THE UNIVERSITY
*of* NORTH CAROLINA
*at* CHAPEL HILL

# 503.1rd - UNC FIT Procedural Guidance on Collection of Past Due Receivables and Write-Offs

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**Objective and Overview**

Pursuant to state statute, the Office of State Controller (OSC) is responsible for and has developed a statewide accounts receivable program. In addition, the UNC FIT program has incorporated related OSC and Office of Attorney General (OAG) accounts receivable requirements within the UNC FIT Standards. Based on state requirements and UNC FIT standards, management of each institution is responsible for developing and adopting specific policies and procedures to ensure proper management, collection and accounting for accounts receivable, as well as compliance with OSC and OAG requirements over collecting past due accounts, recording allowances for uncollectible accounts and authorizing write-offs.

The objective of this document is to provide procedural guidance related to the collection of and accounting for past due receivables and write-offs of uncollectible accounts. This document includes the following topics:

## A. Definitions for Current Versus Past Due Accounts

**Accounts in Current Collection Status** – Represents account balances from new charges that are within the time period that is allowed for payments due on provision or sales of goods or services to customers, and for repayment of loans or expense overpayments. Typically this is the latter of:

1. The due date of the initial invoice,
2. A grace period, as defined by management, from the due date of the initial invoice,
3. The date that the goods/services are provided or the date an overpayment is detected, or
4. An extended time period stated in a loan or contractual agreement (i.e. Perkins Loans, Technology Transfer, Contracts and Grants, service contracts, scheduled payment agreements, etc.), which may define the current time period.

**Accounts in Past Due Collection Status** – Represents account balances that are not in a current collection status as defined above. These accounts are considered delinquent and past due. Specific and timely collection action is required for these accounts in order to minimize the loss of revenue and expense write-offs. Institutions should define in their internal policies and procedures the definition of the past due collection status for each type of receivable, for example:

1. For student accounts, past due may be measured from the date of the last day of classes or the point when the student is no longer enrolled in the university and may be deferred through a legal agreement with the student such as an installment plan agreement or other legal agreement made by a guarantor to pay over a specified time period.

2. For non-student customer accounts, past due may be measured from the expiration of the current collection period noted on the invoice, contract, or other agreement. This may be deferred through a legal agreement with the customer such as an installment plan agreement or other legal agreement made by a guarantor to pay over a specified time period.

3. For student loans, past due is measured based on terms and conditions in the loan agreement. For long-term loans, generally the Perkins Loan Program regulations are used to identify when an account becomes due or past due. Short-term loans would also follow the terms and conditions of the loan agreement as to the due date and when the account is past due. The short-term loan period could be 30 days or less from the date of the loan.

4. For overpayments, past due may be measured from the expiration of the current collection period noted in the letter of collection sent to the payee and could be 30 days or less from the date of the letter. This may be deferred through a legal agreement with the employee or vendor such as an installment plan agreement or other legal agreement made by a guarantor to pay over a specified time period.

5. For contract and grant accounts, past due may be measured from the expiration of the current collection period noted on the invoice after written acceptance of the deliverable(s) associated with the underlying contract or grant agreement has been received.

## B. Procedures and Considerations for Collection of Past Due Accounts

1. While examples of the definition of accounts in a past due status by type of account is provided in section A “Definitions for Current Versus Past Due Accounts”, each institution should determine and include their specific definitions of past due accounts by type of account in the institution’s write-off policy and in the institution’s Cash Management Plan per guidelines established by OSC.

2. For those accounts determined to be past due, collections efforts will generally include the following procedures / activities or sequence of steps:

   a. Past due accounts of $10 or less do not require additional collection efforts per the most recent guidance from OAG. These accounts may be written off if authorized by management and the institution’s write-off policy. Justification for writing these accounts off is because it is not cost effective to pursue additional collection effort for these small amounts.

   b. Collection steps for accounts of more than $10 that are 1-30 days past due:

      i. Mail the first past due collection (dunning) letter

      ii. Make telephone contact with the debtor to verify receipt of letter and to discuss repayment arrangements, if necessary.

      iii. If a payment plan is established, mail a written confirmation of the repayment plan and promissory note to the debtor

      iv. If the account balance is protested, refer accounts to management and/or through the applicable campus appeals process

      v. If the account is determined to have legal issues, see the guidance that follows related to accounts with legal issues.

      vi. Make appropriate adjustments to the account for error correction, appeal decisions or legal advice.

      vii. Document all collection activity in the receivables system

      viii. If applicable, update the receivable system to activate the repayment plan once the signed promissory note is received from the debtor

ix. If the balance is not repaid or a repayment plan established within the first 30 days of being past due, move to the next steps in the collection process

c. Continue collection efforts for accounts that are 31-60 days past due:

i. Mail second and final past due collection (dunning) letter

ii. If a repayment plan is established during this period, mail a written confirmation of the repayment plan and promissory note to the debtor

iii. If the account balance is protested, refer accounts to management and/or through the applicable campus appeals process

iv. If the account is determined to have legal issues, see the guidance that follows related to accounts with legal issues

v. Make appropriate adjustments to the account for error correction, appeal decisions or legal advice

vi. Document all collection activity in the receivables system

vii. If applicable, update the receivable system to activate a repayment plan once the signed promissory note is received from the debtor

viii. If the balance remains unpaid or a repayment plan is not established, within 60 days being past due, move to the next steps in the collection process

d. After the dunning letter process is complete, past due accounts of more than $10 but less than $50 do not require additional collection procedures and may be written off if authorized by management and the institution's write off policy. Justification for writing these accounts off is because it is not cost effective to pursue additional collection effort for these small amounts.

e. Continue collection efforts for accounts of $50 or more that are 61 days or more past due:

i. If a repayment plan is in process, mail a written confirmation of the repayment plan and promissory note to the debtor

ii. If applicable, update the receivable system to activate a repayment plan once the signed promissory note is received from the debtor

iii. If the balance remains unpaid and a repayment plan is not established, determine if the account is due from a state government employee, state official or state legislator. If so, the account must be processed in accordance with OSBM, OSC and UNC-GA requirements for State Employee Debt Collection Act (SEDCA) collections. This action should be done at the same time as the account is sent to the OAG for collection purposes. See the reference section for links to specific procedures for debt owed to the state by state employees, officials or legislators and the UNC Policy Manual. Also see section D3e "Procedures and Considerations for Writing Off Uncollectible Amounts and the Funding of Write-offs" for more information regarding SEDCA as a pre-requisite collection procedure.

iv. If the balance remains unpaid and a repayment plan is not established, initiate a referral to the NCDOR for processing in accordance with the state's and UNC-GA requirements for Set-Off Debt Collection Act (SODCA) collections. For accounts that are not due from a state government employee, state official or state legislator, this action should be done at the same time as the account is sent to the OAG for collection purposes or when it is determined that accounts are not subject to SEDCA requirements. Accounts for which information is requested from OSBM for determining SEDCA requirements and for which a response is not received from OSBM after 30 days of submission may be submitted for SODCA collection. See the section B4 "Guidance on Receipt of Set-Off Debt Collection Act (SODCA) Collections" that follows for more details as to the state requirements on SODCA collections.

v. If the balance remains unpaid and a repayment plan is not established, initiate a referral to the Office of Attorney General (OAG) when the account becomes 60 days past due.

   1. For detailed procedures regarding submission of past-due accounts to the Office of Attorney General, please refer to the OAG's Collection Guidelines Manual.

   2. Follow the guidance advised by the Office of Attorney General as to additional collection efforts to be used including referral to collection agencies, beginning legal proceedings, and write-off of account balances.

   3. If guidance is not provided by the OAG within 90 days from the date of referral to the OAG, the institution may assign the account to an OAG authorized collection agency.

3. Accounts with Repayment Schedules – Accounts for which the customer/debtor has agreed to make specified repayments on an approved schedule as agreed to by management are not subject to additional past due collection efforts unless the scheduled repayment terms and conditions are not met as agreed upon and the account goes into default.

4. Guidance on Receipt of Set-Off Debt Collection Act (SODCA) Collections

   a. Amounts received from the North Carolina Department of Revenue in payment of delinquent accounts are required to be held in interest bearing accounts. Debtors must be notified in writing that the funds have been received to satisfy an outstanding debt within ten days of receipt of the funds. In this same notification, debtors must be notified of their right to a hearing to determine the validity of both the debt and the subsequent taking of tax refunds or lottery funds to satisfy the debt. Debtors have 30 days from the date of the notification letter to file a written appeal.

b. If the debtor does not file an appeal/request for a hearing, the funds can be claimed and applied to the debtor's past due account. If the debtor does file an appeal within the prescribed time frame, the funds remain in the holding trust fund account until after the hearing is held and a decision on the validity of the debt is rendered. The institution is required to notify the debtor of the date, time and place of the hearing. Hearing proceedings should be recorded as the hearing decision can be appealed to Superior Court. Institutions should be aware that only information presented at the hearing can be included in any additional court proceedings, so gather evidence for the hearing accordingly.

c. If the set off funds are received in error, or if the hearing process determines the fund should be refunded, or if the institution fails to meet the notification requirements, including the timing of the notification, the institution is required to return the amount collected, interest on the funds from the date the funds were received through the time the funds are expected to be received by the debtor, and the collection fee charged by the North Carolina Department of Revenue to the debtor.

5. Guidance on the Servicemembers Civil Relief Act

a. The Servicemembers Civil Relief Act "SCRA" (successor to the Soldiers and Sailors Relief Act) accords certain protections and rights to individuals who are either on active duty or recently retired from duty. The purpose of the Act is to allow the service members to perform their valuable duties without the worry of civil prosecution, foreclosure or eviction under most circumstances.

b. The Servicemembers Civil Relief Act Centralized Verification Service (SCRACVS) is available on-line and permits SCRA searches even if no social security number or date of birth of the individual is available. In addition, SCRACVS provides full tracking, covers recently retired personnel, and provides unequivocal responses.

c. If a debtor claims protection under SCRA and the institution determines that the debtor meets the qualifying criteria, the institution is prohibited from taking action against the debtor until such time as those qualifying criteria no longer exist. If funds are received through set-off debt collections, those funds should be returned to the debtor – along with interest and the state administrative fee.

6. Guidance on Referral to Collection Agencies

a. Past due accounts should be assigned to collection agencies as recommended and authorized by the OAG.

b. Collection agencies should be engaged as soon as possible after the recommendation from the OAG.

c. Accounts assigned to a collection agency should have already been sent to the OAG, NCDOR for SODCA processing, and to OSBM for processing of debt owed by state employees, officials or legislators (SEDCA). The accounts assigned to collection agencies should continue to be processed for state tax refunds.

7. Guidance on Accounts Having Legal Issues:

a. As it becomes apparent that collection of certain accounts will not be secured without legal assistance or that a compromise of the claim is justified, the account should be forwarded to university legal counsel for advice and recommendation as to the collectability of the account and management actions necessary to be taken. University legal counsel will consult with OAG as needed.

b. If the OAG or legal counsel recommends that the university cease collection effort due to the legal issues, or when management has sufficient evidence to determine appropriate action under the circumstances, write-offs may be authorized by management for the following:

i. Accounts outstanding beyond the statute of limitations. The statute of limitations for collecting on unsecured debt in the State of North Carolina is **generally three years**. The statute of limitations is longer for debt under seal – such as a promissory note (generally ten years). If a debtor claims a statute of limitation defense and the appropriate time frame has passed, the University must cease all collection efforts immediately **with the exception of set-off debt collections**.

ii. Accounts outstanding for which the debtor is in bankruptcy. (See additional guidance on bankruptcy proceedings)

iii. Accounts outstanding for which the debtor is deceased.

iv. Accounts outstanding for which the debtor is an organization or business that has ceased or terminated operations or has changed ownership.

v. Accounts for which the terms of the purchase/contract or delivery of goods/services are in dispute.

vi. Other legal issues that cause the collection of an account to be compromised or impaired.

c. Guidance on Bankruptcy Proceedings

i. Bankruptcy law provides for the development of a plan that allows a debtor, who is unable to pay creditors, to resolve debts through either a restructured repayment plan or a division of assets among creditors. After a bankruptcy proceeding is filed, creditors, for the most part, may not seek to collect their debts outside of the proceeding. An "automatic-stay" of collection efforts is affected and institutions are not allowed to take action against the debtor that would be construed as either active or passive collection efforts. For example, account holds (hold tags) are considered passive collection techniques and holds should be expired for as long as the debtor is under the protection of the bankruptcy court. Also, while the account is in an "automatic stay", the institution is not allowed to use the set-off debt collection procedures.

ii. If the Bankruptcy court discharges the debt, the institution will write off the account balance upon receipt of the discharge notification.

iii. If the Bankruptcy court does not discharge the debt, the Institution may resume all collection efforts upon receipt of the written notification from the court. Account holds (hold tags) should be placed on the students account and set-off debt collection procedures reengaged, as well as other collection procedures that were in place prior to the "automatic stay".

iv. Institutions should have a centralized method for tracking and monitoring bankruptcy activity. The institution as a whole is accountable for applying the automatic stay to affected debtors, regardless of who receives the notice or where the notice is mailed. Having a centralized method for tracking bankruptcies provides departments of an institution responsible for debt collections a resource for monitoring bankruptcy activity and for ensuring compliance with bankruptcy law.

## C. Procedures and Considerations for Determining the Allowance for Uncollectible Accounts

1. Institutions should document the procedures for determining the year-end allowance for uncollectible accounts. In accordance with GAAP, the accounts receivables reported at year end should be reduced by amounts estimated and determined by management to be uncollectible. For example, this could be done by obtaining the aging report and reviewing balances that are 90 days past due (could be more than 90 days past due depending on the institution's history of collections of past due accounts, discussion with the account receivable manager(s) and the accounting policy of the institution) and reducing that amount by collections estimated to be received on those accounts (for example, may use the current year SODCA and collection agency collections, or an average of SODCA and collection agency collections over the past several years, if deemed reasonable with the account receivable manager(s)).

2. The accounting entry for the allowance for uncollectible accounts would be a debit to the contra revenue account or bad debt expense (for expense overpayments or loans) by fund/account or purpose/functional code and a credit to the allowance for uncollectible account receivables (contra receivable account).

**D. Procedures and Considerations for Writing Off Uncollectible Amounts and the Funding of Write-offs**

1. Institutions should develop policy for management's authorization of write-offs. Consideration should be given to the type of account, dollar amount of the write-off and the appropriate segregation of duties as to the approval for write-offs and delegation of authority.

2. Accounts should be written off when all prerequisite collection procedures required by the state and the institution's written policy has been met.

3. The prerequisite collection procedures include:

   a. Outstanding account balances of $10 or less may be written off without additional collection procedures if approved by management and authorized in the institution's write-off policy.

   b. Collection (Dunning) Letters (on accounts that are 30 and 60 days past due) – must be sent on all past due accounts with balances due of more than $10.

   c. Outstanding past due account balances of more than $10 and less than $50 do not require additional collection procedures after the dunning letter process is complete and may be written off if approved by management and authorized in the institution's write-off policy.

   d. Outstanding past due accounts of $50 or more must be reported to the Office of Attorney General (OAG) for collection action on accounts that are 60 days past due. Must document compliance with this requirement before write-off of these accounts may be considered by management.

   e. Outstanding past due accounts of $50 or more for debt owed to the state by state employees, officials or legislators must be processed in accordance with OSBM, OSC and UNC-GA requirements for SEDCA collections. Unless the debtor works for the institution, the institution should send the list of past due debtors as prescribed by and to OSBM for identification of a debtor that meets the requirement.

      i. Once a state agency/institution is identified for garnishment and the appropriate legal documents filed with the employing state agency/institution, the garnishment will naturally take place. Those debtors not meeting the OSBM requirement and garnishments filed that are not satisfied must be processed for collection through the other prerequisites prior to write-off.

      ii. Institutions should consider using a matching program between the institution's student accounts file and the institution's human resource file to determine whether any of its employees have outstanding student account debt.

iii. In accordance with G.S. 143-553, all persons employed by the institution who owe money to the State and whose salaries are paid in whole or in part by State funds must make full restitution of the amount owed as a condition of continuing employment; provided, however, that no institution shall terminate employment of such an employee for failure to make full restitution of money owed to the University of North Carolina Health Care System or to East Carolina University's Division of Health Sciences for health care services.

iv. An employee of the institution who has elected in writing to allow not less than ten percent (10%) of his/her net disposable earnings to be periodically withheld for application towards a debt to the State is deemed to be repaying the money within a reasonable period of time and shall not have his/her employment terminated so long as he/she is consenting to repayment according to the written terms. Furthermore, the institution shall allow the employee who for some extraordinary reason is incapable of repaying the obligation to the State according to the written terms to continue employment as long as he/she is attempting repayment in good faith under the present financial circumstances but shall promptly terminate the employee's employment if he/she ceases to make payments or discontinues a good faith effort to make payments.

f. Outstanding past due accounts of $50 or more must be reported to the NCDOR for processing in accordance with the state's and UNC-GA requirements for SODCA collections. The institution may not write off accounts unless the account has been processed for collection through SODCA for one processing cycle (this processing cycle would include the maximum time for filing related tax returns and obtaining tax refunds – for extension tax filers this could be up to one year).

g. Outstanding past due accounts should be assigned to a collection agency as recommended by the OAG, or as determined by management when a 90 day period has elapsed from the date the claim was file with the OAG. Only collection agencies authorized by the OAG may be used for this purpose.

i. Except for federal sponsored loan programs, accounts assigned to collection agencies without collection activity within six months after the assignment that otherwise have met the prerequisite write-off requirements may be considered for write-off purposes.

ii. Except for federal sponsored loan programs, accounts determined by management to not be cost effective to pursue with collection agencies may be written off if there has been no activity on the account for twelve months and the account has otherwise met the prerequisite requirements for write-off purposes.

iii. Federal sponsored student loans should be written off and no longer considered a debt of the agency only when assigned to or authorized by the US Department of Education or other applicable federal agency. The write-off should be documented using the prescribed form required by the applicable federal agency.

4. The accounts written off and the authorization of the write-off must be documented by an institution and should include at a minimum the following information:

    a. The name of the account

    b. The account's unique id number (if available – however, should not use social security number)

    c. The type of account, if not obvious

    d. The dollar amount of the account to write-off

    e. Indication that prerequisite collection actions have been met

    f. Comments to explain the justification, if not evident, for the write-off

    g. Authorization signature and date

5. A write-off of an uncollectible account receivable does not remove the obligation of the debtor and is not discharged until authorized by law, the Office of Attorney General or collected.

6. Unless prohibited by law, accounts written off should continue to be submitted to the Department of Revenue for debt setoff proceedings.

7. Institutions are not required to obtain approval from the OAG to write off uncollectible accounts. However, OSC requires that the reasons for writing off an account and compliance with the institutions write-off policy must be adequately documented. This requirement should be included in the institution's Cash Management Plan, and documentation for write-offs must be readily available for audit purposes.

8. Interagency receivables write-offs

    Interagency receivables cannot be written off without the approval of the Office of State Controller. If an agency is unable to collect receivables from another state agency, the agency should contact OSC's Statewide Accounts Receivable Management Unit for assistance. The Controller has the authority to process the interagency transactions considered necessary under the circumstances.

9. Providing Services or Doing Business with Delinquent Debtors

    a. The Office of State Controller requires that institutions develop internal policies and procedures for delaying or withholding certain state services to persons who refuse to pay their debts to the institution. This policy should not conflict with the policies of any State-supported hospital and shall not be the basis for denying necessary mental health or medical assistance or other similar services deemed necessary under Federal or State laws to any individual.

b. For student accounts, the university should place a hold on the student's transcripts, diplomas, or class registration requests until collection has been received on past due accounts and those written off.

c. For non-student accounts with individuals, institutions may consider flagging past due accounts for which state regulations require certain state services to be delayed or withheld due to the refusal of a person to pay their accounts.

10. Funding of Write-offs

a. Write-offs that affect revenues should be funded by a charge back to the originating fund and revenue account. In the case of expense overpayments or loan receivables, the charge would be to a bad debt expense line item in the originating fund.

b. In cases where restricted funding is involved, the charge back would be to the restricted fund if allowed by its fund authority. Funds that have specified external requirements as to their use are considered restricted and limited as specified by its fund authority. Institutions should check the funding authorities of targeted funds before covering such write-offs. If write-offs are not allowed on the fund, the institution may use other funds, with the approval of management, that are unrestricted and sufficiently broad in scope/purpose to fund the write-off.

c. If the originating fund is insufficient to cover the write-off amount and creates negative cash or a negative fund balance amount, the institution may use other funds, with the approval of management, that are unrestricted and sufficiently broad in scope/purpose to fund the write-off.

d. If approved by management and allowed by the institution's spending rules/guidelines, F&A receipts may be considered available to fund contract and grant receivable write-offs.

e. Policy should be established to ensure that the funding for a write-off of receivables to a restricted fund or to a fund that causes negative cash or net asset balances is resolved by the appropriate level of management in a timely manner.

11. Accounting Requirements for Write-offs

a. OSC Procedures Required

i. Institutions should document their techniques for collection of past due accounts and write-off policy in the Institution's approved Cash Management Plan.

ii. For any uncollectible receivable of $50 or more that has been written off, a summary level record of the accounts sufficient to substantiate the debt is to be retained indefinitely or until the debt has been collected or discharged. For uncollectible receivables of less $50 that have been written off, such records must be retained for two years.

iii. A record of accounts written off must be maintained and reported to OSC on a periodic basis at their request.

iv. If an account is an indigent care account or a contractual adjustment, the account is no longer classified as a receivable/debt of the agency. Therefore, the procedures to account for uncollectible receivables do not apply. Agencies should adhere to applicable indigent care regulations.

b. OSBM Procedures for Write-Off of Student Receivables Reported on the BD701

i. Student accounts receivable charges for tuition revenues reported on the state budget reports may be written off in accordance with the requirements of OSC and OAG.

ii. The write-off adjustment for uncollected tuition charges would be recorded as a reduction to the tuition revenue account through the use of a contra revenue account (NCAS account number 435801) and offset to the amounts reported for change in receivable. When added together the tuition revenue line items and the change in receivable line item must equal the amount reported as cash received for tuition.

iii. OSBM approval is not required for this action but the institution must meet the requirements for collections and write-offs as stipulated by the OSC and OAG prior to the write-off.

c. General Ledger Entries

i. All write-offs of accounts receivable associated with revenues must be recorded as a reduction to the appropriate revenue line item and purpose (fund code) that benefited from the original revenue transaction. The write-offs should be made to these fund/accounts even though a negative balance may occur as a result of the entry. All negative asset and fund balances should be reviewed and appropriate and timely adjustments made to resolve the reporting issue.

ii. All write-offs of expense overpayment receivables and loan accounts receivable not associated with revenues must be recorded as an increase in bad debt expense to the appropriate purpose/function code where the loan or expense transaction originated. The write-offs should be made to these accounts even though a negative balance may occur as a result of the entry. All negative asset and fund balances should be reviewed and appropriate and timely adjustments made to resolve the reporting issue.

## E. Internal Control Policies and Procedures Relative to the Accounts Receivable Program

Significant to the accuracy of management's assertions and representations is the consideration and establishment of related internal control policies and procedures. The discussion that follows is specific to those internal controls that affect the accounts receivable program.

1. Management Oversight

   a. Management oversight and review of accounts receivable activities is important to ensure that the control procedures and information systems it has approved and established are adequate and that its intentions have been achieved. Management is responsible for the actions of its employees in meeting organizational goals as well as ensuring compliance with state and federal oversight requirements. Institutions should document the procedures in place that demonstrates management's oversight and monitoring of the accounts receivable processes. This could include but not be limited to:

      i. Meetings with supervisors and staff to discuss activities and issues related to collection of accounts.

      ii. Routine reporting to management of the aging of receivables and/or of accounts past due with discussion of reasons for significant areas of concern.

      iii. Routine reporting of the activity of accounts in current collection status as compared to expected performance.

      iv. Monitoring of actions taken on accounts in a past due collection status.

2. Written Guidelines and Procedures

   a. As required by UNC FIT and OSC, the institution must document its internal policies, procedures and guidelines for its accounts receivable activities. These are required to be reported to OSC in the institution's Cash Management Plan signed by the Chancellor and Chief Financial Officer and agreed to by the State Controller.

   b. The institution should establish a policy for the write-off of uncollectible accounts including the documentation required to justify the write-off and the assignment of responsibility to a management official for authorization of the write-off.

   c. OSC requires institutions to document the following items in their Cash Management Plan:

      i. Accounts receivable collection techniques, policies and procedures

      ii. Use of specific collection techniques (i.e. AGs office, collection agencies, payroll deduction)

iii. Past due account collection guidelines

iv. Collection of interest and late payment penalty fees

v. Use of debt setoff program

vi. Provision of State services to delinquent debtors

vii. Referral to the Office of Attorney General (OAG)

viii. Establishing an Allowance for Doubtful Accounts procedures

ix. Write off amount and policy for uncollectible accounts

3. Segregation of Duties and Training of Employees

   a. Important to any business process are the internal controls governing which employees perform duties, that the assigned duties are compatible with good internal control concepts, that the employees are qualified for the assigned duties, and that employees are properly trained to ensure the appropriate understanding of their assigned duties, including functional responsibilities and knowledge of associated compliance matters.

   b. The institution should document that the employees assigned duties related to the accounts receivable activities are properly segregated, and the employees are trained to understand their assigned process procedures and associated compliance matters. This could include but not be limited to:

      i. A matrix of roles and responsibility of employees assigned to the accounts receivable office including a review by management.

         1. Persons responsible for authorizing charges or adjustments should not also record those transactions

         2. Persons responsible for recording charges or making adjustments to the account should not be responsible for receiving and recording collections

         3. When segregation of duties is not practical, the matrix should include documentation of the compensating controls that reduce the associated risks and ensures management review and oversight over the accounts receivable program.

      ii. Meetings with supervisors and staff to discuss performance and activities.

      iii. Employee work plans.

      iv. Accessible procedure manuals or guidelines.

v. Certifications, acknowledgements or other written record of employee training for new assignments, new system changes or new compliance matters.

vi. Employees that handle accounts receivable or loan receivables should receive appropriate training regarding the prevention, detection and mitigation of identity theft including the compliance requirements of the "Gramm-Leach-Bliley Financial Modernization Act" (FTC 16 CFR Part 313 & 314), and the Identity Theft Red Flags Program Requirements (FTC 16 CFR Part 681).

4. Documentation of Actions

   a. Another important control item is the documentation of actions taken by management and employees, especially those that involve actions to authorize, process and record financial transactions.

   b. The institution should document management's requirements for documentation of actions related to account receivable actions that authorize, process and record transactions. In addition to documentation of items discussed above, this could include but not be limited to:

      i. Requirements for employees to document and initial adjustments or write-offs made to an account or that would effect a change in the account balance.

      ii. Management's documented review of those adjustments or write-offs.

      iii. Documentation of establishing accounts as well as the charging and crediting of accounts.

      iv. Documenting efforts to collect past due accounts.

5. Integrity of the Accounting System

   a. The integrity of the Accounting System is significant to the representation that management makes in the presentation of its financial information. Reliance of the system must be assured. Without reliable information from the system, the ability to justify the account balances and related financial information would be questioned and could result in major loss of revenue and reputation to the institution.

   b. The institution should document the procedures in place to ensure that the information system for accounts receivable is accurate and reliable. This could include but not be limited to:

      i. Reconciliations of account balances in the receivable system to the general ledger amounts.

      ii. Reconciliations of collections received and deposited to amounts recorded to the receivable system.

      iii. Procedures for ensuring appropriate access to system data to make changes to accounts.

6. Aging Reports

   a. Aging reports may be produced on a monthly basis and reconciled to the accounts receivable reports and general ledger. Differences must be addressed, reconciled and properly adjusted to ensure the reliability of the aging report review process. This includes aging reports produced by the various systems and used to support the quarterly aging report sent to and required by OSC. The institution may include the quarterly aging report prepared for OSC.

   b. The aging reports should be prepared in accordance with management's need for review of accounts and specific actions relative to the aging of the receivable.

      i. For the quarterly OSC report, the aging report should include the following time periods

         1. Accounts in a current collection status

         2. Accounts in a past due collection status

            a. 30 days past due

            b. 60 days past due

            c. 90 days past due

            d. Over 120 days past due

      ii. For management, the aging report could include the same time periods as required by the quarterly OSC report and/or others deem necessary to track the following collection events:

         1. Accounts in current collection status

         2. Accounts in a past due collection status

            a. Accounts to be sent for OAG collection effort

            b. Accounts to be sent for SODCA collection

            c. Accounts to be sent for state employee, officials or legislator collection effort (SEDCA)

            d. Accounts to be sent for external collection agencies collection effort

            e. Accounts to be considered for year-end allowance

            f. Accounts to be considered for write-off

   c. Management should obtain the aging reports and determine the trend of accounts as being current or past due. The past due accounts should be properly reviewed to determine the reasons they occurred and to take appropriate action to mitigate issues that can be avoided in the future. Management should also discuss with other offices the actions that are available or may need to be developed to reduce the occurrence of past due accounts or to improve collection performance.

d. Management is responsible for oversight of the collection of the accounts. The aging report provides management with data necessary to discuss and determine the actions that are needed or should have been taken regarding past due accounts as well as current collection results.

e. Institutions should document how management uses the aging reports and whether procedures are in place to assess both current and past due receivables, causes of past due receivables and action needed to remedy their occurrence.

7. Data Collection on the UNC FIT KPI Reports

   a. The data collection items reported on the Student Accounts and Contracts and Grants UNC FIT KPI monthly reports provide management information about the dollar volume of related accounts that are in a current or past due status. This information is used by the institution and the UNC system to examine and understand collections on accounts in a current status and the reasons for past due accounts, whether they are material and significant, and whether management is taking action necessary to address them.

   b. Institutions should document how management reviews and uses the data collection items reported in the UNC FIT KPI monthly reports and the subsequent actions taken by management to ensure necessary corrections or adjustments.

8. Contact with Debtors

   a. Contact with debtors is significant to the collection of current and past due amounts. This contact may be by e-mail, billings, letters, telephone discussions, etc.

   b. Institutions should document how the accounts receivable group communicates with the debtors when an account becomes past due and document the frequency of that communication.

   c. Institutions should document how the campus determines whether the addresses for debtors are current and, if not, the procedures used to obtain current addresses. This may include skip tracing techniques for billings returned undelivered.

9. Extension of Credit to Customers

   a. Institutions should review and determine whether their policies and procedures for extension of credit is appropriate and, if extended, that the collection of data from the customer is sufficient to ensure collection of outstanding account balances. For non-student accounts, the institution should consider obtaining the customer's taxpayer identification to ensure set-off debt collection procedures and to assist in skip tracing if necessary to collect unpaid accounts. All taxpayer identifications obtained must be maintained in a secure environment and made available only to appropriate business personnel.

b. Customer accounts with extended credit may be subject to the Federal Trade Commission's Red Flag Program requirements, and the employees that handle those accounts should receive training that is recommended and/or offered by the Institution's Red Flag Program.

## F. References

Office of State Controller – Accounts Receivable Policies - http://www.ncosc.net/sigdocs/sig_docs/documentation/policies_procedures/sigAccounts_Receivable00001212.html

Office of State Controller – Central Compliance – Cash Management Plan Template and Tutorial - http://www.ncosc.net/forms_policies/central_compliance_forms.html

NC General Statutes – Chapter 147, Article 6B – Statewide Accounts Receivable Program - http://www.ncleg.net/EnactedLegislation/Statutes/HTML/ByArticle/Chapter_147/Article_6B.html

NC General Statutes – Chapter 105A, Article 1 - State Debt Offset Collection Act (SODCA) - http://www.ncleg.net/EnactedLegislation/Statutes/HTML/ByArticle/Chapter_105A/Article_1.html

NC General Statutes - Chapter 143, Article 60 – Debt Owed to the State by State Employees, Officials and Legislators- http://www.ncleg.net/EnactedLegislation/Statutes/HTML/ByArticle/Chapter_143/Article_60.html

UNC Policy Manual – Chapter 600.4 – Debt Collection (SODCA and Debt Owed to the State by State Employees, Officials and Legislators Guidelines) - http://www.northcarolina.edu/policy/index.php

State Budget Manual – Section 3.15.3 – Student Accounts Receivable, Section 4.6.1-4 – Debt Owed to State by State Employees and certain Local Educational Entity Employees, Officials or Legislators, and Section 6.6.5 – SODCA Requirements - http://www.osbm.state.nc.us/files/pdf_files/BudgetManual.pdf

US Bankruptcy Code and Rules - http://www.legalpub.com/_images/sample-pages/2012-United-States-Bankruptcy-Code-and-Rules-Booklet.pdf

Servicemembers Civil Relief Act - http://www.justice.gov/crt/spec_topics/military/scra.php

NC State University's Website on Identity Theft and Red Flags Requirements- http://www.fis.ncsu.edu/controller/RedFlag/default.asp

## G. Attachments

The following attachments provide examples of a write-off policy and authorization form that may be used by institutions. In addition, a chart of prerequisite collection efforts is provided as a visual tool to assist in the understanding of those requirements.

The example policy and write-off form are examples only and should be revised by each institution, as considered necessary, to meet their unique needs and management structure. For example, the designation as to who approves a write-off may be different from one institution to another and each institution should modify the example policy to address these differences. In the example policy we use dollar thresholds and major functional management areas to provide for the write-off authorization, this may be more or less consolidated at a particular institution and therefore the policy would need to be adjusted to meet the desired management controls for a particular institution.

1. Sample Institution - Collection of Past Due Receivables and Write-Off Policy
2. Sample Institution – Write-Off Authorization Form
3. Chart of Prerequisite Collection Effort Prior to Write-Off of an Account