

**Office of Budget and Finance**  
**Accounts Receivable Procedures**  
**For Departmental Income (Sales and Service) Accounts**

**Summary**

Many departments are authorized to provide goods or services to customers, including University employees and students. In order to effect early conversion of receivables to cash and minimize credit losses, departments must maintain a diligent program for managing receivables. Per [FI0305](#), accounts receivable represent debt owed to the University for goods or services that the University has sold or provided to customers. These short-term debts are generally expected to be repaid within 30 days with no interest charge. Departments should have written accounts receivable procedures in place to document their internal process of making credit sales. This procedure document explains the core accounts receivable functions including:

- 1) departmental maintenance and physical security of records,
- 2) internal control,
- 3) granting credit,
- 4) billing the customer,
- 5) returned checks and dishonored credit card transactions,
- 6) collections,
- 7) collection agencies,
- 8) allowance for doubtful accounts reserve, and
- 9) write-off procedures.

**Departmental Maintenance and Physical Security of Records**

Per [FI0305](#), departments that regularly have outstanding accounts receivable must keep adequate documentation, which includes individual account balances for recording customer payments as well as credit sales and a control balance. If departments believe they have accounts receivable and have never formally recorded these accounts on the university's records, they should contact the Office of Budget and Finance immediately for assistance.

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 the University's Records Management Policy [FI0120](#). Even though records retention standards may allow destroying of paper documents and related electronic records after a certain period of time, departments 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 collection efforts, 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 department should print and file this information for use.

Invoices should be pre-numbered and all numbers accounted for periodically. Invoices will be filed in the departmental business office and must be available for review by auditors. Invoices associated with inter-departmental charges should be attached as support in IRIS. Additionally, payments applied to individual account balances should be documented with pre-numbered receipts.

An aging of all accounts and a review of past due accounts should be performed periodically (at least quarterly) and should reflect the results of billing and follow-up collection activity. The department should ensure that individual account balances are reconciled to the control account balance periodically. The department head (or other supervisor) should review outstanding balances and the aged analysis on a routine basis (at least quarterly). 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 "[Year-End Manual](#)" for more information on reporting June 30 accounts receivable.

### **Internal Control**

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. An employee who prepares the invoices or records payments should not handle payments received from customers at any point in the process.
3. Recording of cash and other collections (check and credit card, for example). An employee who does not handle cash receipts should approve payment of credit balances and credit adjustments to the account balance.
4. Approval of write-off requests. Per fiscal policy, write-off requests should be approved by the department head. If the department head is directly involved in recording and collecting accounts receivable, his or her supervisor should approve these write-offs.
5. Disputed charges. A supervisor or someone other than the employee who receives/posts payments should handle disputed charges.
6. Collection follow-up. Collection activity should not be performed by an employee who prepares the billing or record payments.

### **Granting Credit**

Credit may be granted to those receiving the departmental sale or service including the general public, students, faculty and staff. Diligence must be exercised to ensure timely billing and collection efforts and to minimize uncollectible receivables.

Departments granting credit should take the necessary steps to evaluate the ability of the customer to pay. This may include a formal application process. Additionally, the responsibility for collecting accounts receivable is usually left to the department that provided the goods or services.

### **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 ensure 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.

At each fiscal year-end, departments will need to report June 30 AR balances to the Office of Budget and Finance as outlined in the [Year-End Procedures Manual](#).

### **Returned Checks and Dishonored Credit Card Transactions**

Previously deposited checks that are being returned from the bank or notice of dishonored credit card transactions that are being returned from the credit card processor as uncollectible are automatically charged by the Bursar's Office to an accounts receivable returned check fund. Departments must maintain a detailed record of returned checks and dishonored credit card transactions at all times. Departments are also responsible for collection of these returned items.

When collections are received for returned items, an official receipt must be written if the item is redeemed in person. Such funds should then be credited to the returned check accounts receivable fund that was charged by the Bursar's Office.

When collection is made for returned checks or dishonored credit card transactions, a \$10.00 minimum service charge should be assessed and included in the receipt. The state maximum for this fee is \$30.00. Service charges should be credited to an appropriate income account when deposited.

Monthly, departments must reconcile the returned items on hand to the amount shown in the returned check accounts receivable fund. A sample reconciliation sheet can be found [here](#). Uncollectible returned items should be written-off.

### **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. Departments must maintain an aging schedule in the format provided in [FI0305](#). Routine collection procedures should be documented in writing to guide employees involved in collection efforts.

Regular billing should be made to all customers on account according to an established schedule. 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 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. To avoid additional losses and to exercise due diligence in collection efforts, services should be discontinued for delinquent customers.

The following chart provides guidelines for minimum collection efforts on past due accounts receivable:

UTK DEPARTMENT							
MINIMUM COLLECTION EFFORTS							
AMOUNTS DUE FROM STUDENTS, EMPLOYEES AND THE GENERAL PUBLIC							
ACTIONS REQUIRED TO BE TAKEN BY DOLLAR AMOUNT							
Activity	2nd Billing (Copy of Original Invoice)	3rd Billing (Past Due Stamp)*	4th Notice*	5th Notice (Statement of intent to seek legal collections)**	Final Notice Payable in 10 days or sent to collections*	Review by General Counsel	Referral to Collection Agency
Days since Payment Due	30 day	60 days	90 days	120 days	150 days	(prior to collection agency referral)	after 180 days
Amount of Bill:							
Up to \$50	X	X					
Over \$50-\$9999	X	X	X	X	X		X
\$10k-\$25k**	X	X	X	X	X	Optional	X
Above \$25k***	X	X	X	X	X	Required	X

\*In addition to invoicing and other collection correspondence, phone calls should also be a part of the department's collection efforts. To collect delinquent debts from active UT employees, see [HR0515](#) and contact the Office of Budget & Finance. The Bursar should be contacted to collect Banner-related past due amounts and to place holds on students with delinquent accounts. **DOCUMENT ALL COLLECTION EFFORTS UNTIL THE RECEIVABLE IS RESOLVED. RETAIN ALL DOCUMENTATION OF COLLECTION EFFORTS.**

\*\*In the department's discretion, accounts with balances between \$10,000-\$25,000 can be sent to the General Counsel's Office **before** being referred to an external collection agency.

\*\*\*Delinquent amounts totaling \$25,000 or more are sent to the General Counsel's Office for review and determination of whether the University should pursue a legal action to recover the debt, **before** the account is turned over to an external collection agency.

### Collections – UT Student Delinquent Debt

When UT students have past due accounts, holds should be placed on the release of student grades and records when allowable. Contact the Bursar's Office for more information on student holds.

### Collections – Active UT Employee Delinquent Debt

Delinquent amounts owed by active UT employees should be pursued pursuant to [HR0515](#). Contact the Bursar's Office for collection of Banner related debts owed by current employees. Departments should contact the Office of Budget and Finance for assistance in collecting non-Banner related debts owed by active employees. Upon receipt of proof from the department that a current employee is overdue on a debt, written notice will be given to the employee from the appropriate campus office (Bursar or Budget & Finance) specifying the amount outstanding and outlining the options to resolve the past due account. If no response from the employee is received within 15 days of which the written notice of debt was sent, a payroll deduction will be made from each subsequent paycheck until the debt is paid in full. Outstanding employee debts owed to the University at termination of employment should be collected via the HR Exiting Process.

**Departments should consult with the appropriate campus office (Bursar or Budget & Finance) prior to placing debts owed by active UT employees with a collection agency or writing off those debts on Form T-35.**

### Collection Agencies

The collection of receivables is primarily a responsibility of the department. In general, unless

there has been evidence of good faith intention to pay, accounts \$50 or more which are at least six (6) months past due should be referred to collection. It may not always be cost effective to refer all accounts \$50 or more for external collection (see **Collections** section above if debt is owed by UT student or employee). In order to maximize collection effectiveness once it is determined that assignment to a collection agency is needed, accounts should be referred as soon as internal collection efforts are exhausted. A list of available [collection agencies](#) can be found on the Bursar's website under Department Info. 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.

Delinquent accounts totaling \$25,000 or more should be sent to the General Counsel's office for review and determination of whether the university should pursue legal action to recover the debt, **before** the account is turned over to an external collection agency.

### **Allowance for Doubtful Accounts Reserve**

Accounting entries to establish the reserve for uncollectible accounts (Allowance for Doubtful Accounts – ADA) will be made by the Office of Budget and Finance. Per [FI0305](#), there are three acceptable methods to determine the ADA reserve:

- a. *Aging of Accounts Receivable* – individual customer account balances are categorized according to the length of time they have been outstanding. The department estimates the relative un-collectability for each category based on past experience. The estimated uncollectible amounts in each category are totaled to determine the total allowance. Most departments use this method to calculate the reserve amount.
- b. *Percentage of Accounts Receivable* – a percentage of the ending accounts receivable balance is used to estimate the allowance for uncollectible accounts. Excellent historical records must be maintained to justify the percentage used.
- c. *Percentage of Sales* – a percentage of credit sales for the year is assumed to be uncollectible. The department is estimating bad debt expense based on previous years rather than the amount of the allowance as in the two methods above.

Contact the Office of Budget and Finance if you need assistance in selecting an appropriate ADA method. Most departments use the Aging of Accounts Receivables to calculate the ADA.

### **Write-Off Procedures**

When an account is deemed uncollectible, the write-off of the debt should be performed in a timely fashion. Uncollectible accounts should not be recorded on the university's accounting records as an asset.

To request a write-off, [Form T-35](#) is completed and approved by the department and submitted to the Office of Budget and Finance for review and approval. A list showing at least the customer name, invoice number and amount owed should be attached as support. If a returned check is being written-off, attach the original returned check to the [Form T-35](#) as support.

Once approved by the Office of Budget and Finance, the [Form T-35](#) is submitted to the Controller's Office for processing. The entry to write-off uncollectible accounts is made by the Controller's Office. For financial reporting purposes, bad debts are treated as contra-revenue rather than as expense. This treatment effectively reduces revenue for debts that are not probable for collection. If an ADA has been established, the write-off will post against the reserve

balance. Otherwise, the write-off will be charged against the income account recorded by the department on the [Form T-35](#). After the entry posts to IRIS, departments will need to make entries on their internal accounts receivable records to show the write-offs.

Examples of activity that can be written off are:

- Accounts returned by a collection agency as uncollectible.
- Bankruptcy of the debtor has been legally declared.
- Accounts over three years' old that have been billed regularly.
- Accounts under \$50.00 and over six months old and either returned for incorrect address or billed at least three times.
- Accounts owed by companies no longer in business.
- Judgments over six months old.
- Residual amounts under \$2.00 (debit) of any age, regardless of whether from a student who is currently enrolled.
- Credit balances to report as unclaimed property.

FI0305 details special instructions for write-off of the following type of receivables:

- Student debt including government-sponsored or university-sponsored student loans
- Bankruptcies
- Receivables of hospitals and healthcare facilities
- Parking citations
- Donor returned checks

Departments should review FI0305 and comply with requirements regarding these bad debts.