

OSBHE FINANCIAL ADMINISTRATION STANDARD OPERATING MANUAL

This policy was developed prior to implementation of Banner FIS. Therefore, specific information related to the previous accounting system (FMS) is no longer relevant. This policy is made available on-line since certain general principles are still applicable. If you have questions, please contact the Controller's Division at (541) 737-3636 / cdwebmaster@ous.edu. Applicable sections of this policy will be transitioned to the new Fiscal Policy format as time and resources permit.

Section 06.25 COLLECTIONS AND WRITE-OFFS (Last Revised 03/93)

A GENERAL

This section describes the institution's responsibility for collecting accounts and notes receivable and outlines the procedures to follow when the institution is unable to collect on a receivable. The section also discusses assignments to the State Department of Revenue and outside collection agencies, assignment of Perkins/NDSL to the Federal Education Department, and accounting entries for collection costs and write-off of receivables.

B COLLECTION EFFORTS

Institutions must be diligent in collecting accounts and notes receivable, and should develop/maintain administrative rules/procedures which may include:

- Transcripts may be withheld.
- Registration may be denied or canceled.
- Further account receivable privileges or services may be denied.
- Wages may be withheld after receiving the employee's approval.
- Any non-exempt credits in favor of the debtor may be applied to the debt.
- Legally allowed and regulated penalties and interest may be added to the debt.
- Telephone inquiries may be utilized.
- Letters of demand may be sent.
- Legally allowed "skip trace" information may be used.
- Offset procedures with other State agencies may be utilized.
- The Department of Revenue, or private collection agencies under OSSHE contract, may be utilized as collection agents.
- Legal action, as permitted by statutes, may be instituted or required by regulation.

The institution may waive any of the above model rule remedies only when the waiver would serve the best interests of the institution, the State or federal government; or where required by State or federal statute.

The institution business office will grant hearings, in accordance with institutional administrative rules, to persons contesting their debts.

Institutions must follow current bankruptcy regulations concerning debts during and following bankruptcy.

C LEGAL COLLECTION EFFORTS AND BANKRUPTCY

Institutions may find it necessary to file suit to collect some receivables. Federal or State regulations may require the institution to file suit to collect some debts if the student has assets and the ability to pay, but refuses to cooperate. Institutions may also elect to file suit to expedite the liquidation of a debt.

Receivables may be assigned to the Oregon Department of Justice. All suits filed in Oregon must be through the Department of Justice. Institutions should contact the Attorney in Charge, Credit and Bankruptcy Section of the Department of Justice, to discuss the account or to get assignment instructions. Certain cases requiring extraordinary collection efforts should also be handled in this manner. Such cases include those where the collection of the judgement is important to the agency, even if the cost of collection is high, and those where there is a risk that assets will be liquidated or hidden before the usual collection procedures take place.

Institutions may authorize private collection agencies to file suit. These suits cannot be filed in the name of the state of Oregon. The suit must be filed in the name of the collection agency. Institutions must follow the procedures outlined in the current OSSHE collection agency contract and only approved agencies may file suit. If the collection agency does not file suit in small claims court, but rather requires the services of an attorney, then the attorney must be appointed by a Special Assistant Attorney General in the Department of Justice.

Institutions must comply with federal regulations concerning bankrupt debtors. No collection efforts may be made while a bankruptcy case is pending. Institutions should file proofs-of-claim on all Chapter 11 and 13 cases, and those Chapter 7 cases with assets. Cases requiring motions, such as for relief of stay, objections to plans, dismissal of case, etc., must be forwarded to the Credit and Bankruptcy Section of the Department of Justice. Institutions should promptly write off receivables discharged in bankruptcy and immediately resume collection efforts on receivables not discharged.

D ASSIGNMENT OF DELINQUENT ACCOUNTS

Delinquent receivables may be assigned to the State Department of Revenue or to outside collection agencies which are under OSSHE contract. Uncollectible National Direct Student Loans, which are two years old or older, may be assigned to the U.S. Department of Education.

[1] Collection Agency Costs

All institutions should attempt to recover the costs of collection activity on defaulted receivables if there is a statute, rule, or an agreement supporting the recovery of collection costs. In such cases when accounts are sent to collection agencies, the institution should include an amount, clearly identified as collection costs.

Lesser collection charge amounts may be specified when a reduction would serve the best interests of the public, the institution, the State or the federal government.

[2] Assignment of Delinquent Accounts to the Department of Revenue/Private Collection Agencies

Delinquent accounts receivable of \$50 or more may be assigned to the Department of Revenue or an authorized private collection agency.

[3] Collection Account Assignment Agreement and Transmittal Form

The Department of Revenue requires the use of a Department of Revenue assignment form. Institutions may develop an internal form for use by private collection agencies.

[4] Partial or Restricted Assignments

The Department of Revenue will not accept partial assignments. The entire balance owed, not just a delinquent portion, must be assigned. Partial assignments may be made to authorized private collection agencies.

[5] Withdrawal of Assignment

Institutions may withdraw an assigned account at any time by providing written notice. The Department of Revenue and authorized private collection agencies may only recover their fiscal percentage based on actual payments received prior to withdrawal.

[6] Collection Costs

In cases where there is a statute, rule, or an agreement supporting the recovery of collection costs, the full amount of the allowable collection costs should be included on the assignment form when it is completed by the institution.

E SOIL PROGRAM

The Set Off Individual Liability (SOIL) Program is an Oregon Department of Revenue program through which individual tax refunds are intercepted and the money is applied to delinquent accounts receivable. The program should be used for liquidated debts in excess of \$25.00. Accounts already assigned for collection must not be included.

[1] Submitting Delinquent Accounts to the SOIL Program

The Department of Revenue will notify institutions of the format and deadlines used in the submission of delinquent accounts to the SOIL Program.

[2] SOIL Program Collections

Institutions must comply with Oregon Department of Revenue procedures in verifying amounts due, crediting accounts, and refunding.

F ACCOUNTING ENTRIES

Institutions credit payments to a debtor's account on the date it was applied to the account by the Department of Revenue, or when advised in writing that the Department of Revenue is holding an amount to be applied, providing no request for apportionment has been received.

Accounting entries for collection costs associated with delinquent accounts receivable are recorded as either institutional or external. External costs are those from the Department of Revenue or from private collection agencies. Each type of cost requires slightly different accounting procedures.

[1] Institutional Referral Charges

Institutions may add a referral charge for handling delinquent accounts, following institution administrative rules. This charge should be placed on the accounts receivable system.

Since the collectibility of refund charges is doubtful, the credit from posting the receivable is made to a contra-receivable account, rather than to an income account. The entries are made using Transaction Code 0871, Collection Charges. The accounting entries are as follows:

Entries:

<u>Current General Fund</u>	<u>Dr</u>	<u>Cr</u>	<u>Tran. Code</u>
1. XX-012-7001 (Referral Charge)	X		0871, Collection Charges
2. XX-012-92XX (Contra-Receivable)		X	0871, Collection Charges
Accounts Receivable XX-012-7001		Contra-Receivable XX-012-92XX	
1. (0871)		2. (0871)	

If the referral charge is uncollected, the entries are reversed.

When all or a portion of the referral charge is collected and credited to the accounts receivable account, a debit is made to the contra-receivable account and a credit to an (-041-) income account using Transaction Code 0871, Collection Charges. The accounting entries which follow are examples.

Entries:

<u>Current General Fund</u>	<u>Dr</u>	<u>Cr</u>	<u>Tran. Code</u>
1. XX-010-XXXX (Net Cash Received)	X		XXXX
2. XX-012-7001 (Referral Charge)		X	0880, Received on Account
3. XX-012-92XX (Amt. Of Referral Chg. Collected)	X		0871, Collection Charges
4. XX-041-XXXX (Amt. Of Referral Chg. Collected)		X	0871, Collection Charges

Cash

Accounts Receivable

XX-010-XXXX
 1. (XXXX) |

XX-012-7001
 2. (0880) |

Contra-Receiveable
 XX-012-92XX
 3. (0871) |

Income
 XX-041-XXXX
 4. (0871) |

[2] External Collection Costs

Collection costs paid to the Oregon Department of Revenue, Attorney General or private collection agencies should be recorded either as an expense or a reduction of revenue, depending upon the fund group from which the accounts receivable originated. The accounting entries (by fund group) made upon receipt of the net proceeds, are as follows:

Entries:

<u>Current General Fund</u>	<u>Dr</u>	<u>Cr</u>	<u>Tran. Code</u>
1. XX-010-XXXX (Net Cash Received)	X		XXXX
2. XX-04X-XXXX (Collection Costs)	X		0871, Collection Charges
or	or		or
3. XX-05X-XXXX (Collections Costs)	X		2971, Collection Costs
or	or		or
4. XX-06X-XXXX (Collection Costs) Chg. Collected)	X		2971, Collection Costs
5. XX-012-XXXX (Amount of Receivable Collected)		X	0880, Received on Account

Cash
 XX-010-XXXX
 1. (XXXX) |

Budget Income **OR**
 XX-04X-XXXX
 2. (0871) |

Budget Expense
 XX-05X-XXXX
 3. (2971) |

OR Operating Account
 XX-06X-XXXX
 4. (2971) |

Receivables
XX-012-XXXX

|5. (0880)

Entries:

<u>Current Aux. Enterprise Fund</u>	<u>Dr</u>	<u>Cr</u>	<u>Tran. Code</u>
1. XX-110-XXXX (Net Cash Received)	X		XXXX
2. XX-16X-XXXX (Collection Costs)	X		2971, Collection Costs
3. XX-112-XXXX (Amt. Of Receivable Collected)		X	0880, Received on Account

Cash XX-110-XXXX	Operating Account XX-16X-XXXX
1. (XXXX)	2. (2971)

Receivables
XX-112-XXXX

|3. (0880)

Entries:

<u>Current Restricted Fund</u>	<u>Dr</u>	<u>Cr</u>	<u>Tran. Code</u>
1. XX-210-XXXX (Net Cash Received)	X		XXXX
2. XX-26X-XXXX (Collection Costs)	X		2971, Collection Costs
or	or	or	
3. XX-27X-XXXX (Collection Costs)	X		2971, Collection

		Costs
4. XX-212-XXXX	X	0880,
(Amount of Receivable		Received on
Collected)		Account

Cash XX-210-XXXX <hr/> 1. (XXXX)	Operating Account XX-26X-XXXX OR <hr/> 2. (2971)
Operating Account XX-27X-XXXX <hr/> 3. (2971)	Receivables XX-212-XXXX <hr/> 4. (0880)

Entries:

<u>Loan Fund</u>	<u>Dr</u>	<u>Cr</u>	<u>Tran. Code</u>
1. XX-310-XXXX (Net Cash Received)	X		XXXX
2. XX-33X-XXXX (Collection Costs)	X		8203, Bad Debt Expense
3. XX-312-XXXX (Amount of Receivable Collected)		X	8101, Loan Principal Collected

Cash XX-310-XXXX <hr/> 1. (XXXX)	Balance XX-33X-XXXX <hr/> 2. (8203)
Receivables XX-312-XXXX <hr/> 3. (8101)	

G NDS/PERKINS LOANS

[1] **Assignment of NDS/Perkins Loans to U.S. Department of Education**

Institutions may assign defaulted National Direct/Perkins loans to the U.S. Department of Education. This method forfeits the institution's claim to any of the defaulted amount collected by USDE. Upon acceptance by USDE, the assigned notes serve to lower the institution's default rate. Institutions receive instructions for assignments from USDE. Upon notification of acceptance by USDE, the institution writes off the loan by completing a write-off certificate and sending it to the Secretary of State, following the standard procedures.

[2] **Write-Off of NDS/Perkins Loans**

The write-off of NDS/Perkins loans is permitted for reasons of assignment to USDE, bankruptcy, total disability or death.

H **WRITE-OFF OF UNCOLLECTIBLE ACCOUNTS RECEIVABLE**

Institutions may request authorization to write off an uncollectible accounts receivable when all avenues of collection, commensurate with the amount due, are exhausted. Such collection efforts must include ascertaining, through appropriate inquiry, that the debtor has no money or other thing of value due and owing or held by any other state agency, which has not been credited to his obligation to the State of Oregon (ref.: "Guidelines for Writing Off Uncollectible Debt Under ORS 293.240" by Barbara Roberts and Dave Frohnmayer, 10/23/87).

Institutions should prepare: (1) Schedule of Write-Offs of Uncollectible Accounts; (2) Approval and Assignment of Uncollectible Debt Certificate.

Note: Institutions may assign written-off accounts to Oregon Department of Revenue (ODR) under their guidelines, but are not required to do so.

[1] **Preparation of Schedule of Write-Offs of Uncollectible Accounts**

This form is used to list accounts receivable items for which approval to write off is requested. Institutions prepare their own schedule forms.

Note: The OHSU Patient Accounts Office uses its own form for this information.

The schedule is prepared and processed according to the following instructions.

1. **Date:**
Enter the current date.
2. **Page:**
Enter the page number. Subsequent pages are numbered sequentially.
3. **Institution:**
Enter the two-digit institution number which is the first portion of the Request Number. For a list of institution numbers, see Section 01.01A[4], Institution Number.
4. **Fiscal Year:**
Enter the two-digit fiscal year in which the bad debt write-off occurs. This is the second portion of the Request Number.
5. **Internal:**
Enter the two-digit sequential number assigned to each write-off request, i.e., 01, 02, 03, etc. This is the third and final portion of the Request Number.
6. **Name of Debtor:**

Enter the full name of the person owing the debt with any additional information required to locate write-off files such as account number or Social Security number.

7. Amount:
Enter the amount owed by the debtor.
8. Collection Method Code:
Enter the code for the organization that conducted the major collection effort and determined that the account is uncollectible.
9. Reason for Write-Off Code:
Enter the applicable code as follows:

<u>Code</u>	<u>Description</u>
1	No Assets in Foreseeable Future: The debtor does not and will not, for the foreseeable future, own nor have the right to own assets from which the debt could be collected.
2	Collection Costs Equal or Exceed Debt: It is reasonably estimated that cost of collecting the debt would equal or exceed amount owed. Using ODR Unrestricted Program policy as a criterion, it may be presumed that collection cost will be at least \$50. Consequently, write-offs of \$50 and less should not be sent to the Division of Audits; however, information documenting these uncollectible accounts should be retained. Write-offs of amounts exceeding \$50 will continue to be approved by the Secretary of State, Division of Audits. (Ref. Department of Revenue policy, April 14, 1992)
3	Deceased Debtor and No Assets: The debtor is deceased, and there are no assets in the estate from which the debt could be collected.
4	Defunct Corporation: The debtor is a corporation which is not, and for the foreseeable future will not be, engaged in any income-producing activity or is no longer incorporated, and has no assets from which the debt could be collected.
5	Uncollectible in Foreseeable Future: The agency is an will be, for the foreseeable future, unable to collect the debt from the debtor or anyone owing the debtor or any assets of the debtor.
6	Bankruptcy: These debts have been discharged in a bankruptcy proceeding.
7	Assigned to the U.S. Department of Education: These debts are NDS/Perkins Loans.

Sample Write-Off Schedule:

(Note: The Schedule of Write-Offs of Uncollectible Accounts form is not available in the on-line version; contact the Controller's Division for a copy.)

[2] Preparation of Approval of Uncollectible Debt Certificate

This form is a certification that the accounts, listed on the Schedule of Write-Offs of Uncollectible Accounts, are uncollectible. A request for write-off approval is required to be sent to the Secretary of State. The certificate should be on institutional letterhead paper and contain the same information as shown on the example. The Request Number in the top right corner consists of: the institution number; the last two digits of the fiscal year, e.g., "92" for FY 91-92; and a two-digit sequence number starting over each fiscal year.

(Note: The Institutional Letterhead sample is not available in the on-line version; contact the Controller's Division for a copy.)

[3] Accounting Entries - Approved Write-Offs

Once approval is given to an institution by the Secretary of State's Office to write off an accounts receivable, the following accounting entries are made according to fund group. These entries may be made as a direct write-off or as a write-off to an allowance for uncollectible receivables using the accrual method of accounting. Bad debt charges associated with Current General Fund (-04X-) income are charged to the specific (-04X-) income account or an (-04X-) account unique to that fund. The (- 04X-) account to be used depends on where the income was originally recorded, such as XX-040-XXXX, Board and State-Wide Public Service Income; XX-041-XXXX, Institutional Income of Educational and General Funds; or XX-047-XXXX, Continuing Education.

Note: Bad debt charges for other fund groups and accounts are charged to expense in that fund group or account.

[4] Direct Write-Offs

If an uncollectible debt is approved for write-off directly, the following accounting entries are made according to fund group.

Entries:

<u>Current General Fund</u>	<u>Dr</u>	<u>Cr</u>	<u>Tran. Code</u>
1. XX-04X-XXXX (Reduction of Income or Chg. To Expense by Amt. Of Write-Off)	X		0870, Bad Debt Write- Off
or	or		or
2. XX-060-XXXX (Same as Above)	X		2970, Bad Debt Expense
or	or		or
3. XX-061-XXXX (Same as Above)	X		2970, Bad Debt Expense
4. XX-012-XXXX (Reduction of Receivables by Amt. Of Write-Off)		X	0870, Bad Debt Write-Off

Income XX-04X-XXXX	Operating Account XX-060-XXXX
1. (0870) OR	2. (2970) OR
Service Department XX-061-XXXX	Receivables XX-012-XXXX
3. (2970)	4. (0870)

Entries:

<u>Current Aux. Enterprise Fund</u>	<u>Dr</u>	<u>Cr</u>	<u>Tran. Code</u>
1. XX-16X-XXXX (Chg. To Expense by Amt. Of Write-Off)	X		2970, Bad Debt Expense
2. XX-112-XXXX (Reduction of Receivables by Amt. Of Write-Off)		X	0870, Bad Debt Write-Off

Operating Account XX-16X-XXXX	Receivables XX-112-XXXX
1. (2970)	2. (0870)

Entries:

<u>Current Restricted Fund</u>	<u>Dr</u>	<u>Cr</u>	<u>Tran. Code</u>
1. XX-26X-XXXX (Chg. To Expense by Amt. Of Write-Off)	X		2970, Bad Debt Expense
or	or		or
2. XX-27X-XXXX (Same as Above)	X		2970, Bad Debt Expense
3. XX-212-XXXX (Reduction of Receivables by Amt. Of Write-Off)		X	0870, Bad Debt Write-Off

Operating Account XX-26X-XXXX	OR	Operating Account XX-27X-XXXX
1. (2970)		2. (2970)

Receivables XX-212-XXXX
3. (0870)

Entries:

<u>Loan Fund</u>	<u>Dr</u>	<u>Cr</u>	<u>Tran. Code</u>
1. XX-33X-XXXX (Chg. To Expense by Amt. Of Write-Off)	X		8203, Bad Debt Expense
2. XX-312-XXXX (Reduction of Receivables by Amt. Of Write-Off)		X	8101, Loan Principal Collected

Balances XX-33X-XXXX		Receivables XX-312-XXXX
1. (8203)		2. (8101)

[5] Write-Offs to Allowance for Uncollectible Receivables

If an allowance for uncollectible receivables is established by a charge to expense (or revenue), then the debits in the examples for direct write-offs should be made to account XX-X12-9XXX, Allowance for Uncollectible Receivables, using Transaction Code 2970, Bad Debt Expense (8203 in the Loan Fund Group). The credited accounts should be the same as those above, using Transaction Code 0870, Bad Debt Write-Off (8101 in the Loan Fund Group).

I ALLOWANCE FOR UNCOLLECTIBLE RECEIVABLES

An allowance for uncollectible receivables is established for all accrued receivables in each fund group except federal loan programs and receivables which are immaterial. These two exceptions of uncollectible receivables are written off according to the procedures for direct write-offs.

[1] Accounting Entries for Allowance for Uncollectible Receivables

When a receivable is created and the income is posted to an XX-04X-XXXX, income account, the charge to create the allowance for uncollectible receivables is made to an XX-04X-XXXX account as a reduction of income, using Transaction Code 0870, Bad Debt Write-Off. When the

income is credited to a self-sustaining account, i.e., (-06X-), (-16X-), (-3XX-), etc., the charge for uncollectible receivables is made to that self-sustaining account as an expenditure, using Transaction Code 2970, Bad Debt Expense (8203 in the Loan Fund group). In either case, the amount charged for uncollectible accounts is credited to a contra-receivable account, XX-X12-9XXX, Allowance for Uncollectible Receivables, using Transaction Code 0870, Bad Debt Write-Off (8203 in the Loan Fund Group).

[2] Charge Rates for Uncollectible Accounts

The charge rates for uncollectible accounts should be established for each category of receivables based on institutional experience and charged as a percentage of dollar volume of receivables generated that year or as a percentage of the total accounts receivable balances at year-end. The balance in the Allowance for Uncollectible Receivables account should be reviewed annually to assure that a reasonable balance is being maintained and future charge rates should be adjusted accordingly.