

University of Missouri System

Accounting Policies and Procedures



Policy Number: APM 60.10

Policy Name: Allowance and Write-off for Uncollectible Grants Receivables

General Policy and Procedure Overview:

The University receives sponsored projects awards from various governmental and private entities. Sponsors generally require an invoice before paying the University for the award. For all sponsored projects, invoices are produced from the billing system. Once an invoice is produced, a receivable is recorded and an aging process begins based on the date of the invoice. A separate policy and procedure document addresses recording revenues, expenditures, and receivables for sponsored projects.

While most sponsors pay invoices reliably, occasionally a sponsor is unable to fund the award they made to the University. Generally Accepted Accounting Principles (GAAP) direct that the University record a reasonable estimate of the amounts that will not be collected and periodically evaluate and write off any amounts determined to be uncollectible. This official policy provides authoritative guidance to the University in calculating an uncollectible estimate, accounting for the provision of uncollectible accounts, writing off uncollectible balances, recording subsequent collection of invoices previously written off and collection procedures.

Technical Definitions as Provided by Industry Standards:

Grants Receivable—Any amounts billed through PeopleSoft Billing for a sponsored project. This may include invoices billing for expenditures on a reimbursement basis, for a prepaid contract or a fixed price contract.

Write-off of Uncollectible Balances—After a thorough collection process is followed by the University and it is determined that an invoice will not be paid in a reasonable time, the balance is no longer considered an asset and is not reflected on the financial statements. The process of removing the balance from the accounts receivable balance on the financials is called write-off.

Allowance for Doubtful Accounts—A reasonable estimate based on historical collections and/or other reasonable rationale is used to record an estimate of the invoiced amounts that will become uncollectible during the period. This amount is reflected as a contra-asset on the statement of net assets.

Aging report—A list of receivables that is grouped or summed by category. Those categories are based on date ranges from the time the invoice was mailed. Typical categories might be: <30, 30-60, 61-90, 91-180, >180 days. As an example, if a sponsor had invoices dated 45 and 100 days from the current date there would be amounts reflected in both of the categories; 30-60 and 91-180. For this accounting estimate, this aging is determined by the date of the invoice.

Detail Policy:

Calculating the Estimate

The process of calculating the estimate for uncollectible accounts requires a rational estimate that follows GAAP. The estimate the University uses is based on the aging of receivables. Additional factors may be considered in addition to aging.

The first step is to obtain an aging of receivables report. This aging ordinarily provides an indication of the probability of collecting an outstanding invoice. The older an invoice is from the date the billed receivable was recorded, generally correlates with a decreased likelihood that the amount will be collected. Based on historical collections of each aging category, a conservative estimate should be made of the uncollectible amounts.

An estimate of the total amount expected to be uncollectible should be made at the end of each fiscal year. A percentage is applied system-wide to each of the aging categories for the outstanding receivables that are on the University's financial books of record. For example, the amounts that are <30 days old would have a relatively high collection rate compared to amounts that are >180 days old.

The estimate calculated above must be substantiated based on a detailed analysis of each receivable. Each receivable should be evaluated based on unique factors that caused the amounts to be outstanding. Some of the reasons that significantly impact collection are: the sponsor is no longer in business or is suffering financial hardship, progress reports were not submitted or submitted late, or the work on the project was never completed. Some of these factors alone may not be reason for doubting collection; therefore, a careful evaluation of the historical relationship with the sponsor and the magnitude of the reason should be considered.

Since sponsors and the University have a legal agreement, amounts are legally collectible unless the University does not perform in accordance with the terms of the agreement. Each invoice is individually considered for collection probability as described in the previous paragraph. The sum of all the receivables identified as questionable using this detailed evaluation process, should be compared to the estimate calculated using the method based on a percentage of each aging category. The amounts should be conservative and not overestimate the collections expected. The specific analysis and identification of questionable receivables is used to reasonably substantiate the Allowance for Doubtful Accounts as calculated using the aging method.

Accounting for the Allowance for Uncollectible Grants Receivable

The GAAP method of recording the allowance requires that an expense be recorded with an offset to an allowance account. The University will use a modified approach that will both comply with GAAP while providing enhanced reporting throughout the year. This approach requires that an estimate be calculated and that an evaluation be made to compare the balance in the allowance account with the calculated estimate at the end of every year. An adjusting journal entry must be made to bring the Allowance for Doubtful Accounts account balance to the same balance as the estimate for uncollectible invoices with an offsetting entry to the Bad Debts

Expense account. The Write-Off section below outlines the recording of the allowance and write-offs.

Write-off of Uncollectible Grants Invoices

The GAAP method presumes a routine collection process for each receivable balance and is outlined below. While routinely executing the collection procedures some of the balances will be considered uncollectible. The procedure to write off a balance will be an approach that provides a more even flow of expenditures and a stable, more reasonable balance for the Allowance account. This method is an important element in reporting more accurate financials that will provide reporting consistency and usefulness during the year and better reflect the net realizable value of assets.

As each invoice receivable is determined to be uncollectible a debit will be made to a Bad Debts Expense account with a Sponsored Programs Office (SPO) ChartField String and credit a Grants Receivable account with the detail project ChartField string. Once a balance is determined to be uncollectible, the University routinely turns the account balance information over to a company specializing in collection of older receivables. When the individual receivable balance has been turned over to a collection agency the amount is written-off, or removed from the University books. The amounts are no longer reflected on the University financials and are no longer used in calculating the Allowance for Doubtful Accounts.

Following is a list of valid Reason Codes that must be used when writing off an invoice:

- INVER Invoice error/inaccurate
- INTIM Invoice was not timely
- LEGAL Legal dispute
- NORSP Documented lack of response from customer
- DECSD Customer Deceased
- UNLOC Customer moved/unable to locate
- INSLV Customer insolvent
- BKRPT Customer declared bankruptcy
- TCRPT Technical report not completed
- DELIV Customer dissatisfied with deliverables
- EXCHR Exchange rate discrepancy
- SMALL Very small balances

Subsequent collection of Grants Invoices previously written off

Some amounts that have been turned over to collection, or written off, are actually collected, less any collection fees. To account for these amounts the entry made will be opposite the write-off entry to get the balance back on the books. An additional entry is made to reflect any earned interest, and then the normal process to record payment of the open item is followed. This process will effectively reduce the Bad Debt Expense in the period and increase cash.

Collection Procedures

This section describes the procedures to follow during the collection process. The steps are designed to obtain uniform results of high collection rates, and maintain a working relationship with the sponsor if practical:

SPO Collection Efforts: The SPO should continue to use prudent judgment in collection efforts until all avenues of resolution have been exhausted. Those methods may include phone calls to the sponsor, continued dunning and legal letters, legal action or other means to continue contact and collect past due invoices.

Dunning Letter 1: The first dunning letter is sent to a sponsor by the SPO when there is an unpaid invoice that is equal to or greater than 90 days past the invoice due date. The letters are generated by the SPO and mailed by the fifteenth day of each month. Copies of the letter: will be retained by the SPO in the official file for the sponsored project, sent to the Principal Investigator (PI), and sent to the Fiscal Officer of the department responsible for the award.

Dunning Letter 2: The second dunning letter is sent to a sponsor by the SPO when there is an unpaid invoice that is equal to or greater than 120 days past the invoice due date. The letters are generated by the SPO and mailed by the fifteenth day of each month. Copies of the letter: will be retained by the SPO in the official file for the sponsored project, sent to the PI, and sent to the Fiscal Officer of the department responsible for the award.

Optional Delay Request: Throughout the collection process, it may be prudent to delay sending legal letters or turning the sponsor balance over to collection. If, in the judgment of management, reasonable progress is being made in negotiations for payment with the sponsor, a delay may be granted. A “Delay of Write-off” form should be completed for review by the designated responsible party in the SPO. The Delay of Write-off form is available in Outlook by selecting Tools, Forms, Choose Form, UM Request to Delay AR Write-Off.

1. Either a Department or SPO will complete the form and mail to the appropriate SPO:
 - COLUM/VOEXT/UMSYS/HOSPT Grantsdc@missouri.edu
 - KCITY ORS@UMKC.EDU
 - ROLLA <mailto:resch@missouri.edu>
 - STLOU ora@umsl.edu
2. SPO will review the reason for the delay and will approve or deny the request based on supporting documentation of collection efforts. For example: the department may have worked out a payment plan with the sponsor, or the sponsor might not have the funds available until a later date.
3. The SPO will print the email, sign it and store it in the permanent file.
4. The SPO will notify the Departmental Fiscal Officer, the PI, the billing specialist, and the collection specialist of the approval or denial of the delay.

Legal Letter: Legal letters are sent to all sponsors that have invoices equal to or greater than 180 days past the invoice due date only if the sponsor’s past due balance over 180 days is \$100.00 or greater. The dollar threshold has been set by the General Counsel’s Office. These letters are printed by the SPO, signed by a University attorney and

forwarded to the SPO office to be mailed by the fifteenth day of each month. Copies of the letter: will be retained by the SPO in the official file for the sponsored project, sent to the PI, and sent to the Fiscal Officer of the department responsible for the award.

Legal Action: The University General Counsel's Office may choose to pursue collection of the past due invoices. The General Counsel will notify the SPO of legal actions they are taking. Notes should be entered into the receivables system to record these actions. Invoices will not be written off as long as General Counsel is actively pursuing collection efforts.

Write-offs: The SPO monitors collections of all sponsored project invoices and works with departments to resolve collection issues. Since departments are financially responsible for un-reimbursed expenditures on a project, departments are expected to provide support of efforts at collection. The SPO provides communication to the PI, the department and to the General Counsel's Office of invoices over 365 days past the invoice due date notifying them of the impending write-off. While awaiting feedback from the department and General Counsel's Office, SPO personnel prepare an entry to write-off the invoice. If the General Counsel's Office chooses to pursue legal action, they must notify the SPO. If neither the department nor the General Counsel's Office have options for alternative action (see [Delay in Write-off](#) below), the write-off entry is entered into the financial system. This entry must be approved by the designated responsible party in the SPO, other than the person who prepared the original invoice. Documentation of the reasons for write-off is noted in the Accounts Receivable system by creating a "conversation" note. When internal collection activities from dunning/legal letters and personal contact have been unsuccessful in collection of the past due invoice, the SPO will initiate the external collection process for invoices \$100 or greater. Additionally, a legal letter must be obtained from General Counsel before turning a balance over to collection agencies.

Delay of Write-off: It may be necessary for a delay in write-off to allow more time to collect the outstanding invoice. In these instances, a "Delay of Write-off" form should be completed by the fifteenth of the month for review by the designated responsible party in the SPO. The Delay of Write-off form is available in Outlook by selecting Tools, Forms, Choose Form, UM Request to Delay AR Write-Off.

5. Either a Department or SPO will complete the form and mail to the appropriate SPO:
 - COLUM/UEXT/UMSYS/HOSPT Grantsdc@missouri.edu
 - KCITY ORS@UMKC.EDU
 - ROLLA <mailto:resch@missouri.edu>
 - STLOU ora@umsl.edu
6. SPO will review the reason for the delay and will approve or deny the request based on supporting documentation of collection efforts. For example: the department may have worked out a payment plan with the sponsor, or the sponsor might not have the funds available until a later date.
7. The SPO will print the email, sign it and store it in the permanent file.

8. The SPO will notify the Departmental Fiscal Officer, the PI, the billing specialist, and the collection specialist of the approval or denial of the delay.
9. If the delay is not approved, the designated individual in SPO will write-off the invoice. If the delay is approved, the collection specialist will add comments to the sponsor regarding approval and the approved delay date.

Collection after Write-off: If the invoice is subsequently collected after write-off has occurred, the SPO reverses the write-off in PeopleSoft AR for the amount of the invoice, reverses the journal covering the expenses on the sponsored project if appropriate, and processes the charge for the collection fee to an unrestricted ChartField string.

Responsibility:

Sponsored Programs Offices

- Invoicing sponsors
- Monitor aging of sponsor invoices
- Regular communication with departments on aged invoices and collection efforts
- Applying payments from sponsors and collection agencies
- Mail dunning letters and legal letters; document reasons for letters not mailed to sponsors
- Write-off invoices after exhaustion of collection efforts
- Assist sponsors in follow-up requests for information.
- Reversal of write-offs for amounts subsequently collected
- Resolve collection issues with sponsor.
- Complete Delay of Write-off forms if additional time is required in collection of outstanding invoices.

Departments

- Complete Delay of Write-off forms and send to the SPO if additional time is required in collection of outstanding invoices.
- Provide ChartField string to cover expenses on uncollectible invoices charged to sponsored projects.

System Accounting

- Provide functional/technical support for sponsored project accounting processes
- Provide functional/technical support for the billing and receivable processes.

Accounting for the Transactions:

Transaction Description	Account	dr	cr
+ End of FY, record adjustment to expense to bring Allowance in line with calculated estimate. A manual journal entry is required.	Bad Debt Expense (at a business unit level ChartField string)	X	
+	Allowance for Doubtful Accounts		X
+ Periodically review and write-off uncollectible account balances. This entry is generated through the receivables system.	Bad Debt Expense (with a business unit level ChartField string belonging to SPO)	X	
+	Grants Receivable		X
* This optional entry is made if appropriate as determined between the SPO and the department responsible for the sponsored project. A manual journal entry is used to record this entry.	Bad Debt Expense (using a departmental ChartField string)	X	
*	Bad Debt Expense (with a business unit level ChartField string belonging to SPO)		X
+ Subsequent collection of previously written off receivable balances. This entry is automated by the Receivables system.	Grants Receivable	X	
+	Bad Debt Expense (with a business unit level ChartField string belonging to SPO from the original write-off)		X
+ Enter an on-line Pending Item manually in PS AR.	Interest Income (using a miscellaneous income DeptID)		X
* Additional entry required if Subsequent Collection is made AND the expense was written off against a detail Department. A manual journal entry is required.	Bad Debt Expense (with a business unit level ChartField string belonging to SPO)	X	
*	Bad Debt Expense (using a departmental ChartField string)		X
+ Recognize receipt of the cash that clears the open receivable item. This entry is automated by the Receivables system.	Cash	X	
+	Grants Receivable		X

+ = entry required for transaction

*** = entry made only if circumstances require**

Effective Date: June 30, 2005

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Questions and Comments?

Questions regarding interpretation and implementation of the Accounting Policy should be directed to the Campus Accounting Office. Suggested edits or revisions to the policy should be directed to the Office of the Controller.