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SAMPLE UNIVERSITY
Example of Write Off Policy

I. Objective:

To maximize the efficiency of university resources and to ensure the accuracy of financial reporting, management over the various university accounts receivable systems should request and execute write offs of accounts receivable it deems to be uncollectible. The write offs must meet state and federal requirements, follow the requirements in this policy, and be recorded in the financial system to ensure that year-end balances are stated properly for financial reporting purposes.

II. Definitions:

- a. Accounts in Current Collection Status – Represents account balances from new charges that are within the time period that is allowed for payments due on provision or sales of goods or services to customers, and for repayment of loans or expense overpayments. Typically this is the latter of:
 1. The due date of the initial invoice
 2. A grace period, as defined by management, from the due date of the initial invoice,
 2. The date that the goods/services are provided or the date an overpayment is detected, or
 3. An extended time period stated in a loan or contractual agreement (i.e. Perkins Loans, Technology Transfer, Contracts and Grants, service contracts, scheduled payment agreements, etc.), which may define the current time period.
- b. Accounts in Past Due Collection Status – Represents account balances that are not in a current collection status as defined above. These accounts are considered delinquent and past due. Specific and timely collection action is required for these accounts in order to minimize the loss of revenue and expense write offs.
 1. For student accounts, past due is measured from the date of the last day of classes or the point when the student is no longer enrolled in the university and may be deferred through a legal agreement with the student such as an installment plan agreement or other legal agreement made by a guarantor to pay over a specified time period.
 2. For non-student customer accounts, past due is measured from the expiration of the current collection period noted on the invoice, contract, or other agreement. This may be deferred through a legal agreement with the customer such as an installment plan agreement or other legal agreement made by a guarantor to pay over a specified time period.
 3. For student loans, past due is measured based on terms and conditions in the loan agreement. For long-term loans, generally the Perkins Loan Program regulations are used to identify when an account becomes due or past due. Short-term loans would also follow the terms and conditions of the loan agreement as to the due date and when the account is past due. The short-term loan period could be 30 days or less from the date of the loan.

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4. For overpayments, past due is measured from the expiration of the current collection period noted in the letter of collection sent to the payee and generally would be 30 days or less from the date of the letter. This may be deferred through a legal agreement with the employee or vendor such as an installment plan agreement or other legal agreement made by a guarantor to pay over a specified time period.
5. For contract and grant accounts, past due may be measured from the expiration of the current collection period noted on the invoice after written acceptance of the deliverable(s) associated with the underlying contract or grant agreement has been received.

III. Authorization of Write Offs:

- a. Write offs of past due uncollectible accounts should be approved by management officials as follows:
 1. Student Accounts – The responsible Associate Vice Chancellor or designee (for a past due account of \$3,000 or more), the Director of the University Cashiering Function (for a past due account less than \$3,000), or the Accounts Receivable Supervisor (for a past due account of \$500 or less).
 2. Contracts and Grants – The responsible Associate Vice Chancellor or designee (for a past due account of \$3,000 or more), the Director over the Contracts and Grants Function (for a past due account less than \$3,000), or the Accounts Receivable Supervisor (for a past due account of \$500 or less).
 3. Auxiliary Services – The responsible Associate Vice Chancellor or designee (for a past due account of \$3,000 or more), the Business Officer over the specific Auxiliary Function (for a past due account less than \$3,000), or the Accounts Receivable Supervisor (for a past due account of \$500 or less).
 4. Other Receivables – The University Controller or designee (for a past due account of \$3,000 or more), the responsible Business Officer over the Receivable Function (for a past due account less than \$3,000), or the Accounts Receivable Supervisor (for a past due account of \$500 or less).

NOTE: In all the above areas, the person approving the write off may not be the person performing receipting or posting functions.

- b. The total of amount authorized to be written off and the cost of activities associated with the collection of past due accounts must be reported annually by the Directors over the receivable

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functions in the form and by the date requested by the University Controller for the annual reporting of accounts receivable activity required by the Office of State Controller.

- c. Authorizations for write offs must be made using the University’s “Write Off Authorization Form” (see attached) and must include:
 - 1. The name of the account, account number, type of account, and amount of the write off,
 - 2. Notation as to meeting the procedures required in the “Prerequisite Actions” section of this write off policy,
 - 3. Written justification for writing off the account (for example, the account has not had significant collection activity within the past 12 months, the debtor is bankrupt, the debtor is deceased, the statute of limitations has been met without collection, account is less than \$50 and 2 dunning letters have been sent without subsequent collection effort, etc.),
 - 4. Management’s signature and date authorizing the write off.
 - 5. The completed “Write Off Authorization Form” should be maintained by the management official responsible for the write off as indicated in step IIIa, and maintained for the period as required by OSC in step VIIa1.
- d. Interagency receivables cannot be written off without the approval of the Office of State Controller (OSC). If an agency is unable to collect receivables from another state agency, the agency should contact OSC’s Statewide Accounts Receivable Management Unit for assistance. The State Controller has the authority to process the interagency transactions that are considered necessary under the circumstances. The responsible billing units should diligently work with the other state agency to settle outstanding claims to avoid referral to the State Controller. All referrals to the State Controller should be routed to the University Controller for processing and follow-up.
- e. Federally sponsored student loans should be written off and no longer considered a debt of the agency only when assigned to or authorized by the US Department of Education or other applicable federal agency. Assignments of federal loans to the federal government must be approved by the Vice Chancellor for Finance and Business.

IV. Write Offs Due to Legal Issues:

As it becomes apparent that collection of certain accounts will not be secured without legal assistance or that a compromise of the claim is justified, the account should be forwarded to university legal counsel for advice and recommendation as to the collectability of the account and management actions to be taken. University legal counsel will consult with the OAG as needed. If the OAG or legal counsel

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recommends the University to cease collection effort due to legal issues, or when management has sufficient evidence to determine appropriate action under the circumstances, write off may be authorized by management for the following:

- a. Accounts outstanding beyond the statute of limitations time period. The statute of limitations for collecting on unsecured debt in the State of North Carolina is **generally three years**. The statute of limitations is longer for debt under seal – such as a promissory note (generally ten years). If a debtor claims a statute of limitation defense and the appropriate time frame has passed, the University must cease all collection efforts immediately **with the exception of set-off debt collections**.
- b. Accounts outstanding for which the debtor is in bankruptcy or deceased.
- c. Accounts outstanding for which the debtor is an organization or business that has ceased or terminated operations or has changed ownership.
- d. Accounts for which the terms of the purchase/contract or the delivery of goods/services are in dispute.
- e. Other legal issues that cause the collection of an account to be compromised or impaired.

V. Prerequisite Actions:

Prior to the authorizations for write off of uncollectible accounts receivable, other than those recommended by legal counsel as noted in section IV, the following prerequisite actions must be evidenced:

- a. Collection (Dunning) Letters (for accounts 30 and 60 days past due) – must be sent on all past due accounts with balances due of more than \$10.
 1. Outstanding past due accounts of \$10 or less may be authorized for write off without additional collection procedures.
 2. Outstanding past due account balances that are over \$10 and less than \$50 may be authorized for write off after the dunning letter process is complete.
- b. Referral to the Office of the Attorney General (OAG) (for accounts that are 60 days past due) - outstanding past due accounts of \$50 or more must be reported to the OAG for collection action. The responsible referring office must document compliance with this requirement before write off of these accounts may be considered by management. The responsible referring offices include:

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1. The University Cashiers Office for student accounts
 2. The Office of Contract and Grants for contract and grant accounts
 3. The University Controller’s Office or designee approved by the Controller for all other accounts.
- c. Submission to Appropriate Personnel Office for Garnishment of Debt Owed to the State by State Employees, Officials or Legislators (State Employee Debt Collection Act (SEDCA)).
1. Outstanding past due accounts of \$50 or more due from state employees, officials or legislators must be processed in accordance with OSBM, OSC and UNC-GA requirements. These accounts may not be authorized for write off unless the account has been processed for collection through the guidelines established by UNC for collection of debt owed to the state by state employees, officials or legislators, if applicable. Accounts should be submitted to the University Payroll Office and/or OSBM for identification purposes by the responsible referring office (see section V.b above). This should be done at the same time that the account is referred to the OAG.
 2. The university should use payroll deductions for amounts past due and owed to the university by its employees, and for other state institutions and agencies that request garnishment of wages, based on proper authorization from the specific state institution or agency and for which payment is to be made, in accordance with the UNC Policy Manual.
- d. Submission to the North Carolina Department of Revenue (NCDOR) for State Offset Debt Collection Act (SODCA) collection - Outstanding past due accounts of \$50 or more must be reported to the NCDOR for processing in accordance with OSC and UNC-GA requirements for SODCA collections. Accounts may not be authorized for write off unless the account has been processed for collection through SODCA for one processing cycle. After determining that the accounts are not due from a state employee, state official or legislator, or after 30 days from the date the account was sent to OSBM for SEDCA processing, the accounts should be submitted to the NCDOR for SODCA processing. Departments with accounts needing to be submitted for SODCA processing should consult the University Controller’s Office for the university’s policy and procedures for submission of the required information to the NCDOR.
- e. Assignment of Accounts to Collection Agencies
1. Collection agencies should be engaged as soon as possible after the OAG advises the account to be sent to a collection agency. The responsible office must use collection agencies approved by the OAG.

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2. Accounts determined by management to not be cost effective to pursue with collection agencies may be written off if there has been no activity on the account for twelve months and the account has otherwise met the prerequisite requirements for write off purposes.
3. Accounts assigned to a collection agency should have already been sent to the NCDOR for SODCA processing as well as to OSBM for identification of debt owed by state employees, officials or legislators. The accounts assigned to collection agencies should continue to be processed for SODCA collections.
4. Accounts assigned to collection agencies not having collection activity after six months of the assignment may be authorized to be written off. These accounts should have already gone through the OAG collection process, SODCA and/or SEDCA collection process for one cycle. Accounts written off should continue to be processed for SODCA collections.

VI. Funding of Write Offs

- a. Write offs that affect revenues should be funded by a charge back to the originating fund and revenue account. In the case of expense overpayments or loan receivables, the charge would be to a bad debt expense line item in the originating fund.
- b. In cases where restricted funding is involved, the charge back would be to the restricted fund if allowed by its fund authority. Funds that have specified external requirements as to their use are considered restricted and limited as specified by its fund authority. Institutions should check the funding authorities of targeted funds before covering such write offs. If write offs are not allowed on the fund, the institution may use other funds, with the approval of management, that are unrestricted and sufficiently broad in scope/purpose to fund the write off.
- c. If the originating fund is insufficient to cover the write off amount and creates negative cash or a negative fund balance amount, the institution may use other funds, with the approval of management, that are unrestricted and sufficiently broad in scope/purpose to fund the write off.
- d. If approved by management and allowed by the institution's spending rules/guidelines, F&A receipts may be considered available to fund contract and grant receivable write offs.
- e. Funding for a write off of receivables to a restricted fund or to a fund that causes negative cash or net asset balances should be resolved by the appropriate level of management in a timely manner.

VII. Accounting Requirements

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a. OSC Procedures Required

1. For any uncollectible receivable of \$50 or more that has been written off, a summary level record of the accounts sufficient to substantiate the debt is to be retained indefinitely or until the debt has been collected or discharged by the billing department. For uncollectible receivables of less than \$50 that have been written off, such records must be retained by the billing department for two years.
2. A record of accounts written off must be maintained and reported to OSC as requested by them.
3. If an account is determined to be an indigent care account or a contractual adjustment, the account should no longer be classified as a receivable/debt of the agency, and the procedures to account for uncollectible receivables do not apply. Agencies should adhere to applicable indigent care regulations.
4. All student accounts receivable written off by the Cashiers' Office that are not the result of legal issues should be flagged to the student's account when allowed by law to restrict services related to the account. Unless prohibited by law, the student should not be extended services until the write off has been settled.

b. OSBM Procedures for State Funds

1. Student accounts receivable charges for tuition revenues reported on the state budget reports may be written off in accordance with the requirements of OSC and OAG.
2. The write off adjustment for uncollected tuition charges would be recorded as a reduction to the tuition revenue account through the use of a contra revenue account (NCAS account number 435801) and offset to the amounts reported for change in receivable. When added together the tuition revenue line items and the change in receivable line item must equal the amount reported as cash received for tuition.
3. OSBM approval is not required for this action but the institution must meet the requirements for collections and write offs as stipulated by the OSC and OAG prior to the write off.

c. General Ledger Entries

1. All write offs of accounts receivable associated with revenues must be recorded as a reduction to the appropriate revenue line item and purpose (fund code) that benefited from the original revenue transaction. The write offs should be made to these fund/accounts even though a negative balance may occur as a result of the entry. All negative asset and fund balances should be reviewed and appropriate and timely adjustments made to resolve the reporting issue.

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2. All write offs of expense overpayment receivables and loan accounts receivable not associated with revenues must be recorded as an increase in bad debt expense to the appropriate purpose/function code where the loan or expense transaction originated. The write offs should be made to these accounts even though a negative balance may occur as a result of the entry. All negative asset and fund balances should be reviewed and appropriate and timely adjustments made to resolve the reporting issue.

d. Allowance for Uncollectible Accounts

1. The University Controller's Office should obtain information relative to the aging of various accounts receivable from campus billing units and document the procedures for determining the year-end allowance for uncollectible accounts. In accordance with GAAP, the accounts receivable reported at year end should be reduced by amounts estimated and determined by management to be uncollectible.
2. Based on review of the various department's aging reports, the University Controller's Office determines the allowance amount by accumulating the balances that are 90 days past due and reducing that amount by collections estimated to be received before the write off of those accounts (may use an average of collection agency and/or SODCA collections over the past three years, if deemed reasonable with the account receivable manager(s)). The allowance for uncollectible accounts documentation and computation must be signed off by the University Controller. The University Controller's Office is responsible for maintaining the supporting documentation and making the entries to the financial systems to ensure that the year-end accounts receivable balances are stated properly for financial reporting purposes.