Objective

Departments shall devise and implement techniques and procedures to properly account for, record, manage, and collect receivables. Departments must take appropriate and cost effective actions to aggressively collect accounts receivable.

Risks

- Liquid asset (i.e. convertible to cash) subject to theft or misappropriation
- Lost or misstated receivables and revenue due to inadequate procedures
- Impaired cash-flow due to delays in billing or collection
- Loss of interest revenue

Definition

Accounts Receivable:

An asset of the State reflecting an amount owed to a department that has not been received; may include amounts due from individuals, private entities, the federal government, local governments and municipalities, and other state departments and organizations. Receivables may include amounts due for delivered goods and services, reimbursement of expenditures (e.g. costs incurred under grants or contracts), taxes, fees, fines, loans, and other miscellaneous circumstances where the State has rights to funds that have not yet been received.

Recognition of Receivables:

Recognize and report receivables in accordance with generally accepted accounting principles (GAAP). As a general rule, the recognition of receivables is tied to the recognition of revenue. If payment is not received when the revenue recognition occurs (i.e. revenue is earned), then a receivable should be recorded.

(Due to the diversity of state government activities, please contact the Dept. of Finance and Management’s Statewide Reporting section for specific questions about whether a receivable and/or revenue should be recognized.)
Best Practices Include

- Written procedures exist for all accounts receivable and collection activities. Procedures should address preparing bills, recording receivables in the detail accounts receivable records, collecting the accounts, recording payments, adjustments to receivables, and follow-up of delinquent accounts. [Documentation]

- The responsibilities for maintaining detail accounts receivable records are segregated from collections and general ledger posting (if practicable). [Separation of Duties]

- Maintain an accurate record of receivables transactions; automated systems should be utilized (e.g. VISION) where practical to facilitate processing and reconciliation. [Documentation & Safeguarding of Assets]

- Receivables, collections, and revenues are properly accumulated, classified, and summarized in the accounting records. [Documentation & Reporting]

- Monthly reconciliation of the detail accounts receivable module to the accounts receivable control account in the general ledger. [Reconciliation]

- Procedures ensure the billing and collection of all receivables is performed promptly as part of an effective cash management program; use measurable goals and standards to monitor collection performance. [Safeguarding of Assets & Monitoring]

- Billings are generated and sent to customers at least monthly; payment terms should be indicated on the bill. [Documentation & Verification]

- In a de-centralized environment, procedures provide for timely notification to the business office of billing and collection activities. [Monitoring & Supervision, Reconciliation]

- Charges for goods, services, fees, etc. are based on approved rates as authorized by the appropriate State/Federal authorities (where applicable) and include the accrual of interest, penalties, and surcharges as allowed, or required, by law. [Authorization / Compliance]

- Collections on accounts receivable are deposited in a timely manner (i.e. daily when greater than $500), rather than being held for posting to detail accounts receivable records. [Safeguarding of Assets]
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- Posting to the detail accounts receivable records is only from authorized source documents. [Verification]

- Periodically customer statements are issued which show the status of the customer’s account and activity, including outstanding unpaid invoices and recent payments. [Verification & Safeguarding of Assets]

- Maintain adequate control over the issuance of customer statements to prevent interception before mailing. [Separation of Duties & Safeguarding of Assets]

- Active efforts must be made to collect on accounts that are past due; document actions taken to collect on delinquent accounts. [Safeguarding of Assets & Documentation]

- Write-offs or other reductions of receivables (where allowable) are approved by a manager not involved in the accounts receivable recording or collection functions. [Authorization & Separation of Duties]

- A report of all non-cash adjustments to accounts receivable is produced and reviewed monthly by a responsible manager. [Monitoring]

- Accounts receivable are recorded in a manner to permit an analysis of the aging of such receivables (e.g. <30 days, 30-60 days, etc.). [Reconciliation & Reporting]

- An aging of accounts receivable is prepared monthly and is reviewed by a responsible manager. [Supervision & Monitoring]

- A responsible manager reviews credit balances before a refund check is issued. [Authorization & Separation of Duties]

- Provide realistic estimates of, and properly account for, doubtful or uncollectible accounts (where appropriate); document the methodology used for estimation. [Reporting & Documentation]

- Comply with reporting requirements for receivables by completing the *ACFR-1 Accounts Receivable Form* as instructed in the *VISION Year End Closing Instructions* document. [Reporting]

- Upon suspicion of fraud or theft, immediately notify the appropriate personnel (i.e. management, State Auditor’s Office, law enforcement). [Safeguarding of Assets]
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**Notices**

- These best practices are intended to support the internal control framework as presented in the *Internal Control Standards: A Guide for Managers 2.0b*.
- In consideration of these best practices, the objective should be on adherence and not on rationalizing ways and means for circumvention.
- Nothing in this document shall limit or supersede any applicable Federal or State laws, statutes, bulletins, or regulations.