

## AAM 45. ACCOUNTS RECEIVABLE

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<b>AAM 45.010</b>	<b>Credit Policy</b>
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Each agency is required to set specific credit policies for each activity managed by it for which credit is extended. Within the bounds of prudent credit practice, an endeavor will be made to find a suitable credit basis on which to deal with every person who desires to buy goods or services from the state. No citizen may be denied the right to purchase goods or services from the state until every means of dealing with him on a prudent basis, within the bounds of established credit policies, has been exhausted.

An agency may not sell goods or perform services on a credit basis without prior approval of the Department of Administration. Typically, the Department of Administration will authorize the extension of credit for the sale of a specified class of goods or services if it can be shown that:

1. The extension of credit is a generally accepted trade practice and,
2. The extension of credit will have a favorable impact on authorized state programs without financial loss.

In those cases where the Department of Administration has authorized the sale of goods or services on credit, an operating agency may authorize a line of credit up to a maximum of \$10,000. If a person or organization requires credit in excess of \$10,000, such credit may be extended only with the prior approval of the Department of Administration on a case-by-case basis. Mitigating circumstances should be explained in detail.

An agency may extend credit in excess of \$10,000 without prior approval of the Department of Administration if a maximum greater than that amount has been specifically set by statute.

**AAM 45.020    Collection Policy (07-01)**

It is the responsibility of each agency to maintain established credit limits and collection periods in order to minimize bad debt losses. In general, operating agencies should establish credit limits and collection periods consistent with trade practice for that type of receivable.

Operating agencies have all collection responsibilities. The Department of Administration has established the following collection policy for past due accounts:

1. Thirty days after original payment due date, a minimum of one follow-up billing should be sent to debtor.
2. Sixty days after original payment due date, another billing should be sent to debtor with a warning message, such as "This bill is overdue. Payment should be made immediately."
3. Ninety days after original payment due date, prepare a collection letter and send to debtor.
4. 120 to 180 days after original payment due date:
  - a. For all amounts, discontinue service and notify debtor by letter that service has been discontinued.
  - b. For amounts up to \$5000, the agency will continue attempting to collect the debt by all available means, including sending collection letters to debtor.
  - c. For amounts over \$5000, prepare billing and forward to the Attorney General with a request for his assistance to effect collection.
5. 180 days after original payment due date:
  - a. For amounts up to \$500, agency may write-off or proceed in attempting collection at its discretion.
  - b. For amounts from \$500 to \$5000, agency will continue attempting to collect or assign the account to a collection agency.
  - c. For amounts over \$5000, follow-up with the Attorney General on the status of the account.

Each credit-granting agency is required to prepare a statement of credit and collection policy for each activity for which credit is extended and to submit it to the Department of Administration, Division of Finance, for approval. These policy statements must be updated every five years and resubmitted to the Department of Administration, Division of Finance.

Each agency's statement of credit policy must be sufficiently clear so that it may be reduced to specific guidelines for day-to-day activity. Agency policy statements must include at least the following:

1. The specific services or goods being provided to the public for a fee; the statutory authority to provide such services; the general credit terms currently in use, including credit limits and required collection period; and general trade practice for the extension of credit for the services or goods.
2. General standards to determine if a credit risk should be accepted or rejected. Standards should be flexible enough to permit the exercise of some degree of judgment by agency management.
3. Specific standards to determine the type of credit risk for which a credit investigation will be made.
4. Identification of personnel by position title at each organizational level who may authorize credit and the maximum amount of credit they may authorize.
5. Method of collection for overdue accounts with specific justification for any deviation from the general collection policy established herein.
6. An explanation of agency reasoning behind the policy if the reasoning is not self-evident.
7. A delineation of the way in which the policy is communicated to agency staff charged with implementing it and to persons who apply for credit.

Credit and collection policy for goods or services for which credit is being extended for the first time must be filed and approved in advance. All amendments to an agency's credit and collection policy must be submitted to the Department of Administration for review and approved prior to the effective date of the change.

## **AAM 45.040    Accounts Receivable**

One of the more important assets of the state is its accounts receivable. As the state is a nonprofit service organization, accounts receivable represent, for the most part, money the state has already spent.

As a general rule, a receivable arises when the state has a valid claim against an individual or entity. The creation of a valid claim constitutes a signal to record a receivable. The purpose of accounts receivable procedures is to record and maintain accounts of claims against others for the future receipt of money.

Accounts receivable are required to be recorded in the financial system for all budgeted and unbudgeted revenues which are susceptible to accrual. Agencies record accounts receivable when they are billed.

Only revenues that are available and measurable are susceptible to accrual: They are "available" during the fiscal year if collections may be used to pay liabilities arising from expenditures of that period; they are "measurable" if the amount can be determined in advance of the time the revenues are to be collected. The available amount must be adjusted for uncollectibles or bad debts based upon either past experience or management judgment.

Control is a key factor in handling accounts receivable. Control of accounts receivable consists of determining amounts due from others, billing them, seeing to it that the bills are recorded and collecting the amounts billed.

Failure to properly control receivables, by the omission of any of the above, can cause financial problems for an agency. In addition, the state suffers a loss of interest on money that should be in the Treasury. Also, the longer a receivable is allowed to remain unpaid, the harder it becomes to collect.

## **AAM 45.050    Billing Timeliness**

The reasons for emphasizing timeliness should be obvious. A receivable is not going to be paid until a request for payment, a bill for collection or invoice, is presented. In addition, official state accounts cannot reflect transactions that have not been recorded or billed.

**AAM 45.060 Bill for Collection**

A bill for collection is the form used to invoice a debtor for amounts owed the state. Billing information is obtained from a review of contracts, work orders, accounting charges, project ledgers, etc. Each billing clerk should have a schedule showing the types of bills for which he is responsible, how supporting information is obtained, where and when it is first available, the monthly billing cycle or calendar and other matters pertinent to his responsibilities. All receivables must be billed and recorded as soon as possible after billing information is available. From the time that billing information is first available until a bill is prepared should normally be no longer than a week.

**AAM 45.070 Write-Off of Uncollectible Accounts Receivable (05-96)**

Under certain conditions, agencies may file applications with the Department of Administration for discharge from accountability for the collection of revenues and other money which is due and payable to the state. Such requests are routed through the agency's central fiscal office.

An application to the Department of Administration to write off receivables must include the names and addresses of the debtors, the age of the accounts, the nature of the amounts owed, the collection efforts that have been made, and any other matters pertinent to a full understanding of the application. After review, the Department of Administration will either approve an application or advise an agency of a course of action to follow.

Whenever an amount owed by a former employee is written off, a memorandum should be sent to Administration-Payroll to be placed in the employee's file. Additionally for such items, agencies will consult with the Division of Finance before preparing a document to record the write-off.

Authorization to write off an account receivable does not constitute a forgiveness of indebtedness. The debtor remains obligated to the state. Write-off authorizes an agency to:

1. Transfer an account to a dormant file.
2. Discontinue incurring the expense involved in actively trying to collect it.
3. Cease reporting the amount as an account receivable to the Department of Administration.

When an account is at least six months old, an agency may take the following action:

1. If the amount is less than \$500, it may advise the Department of Administration that the amount has been written off.
2. If the amount is from \$500 to \$5000, it may apply to the Department of Administration for approval of write-off.
3. If the amount is for more than \$5000, it may apply to the Department of Administration to write-off the account if the Attorney General concurs with this action.

A decision to write off an account receivable must be based on the following criteria:

1. The amount is uncollectible. This means that the debtor either cannot be located or does not have the ability to pay the amount owed.
2. The amount involved does not warrant the necessary collection expense. This means that legal and administrative expenses would be in excess of the amount owed.
3. The write-off will not prejudice the position of the state. This means that write-off must not act as a detriment to the state's rights or claims against this debtor or other debtors.

Before any write-off is made, an agency must check with the Department of Administration, Division of Finance, to see if it is possible to collect the amount due by offset against money owed by the state to the person or firm.