Oregon University System – Fiscal Policy Manual

Section: Accounting and Reporting
Title: Accounting for Receivables Number: 05.240

Index

POLICY

- .100 POLICY STATEMENT
- .110 POLICY RATIONALE
- .120 AUTHORITY
- .130 APPROVAL AND EFFECTIVE DATE OF POLICY
- .140 KNOWLEDGE OF THIS POLICY
- .150 DEFINITIONS
- .160 RESPONSIBILITIES
- .200 GENERAL RECEIVABLES POLICIES
- .210 CREDIT POLICIES
- .220 BILLINGS AND STATEMENTS
- .230 RECEIVING AND PROCESSING PAYMENTS
- .240 COLLECTIONS
- .250 ASSIGNMENT OF DELINQUENT ACCOUNTS
- .260 WRITE OFF OF UNCOLLECTABLE ACCOUNTS AND NOTES RECEIVABLE
- .270 ACCOUNTING FOR RECEIVABLES
- .690 CONTACT INFORMATION
- .695 HISTORY

APPENDIX

- .700 BAD DEBT EXPENSE METHODOLOGIES AND ACCOUNTING ENTRIES
- .710 ACCOUNTS RECEIVABLE ESTIMATION METHOD
- .720 AGING OF ACCOUNTS RECEIVABLE METHOD
- .730 DIRECT WRITE OFF METHOD
- .740 RECOMMENDED ACCOUNTING FOR INTEREST REVENUE
POLICY

.100 POLICY STATEMENT

This policy establishes system-wide standards for the accounting of accounts receivable and notes receivable.

.110 POLICY RATIONALE

To ensure that the net realizable value of receivables is fairly presented in the Statement of Net Position OUS seeks to have policies and procedures in place related to accounts receivable and notes receivable that are documented, communicated, clearly understood, and consistently applied.

.120 AUTHORITY

- ORS 351.085 - Duties and Powers of Chancellor
- OAR 580-040-0005 - Delegation and Assignment of Responsibility
- IMD 6.001 TO 6.003 - Finance and Business Affairs
- OAR 580-041-0010 - Receivables

.130 APPROVAL AND EFFECTIVE DATE OF THE POLICY

This policy originated as a new policy with the approval of the Associate Vice Chancellor for Finance & Administration/Controller on June 26, 2013. To be Effective as of June 30, 2013.

.140 KNOWLEDGE OF THIS POLICY

All Chancellors’ Office and institution personnel with accounts receivable and/or notes receivable responsibilities should have knowledge of this policy.

.150 DEFINITIONS

Accounts Receivable – Amount due to OUS by students or outside entities for tuition and fees or the sale of products or services on credit.

SIS Receivable – Any receivable which is tracked in the Banner Student Information System (SIS)
Non SIS Receivable – Any receivable which is not tracked in Banner SIS.

Notes Receivable – Formalized current and noncurrent obligations evidenced by written promissory notes.

Current – Accounts Receivable or portion of Notes Receivable expected to be collected in cash within one year.

Noncurrent – Portion of Notes Receivable expected to be collected in cash in subsequent fiscal years.

Allowance for Doubtful Accounts – A balance sheet contra asset account that offsets total accounts or notes receivable and represents the estimated portion of accounts receivable that OUS is unlikely to collect.

Bad Debt – an expense of the period in which revenue is earned that is based on an estimate of receivables that will later prove to be uncollectable.

Revolving Charge Account – method of offering extended payment terms for a limited duration that do not have a fixed number of payments.

.160 RESPONSIBILITIES

A. Chancellor’s Office
   - Developing system-wide policies on receivables.
   - Reporting receivables balances in the OUS annual financial statements in accordance with generally accepted accounting principles, specifically standards of the Governmental Accounting Standards Board (GASB), and National Association of College and University Business Officers (NACUBO).
   - Providing OUS liaison with the State of Oregon for required annual reporting of liquidated and delinquent accounts to the Legislative Fiscal Office.
   - Providing overall monitoring of institution receivables balances for reporting to the Board.

B. Institutions
   - Reporting receivables balances in Banner FIS in accordance with generally accepted accounting principles, specifically standards of the Governmental Accounting Standards Board (GASB), and National Association of College and University Business Officers (NACUBO).
• Establishing effective and efficient policies and procedures over the issuance of credit, billings, and collections, and applying those policies and procedures throughout the institution in a uniform and consistent manner.

• Maintaining comprehensive documentation and accounting records of receivables’ balances and financial activity.

• Ensuring that sufficient internal control policies and procedures exist over receivables and that the accounting and administration of receivables comply with federal and state laws and regulations.

• Demonstrating due-diligence in the collection of receivables.

• Generating and monitoring financial reports of receivable balances.

• Estimating, based on past collection experience, the amount of accounts receivable at year end that will not be collected and recording Bad Debt expense and an Allowance for Doubtful Accounts based on the estimate.

• Write off of receivable accounts at the time that active collection efforts by the institution have ceased. Include 100% allowance for doubtful accounts in Banner FIS for receivable accounts over five years old which do not have a written payment plan for which regular payments are received on the account.

• Interest charges on receivable accounts after an account is two years old are not recorded as revenue in Banner FIS until realized (collected). See recommended accounting in Appendix .730.

• Maintaining notes receivable for any receivable in which there is a payment plan exceeding one year.

.200 GENERAL RECEIVABLES POLICIES

• OUS system-wide policy on the accounting and overall monitoring of receivables is assigned to the OUS Associate Vice Chancellor for Finance and Administration and Controller.

• Receivables comprise accounts receivable and notes receivable. Year-end accounts receivable balances are current assets and expected to be collected in cash within the following fiscal year. Year-end notes receivable balances are supported by signed promissory notes, and comprise both a current asset (portion expected to be collected in cash in the following fiscal year) and a long-term asset (portion expected to be collected in cash in subsequent fiscal years).
- Fiscal responsibilities over each institution’s receivables are assigned to the institution’s president, and may be delegated to the vice president for finance and administration, or business officer.

- Institutions may render services on a charge basis where it is in the overall best interests of the institution. No department shall extend credit to faculty, staff, students, or other entities outside the university without the prior documented approval of the institution business officer.

- Accounts Receivable balances are written off at the time that active collection efforts by the institution have ceased. In addition, all accounts that are over five years old and that do not have a written payment plan which is currently receiving payments, are included 100% in the allowance for doubtful accounts.

- Interest charges on receivable accounts after an account is two years old are not recorded as revenue in Banner FIS until realized (collected). See recommended accounting in Appendix .730

- Receivables policies and procedures pertaining to credit, billings, and collections are institution-specific. The policies and procedures must comply with federal and state laws and regulations.

- Institutions follow the accrual method of accounting and record an annual bad debt expense and allowance for doubtful accounts in accordance with instructions provided by the Controller’s Division.

.210 CREDIT POLICIES

A. DOCUMENTATION

- Institutions shall document their credit policies for each type of receivable applicable to the institution.
  - Student Accounts Receivable
  - Department Sales Receivable
  - Travel Advances Receivable
  - Third Party Contracts Receivable

- Institution credit policies shall address the following:
  - Types of revenue rendered on a charge basis.
Normal credit terms, along with expected payment dates, interest rates, service charges, and maximum credit amounts.

Order in which payments are credited to receivable charges.

Definition of a past-due/delinquent account and the charges assessed to each past-due/delinquent account.

Reference to the institution’s collections process for a past-due account.

- Institution credit policies may vary depending on revenue type, customer type, and other circumstances. Credit decisions falling outside the institution’s normal credit policy are made by the institution’s business officer in the best interests of the institution, the federal government, and the state, or where required to comply with federal and state laws and regulations.

B. REVOLVING CHARGE ACCOUNTS

- Institutions offering revolving charge accounts must follow the requirements of Oregon Administrative Rule 580-040-0041 – Revolving Charge Accounts Policy.

C. DEPOSITS

- Institutions may require deposits for specific charges. Deposit policies shall include the following:
  - Charges that require deposits.
  - When deposits are used, and the order in which deposits are applied to charges.
  - Expected frequency for refunding the unused portion of deposits.

D. REFUNDS

- Institution refund policies shall include the following:
  - Order in which credit balances are applied to different types of receivables, and the methodology for calculating the refund.
  - Procedure for requesting refunds.
  - Frequency for processing refunds.

- Institution refunds policy may also state that refund checks are created only for credit balances above an institutionally determined minimal amount.
E. STUDENT LOANS

- Administration of student loan programs shall follow the requirements of the student loan sponsor (e.g., federal government student loan programs).
- Student loans are evidenced by signed promissory notes.
- Student loans are accounted for in student loans fund type 40.

.220 BILLINGS AND STATEMENTS

- Each institution is responsible for sending periodic billings and/or statements to customers. Each institution must have central business office policies in place that determine the frequency and tracking methods for periodic billings. Each business officer determines the following:
  - Design of billings and statements.
  - Most effective and efficient process (e.g., mail, email, website updates) for sending billings and/or statements, and the number of copies to be sent.
- The frequency of billings and statements may vary depending on the types of receivables and the dollar amount.
- The institution business officer or designee must track when billings and statements are sent.
- The content and timing of the billings and statements will comply with federal and state laws and regulations.
- Internal business office policies shall specify under which circumstances billings or statements are not generated.

.230 RECEIVING AND PROCESSING PAYMENTS

- Cash receipts shall be deposited promptly and entered into the accounting records in accordance with requirements established by the Vice Chancellor for Finance and Administration. See FASOM section 01.21.

.240 COLLECTIONS

A. OREGON ADMINISTRATIVE RULES

- In accordance with Oregon Administrative Rule 580-041-0010 – Receivables, each institution shall establish an administrative rule to document and communicate its general procedures for collecting past-due accounts and notes receivables.

B. COLLECTION EFFORTS
• Institutions shall be diligent in collecting accounts and notes receivable. The one key collection tool available is the withholding of transcripts. This shall be done for all past due accounts. Other collection efforts may include but are not limited to:
  o Denying or cancelling registration.
  o Denying further account receivable privileges or services.
  o Withholding wages after receiving the employee's approval.
  o Adding legally allowed and regulated penalties and interest to the debt.
  o Utilizing telephone inquiries.
  o Sending demand letters.
  o Using legally allowed "skip trace" information.
  o Utilizing offset procedures with other State agencies.
  o Assigning past-due receivables to the Department of Revenue, or private collection agencies under OUS contract in accordance with ORS 293.231.
  o Instituting legal action, as permitted by statutes or required by regulation.
• The institution may waive any of the above model rule remedies only when the waiver would serve the best interests of the institution, the federal or state government; or where required by federal or state laws and regulations.
• The institution business office will grant hearings, in accordance with institution administrative rules, to persons contesting their debts.
• Institutions must follow current bankruptcy regulations concerning debts during and following bankruptcy.
• Institutions will follow the collection effort requirements of sponsors (e.g., federal government student loan programs).

C. COLLECTION COSTS

• All institutions should attempt to recover the costs of collection activity on past-due/delinquent receivables if there is a statute, rule, or an agreement supporting the recovery of collection costs. In such cases when accounts are sent to collection agencies, the institution should include in the balance assigned to collect an amount sufficient to cover the costs of collection, which is clearly identified as collection costs. Lesser collection charge amounts may be specified when a reduction would serve the best interests of the institution, federal or state government.
• The fee charged by a collection agency, State Department of Revenue or outside collection vendor, shall be expensed using account 28712 – Collection Costs. This expense is required to be recorded even if the agency simply remits what they collected net of their fees.

• Institutions may add a referral charge for handling delinquent accounts, following institution administrative rules.

.250 ASSIGNMENT OF DELINQUENT ACCOUNTS

• Past due/delinquent receivables may be assigned to the State Department of Revenue or to private collection agencies under OUS contract. Institutions may withdraw an assigned account at any time by providing written notice, which may be submitted on paper or electronically. The Department of Revenue and private collection agencies may only recover their fiscal percentage based on actual payments received prior to the date of withdrawal plus 30 days.

• Uncollectible Federal Perkins Loans and National Direct Student Loans (NDSLs) may be assigned to Federal Student Aid Collections as outlined in the Federal Student Aid Handbook (IFAP) Volume 6, Chapter 6.

Federal Student Aid Handbook: http://ifap.ed.gov/ifap/byAwardYear.jsp?type=fsahandbook

.260 WRITE-OFF OF UNCOLLECTIBLE ACCOUNTS RECEIVABLE

At the time of Write-off:

  o The receivable is no longer included in the general ledger and no longer reported as a receivable in the OUS financial statements.

  o The institution has stopped active collection efforts. Depending on the nature of the write-off, the receivable may still be sent to the Oregon Department of Revenue for offset.

  o The amount of the write-off is still tracked in the institution’s receivables accounting system to alert the institution to reinstate the receivable when a debtor requests services (e.g., transcripts and subsequent enrollment) in the future.
Required allowance for doubtful accounts for receivable accounts that are older than five years is part of the year end adjustment to the allowance for doubtful accounts. Specific accounts in Banner SIS are not written off as part of the adjustment.

Institutions shall develop a schedule that is used to support the write-off of accounts receivable items. The supporting schedule shall show written approval for write off.

- The schedule should include the following information:
  - Date
  - Institution
  - Fiscal Year
  - Name of Debtor
  - Amount Owed by Debtor
  - Acceptable Reason for Write-Off:

<table>
<thead>
<tr>
<th>Reason</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Assets in Foreseeable Future</td>
<td>The debtor does not and will not, for the foreseeable future, own nor have the right to own assets from which the debt could be collected.</td>
</tr>
<tr>
<td>Collection Costs Equal or Exceed Debt</td>
<td>It is reasonably estimated that cost of collecting the debt would equal or exceed amount owed.</td>
</tr>
<tr>
<td>Deceased Debtor and No Assets</td>
<td>The debtor is deceased, and there are no assets in the estate from which the debt could be collected.</td>
</tr>
<tr>
<td>Defunct Corporation</td>
<td>The debtor is a corporation which is not, and for the foreseeable future will not be, engaged in any income-producing activity or is no longer incorporated, and has no assets from which the debt could be collected.</td>
</tr>
<tr>
<td>Uncollectible in Foreseeable Future</td>
<td>The agency is and will be, for the foreseeable future, unable to collect the debt from the debtor or anyone owing the debtor or any assets of the debtor.</td>
</tr>
<tr>
<td>Bankruptcy</td>
<td>These debts have been discharged in a bankruptcy proceeding.</td>
</tr>
<tr>
<td>Exhausted efforts</td>
<td>Written evidence that all reasonable efforts have been made to collect the debt, such as collection notices and assignments.</td>
</tr>
<tr>
<td>Assigned to the U.S.</td>
<td>These debts are NDS/Perkins Loans.</td>
</tr>
</tbody>
</table>
.270 ACCOUNTING FOR RECEIVABLES

A. RECEIVABLES ACCOUNTING SYSTEMS

- Each institution administers its own receivables accounting systems. Institutions are required to use Banner SIS to account for their student tuition and fee receivables and are encouraged to use Banner SIS to account for all receivables. Use of one centralized receivable system results in customers receiving only one series of billings and statements, and the institution not having to administer and monitor multiple receivable systems. Each institution Vice President for Finance and Administration or designee must ensure that this fiscal policy is applied to all institution receivable systems.

- Each institution is responsible for creating manuals explaining how each receivable accounting system works, the processes for entering data and operating each accounting system, and the requirements for following data conventions.

- Institutions may contract out the accounting, billing, and cash receipting for different types of notes receivable. Each institution must ensure that the work of the contractor follows all OUS receivable policies and is in compliance with federal and state laws and regulations.

B. INTERNAL CONTROLS OVER RECEIVABLE ACCOUNTING SYSTEMS

- Each institution must have in place sufficient internal controls over all receivable accounting systems. Required internal controls include:
  
  - Restricting update access to the receivable records to receivable personnel.
  - Segregating duties to ensure that personnel updating the receivable records cannot also access cash receipts, request and process refunds or approve debt write-off. When adequate segregation of duties is not possible, ensure that compensating controls are in place and working.
  - Creating a series of receivable forms, ideally with a numbering series and use of pre-numbering to ensure that all receivable transactions are recorded and accounted for.
  - Having sufficient documentation to support all receivable transactions.
Performing ongoing (e.g., daily) reconciliations between the receivable subsidiary ledger and the control accounts in the general ledger. Frequent reconciliations are critical to detect out-of-balance conditions.

C. ACCOUNTING FOR BAD DEBT EXPENSE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

- To ensure that the net realizable value of receivables is fairly presented in the Statement of Net Position, OUS uses the accounts receivable estimation method. This method emphasizes the balance sheet and the asset/liability approach to measurement. The method uses historical data to estimate the percentage of current year accounts receivable expected to become uncollectible and reports accounts receivable at estimated net realizable value. An estimate of uncollectible accounts receivable, based on the four year historical collection experience for each institution, is recognized as Bad Debt expense at the end of each year. Using past experience, the percentage of outstanding receivables that will become uncollectible can be reasonably estimated. The direct write-off method, in which a receivable is written off only when it is clear that it cannot be collected, is not allowed (except for immaterial non SIS receivables as stated below) since it overstates assets and also results in a mismatching of revenues and expenses. Adjustments are based upon estimates and will never precisely predict ultimate results.

- An allowance for doubtful accounts is established for all accrued SIS receivables using the accounts receivable estimation method described in appendix .700. At a minimum the allowance should be recorded in Banner FIS by fund type level two as of June 30 of each year.

- An allowance for doubtful accounts is established for all non SIS receivables for which annual revenues in a single program exceed $250,000. The allowance must be estimated based on historical collections and monthly aging in 30, 60, 90, and over 120 day increments. See appendix .710 for example. At a minimum the allowance should be recorded in Banner FIS by fund type level two as of June 30 of each year.

- An allowance for doubtful accounts is established for all Notes Receivable.

- When a specific SIS, non SIS, or Note receivable account is determined to be uncollectible, the balance must be removed from the books by debiting the allowance account and crediting accounts receivable.

- Non SIS receivables for which annual revenues in a single program do not exceed $250,000 may use the direct write-off method or monthly aging method. The choice of method should be determined by the institutional business officer.

- Any exceptions to the above described methodologies must be approved by the Associate Vice Chancellor for Finance and Administration and Controller.
The estimated Bad Debt expense is calculated and reviewed annually. The calculation will be documented and forwarded to the Controller’s Division for review and to have available for the external auditors of the OUS financial statements. See appendix for accounting entries and methodologies for calculating Bad Debt expense.

.690 CONTACT INFORMATION

Direct questions about this policy to the following offices:

<table>
<thead>
<tr>
<th>Subject</th>
<th>Contact</th>
</tr>
</thead>
<tbody>
<tr>
<td>General questions from institution personnel</td>
<td>Institution Office of Business Affairs</td>
</tr>
<tr>
<td>General questions from institution central administration and Chancellor's Office personnel</td>
<td>Chancellor's Office Controller's Division, Accounting &amp; Reporting or Treasury Operations Sections</td>
</tr>
</tbody>
</table>

.695 HISTORY

06/26/13 Policy Approved

APPENDIX

.700 ACCOUNTS RECEIVABLE ESTIMATION METHOD

This method is used to estimate Bad Debt expense at the end of each fiscal year and estimates, based on historical data, the amount of accounts receivable attributed to the current fiscal year revenue that will not be collected in future periods.

The allowance template provided by the Controller’s Division should be used for this estimate. Professional judgment may be used to determine a collection rate that is different from the calculated collection rate in the template if there is adequate justification for the rate used. For example, an institution may change collection agencies and because of this change the past three years collection rates have increased or decreased and in their professional judgment, using a five year average to come up with the collection rate results in a more accurate estimate of the amount that will be collected. Under the accounts receivable estimation method, the following adjusting entry is needed at the end of the fiscal year.
Debit 28711 – Bad Debt Expense

Credit A39xx – Allowance for Doubtful Accounts

A write-off entry is recorded when all collection efforts by the institution have been exhausted and there will be no further collection efforts by the institution. The write-off entry affects neither income nor the net amount of accounts receivable outstanding. Instead, it is the culmination of the process that began with the adjusting entry to estimate bad debt expense. The write-off entry changes only the components of net accounts receivable, not the net amount itself and results in an accurate accounting of gross receivables.

Debit A39xx – Allowance for Doubtful Accounts

Credit – A3xxx – Accounts Receivable

When amounts are received on account after a write-off entry, the write-off entry is reversed to reinstate the receivable and then the cash collection is recorded.

Debit A3xxx – Accounts Receivable

Credit A39xx - Allowance for Doubtful Accounts

Debit A0901 – Cash (System automatic entry)

Credit A3xxx – Accounts Receivable

.710 AGING OF ACCOUNTS RECEIVABLE METHOD

The aging approach categorizes the individual receivables according to age and applies a historical collection loss percentage to each age category to determine the required ending allowance balance. This method may only be used for non SIS Receivables. The age categories are based on the extent to which accounts are past due. An account is past due if it is not collected by the end of the period specified in the credit terms, for example due within 30 days. A collection loss percentage, based on historical collection experience, is applied to each aging category.

Example:

<table>
<thead>
<tr>
<th>Account</th>
<th>30 days past due</th>
<th>60 days past due</th>
<th>90 days past due</th>
<th>120 days past due</th>
<th>Total past due</th>
</tr>
</thead>
<tbody>
<tr>
<td>12345</td>
<td>5,600</td>
<td>300</td>
<td>200</td>
<td></td>
<td>6,100</td>
</tr>
<tr>
<td>12346</td>
<td></td>
<td></td>
<td></td>
<td>750</td>
<td>750</td>
</tr>
<tr>
<td>12355</td>
<td>400</td>
<td>560</td>
<td></td>
<td></td>
<td>960</td>
</tr>
<tr>
<td>12390</td>
<td>780</td>
<td>200</td>
<td>980</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-------</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>6,380</td>
<td>900</td>
<td>760</td>
<td>750</td>
<td>8,790</td>
</tr>
<tr>
<td>Percent Uncollectible</td>
<td>.05%</td>
<td>.10%</td>
<td>.20%</td>
<td>.80%</td>
<td></td>
</tr>
<tr>
<td>Estimated Uncollectible</td>
<td>319</td>
<td>90</td>
<td>152</td>
<td>600</td>
<td>1,161</td>
</tr>
</tbody>
</table>

This is an example only, the percent uncollectible should be based on the collection history for the program. Accounting entries are the same as the Accounts Receivable Estimation Method above.

**.720 DIRECT WRITE OFF METHOD**

If uncollectible accounts are not probable or easily estimable, and the annual revenue amount in a single program is less than $250,000, no adjustment to receivables is made until specific accounts are considered uncollectible.

DIRECT WRITE OFF ENTRY:

Debit to 28711 – Bad Debt Expense

Credit to A3xxx – Accounts Receivable account in which the account is recorded

**.730 RECOMMENDED ACCOUNTING FOR INTEREST REVENUE**

Interest charged to delinquent receivable accounts is tracked separately in the Banner FIS Operating Ledger on account 05250 – Interest Income. In the General Ledger, the interest is recorded as an asset in the A3xxx account associated with the receivable, for example A3001- SIS Receivables.

- Because it is highly unlikely that interest charges on receivable accounts which are older than two years will be collected, these charges are not recorded as a revenue and receivable for financial statement and quarterly management reporting.

- Because there is a desire for some institutions to continue to add interest to accounts older than two years for billing purposes, there is a need for a process to track interest on these accounts so that the revenue and accounts receivable entries that flow through to Banner FIS can be eliminated for financial statement and quarterly management reporting and to track as a reconciling item between Banner SIS and FIS.

- In the event that interest added to accounts older than two years is eventually collected, there needs to be a method to track the interest revenue that was eliminated so that the revenue can be recorded when realized (collected).
**Recommended Accounting for interest revenue on SIS receivables**

Interest revenue on accounts less than two years old:

Debit to A3016 – SIS Interest Receivable

   Credit to 05250 – Interest Income

Interest revenue on accounts older than two years old:

Debit to A3017 – SIS Delinquent Interest Rec

   Credit to 05251 – Delinquent SIS Interest

Quarterly elimination of interest revenue and receivable:

Debit to 05251 – Delinquent SIS Interest

   Credit to A3017 – SIS Delinquent Interest Rec