University of Colorado
Denver | Anschutz Medical Campus

Campus Administrative Policy

Policy Title: **Accounts Receivable**

Policy Number: 2008 Functional Area: Finance Policies

Effective:	October 31, 2012
Date Last Amended/Reviewed:	October 31, 2012
Date Scheduled for Review:	July 1, 2019
Supersedes:	Accounts Receivable (September 1, 2008)
Approved by:	Vice Chancellor of Administration and Finance
Prepared by:	Assistant Vice Chancellor of Administration and Finance
Reviewing Office:	Finance
Responsible Officer:	Assistant Vice Chancellor of Administration and Finance
Applies to:	University of Colorado Denver University of Colorado Anschutz Medical Campus

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A. INTRODUCTION

The purpose of this policy is to set forth guidelines that are to be followed by departments when selling goods and services on credit to external customers that have a future payment (collection) date.

Each CU Denver | CU Anschutz department head or person responsible for a program or project shall be responsible for compliance with this policy when selling goods or services on credit to external customers.

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C. APPLICABILITY & DEFINITIONS

1. **Applicability**

This policy applies to sales of goods and services made on credit to external customers. This policy excludes:

a. Sales to other CU Denver | CU Anschutz departments or to any department at other CU campuses.
b. Student accounts receivable administered through the Bursar.
c. Accounts receivable administered through the Office of Grants and Contracts.

2. **Definitions**

a. *Accounts Receivable* is the amount due from a customer for the sale of goods or services.
b. *Aged Accounts Receivable* is a schedule that categorizes each accounts receivable by the number of days it is past due.
c. *Allowance* is an estimate of the amount of accounts receivable that is unlikely to be collected.
d. *Debt* is any dollar amount due and owing, which has accrued through contract, agreement, subrogation, tort, or operation of law regardless of whether there is an outstanding judgment for that sum.
e. *Debtor* is any individual, corporation, or business owing money to or having a delinquent account with any department whose obligation has not been adjudicated, satisfied by court order, set aside by court order, or discharged in bankruptcy.
f. *Departmental Accounts Receivable System* is a record-keeping system developed by a campus department to record the accounts receivable transactions for each customer. This system includes the date of sale, payment, and outstanding balance for each customer.
g. *Due Date* is the date the debt is due and payable to the department selling on credit.
h. *Established Collection Period* is the established period of time CU Denver

departments have to collect the debt from date the service is provided until all collection efforts are complete. This is generally 30 to 90 days beyond the due date.

i. *Other Receivables* are any other amounts owed to CU Denver such as amounts due from retirees, employees for payroll overpayments, credit memos due from suppliers, etc.
j. *Past Due* is any debt not paid at the end of the established collection period.
k. *Write-off* refers to an accounts receivable balance that has been removed from the University's general ledger in the Finance System.

D. POLICY STATEMENT

1. Internal Control

Accounts receivable management must include internal controls. It is of paramount importance that the individual in the department who receives cash from customers and processes related deposits is not the same individual involved in the billing and reconciliation processes.

Separation of duties is necessary so that the departmental accounts receivable system records or the University's general ledger cannot be altered in order to intercept cash without detection. Good accounts receivable internal controls will incorporate the following:

a. Written departmental accounts receivable billing and collection policies and procedures in accordance with the requirements of this policy. Staff must be trained on departmental policy and procedures. This policy should include:

    i. Establishment of a "Due Date" policy for departmental sales. This will determine the date payment is due for each credit sale.

    ii. Delineation of separation of duties for handling payments and accounts receivable record keeping as described above.

    iii. Criteria and process for granting credit to customers. It must secure enough information about the prospective customer in order to make an informed decision about granting credit, and it must provide information needed for an effective collection process.

    iv. Revocation of credit to customers with delinquent balances.

    v. Objective criteria and procedures for writing off accounts systematically and timely with prior approval from the Finance Office.

b. Establishment of a departmental accounts receivable system to track all credit transactions by customer. The system should provide at least the following:

- i. Customer identification.
- ii. Date, description, and amount of each sale.
- iii. Date and amount of each payment.
- iv. Date, reason, and amount of each adjustment.
- v. Date and amount of each approved write-off.
- vi. The general ledger program or project to which the accounts receivable relates.
- vii. Ability to record billing and collection activity.
- viii. Ability to age the accounts receivable.
- ix. Ability to identify those accounts receivable turned over to a third party agency for collection.

c. Retention of documentation evidencing the accounts receivable. Documentation should be retained for a period of three years after full payment of the account for non-sponsored programs and nine years after expiration of sponsored project funding.

d. Billing of the external customer for goods or services sold on credit.

e. Quarterly reconciliation (monthly preferred) of the customer balances in the departmental accounts receivable system to the accounts receivable balance. Make corrections to the departmental accounts receivable system and/or the financial system as needed.

f. Quarterly preparation (monthly preferred) of an aged accounts receivable schedule for analysis to determine if there are trends or indications of poor collection.

g. Tracking the time from the date of service to payment date to determine the number of days accounts are outstanding. This will permit analysis of credit granting policies and accounts receivable collection proficiency.

h. Quarterly review (monthly preferred) of accounts with credit balances and development of procedures for correction.

i. Monthly follow up on all past due accounts and documentation of steps taken to collect the account, including who performed the follow-up, the date of the follow-up, and the status of the account.

j. Monthly review of past due accounts to determine which accounts must be sent to a third party for collection.

If segregation of duties is not possible due to the small size and limited staffing of a department, implement compensating controls appropriate for the nature and size of the operations. An example of a compensating control includes a detailed review of the financial reports and a detailed review of each transaction by a person other than the one performing the journal entries, billing, and reconciliation.

3. Obtaining Credit Information

a. The most important task in granting credit is securing enough information about the prospective customer in order to make an informed decision about financing the good or service. Credit information should include customer name, address, place of employment (individuals), insurance carrier (if applicable) credit references, etc. The prospective customer (e.g. individual or business) and type of good or service, and dollar amount will dictate the amount of information obtained in order to make a decision to grant credit. Departments may design forms to capture this information as long as the data is stored in a secure location to prevent unauthorized access and identity theft. Before requesting social security numbers from potential customers, prior approval from the Finance Office is required.

b. Occasionally, checks accepted for payment will be returned by the bank due to insufficient funds. This forces a credit-granting situation on the department without allowing the department to obtain needed credit information. Therefore, sufficient information should be obtained for each check accepted to facilitate the collection process should that be needed. At a minimum this should include the following:

i. Name
ii. Address
iii. Phone number
iv. Colorado Driver's License number

Note: When payment is made by check or other negotiable instrument, a person shall not record or require the maker of the check to record a credit card or social security number as identification or proof of creditworthiness.

c. State law (CRS 5-12-102) provides for charging interest and for recovering all expenses incurred in the recovery of debt on past due accounts receivables. The legal interest rate is 8%. All credit customers must be informed of the credit terms including interest and collection costs charged on past due accounts and what constitutes a past due account. Language regarding collection costs may be stated as follows:

The State of Colorado, its agencies, officers, and assigns, shall be entitled to collect all expenses incurred in the recovery of any debt created by the contract, or in pursuing any other remedy provided by law, including but not limited to reasonable attorney fees and/or collection costs.

d. Departments may wish to post a sign stating the credit terms.

4. Due Date

The choice of credit terms (determining the due date) is a management decision. However, the greater the period of time given to pay, the smaller the chance payment will be made and the greater the period of time departmental funds will be tied up. Market pressure may dictate terms, but keep the term as short as possible. Remember, the due date is critical in that it:

a. Establishes the amount of time the customer has to pay the bill.
b. Determines when the departmental collection procedures are initiated.
c. Establishes when an accounts receivable should be submitted to a third party collection agency for collection.
d. Establishes the date to begin calculating interest on past due accounts.

5. Recording Accounts Receivable in the Financial System

a. When an external customer (not a campus department) purchases a good or service and does not pay for the good or service at the time of purchase, an accounts receivable must be recorded in the financial system and in the departmental accounts receivable system. Accounts receivable should be recorded in an appropriate account code in the 010000 - 014999 series.

b. Invoices must be created and sent to your external customer in the department’s billing cycle using pre-numbered receipts or a controlled sequential numbering system. At the same time, post the transaction to the customer's account in the departmental accounts receivable system and create a journal entry in the financial system to record the revenue and accounts receivable in the related program or project. Appropriate backup for this journal entry is a copy of the invoice.

c. Some departments have a high volume of accounts receivable transactions and recording each transaction in the financial system would be administratively burdensome. In this case, the department may elect to do a summary entry to the financial system once a month. The journal entry will record the accounts receivable sales and revenue for the month. Each credit sale must still be posted to the customer's account in the departmental accounts receivable system in the department’s established billing cycle. Appropriate backup for this journal entry includes a detailed listing of all invoices included in the summary entry.

d. When payment is received, deposit the payment to an appropriate account code (accounts receivable series 010000 – 014999) to clear the receivable in the financial system. Do not make the deposit to a revenue account code; the revenue has already been recorded in the financial system by the journal entry above. Also, enter the payment to the customer's account in the department's accounts receivable system.

e. All accounts receivable transactions for the month must be recorded in the financial system so that the financial system accurately states the month-end accounts receivable balance.

6. Reconciliation

a. A quarterly comparison (monthly preferred) of the departmental accounts receivable system customer balances must be made to the financial system balance. Since the financial system closes monthly, it would be best to close the departmental accounts receivable system at the same time as the financial system to make this task as simple as possible. The quarterly aging report will facilitate this task.

b. Differences must be investigated and the cause determined. Then an adjustment must be entered to correct for the difference. The adjustment may be to the financial system balance, the departmental accounts receivable system, or both depending on the nature of the error.

7. Aged Accounts Receivable

Departments should prepare an Aged Accounts Receivable report on at least a quarterly basis (monthly preferred). Exhibit A provides a sample format that may be followed. Departments may develop their own format as long as it provides, at a minimum, the information shown in Exhibit A.

8. Billing

Each customer must be provided an invoice or bill reiterating the terms of the sale and requesting payment. This can take place at varying times. The billing must be done during the department’s established billing cycle and in accordance with any existing contract terms (if applicable) between University and the external entity. Follow-up billing must be done on a regular basis, usually monthly and according to any existing contract terms (if applicable). The following information should be included on the invoice: invoice number, department billing, contact person, mailing address, telephone number, date of sale, items sold, unit price, total amount due, due date and terms and where to send the payment.

9. Collections

When payment is not made by end of the established collection period, the department must take measures to collect. Second billings after the initial due date, telephone calls, and delinquency letters should be performed before the account is 60 days delinquent. A record should be kept of all contacts or attempted contacts indicating the action taken, person performing the action, and date of the action.

10. Referral of Past Due Accounts Receivable

Within 60 days past the established collection period, accounts receivable with no signed payment plan or existing contract terms to the contrary, should be referred to a third party collection agency. There are two exceptions to this requirement.

a. Federal, state and local government customers have been exempted from the 60-day rule. Federal referral is at one year, other governments exempted for six months. A one-year exemption also applies to governmental insurance carriers such as Medicaid, Medicare, and Champus. Other State of Colorado agencies are permanently exempt, but amounts in question must be referred to the State Controller's Office.

b. Student Loan Receivables and Accounts Receivable administered through the Bursar have different criteria not covered under this policy. Student accounts receivable not administered through ISIS and the Bursar’s Office are subject to the 60-day past due rule.

11. Allowance for Uncollectible Accounts Receivable

For each program or project that has accounts receivable, an allowance should be established and maintained if it is determined some of the receivable may not be collectible. The allowance reflects the estimated accounts receivable that will probably not be collected. Establishing and maintaining an allowance is the responsibility of the department with consideration given to its billing and collection history and its exercise of sound business judgment when evaluating individual, outstanding receivables. The allowance for uncollectible accounts must be updated in the financial system at the end of each fiscal quarter (September, December, March, and June).

12. Submission of Past Due Accounts Receivable for Tax Offset

If a third-party collection agency other than Colorado Central Collection is used, then in addition to submission to third-party collection agency, past due accounts should be submitted to the Department of Revenue (DOR) for tax offset for all accounts for which the social security number is known. If the taxpayer is owed a refund by the state, DOR will deduct the debt owed to the University from their refund. Campus departments and units are to coordinate the tax offset process through the Finance Office. The University will use the State of Colorado Administrative Courts for the Tax Offset Hearing process.

13. Write-Off of Accounts Receivable

a. When the third-party collection agency collection efforts have been exhausted, the accounts shall be returned to CU Denver | CU Anschutz. At this time, the department will request in writing, through the CU Denver | CU Anschutz Deputy Controller, approval for "write-off."

b. Accounts receivable are not to be written-off in the financial system without prior approval from the Deputy Controller or delegate.

c. Occasionally, the accounts receivable records need to be adjusted for activity not related to a charge, payment, or an approved write-off. This usually occurs due to correcting posting errors, reflecting a return of goods, or reflecting an adjustment in charges. Adjusting entries shall be made by the department at their discretion. Such adjustments should be documented and fully explained in the departmental accounts receivable system.

d. Accounts written off should still be included in the annual tax offset file sent to the Department of Revenue.

14. Nonsufficient Funds Checks

Occasionally a check accepted in payment will be returned by the bank due to nonsufficient funds (NSF) in the check writer's account. Checks returned due to NSF represent an accounts receivable. The Bursar has established procedures to re-deposit the check in an attempt to collect the amount due. If it is returned a second time for NSF, the check will be charged to the department's program or project indicated on the check endorsement. The Finance Office staff will send the department the original check and process a journal entry charging the department's program or project. At this point, the department has an accounts receivable that it must collect. These accounts receivable shall be treated the same as all other accounts receivable,

15. Depositing Checks--See campus policy #2004, CU Denver fiscal policy titled "Cash Receipts and Deposits".

All checks are to be endorsed immediately upon receipt with the appropriate speed-type and account code to which the check is being deposited. The endorsement stamp format is:

For Deposit Only
The Regents of the University of Colorado
Bank Account No. 1018145252
Department Name

Speedtype _______
Account Code _______

(Note: The endorsement speedtype and account code must agree with the speedtype and account code listed on the cash receipt to which the check is deposited.)

D. PROCEDURES & SAMPLE JOURNAL ENTRIES

<table>
<tr><th>Performed By:</th><th>Action:</th></tr>
<tr><td colspan="2">Recording Accounts Receivable in the Financial System</td></tr>
<tr><td>CU Denver Departments</td><td>Listed below are typical entries for recording accounts receivable in the financial system.

1. This entry is processed when the credit sale is made to an external customer. Invoices should be sent to the customer during the department's normal billing cycle and according to any existing contract terms (if applicable).

DEBIT Accounts Receivable XXX
(Account Code series 010000 – 014999)

CREDIT Revenue XXX
(Account Code series 200000 - 355999)

2. This entry adjusts the allowance to equal the calculated amount of current outstanding accounts receivable that you expect not to collect based on historical experience. Note: The Accounts Receivable is unaffected at this point.

DEBIT Bad Debt Expense XXX
(Account Code 552900)

CREDIT Allowance for Doubtful Accounts XXX
(Account Code series 015000 - 019999)</td></tr>
<tr><td colspan="2">Calculating the Allowance for Uncollectible Accounts Receivable</td></tr>
<tr><td>CU Denver Departments</td><td>The estimated allowance for uncollectible accounts receivable can be calculated in one of two ways described below. Choose the option that is most appropriate to department's operation.

1. Based on a history of uncollectible accounts as a percentage of total accounts receivable.

a. Determine the total actual accounts written off over a period of time. Each department should select the period of time that seems most appropriate for its business pattern. A suggested period of time would be three to five years.

b. Determine the total accounts receivable charges for that same period of time.

c. Divide the total actual accounts written off by the total accounts receivable charge to determine the percentage of total accounts receivable that have resulted in bad debt write-offs.

d. Apply the percentage calculated in "c" above to the current accounts receivable balance. This will be the estimated amount of current outstanding accounts receivable that the department can expect to not collect based on historical experience.

e. Adjust the allowance for uncollectible accounts receivable to equal the amount calculated in "d" above. The offset to this entry is to account code, Bad Debt Expense. The journal entry to increase the allowance</td></tr>
</table>

Performed By:	Action:
	is: DEBIT Bad Debt Expense XXX (Account Code 552900) CREDIT Allowance for Doubtful Accounts XXX (Account Code series 015000 - 019999) If the allowance should be decreased, the above entry would be reversed. 2. Based on specific identification of accounts considered uncollectible, which requires an account-by-account analysis to determine which past due account will not be collected. a. Refer to the aged accounts receivable and examine the history of collection attempts and debtor's responses for each uncollected account over 30 days past due. Evaluate for each account whether future collection efforts will be effective. b. Prepare a list of those accounts that will not be collected. The list should contain details which include: ▪ Name of the debtor. ▪ Transaction date. ▪ Amount of the transaction. ▪ Account code in which the accounts receivable is recorded. c. Establish the Allowance for Doubtful Accounts by preparing a journal entry based on the amounts listed in “b” above. Charge the bad debt expense account code, and credit the allowance code. The journal entry to increase the allowance is: DEBIT Bad Debt Expense XXX (Account Code 552900) CREDIT Allowance for Doubtful Accounts XXX (Account Code series 015000 - 019999) If the allowance should be decreased, the above entry would be the reversed. d. Maintaining the allowance – Update and analyze the schedule of aged accounts receivable at least quarterly (monthly preferred). Determine if any additional accounts, not on the previously created list of uncollectible accounts, should be added to the list. If it is determined that additional accounts should be added to the list, prepare the journal entry described above for such accounts. The account code “Allowance for Doubtful Accounts” should always equal the list of uncollectible accounts.

Performed By:	Action:
Referral of Accounts Receivable to a third party collection agency	
CU Denver Departments	1. Within 60 days past the established collection period, refer accounts receivable with no established payment plan to a third party collection agency. 2. When these accounts are referred for collection, also prepare a journal entry in the financial system to record the bad debt expense: DEBIT Bad Debt Expense (Account Code 552900) XXX CREDIT Allowance for Doubtful Accounts (Account Code series 015000 - 019999) XXX The amount posted in this transaction should equal the total amount placed for collection at the third party collection agency. When accounts receivable are collected by the third party collection agency, reverse the journal entry recording the bad debt expense and allowance by the total amount paid to the collection agency by the debtor.
To Record Payments Received from the third party collection agency	
CU Denver Departments	1. Deposit the payment at the Bursar's Office. It is necessary to record only the credit side of the entry on the cash receipt form. Cash will be posted automatically by the financial system. When completing the cash receipt form, be sure to include the appropriate speed-type and account code. DEBIT Cash (Automatic) XXX CREDIT Accounts Receivable (Account Code series 010000 – 014999) XXX 2. Interest collected by the third party collection agency may be included with the above payment, so the following credit would be entered on the cash receipt form to record it. When completing the cash receipt form, be sure to include the appropriate speed-type and account code. DEBIT Cash (Automatic) XXX CREDIT Miscellaneous Revenue (Account Code 325100) XXX 3. To reverse previous entry of bad debt expense and allowance. The amount should equal the total amount paid by the debtor to the third party collection agency. DEBIT Allowance for Bad Debts (Account Code series 015000 - 019999) XXX CREDIT Bad Debt Expense (Account Code 552900) XXX 4. This entry records the amount of the collection fee retained by the third

Performed By:	Action:
	party collection agency and also clears out the remaining amount in the accounts receivable balance for the debtor. DEBIT Bad Debt Expense XXX (Account Code 552900) CREDIT Accounts Receivable XXX (Account Code series 010000 – 014999)
Writing Off Accounts	
CU Denver Departments	When accounts are returned by the third party collection agency as uncollectible, the following steps should be taken: 1. Notify the CU Denver's Deputy Controller in writing for approval to write-off the uncollectible account. 2. Maintain a detailed listing of each account and dollar amount for audit purposes. 3. When approval is received from the Deputy Controller to write-off the account, prepare the following journal entry. DEBIT Allowance for Bad Debts XXX (Account Code series 015000 - 019999) CREDIT Accounts Receivable XXX (Account Code series 010000 – 014999)
Tax Offsets	
CU Denver Departments	If a collection agency other than Colorado Central Collections is used, then the department shall work with the Deputy Controller and Student Debt Management to ensure that all past due accounts are included in the annual file submitted to the Department of Revenue for tax offset. Payments received will be recorded similarly to payments received from the collection agency. If payments are received on accounts previously written off, then the write-off must be reversed before the payment is recorded.

Notes

1. Dates of official enactment and amendments:
   Adopted by Vice Chancellor of Administration and Finance on September 1, 2008.
   Edited and reinstated October 31, 2012.

2. History:
   Modified on December 18, 2018 to reflect a 2018 Campus-wide effort to recast and revitalize Campus policy sites into a standardized and more coherent set of chaptered policy statement organized around the several operational divisions of the university. Article links, University branding, and formatting updated by the Provost's office.

3. Initial Policy Effective Date:
   October 31, 2012

4. Cross References/Appendix:
   A. Colorado Revised Statute 5-12-102
   B. Colorado State Senate Bill 10-003
   C. University of Colorado Fiscal Rules
   D. Office of University Controller – Accounting Handbook

Exhibit A

University of Colorado Denver	**Department**	**Sample Department**	
Accounts Receivable	**Speedtype**	**12345678**	
Aged Balance and Certification	**Account Code**	**013100**	
Month/Day/Year	**Account Code Balance**	**$7,000**	*

Days Past Due

Customer Designation	Current	1-30	31-60	61-90	91-365	Over 1YR	Over 2 Yrs	Total Past Due	Total Customer
XYZ Research Corp	1,000	500						500	1,500
Medical Services PC	2,000	100	100					200	2,200
Professional Associates			1,000	3,000				4,000	4,000
TOTAL	3,000	600	1,100	3,000	0	0	0	4,700	7,700
									*

Submitted for collection with CCS

Program/Project - Responsible Person

Date

* = Totals must agree