Department of Finance and Administration – Policy 23
Accounts Receivable – Recording, Collection, and Write-Offs
(Revised March 2007)

Introduction and Background

1. This Policy Statement 23 has been developed to provide guidance to State agencies for the recording, collection, management, and writing-off of accounts receivable. An account receivable represents an amount due to the State for goods or services that the State has provided to a customer. Customers typically include citizens, businesses, not-for-profit entities, and other government agencies. This policy also applies to notes and loans receivable, as well as returned check items.

Applicability and Effective Date

2. This policy statement is issued by the Department of Finance and Administration in accordance with the authority granted under T.C.A. 4-3-1007, and is effective sixty days after approval. The Department of Finance and Administration has established additional implementation procedures for this policy statement. Any applicable federal grant requirements regarding the collection of receivables supersede the requirements of this policy statement. Institutions of the University of Tennessee and the Tennessee Board of Regents are excluded from this policy statement

General Rule

3. State agencies are required to identify, record, and collect all amounts due to the state where goods or services have been provided and payment is due. State agencies will make a reasonable effort to collect all receivables on a systematic and periodic basis as presented in the guidelines in Section 5 of this policy statement and to pursue the remedies listed in Chapter 0620-1-10 Procedures for Returned Checks. State agencies will assess the handling charge against the maker or drawer of a check, warrant, or order which is not paid due to insufficient or no funds as authorized by T.C.A. 47-29-102.

   Where appropriate, an allowance for estimated uncollectible accounts will be established by the agency based on past history. All accounts receivable should be aged on a monthly basis. The amount of the receivable should determine the extent of the collection effort in accordance with the guidelines in this policy statement.

Treatment of Returned Checks

4. Rules of the Department of Finance and Administration Chapter 0620-1-10 "Procedures for Returned Checks" have been established to ensure recovery of the State's costs associated with checks that are deposited to a state account and that are

subsequently returned unpaid by the drawer's bank, and to ensure that State government pursues all available recourses and remedies on such returned items. The remedies in the Procedures for Returned Checks" include requiring departments and agencies to assess the handling charge authorized by T.C.A. 47-29-102.

The State Treasury Department redeposits all returned checks in the bank a second time; many checks clear during this process. Once identified as a returned check, collection becomes the responsibility of the state agency or department.

Recording of Receivables

5. Agencies are responsible for identifying, controlling, and tracking accounts receivable information to enable proper recording of receivables in the accounting records and subsequent reflection in the State's financial statements.

   Returned check items will be recorded in the returned check clearing account, based on guidelines established by the Division of Accounts in conjunction with the Department of Treasury.

   Some accounts receivable may prove to be uncollectible. In consultation with the Division of Accounts, each department should review its ability to collect receivables, and on that basis determine the need for an allowance for uncollectible accounts.

Collection of Receivables

6. The outstanding balance of each receivable should determine the extent of the collection effort. Reasonableness should be used in determining the effort expended in attempting to collect amounts less than $500.00. In some situations collection may be likely because the department has control over licensing authority, a regular customer owes the debt, or a state employee owes the debt. In those situations it may be worthwhile to make several collection attempts for smaller debts.

   Prompt collection efforts are generally more effective. Therefore, state agencies should establish collection procedures that accommodate their business situation and collection capability. Collection efforts would include collection letters, phone calls, and collection agency services. All collection efforts should be clearly documented.

Use of Collection Agency

7. State agencies and departments should use the state's collection agency based on guidelines established by the Division of Accounts.

Utilization of Offset Measures

8. Once a debt is deemed uncollectible, agencies should ensure that reasonable offset measures have been employed to minimize the loss to the state. Agencies should consult with the Division of Accounts where applicable to determine if the party in default is receiving any state funds that could be used to satisfy the receivable claim.

Write-off of Accounts Receivable

9. If a receivable proves to be uncollectible based on collection efforts described in this Policy Statement, department heads are responsible for ensuring that these accounts be written off. Departments should follow the Official Rule of the Department of Finance & Administration, Chapter 0620-1-9 "Policy and Procedures Governing Write-Off of Accounts Receivable". Write-off requests should be submitted with supporting material to the Division of Accounts for review and approval.

Exceptions

10. Exceptions to this policy must be approved by the Chief of Accounts, Department of Finance and Administration.

Approval of the Commissioner of Finance and Administration

I, M. D. Goetz, hereby approve of this Policy Statement 23 of the Department of Finance and Administration, and authorize actions necessary to implement its requirements.

Signed_____ Date 3/14/07

M.D. Goetz, Commissioner
Department of Finance & Administration

Approval of the Comptroller of the Treasury

I, John G. Morgan, hereby approve of this Policy Statement 23 of the Department of Finance and Administration, and authorize actions necessary to implement its requirements.

Signed_____ Date 3/19/07

John Morgan, Comptroller
Office of the Comptroller of the Treasury