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.
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> 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 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 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 the 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 department, the state agency should consult with the State Controller's Office 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. State agencies 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 collectibility 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 business known to have non-discharged 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 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.

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.

Due date is defined as the date when payment for invoiced goods or services must be made to the state.

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 based on the state's fiscal year.

1.3 Write-Off of Accounts Receivable

Write-off of an amount due the state is an accounting process for removing uncollectible charges from accounts receivable balances. Write-offs are done for financial reporting purposes. Write-offs do not affect the validity of the debt or the continuing collection efforts. The debt is still considered valid and due and collection efforts will continue. State agencies are required to monitor past due accounts and determine whether an account is deemed uncollectible and should be written off for financial statement purposes. The Rule outlines the procedure to be followed to

request a write-off of an amount due the state. The State Controller's Office provides guidance on how to record write-offs on the state's accounting system. In addition, CCS provides the state agency with a Recommendation to Write-off Report on a monthly basis.

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. At a minimum, state agencies should request that all past due accounts with no payment activity for at least 27 months that have been through a tax-offset process be written off. Other criteria may exist which support writing-off 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 a write-off does not affect collection efforts, state agencies should maintain detail regarding the original charges and other fees even after the receivable has been written-off. There is no statute of limitations on debts due the state.

The request for write-off should be processed in accordance with the rule procedures. For write-off requests submitted to CCS, CCS will make a recommendation to the State Controller's Office. The SCO will make a decision based on the recommendation made by CCS.

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 that event, the state agency may submit a cancellation request to CCS. A cancellation stops all collection efforts and removes the account from CCS's database. Information on how to request a cancellation can be obtained from CCS.

A cancellation request could occur under the following conditions:

- 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 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 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 account into current status within five working days of placing the account with CCS. The receivable remains on the state agency's accounting records.

- An order of bankruptcy discharge that identifies the state's debt as being discharged. The state agency should remove the receivable from the accounting records.
- Death of the debtor with no estate to make a claim against. The state agency should remove the receivable from the accounting records.

A cancellation request should not be used to recall an account from CCS because of direct payment to the state agency 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

A state agency may need to change the principal or interest amount of debt reported to CCS as past due. An adjustment could 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. The state agency may submit an adjustment request to CCS. Except in the case of compromises or settlements, collection efforts will continue on the remaining outstanding balance. CCS can provide information on how to request 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 may also need to adjust the internal records because of minor differences between amounts reported by CCS. State agencies may make these miscellaneous adjustments to the internal records without the approval of the State Controller and without submitting an adjustment request to CCS. In general, these types of adjustments should be less than ten dollars.

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

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

CRS 24-30-202.4 (c) states:

> "The 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 and regulations applicable thereto.'

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 the CCS.

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

- Debtor name, social security number, CCS debtor number,
- 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, he will forward the request 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. 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. If approved by the State Controller and 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 settlement or compromise is treated like an administrative adjustment.