journal voucher for \$5,000 to record accounts receivable on the UGA Financial Accounting System. This is the first time Dept. X has

submitted a journal voucher to record accounts receivable. The accompanying aged analysis report balances to the \$5,000 to be recorded per the journal voucher. During FY2006, Dept. X collects \$4,500 of the June 30, 2005 \$5,000 accounts receivable balance. Those collections are credited to the appropriate accounts receivable account on the UGA Financial Accounting System so that at June 30, 2006, the accounts receivable balance is \$500. For the 2006 fiscal year end, Dept. X needs to record additional accounts receivable of \$6,000. Dept. X submits a journal voucher for \$6,000 to record the accounts receivable and also submits an aged analysis report which ages the existing \$500 balance from June 30, 2005 and ages the new receivables of \$6,000. The total balance per the June 30, 2006 aging report is \$6,500 and it will reconcile to the June 30, 2006 total accounts receivable balance per the UGA Financial Accounting System.

### **Aged Analysis Report (if no year end journal voucher for receivables is submitted)**

If a journal voucher and supporting aged analysis report were not submitted as outlined above, the department must submit the *Departmental Sales Accounts Receivable Aged Analysis*, for any accounts receivable balances on the UGA Financial Accounting System as of the current fiscal year end.

Example: Dept. Y submits a \$10,000 journal voucher and accompanying aged analysis as of June 30, 2005. A portion of the June 30, 2005 receivable balance, \$1,000, was not collected in FY2006 and the UGA Financial Accounting System shows a receivable balance for that department of \$1,000. Dept Y does not have any additional receivables to record as of June 30, 2006. Dept Y must prepare an aged analysis of the \$1,000 balance outstanding as of June 30, 2006. The aged analysis detailing the \$1,000 balance should be submitted to the Accounts Receivable Department by August 30<sup>th</sup> following the fiscal year just ended. The aged analysis for \$1,000 should balance to the \$1,000 June 30, 2006 accounts receivable balance for the department as recorded in the UGA Financial Accounting System.

### **Request for Uncollectible Accounts Receivable to be Reserved**

All accounting entries to reserve for uncollectible accounts will be initiated by the Accounts Receivable Department. These entries are made for receivable accounts recorded on the UGA Financial Accounting System and departments will need to make entries on their internal accounts receivable records for the reserves. Departments will use the form *Request to Reserve for Uncollectible Accounts Receivable* to request reserves. Departments should submit the request to the Accounts Receivable Department by June 15<sup>th</sup> of each year.

Generally, debts aged more than one hundred twenty (120) days from the billing date are potentially no longer probable for collection and should be reserved. Circumstances may arise when specific accounts become uncollectible earlier than one hundred twenty (120) days. Departments will need to determine which accounts meeting these specifications need to be reserved. Those accounts will then be listed on the form *Request to Reserve for Uncollectible Accounts Receivable*.

When uncollectible accounts are reserved, a funding source must be identified to fund the reserve. The departmental sales revenue account related to the uncollectible receivable will be the funding source used in the journal entry to record the reserve for bad debt.

## **Request for Uncollectible Accounts to be Written-Off**

All accounting entries to write-off uncollectible accounts will be initiated by the Accounts Receivable Department. These entries are made for receivable accounts recorded on the UGA Financial Accounting System. Departments must maintain all documentation supporting due diligence on collection efforts on accounts receivable and must also maintain a subsidiary ledger for accounts which have been written-off. Departments will use the form *Request to Write-Off Uncollectible Accounts Less than \$3,000* to request write-offs. Departments should submit the request to the Accounts Receivable Department by June 15<sup>th</sup> of each year.

When accounts receivable of \$3,000 or less are ultimately determined uncollectible and due diligence for collection has taken place, the receivable will be written-off. When an account is written-off, the accounts receivable account should be credited and the Allowance for Doubtful Accounts Receivable account should be debited. This eliminates the receivable from the books of the campus in compliance with Georgia law.

Write-off of receivables is based upon the aggregate of the debtor, not on individual transactions. For example, a customer may owe \$4,000 in aggregate, with ten transactions of which no single transaction exceeds \$3,000. In this case, the \$4,000 cannot be written-off.

After due diligence collection efforts, and submission to a collection agency, if cost effective, the bad debts (less than \$3,000) should be written off against existing reserve accounts.

*Date Updated: May 2006*