

CHAPTER 8: SECTION 1

CREDIT/ACCOUNTS RECEIVABLE POLICY

CRS 24-30-202.4 states:

“The controller shall advise and assist the various State agencies concerning the collection of debts due the State through such agencies, in accordance with rules and regulations promulgated by the executive director of the department of personnel, to achieve the prompt collection of debts due such agencies.

Upon referral to the controller of debts due the state, the controller shall institute procedures for collection thereof pursuant to the rules and regulations promulgated therefore by the executive director of the department of personnel.”

The executive director for the Department of Personnel & Administration (DPA) has issued the Accounts Receivable Collections Administrative Rule (the Rule) that establishes policies and procedures for the collection of debts due all State agencies and institutions (State agencies). The Rule provides general guidance to State agencies in developing procedures for the collection of accounts receivable. The Rule also provides general guidelines on submitting accounts to Central Collection Services (CCS) in DPA. The Rule does not outline a statewide credit policy, nor does it have definitions for important terms involved in the collection of debts due the state.

This policy outlines the State of Colorado’s credit policy and provides State agencies with definitions of selected terms involved with receivables and receivable collections. It also provides procedural guidance on recording, reporting, and collecting debts due the state.

This policy applies to debts due the State from sources other than federal, state, or local governments. The policy applies to all State agencies, unless specifically exempted by statute. If a State agency determines that compliance with this policy presents an undue hardship on the operations of the agency, the State agency should consult with the OSC on the need to deviate from the policy.

1.1 State of Colorado Credit Policy

It is the policy of the State of Colorado that:

- ♦ State agencies implement policies and procedures that ensure prompt payment of amounts due the state. This includes developing and implementing a credit policy for the State agency.
- ♦ State agencies, where possible, collect for goods or services provided at or before the time of delivery. When State agencies utilize credit cards, they are encouraged to institute a credit card acceptance procedure as soon as possible.
- ♦ State agencies extend credit only when required by statute or other administrative rule, or when collectability is reasonably assured and appropriate steps are taken to protect the interest of the state.
- ♦ All invoices, which represent an extension of credit under this policy, must include a due date when payment is required to be received by the State agency, unless the due date is otherwise specified by written agreement.

- ♦ State agencies should not voluntarily extend credit to individuals or businesses known to have outstanding debts, or nondischarged debts resulting from a bankruptcy order within the past seven years of the most recent request for credit. Under these circumstances, State agencies must receive payment for goods or services in advance or at the time the goods or services are provided.

When credit is voluntarily extended, the State agency must obtain sufficient information from the debtor to allow for collection efforts should the debt not be repaid on a timely basis. State agencies must make every effort to obtain sufficient information from a debtor when the State agency is required to extend credit. The Rule includes relevant information that State agencies should obtain before extending credit.

1.2 State of Colorado Past Due Receivable Rule and Policy

The Rule requires:

- ♦ State agencies bill for goods or services rendered as quickly as possible.
- ♦ State agencies establish a definite schedule of payment of the account receivable.
- ♦ State agencies refer all debts to the State Controller for collection when the debt is 30 days past due or in accordance with an approved alternative timeframe. This requirement is met by sending the past due accounts to CCS.
- ♦ State agencies should not refer debts in amounts less than \$1.00 to CCS. Their system cancels any balance less than \$1.00

The Rule defines a debt as being “past due” if the debt has not been paid by the close of business on the due date.

The due date is defined as the date when payment for invoiced goods or services must be made to the state, or the date(s) scheduled payments are due under a payment plan.

It is the policy of the State of Colorado that:

- ♦ State agencies implement methods or procedures to identify and follow-up on past due receivables. This includes, but is not limited to, a periodic aging of all accounts receivable.
- ♦ State agencies establish a due date that provides reasonable assurance of prompt payment by the recipient, when it is not feasible to collect payment at the time the goods or services are provided.
- ♦ State agencies reconcile internal records to reports issued by CCS showing past due accounts receivable amounts submitted to CCS for collection on a periodic basis, but not less than quarterly.

1.3 Exemptions from Timely Submission of Accounts to Central Collection Service (CCS)

Certain agencies have either a statutory exemption or a waiver from the State Controller extending the 30-day time frame for submitting past due accounts to CCS. Past due accounts, as defined by the Accounts Receivable Administrative Rule, include receivables 30 or more days past the due date established by the agency. The waivers granted by the Controller allow for additional time to submit accounts to CCS based on a specific or unique circumstance in that agency. The Controller’s Office will periodically review these extensions to determine whether the circumstances for which they were given are still valid. Any agency wishing to apply for an extension should do so by submitting the “Accounts Receivable Collections Administrative Rule 1.37 - Extension Request of 30-Day Requirement” form. The form follows Section 1.18 and is also located on the OSC’s web site under Miscellaneous Forms at: <http://www.colorado.gov/dpa/dfp/sco/forms.htm>.

1.4 State of Colorado Accounts Receivable Write-off Policy

It is the policy of the State of Colorado that State agencies shall, at least annually, review their accounts receivable prior to the end of the fiscal year and request a write-off of accounts deemed uncollectible. An account may not be written off if it has not been through tax offset (if applicable) and if there has been collection activity within the last 27 months. Other criteria may exist though which would support the writing-off of an amount due the state.

When determining if an account is uncollectible, a State agency should consider the following factors:

- ♦ Age of the receivable
- ♦ Payment activity on the account
- ♦ Results of legal actions taken
- ♦ Financial condition or other relevant information regarding the debtor
- ♦ Results of tax-offset process

Because write-offs are done for financial reporting purposes only, they do not affect the validity of the debt or the continuing collection efforts. Agencies should maintain detail regarding the original charges and other fees even after the receivable has been written off. Generally, there is no statute of limitations on debts due the state.

The request for write-off should be processed in accordance with the administrative rule procedures. For write-off requests submitted to CCS for accounts over \$50, CCS will make a recommendation to the OSC, and the OSC will make a decision based on CCS's recommendation. For accounts under \$50, there are no required approvals from CCS or the OSC, as long as the accounts have been through one tax offset cycle and the agency has notified CCS within 30 days of such write-offs. See Chapter 3, Section 3.5 for additional details related to the accounting of write-offs.

An agency may not request a write-off of an account deemed uncollectible if it has not been referred to CCS. If deemed uncollectible the debt needs to be requested as a forgiveness of debt. See section 1.8 regarding the policy on forgiveness of debt due the state.

1.5 Cancellation of Accounts Receivable Submitted to CCS

Under certain circumstances, a State agency may determine that an account was inappropriately submitted to CCS, or other events have occurred that results in a need to recall the account from CCS. In this event, the State agency may submit a cancellation request to CCS. A cancellation stops all collection efforts and adjusts the account balance to zero on CCS's database. Information on how to request a cancellation can be obtained from CCS.

A cancellation request could occur under the following conditions:

1. The debt is cancelled, but remains in the accounting records:
 - ♦ A past due account is submitted to CCS by a State agency authorized to collect on past due accounts receivable using a means or method other than CCS, and the State agency chooses to use other means or methods to collect the debt. The receivable remains on the State agency's accounting records.
 - ♦ A State agency receives payment to bring the account into current status within five working days of placing the account with CCS. The receivable remains on the State agency's accounting records.
2. The debt is cancelled and is removed from the accounting records:
 - ♦ The State agency determines that the debt should never have been submitted to CCS because it was not a valid receivable or other similar reason. This includes debts

submitted to CCS where collection efforts cannot proceed because the required debtor information or evidence supporting the underlying charge is not available. The State agency should remove the receivable from the State agency's accounting records.

- ♦ A loan guaranteed by the federal government or some other guarantee organization is in default and the loan is turned over to the guarantee organization for collection. The State agency should remove the loan from the State agency's accounting records.
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- ♦ An order of bankruptcy discharge that identifies the State's debt as being discharged. The State agency should remove the receivable from the State agency's accounting records.
- ♦ Death of the debtor with no estate to make a claim against, after being included in the next tax offset, if appropriate. The State agency should remove the receivable from the State agency's accounting records.

A cancellation request should not be used to recall an account from CCS because of direct payment to the State agency after five days after assignment or to stop collection efforts because the State agency wants to forgive, settle, or otherwise compromise the amount that is due the state.

1.6 Administrative Adjustment of Balances for Accounts Submitted to Central Collection Services

Occasionally account amounts may need to be corrected. These corrections are referred to as administrative adjustments. Types of administrative adjustments may be:

- ♦ When a State agency may need to change the principal or interest amount of debt reported to CCS as past due. Such an adjustment may be necessary due to an error or other principal change since the original amount was placed for collection.
- ♦ Compromises of debt approved by the State Controller and State Treasurer are also treated as administrative adjustments.

When these occur, the State agency should submit an adjustment report to CCS so that both entities books are in balance.

Except in the case of compromises or settlements, collection efforts will continue on the remaining outstanding balance. CCS can provide information on how to report an adjustment to an account.

An adjustment should not be requested when a payment is received directly by the State agency or as a means to settle, forgive or otherwise compromise an amount due the State that has not been approved by the State Controller and State Treasurer.

State agencies and CCS may also need to adjust their internal records because of minor differences between the two. The CCS system cancels any balance remaining on an account that is less than \$1.00. State agencies may make these miscellaneous (non-principal) adjustments to their internal records without the approval of the State Controller and without submitting an adjustment report to CCS. These generally occur with a final payment. Additionally, these types of adjustments should be less than ten dollars.

State agencies should make appropriate entries to their accounting records to reflect administrative adjustments made by CCS.

1.7 Pay Directs

A State agency that receives a payment on an account already assigned to CCS, shall notify CCS within 30 days of receipt of such payment. CCS and/or contract vendors are entitled to commission on such payment.

If such payment will pay the balance in full on an account, the State agency should contact CCS prior to accepting payment to ensure balances are accurate.

1.8 State of Colorado Policy on Forgiveness, Settlement, or Other Compromise of Debt Due the State

CRS 24-30-202.4(3)(c) states:

“The State Controller, with the consent of the State Treasurer, is authorized to write off, release, or compromise any debt due the state, but only in accordance with the rules applicable thereto. Such rules may provide delegated authority and criteria for write off, release, and compromise of debts and may include provisions to prohibit the referral of debts for tax offset based on the age or amounts of debts. The rules governing write off, release, and compromise of debts may include provisions authorizing the collection of principal, interest, and other collection fees and costs, including the fees required in subsection (8) of this section”

It is the policy of the State of Colorado to forgive, settle, or compromise amounts due the State only when it is in the best financial interest of the State to do so.

A forgiveness, settlement, or other compromise of a debt due the State involves a decision on the part of the State not to collect an amount due the state, or collect an amount less than the full outstanding balance, including interest and fees. A State agency may believe it is in the best financial interest of the State to forgive, settle or compromise a debt. The State agency must submit a request to the State Controller to forgive, settle, or compromise a debt. All such requests should be submitted to the State Controller through CCS. If the forgiveness request is for an account that has never been submitted to CCS for collection, CCS may be consulted for concurrence with the forgiveness request.

The request for forgiveness, settlement, or compromise should include:

- ♦ Debtor name, CCS debtor number, State agency
- ♦ Original balance of debt, amount paid, amount to be settled,
- ♦ Collection efforts made, and
- ♦ All relevant financial information used in deciding why the recommended action is in the best financial interest of the state.

If the State Controller concurs with the request, the request will be forwarded to the State Treasurer. If the State Treasurer concurs with the request, an approval letter will be sent to CCS, which CCS will forward to the State agency that made the request. Upon approval by the State Controller and the State Treasurer, CCS will apply any final payment, adjust the balance of the account on CCS's inventory system to zero, and change the status on the account to settled in full (SIF). No further collection activity will occur. A forgiveness, settlement, or compromise is treated like an administrative adjustment.

If the State Controller or State Treasurer does not approve the request, it will be returned to CCS as denied. CCS will forward the denied request to the State agency.

