

Collection and Write-Off Guidance Required per Regulation 21.01.04 Extension of Credit Updated July, 2019

Collection Guidance

As per System Regulation 21.01.04, the System Office of Budgets and Accounting has developed the following guidelines for use by members. Each member is required by the regulation to adopt additional member specific guidelines for collection of outstanding receivables from customers.

General Overview

Invoices are created and sent by departments either by email or mail. Often they are created from other systems or even created out of Word or Excel. Past due notices are generated from the accounting system (FAMIS) every 30 days when the invoices are posted to the FAMIS Accounts Receivable Module. These are defined on FAMIS Accounts Receivable (AR) screens, see the FAMIS AR manuals to review the screens and setup the text. It is recommended to mention after a certain number of days customers can and will be placed on State Hold if the invoices are not paid. It is important bills are paid on-time. These past due notices are mailed or emailed to customers every 30 days to help ensure customers are aware of the debt. At 120 days, vendors are required to be placed on State Hold if payment is not received.

Member Records

Members records must contain the identity of all customers liable for any obligation and reflect the correct physical address of the customer's place of business or, where applicable, the debtor's residence. A post office box is not acceptable when trying to proceed with legal action. Encourage departments to have the customer provide physical addresses. The customer information should include the Federal Taxpayer Identification Number (Social security number or employer identification number).

Setting a Tolerance

The Texas Administrative Code allows state agencies/institutions to create a reasonable tolerance in which some collection procedures may be waived for specific uncollectable accounts. As long as an uncollectable account falls within a member's reasonable tolerances. Tolerances can be established by each fiscal office. Normally the tolerances are established as a total dollar amount.

If the write-off is above the tolerance, then the amount can be approved internally; however, all amounts must be approved by OGC before they can be written off.

Collection Efforts

Each member must ensure there is due diligence to collect funds from customers where the member has provided goods or services to the customer. The customer has agreed to pay for those goods and services at a later date. The collection efforts can be handled at the department level or they could be handled at the fiscal office.

Collection efforts can include mail, email, certified mail or phone calls. Documentation must be kept to prove attempts have been made to contact the individuals by either the department or fiscal office. It is critical to prove due diligence. Logs can be kept for each customer. The customers file can contain

copies of the correspondence. The documentation will be required throughout the collection process. Also, State Hold documentation must be included in the customers file.

- Collection Steps: 1-30 days after goods or services provided
 - Mail invoice to customers
- Collection Steps: 31-60 days past due
 - Generate and send 30 day FAMIS (or other accounting system) past due notice Make telephone contact with the customer to verify receipt of the past due notice
 - Recommend payment plans, if appropriate
 - Document all collection activity
- Collection Steps: after 31 days and every 30 days before 119 days
 - Generate and send another FAMIS (or other accounting system) past due notice
 - Change the text on the past due notice to strengthen the wording
 - Action is needed to be taken by the customer
 - Make telephone contact with the customer to verify receipt of the past due notices
 - Recommend payment plans, if appropriate
 - Document all collection activity
 - Evaluate whether to submit the account to an OGC approved collection agency
- Collection Steps: after 120 days
 - Generate and send another FAMIS (or other accounting system) past due notice
 - Escalate the account to the accounting or fiscal office (this could be delegated to the departments or centralized)
 - Amount could be written off based upon the tolerance due to immaterial amount. Justification for writing these accounts off is because it is not cost effective to pursue additional collection effort for these immaterial amounts. Customer is required to be placed on hold after 120 days even if the amount is written off per Accounting Policy State ([APS 028](#)) , unless the taxpayer ID is unknown.
 - Amount could be written off and if higher than tolerance must be submitted to OGC for write off, see OGC requirements. Justification would be required to be documented. Customer is required to be placed on hold after 120 days even if the amount is written off per Accounting Policy State ([APS 028](#)) , unless the taxpayer ID is unknown.
 - Customer is required to be placed on hold after 120 days even if the amount is written off per Accounting Policy Statement ([APS 028](#)), unless the taxpayer ID is unknown.
- Collection Steps: after 120 days-Up to 1 year
 - Generate and send another FAMIS (or other accounting system) past due notice
 - Could continue to send past due notices
- Collection Steps: after 1 year to 2 years
 - When the member's standard term for write-off consideration is met, initiate the write-off process

Write-Off Submission Guidance

As per System Regulation 21.01.04, the System Office of Budgets and Accounting has developed the following guidelines for use by members. Each member is required by the regulation to adopt additional member specific guidelines to establish the process for writing-off of delinquent receivables deemed uncollectible.

Member Guidelines

Each member shall adopt guidelines to establish and determine the write-off guidelines of uncollectible obligations. These guidelines are designed to assist the A&M members with collections procedures.

Forms

A standard form should be used by members for departments to request the write-off of accounts. The form should document critical requirements, see below.

- Stating due diligence has been made to collect funds from the customer
- All collection efforts have been pursued in accordance with System Regulation 21.01.04
- Invoices may only be written off when they are one year old or older or if the customer has filed for bankruptcy
 - If there is a bankruptcy, attach all of the paperwork including the envelopes the documents were received in, all contain critical pieces of information
 - The fiscal office will need to review the APS 028 regarding Bankruptcy warrant hold status
- At no time is a department allowed to waive an uncollectable debt without submitting a write-off request
- Departments may not reduce or cancel payments due from customers (This not only includes unpaid invoices, but also includes returned checks that have not been repaid)
- The percentage written off should not exceed a certain percentage (recommend 10%) of the total receivables billed for that particular fiscal year for the department. If the percentage exceeds percent (10%), a detailed explanation must be attached and signed by the Department Head. This will help the departments to analyze the balances and not try to have a mass cleanup.

The form requires supporting documentation, see below.

- Invoice copies, past due letters, statement from collection agency (if applicable), bankruptcy notices (if applicable), etc.)
- Summary of the collection efforts made by this department with dates.
- A copy of the approved extension of credit letter and documented procedures for the collection of receivables is also attached
- Attach the State Hold Form for each customer listed who has been placed on State Hold prior to the completion of this form. Ensure the State hold process was followed in accordance to the State's Accounting Policy Statement APS 028 and all state holds will be maintained in the State's Financial Accounting System.

Have the department head sign off on the form and recommend a place for the fiscal office to sign off on the form.

Next Steps

If this amount is within the tolerance for the member, the form can be reviewed and approved internally. An entry can be posted to remove the Accounts Receivable and the Allowance. Still need to keep the vendor on hold until the debt is paid, unless a bankruptcy is involved.

If this amount is greater than the tolerance than the form will need to be sent to the System Office OGC review the next section for documentation requirements for OGC.

Documentation Required for System Office OGC Approval of the Write-Off

In order for OGC to approve a write-off, the System Members must submit the items below.

1. Collection Procedures and Tolerances (if applicable)
2. Documentation proving collection procedures have been followed
 - a. Invoices
 - b. Past due notices
 - c. Call logs (if applicable)
 - d. Email exchanges
3. The date the receivable were recorded
4. Description of the collection efforts to date
5. Documentation vendor on hold procedures were followed, if not followed list the reason why, possible missing taxpayer ID
6. Confirmation a state or hold within the member's systems will be maintained in the accounting system or student system
7. Member's determination and analysis that further collection should not be actively pursued and reasons are listed.
 - a. Dollar amount
 - b. Cost vs. benefit
 - c. Likelihood of collection
 - d. Expense and available resources
8. debtor information, correct physical address for each debtor (no P.O. Box)
9. Lien/Security Procedure (if state law applies)
10. Procedure for referral to approved collection agency
11. Member's Write-Off Policy and
12. Documentation proving member followed the write-off policy, including standard form if used by the member.

Write Offs

After the write-offs are approved, record the entries to remove the receivable and the allowance from the balance sheet. Often the amount is still flagged in the accounts receivable system or in the student system, so if the customer or student attempts to do business with the member again these funds could be collected.