

System-wide Policy: FI0305 - Accounts Receivable	
Version: 11	Effective Date: 05/08/2018

FI0305 – Accounts Receivable

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Objective:

To provide policies and procedures on recording, collecting, and writing off accounts receivable and returned checks.

Policy:

Documentation for Accounts Receivable

1. Accounts receivable represent debts owed to the university for goods or services that the university has sold or provided to its customers, including employees. Departments that regularly have outstanding accounts receivable must keep adequate documentation, which includes individual account balances and a control balance for

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recording customer payments as well as credit sales. If departments believe they have accounts receivable and have never formally recorded these accounts on the university's records, they should contact the appropriate campus business office for instructions. All departments with accounts receivable should register their accounts receivable activity with the campus or unit chief business officer. Any new receivable operations should also register with the campus or unit chief business officer.

Internal Control

2. To promote the accuracy of the department's and the university's accounts receivable records and to discourage fraudulent manipulation of the accounting records, departments should incorporate the following internal control measures for accounts receivable:
 - An aging of all accounts and a review of past due accounts should be performed periodically.
 - An employee other than the employee who receives payments should handle items disputed by customers.
 - A reconciliation of individual account balances to the control balance should be performed periodically.
 - Invoices should be prenumbered and all numbers accounted for periodically.
 - An employee who does not handle cash receipts should approve payment of credit balances and credit adjustments to the account balance.
 - A diligent effort should be made to collect all outstanding accounts (see **3** below).
 - Regular billings should be made to all customers on account.
 - Where possible, the duties of the accounts receivable specialist and the employee who receives payment should be separated.
 - Accounts receivable write-offs should be approved by an employee who does not handle cash receipts.
 - Routine collection procedures should be documented in writing.

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Billing and Collection Efforts

3. Departments must ensure that due diligence in collection efforts has been exercised.

Due diligence is satisfied when:

- Statements or invoices are mailed monthly. Students are billed at the end of the term, then monthly if necessary.
- Special reminders or collection letters are mailed for all past due accounts.
- Services are discontinued for delinquent customers, and holds are placed on the release of student grades and records and on the registration for course work.
- Exceptions to this policy may be granted by the CBO or their designee when students provide proof of the ability to settle the debt in a timely manner or special circumstances warrant the exception.
- Accounts past due for more than six months and totaling up to \$25,000 are referred to an external collection agency. 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. The University has contracts with collection agencies, a list of which is available at <https://bursar.utk.edu/deptinfo/collection-agencies/>. Departments should contact the [Controller's Office](#) for instructions on recording the agency's fee. The Treasurer, in conjunction with the campus/unit chief business officer, may waive the use of a collection agency on a department by department basis. Justification for not using a collection agency must appear on the write-off request (see 15 below).

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.

Allowance for Doubtful Accounts

4. Because some accounts receivable may prove to be uncollectible, each department is responsible for determining an appropriate amount as an allowance for those accounts

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considered to be uncollectible each June 30th. The department should establish an allowance for doubtful accounts (ADA account) to reflect the **estimated** uncollectible accounts. This allowance will be used to reduce the total amount of accounts receivable on university financial statements. Several methods are used for estimating the amount of uncollectible accounts receivable to be recorded as an allowance for doubtful accounts. Three acceptable methods are:

- a. **Aging of Accounts Receivable.** When using an aging of accounts receivable, individual customer account balances are categorized according to the length of time they have been outstanding (see **5** below). 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.
- b. **Percentage of Accounts Receivable.** This method uses a percentage of the ending accounts receivable balance to estimate the allowance for uncollectible accounts. However, excellent historical records must be maintained to justify the percentage used.
- c. **Percentage of Sales.** When using this method, a percentage of credit sales for the year is assumed to be uncollectible. The department is therefore estimating bad debt expense based on previous years rather than the amount of the allowance as in the two methods discussed above the campus or unit office that is responsible for preparing the accounts receivable journal entry will record the allowance for doubtful accounts at the end of each fiscal year. This office will also charge the appropriate departmental account when the allowance is established.

Year-End Reporting

5. All campuses and units should instruct all deans, directors and department heads how to report year end accounts receivable balances. Upon notification, departments must send a list of accounts receivable as of June 30 to the campus or unit office that prepares the year-end journal entry. An aging of accounts receivable must accompany this list. An aging is performed by categorizing individual customer account balances

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according to their age. The aged accounts should be categorized as follows, unless other categories have been approved by the Controller’s Office.

0-30 days	91-180 days
31-60 days	181-360 days
61-90 days	over 12 months

- Unpaid extensions for student fees should be aged by the semester.

Returned Checks and Dishonored Credit Card Transactions

The following general policies apply to 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 debited to the university's bank account. These items are returned to the campus or unit business office, which will charge an appropriate accounts receivable returned items fund.
- A detailed record of returned checks and dishonored credit card transactions must be maintained at all times. If returned items are assigned to other offices for collection, the responsible office must obtain and keep a receipt to document transfer of the items and responsibility for collection.
- 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 deposited to the university's general bank account and credited to the accounts receivable returned item account that was initially charged when the bank or processor returned the items.
- A separate receipt book for returned items or online receipting is recommended for use in areas that have a high volume of returned items.
- 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.

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12. Any service charges collected should be credited to the appropriate income fund when deposited.
13. On a monthly basis, the responsible office must reconcile the returned items on hand to the amount shown on the university's official records. (See [Appendix A](#) for a sample reconciliation sheet.)
14. If a returned item is determined to be uncollectible, the procedures in **15** below must be followed to write off the amount from the university's accounting records.

Uncollectible Accounts

15. When accounts prove to be uncollectible based on collection efforts described in **3** above, department heads are responsible for requesting that these accounts be written off the university's accounting records. Detailed write-off procedures are listed below. Student loans, health care facilities, and parking authorities have additional procedures for writing off accounts receivable, which appear in **22** through **24** below. **Note:** Departments should refer to campus/unit procedures for instructions on handling the fines, fees, and debts of a student who dies during a term of enrollment. Accounts of students who are currently enrolled should not be written off, except as identified in item **17**.

Write-Off Procedures

16. Departments should follow the procedures below when writing off accounts receivable.
 - The department head may request uncollectible accounts to be written off after ensuring that 1) due diligence was exercised in attempting to collect the accounts and 2) the write-offs are supported by documentation of collection activity (copies of invoices and collection letters, notes from telephone contacts, returned mail, collection agency correspondence, etc.
 - The department head completes an **ACCOUNTS RECEIVABLE WRITE-OFF REQUEST (FORM T-35)** and sends it with an itemized list of uncollectible accounts to the appropriate unit Chief Business Officer. The request must include a justification for write-off (see **16** below). For details on writing off uncollectible returned checks, see **20** below.

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- The campus or unit Chief Business Officer (or designee) will review and sign the **FORM T-35**, forward it to the Controller’s Office, and return a copy to the department for departmental files.
- Requests for write-offs may be submitted at any time during the year. All write-offs to be included in the previous fiscal year should be submitted to the Controller's Office no later than July 10.
- The Controller’s Office will prepare and record the journal entry to write off the accounts from the university's official records.
- At year end, the Controller's Office will prepare an annual summary of all write-offs over \$5,000 per department or individual to be sent to the State of Tennessee Department of Finance and Administration and the Comptroller of the Treasury for approval to write off.

Justification for Write-Off

The reasons for writing off any account balances must be indicated on the [FORM T-35](#). **Student Debts**

17. Students. If the debtor is a student or former student of the university, the university is authorized under Tenn. Code Ann. §49-9-108 to issue diplomas, certificates of credit, and grade reports only after the debtor has satisfied all debts or obligations owed to the university, including, but not limited to, university bookstores, libraries, food service centers, dormitories, infirmaries, and hospitals. The university will maintain a hold on this issuance of diplomas, the release of transcripts, and future registration privileges until all such debts are paid. These requirements do not apply to (a) debts of less than one hundred dollars (\$100.00) or (2) debts evidenced by notes or other written contracts providing for future payments, such as, but not limited to, loans authorized under federal or statute education or student assistance acts. Whenever collections are made for amounts previously written off, an official university receipt should be prepared and the amount collected credited to the appropriate income accounts. At that time, any holds or encumbrances against the individual should be released.

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18. Current Students. Certain debts may be canceled or written off when a student dies during a term of enrollment. Departments should consult campus/unit procedures for instructions.

Bankruptcy of Debtors

19. The following conditions apply when a debtor files for bankruptcy:
- a. When a department receives notification from the bankruptcy court that a debtor has filed for bankruptcy, the department must immediately cease all collection efforts unless efforts may be continued with co-signers, endorsers or guarantors.
 - b. If the bankruptcy notice states that claims may be filed, the department may do so or refer the matter to the General Counsel's Office for assistance. Careful attention should be paid to deadlines for filing. An individual's social security number or other personally identifiable information, such as financial account numbers and date of birth, should never be displayed on a proof of claim forms or other documents filed with the court. The social security number and other personally identifiable information should be redacted.
 - c. Student loans or other debts representing an obligation to repay amounts received or credited for educational purposes are not dischargeable in bankruptcy unless the court finds that exception from discharge will impose an undue hardship on the debtor. However, for bankruptcies filed prior to October 7, 1998, such debts are dischargeable without a finding of undue hardship if seven years have passed since the debt first became due and the date of filing for bankruptcy.
 - d. Parking and library fines are not dischargeable by the court under either Chapter 7 or Chapter 13.
 - e. If a discharge notice is received from the bankruptcy court, the debtor is no longer liable and the debt should be cleared from the debtor's record. However, for non-dischargeable debts as described in c. above, collection efforts may resume after the debtor's discharge in bankruptcy.
 - f. Collection efforts may also resume if the case is dismissed.

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Any questions about the above conditions should be directed to the [General Counsel's Office](#).

Write-Off of Uncollectible Returned Checks

20. When a returned check proves to be uncollectible, the department should follow the write-off procedures in **15** above. The original returned check should be stapled to the completed **FORM T-35**. If the uncollectible returned check was tendered by a current or former student, a hold must remain on the student's transcript until the obligation is paid. Whenever collections are made for returned checks that have been written off, an official university receipt should be given to the payor in lieu of the returned check. Any holds or encumbrances against the individual should be released. Returned credit cards are handled using the same methods.

Assignment and Write-Off of Government-Sponsored Student Loans

21. The procedures for assignment of government-sponsored student loans appear in the federal and state publications that outline the loan program regulations. Generally, the procedures require that assignment forms be completed for each note considered to be uncollectible. The completed forms are forwarded to the appropriate campus business officer for approval and transmittal to the sponsoring government department. In special circumstances student loans can be canceled, which is in effect a write-off. Current regulations for Perkins Loans provide that notes with small balances (as defined in the regulations) proven to be uncollectible can be canceled without government approval or assignment procedures. Similarly, loans may be canceled if the debtor has been legally declared bankrupt. If the statutory period has passed and the loan has been discharged, a copy of the court discharge is the only documentation needed for note cancellation. In these circumstances, once government regulations have been followed, no additional university approvals are necessary before write-off (note cancellation) of the receivables.

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Write-Off of University Student Loans

22. The procedures for writing off uncollectible university student loans (principal and interest) for all campuses are the same as for other university receivables. Refer to **15** above for detailed write-off procedures.

Write-Off of Receivables for Hospitals and Health Care Facilities

23. Health care facilities follow the same policies for establishing uncollectible account balances as in section **4** above except that the estimate should be based on prior collection experience. The Billing and Collection efforts are the same as section **3**, except that a Collection Agency may be chosen based on medical billing/collection specialization. Sections 14 and 15 applicable to Uncollectible Accounts and Write-Off Procedures apply to health care facilities with the following additional justifications for write-offs as special circumstances applicable to health care receivables:

- Payment of charges is denied by a third party payor (such as an insurance company, TennCare, or Medicare) due to a claim that is processed after the contractually defined filing period (untimely filing). These are not billable to the patient and collection efforts should not be pursued.
- Payment is denied by a third party payor because the charges were deemed unallowable due to circumstances beyond the control of the patient, for example the charges are deemed medically unnecessary by the third party payor.

There are two circumstances in which unallowable charges can be billed to the patient. In these cases, all billing, collection and write-off procedures are applicable:

- The patient elected to receive medical services with the foreknowledge that the third party payor would not allow the charges. In this case the health care facility must get an Advance Beneficiary Notice (ABN) signed by the patient. If the ABN is obtained, the patient is responsible if the claim is denied by a third party payor.

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- When a patient receives services that are not covered by the third party payor as documented by statute, the charges are billable to the patient. Examples include, Medicare not covering hearing aids, Medicare not covering oral surgery except in very limited cases, and physical therapy sessions beyond the number authorized in a patient's plan.

Write-Off of Parking Authority Receivables

24. Accounts receivable resulting from citations for parking and traffic violations present unusual problems for campus parking authorities in locating responsible parties and in pursuing collection efforts. Parking authorities will establish a reserve for uncollectible accounts for outstanding citations based on prior collection experience. After established collection procedures have been followed, the unit's chief collection officer will recommend for write-off the accounts that have proven to be uncollectible. These accounts will be reviewed by the department head and the [campus or unit chief business officer](#). Their written approval for the write-off must be maintained on file for audit verification. (See **15** above for detailed write-off procedures.) Accounts approved for write-off will be charged against the reserve for uncollectible accounts and removed from the active files. If the debtor is a former student of the university, a hold on the release of transcripts and on future registration privileges must remain until the obligation is paid. **Notwithstanding** anything to the contrary in this policy, accounts receivable relating to parking and traffic violations shall be handled in accordance with applicable campus Traffic and Parking Regulations, adopted pursuant to the Tennessee Uniform Administrative Procedures Act, which are available at <http://publications.tnsosfiles.com/rules/1720/1720.htm> .

Write-Off of Uncollectible Donor Returned Checks for Gifts

25. Returned checks resulting from checks deposited for gifts are addressed in the Advancement Services Policies and Procedures and in the **Returned Checks** section above. After collection procedures have been followed, the unit's chief collection officer will recommend for write-off the returned checks that have proven to be uncollectible. These accounts will be reviewed by the department head and the [campus or unit chief business officer](#). The checks and the write-off form should be submitted to the

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Treasurer's Office for write-off. Written approval for the write-off must be maintained on file for audit verification. Accounts approved for write-off will be charged against the fund credited on the original deposit and the gift will be removed from the gift records.

PROCEDURES:

To view links to campus policies and procedures, click here:

<https://policy.tennessee.edu/campus-policies-procedures/>

FORMS

- [Accounts Receivable Write-Off Request \(Form T-35\) 20090828](#)
- [Monthly Return of Checks Reconciliation \(FI0305-AppendixA-Monthly-Returned-Checks-Reconciliation.pdf\)](#)

FOR MORE INFORMATION:

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