



Accounts Receivable Guide

Improving your processes:

Tips for leaders, managers, supervisors
and accounts receivable clerks



Center for Government
Innovation

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Disclaimer: This resource is provided for informational purposes only. It does not represent prescriptive guidance, legal advice, an audit recommendation, or audit assurance. It does not relieve governments of their responsibilities to assess risks, design appropriate controls, and make management decisions.



Leadership

Leadership sets policy and direction for financial operations, such as billing and collections. They also make important decisions about the overall structure of control systems – how accounts receivable functions will be organized, when to invest in technology, and what major improvements will be authorized.



A/R Clerks

Accounts receivable (A/R) clerks carry out the daily tasks of billing customers or debtors and collecting past-due accounts. They are responsible for following policies established by leadership and the internal control system principles established by management.



Supervisors

Supervisors of the accounts receivable process monitor billing and collection activities to ensure staff follow policies and internal controls operate as designed. They monitor billing accuracy, completeness, and timeliness, as well as oversee collections of past-due accounts.



Managers

Managers carry out policy decisions set by leadership, determine the design of internal control systems, and support system or process improvements. They strive to maximize revenue from the billing and collection processes while reducing risks related to fraud, errors, or omissions.

Summary

Accounts receivable collects critical revenue from customers or debtors – a key activity in supporting a government’s operations and service delivery. Governments bill for taxes, various fees, and fines, and a multitude of services like utilities, ambulance, property leasing, and port terminal operations (dockage and wharfage).

The billing and collection processes can be labor intensive, and any missteps can cost your government greatly in foregone revenues and damage to customer trust. That is why it is important to revisit this process and explore options to improve it. With minimal investment and a few changes, you may be able to better optimize your revenue collection.

We know the challenges governments face in managing billing and collection systems, and in striking just the right balance between internal controls and the costs of those controls. Governments are busy managing daily operations, and they do not always have the time to research better ways of doing business.

Organization-wide policies are critical for setting the direction and expectations for billing and collections. If your government does not have policies covering accounts receivable internal controls, this guide can help you get started developing them. Although there is no one solution that fits every government and every situation, there are certainly some best practices, ideas, and suggestions to consider.

We know you have limited time. That is why we have prepared guidance for you, regardless of your role. We have made it easy for you to find just what is relevant to you. This guide can be printed in sections and distributed to whomever is in charge of certain responsibilities.

This guide is intended to provide ideas and best practices that can help you build a stronger accounts receivable process. We hope you find it helpful in your work!

Organization-wide policies are critical for setting the direction and expectations for billing and collections.



Leadership

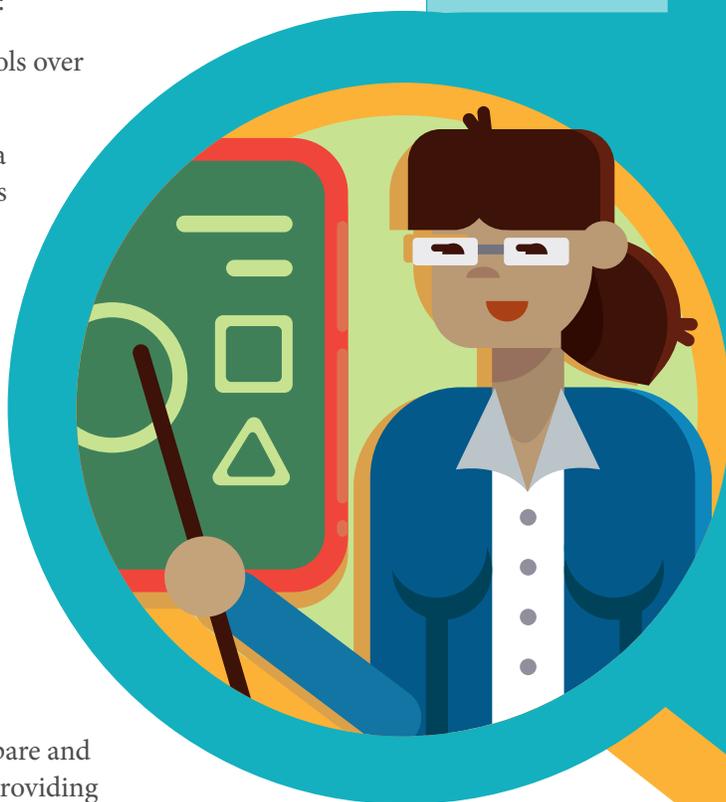
Start your accounts receivable policies today!

Your government's success with billing and collections can greatly affect your revenue and cash flow. That is why it is important to develop guidance so your staff understand the expectations and internal controls over this important system. Here are some areas your policies should address:

Set the stage for billing

Your ability to collect payments depends on the timeliness and quality of the billing information. Your policies should address areas like:

- **Customer or debtor master file** – Determine the controls over setting up or changing customer or debtor information.
- **Credit limits and deposits** – Determine if you require a credit review process and/or deposits for new customers to protect your financial interests.
- **Rates or fee adoption** – Adopt billing rates or fees formally, or describe how you will determine them. Adopt any discount rate or hardship programs, if applicable.
- **Rate or fee analysis** – Determine if (and how often) you should analyze fees or rates to assess if they are reasonable, recovering costs, and properly allocated by category.
- **Billing rate verification** – Designate which staff are responsible for updating billing rate tables and testing changes to them.
- **Billing timeline** – Specify how quickly staff should prepare and send billings after the triggering event occurs (such as providing service). If you operate a utility, address timelines for first and final invoices for opening or closing accounts.
- **Billing details** – Describe what information your invoices must include, such as detailed descriptions of the services performed or fees charged, contact information should recipients have questions, translation information, or any legally required disclosures.
- **Payment terms** – Determine how quickly customers or debtors should remit payments to you, such as net 30 days.
- **Billing process** – Define how staff should prepare or record invoices, and if they are required to use a specific software system.
- **Billing reconciliations** – Describe any required reconciliations to source records that staff should perform.



- **Billing disputes** – Outline your process for investigating and resolving disputed billings, including notifying management for disputes not resolved within a certain time frame. If one item is under dispute, consider requiring collection of all other amounts owed.
- **Returned customer or debtor mail** – Specify the number of days within which staff should follow up on returned customer or debtor mail.
- **Stand-alone billing systems** – Describe the approval process for establishing a stand-alone billing system (if they are allowed), how the subsidiary data will transfer to the general ledger, and how it will be reconciled to the general ledger.
- **Expectations of customers or debtors** – Decide if you will expect customers or debtors to provide remittance details with their payments.
- **Error corrections** – Describe how to handle overbilling or underbilling errors, and how to apply or interpret relevant statutes, such as a statute of limitations.

Put parameters in place for payment posting

You need accurate payment posting so that your records are complete and reliable. Your policies should address:

- **Process** – Include your payment posting requirements (e.g., the posting timeline, and whether you require staff to post payments according to the customer's or debtor's remittance advice).
- **Daily reconciliations** – Require that all payments received agree to all payments posted (including payment method). Describe any other required reconciliations.



Develop guidelines for account adjustments

Staff can change the amount customers or debtors owe with credit memos, invoice reversals, account adjustments, or balance transfers. Therefore, it is important your policies include some parameters. Key areas may include:

- **Allowable types** – List the types of allowable adjustments (e.g., correct a billing error).
- **Documentation** – Specify the required documentation to support each adjustment type.
- **Initiators** – Explain who may initiate these transactions.
- **Approvers** – Designate someone responsible for approving and monitoring account adjustments.
- **Issuance** – Determine how you will communicate each adjustment type to the customer or debtor (e.g., monthly billing statement, credit memo).

Formalize your process for collecting past-due amounts

Your policies should communicate the steps that staff will take when collecting amounts owed. You may have different processes for different transaction streams. Some areas to cover are:

- **First contact** – State when and how first contact should occur to collect amounts owed.

- **Subsequent collection efforts** – Define the specific collection actions that your staff will take, the timeline for each one, and how they will escalate over time until payment is received or the account is written off. Describe if and how the collection actions will change based on the amounts owed or nature of the receivable.
- **Clarity in communications** – Address the form and content of collection correspondence, such as requiring communications use plain language, explain additional costs for late payment or collection agency referral, and translation information.
- **Regulations** – Address any state laws that prescribe certain collection procedures for a specific transaction stream. In addition, make sure your policies comply with the federal [Fair Debt Collection Practices Act](#) where applicable.
- **Payment arrangements** – Decide if you will allow payment arrangements and how they will be approved, documented, and monitored. Also, address any limitations, such as dollar thresholds, maximum time frame, or a maximum number allowed.
- **Other hardship options** – Describe clearly any additional hardship options and how you will communicate them to ensure everyone has an equal opportunity to access them. Examples might include fee waivers, penalty waivers, temporary billing pauses for certain qualifying events, collection agency referral pauses, discount programs, crisis vouchers, and options for more frequently billing.
- **Legal involvement** – Describe when staff should communicate with your legal counsel, as issues can arise in the collection process that require legal assistance.
- **Contracted collection agency** – Specify when you will refer past-due accounts to collections, at what dollar threshold, who will approve them, and how long the collection agency has to collect them. List any exceptions you will allow. In addition, provide a notification timeline for communicating with customers or debtors so they are given proper notice of the referral.

Give direction for write-offs

Write-offs can save you from wasting resources and trying to collect the uncollectible. Your policies should address areas like:

- **Justification** – List the allowable reasons for writing off accounts, when they will qualify, and any associated criteria.
- **Statute of limitations** – Specify any statute of limitations for collecting certain transactions and how that will affect your write-off process.
- **Receipt of bankruptcy notices** – Describe the process for evaluating and responding to these notices, and whether staff should involve your legal counsel.
- **Small balances** – Decide if you will have a separate process for writing off small balances, and specify your threshold.
- **Approval** – Describe the approval process for write-offs, including who reviews the preliminary listing of accounts and gives final approval.

Define the monitoring activities

Monitoring plays an important role in the collection process. Your policies should set expectations for those in a supervisory role. For example, your policies might cover:

- **Monitoring of billing** – Designate those responsible for monitoring the billing process and explain how they should monitor (e.g., monitor outstanding billing disputes, review key exception reports or queries for assessing billing accuracy or completeness, and/or evaluate certain performance metrics).
- **Monitoring of aged receivables** – Determine how often management should review an aged receivable report for each billing and collection system, and how they should review it (e.g., compare to prior years, industry standards).
- **Monitoring collection agencies** – Describe how you will track the accounts assigned to collections, who is responsible for monitoring collection agency reports, and any performance expectations for collection agencies, such as minimum collection rate.
- **Central finance** – Describe your finance department’s role in potentially monitoring any subsidiary or stand-alone billing and collection systems, such as those that might exist at the department level.
- **Review of bad-debt losses** – Describe how management should analyze the losses you have incurred (e.g., by customer, size of account).



Segregate conflicting duties

Your policies should give some general guidelines about segregating duties. Here are some considerations:

- **Cash receipting** – Ideally, your policies should restrict billing or collection staff from handling, accepting, or posting payments. If this is not possible, describe how managers should monitor to compensate for the increased fraud risk.
- **Approvals** – Your billing and collection staff should not approve transactions, as they already process them.

For more information, see [SAO’s Segregation of Duties Guide](#) (section 2, chapter 2).

Financial reporting (GAAP reporting only)

If your government reports using generally accepted accounting principles (GAAP), your policies should describe financial reporting processes for accounts receivable. Here are a few items your policies might cover:

- **Estimating your allowance for doubtful accounts** – Describe the methodology you will use and how you will support significant assumptions.
- **Unbilled revenue** – Explain your procedures for estimating the unbilled receivables that exist as of year-end (the service has been provided but not yet billed).
- **Reconciliation of billing software modules to the general ledger** – Designate responsibility and how often reconciliations should occur.

Leadership

Tips to maximize revenue collection in the billing and collection system

Leaders can deploy resources in ways that increase the likelihood of collecting payments. Consider these possibilities to improve your government's process:

Set up your systems to be prompt

Send out invoices on time and begin collection efforts immediately after an account is past due (potentially the first day it is late). This is the single most important factor in receiving timely payment, but you must dedicate the necessary resources.

Centralize your accounts receivable system

Centralize your accounts receivable process as much as possible to enjoy benefits like centralized tracking, monitoring, and management. This practice reduces software costs and allows you to contact a debtor once for all amounts owed.

Use in-house collections as your primary means to collect

Use your staff as the primary means to perform collections. You are likely to have better success than a collection agency, and you can avoid costly fees. It also allows you to identify and correct invoice errors, provide better customer service, and better understand the reasons for nonpayment. You can use collection agencies as a backup when staffing is low or when you have completed your internal collection efforts.

Provide access and training on skip-tracing tools

Skip tracing is the use of databases to find information about someone. You can use it to locate customers or debtors, but be sure to comply with any privacy laws. You can use your own databases or those of other state or local governments (e.g., County Assessor, Department of Motor Vehicles, Secretary of State, or Department of Labor and Industries).

Write off uncollectible accounts as soon as practical

Make sure you regularly write off uncollectible accounts so that staff are not wasting their time and resources. This should include any accounts you cannot pursue, such as those exceeding a statute of limitations, or where documentation is lacking. Also, consider delegating authority to write off smaller accounts.

Seek alternatives if fines are bogging down your collections

Governments may impose a fine to motivate a third party to stop doing something or to take a certain action. However, this practice can lead to the creation of many debtor accounts with a very low collection rate. Often, those fined lack the ability or motivation to pay, and governments often must expend considerable resources to try to collect. Explore alternative methods to achieve your underlying objective so that you can free up collection staff time.



Strike a balance with late fees and penalties

Assessing late fees and penalties can be a reasonable tool for motivating payment, so long as you are not overly aggressive. Otherwise, it becomes an obstacle to payment, as the amount owed can quickly exceed the debtor's ability to pay.

Currently, you may have varying late fees, penalties, or timeframes for different transactions, which can lead to confusion and create challenges for those who owe money. Consider aligning the charges and timing as much as possible when you have the legal flexibility to do so.

Access debtor assets, wages, winnings, or refunds

Explore options like wage and bank matching to recover amounts owed. State agencies, counties, cities, towns, school districts, fire protection districts, port districts, and public utility districts also can also access lottery winnings (RCW 67.70.255).

State agencies might consider a data-sharing agreement with other state agencies to identify debtors who are owed refunds that can be applied to debts owed (contact your Assistant Attorney General or the Department of Revenue, Department of Labor and Industries, and Employment Security Department, which currently have such agreements).

State agencies that participate in the federal [Treasury Offset Program](#) may also be able to access federal tax refunds. (Contact the Office of Financial Management for more information.)



Make it easy for debtors to pay you

This might include offering a host of payment options, methods, and plans. If you offer payment plans, make sure you publicize options so that everyone has an equal opportunity to request them.

Optimize collection staffing levels to maximize revenue

Agencies with lagging collection efforts frequently do not have enough staff. Governments often overlook the extent to which additional staff could collect money owed to them, thus covering the cost of their position and more. Perform an analysis and use this data to support a budget request, if needed.

Explore the costs and benefits of automated options

Electronic billing reduces paper costs and delivers billings promptly. Online account access provides customers or debtors the ability to access their information and get answers to questions.

An automated collection system can interpret debtor data and prompt staff to collect certain accounts (e.g., larger, higher probability of collection, or a history of negligence). Such systems can also automate parts of the collection process, store key documents online, send text messages to debtors, and even allow debtors to electronically agree to a payment plan.



Accounts receivable clerks

Remember these best practices when billing or collecting

Your government counts on you to prepare billings accurately and help it collect amounts owed so it can continue to provide services to its community. Follow these best practices to help guide you along the way.

Let policies guide you

Always follow policies and procedures, and make sure you adhere to all internal controls. If you have suggestions about how to improve your policies or procedures, share them with your manager.

Spend quality time with your computer application

Get familiar with your accounts receivable application. Spend some time exploring how the program works and the types of system reports available.

Maintain your customer or debtor master file

First, eliminate duplicate accounts, as they can complicate collection efforts and lead to difficulties when performing research. Second, clear out old, obsolete records that are outside of records retention laws. Lastly, spend time collecting any missing customer or debtor billing information, in case you need it to collect on accounts later.

Make haste when preparing invoices

Perform billing promptly after your agency provides goods or services, or some other underlying event has occurred that would trigger a bill. This helps your government collect its revenue sooner and results in more successful collection efforts.

Shine the light on the details

Make sure billings have sufficient detail and clear explanations so that customers or debtors can understand the underlying charges. Otherwise, the customer or debtor may call or delay payment, prompting you to spend additional time and resources.



Be prepared to prove your case

It is not enough to say someone owes you money; the burden of proof is on your government. Make sure you have documentation about amounts owed early so that support is available at any point in the collection process.

Apply payments at the customer's or debtor's direction

In most cases, you should apply payments based on the details the customer or debtor has provided (as per the remittance information that accompanies payment). That way, you can have productive conversations about the makeup of a past-due balance.

Promptly begin collection efforts

The sooner that you begin collection efforts on past-due amounts, the more likely you will be successful in collecting them.

Be smart about where you spend time

Consider the likelihood of collection, as well as the dollar amount owed, before devoting time and resources to collecting amounts owed, especially if you have limited resources.

Take time to do some sleuthing

You can use skip-tracing tools to find information about a customer or debtor. Your government may have information about them in other databases or recordkeeping systems, or it may have access to other external databases or tools.

Keep track of your collection efforts

Document all your communications, correspondence, and other evidence of collection efforts with customers or debtors. That way, you can demonstrate the actions you have taken to collect on the account.

Perseverance often pays off

You should maintain regular contact with the customer or debtor until the amount outstanding is paid, written off, or referred to a collection agency.



Supervisors

Remember these best practices when overseeing billing and collections

Supervisors conduct critical oversight to ensure accurate, timely billings and proper performance of collection activities. Here are some tips to help you make sure your oversight procedures are top notch:

Gain assurance over the quality of source data

Billings depend on accurate and complete underlying data. For example, utility bills rely on accurate meter-read data. Make sure you are comfortable with the internal controls over key inputs to your billing process. [For best practices over meter-read data](#), refer to SAO's resource on this topic.

Stay on top of the "Big Three:" Accuracy, timeliness, and completeness

Check that your billing process is accurate, timely, and complete. For accuracy, this may involve verifying the billing rates or testing software calculations. For timeliness, you want to make sure billings are prepared promptly and within your policy guidelines. For completeness, take steps to make sure all source records result in the appropriate billing.

Scrutinize accounts receivable adjustments

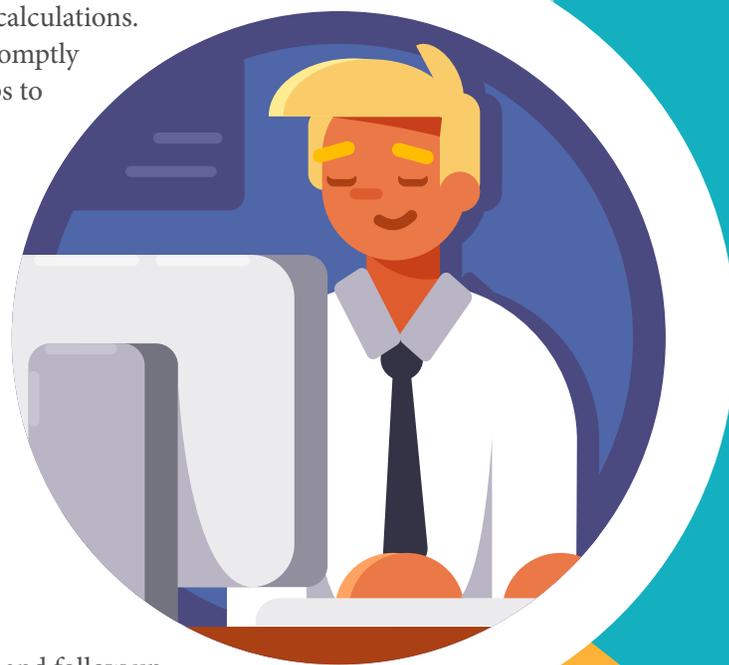
Review adjustment activity to ensure it is appropriate, accurate, and complies with your policies. As a designated reviewer, you should generate your own exception report or find some other way to verify that you are reviewing all the adjustment activity, including transfers between accounts. Make sure to review the reasons for adjustments (you may learn about billing errors or other issues that could be resolved earlier in the billing process).

Keep tabs on open billing disputes

Monitor the nature and extent of outstanding billing disputes, and follow up where needed. You should strive to resolve disputes in a timely manner, as well as require customers to continue to pay charges unrelated to the dispute.

Monitor high-value and high-risk accounts

Develop a report to help you identify high-value and high-risk accounts so that you can closely monitor collection efforts. Some examples of high-risk accounts include those approaching a collection deadline (e.g., due to a statute of limitations), having



a long history of nonpayment or disputes, or belonging to a related party or a business experiencing financial distress.

Assess collection staff's performance

If you have a small collection staff, you can spot check their efforts by reviewing some accounts, monitoring the collection rate, and reviewing an aged receivables report. If you have a large collection staff, you can look at metrics like the number of calls or letters each employee has prepared. You can also analyze the cost of collecting accounts and compare that to industry norms.

Monitor accounts not sent to collections

If you use an external collection agency, develop a report to identify delinquent accounts not referred to collections. Review it periodically to ensure the information meets your expectations.

Evaluate collection agency results

Monitor collection agencies monthly by comparing data to historical information, that of other collection agencies you might use, and industry norms. Focus on their collection rate (amount collected as a percentage of total amount owed) and how many days it took them to collect it. You should monitor this information for indicators that your staff did not make a sufficient attempt to collect before they referred it.

In addition, you should verify that the total amount the collection agency is pursuing agrees to your records.

Check write-off activity

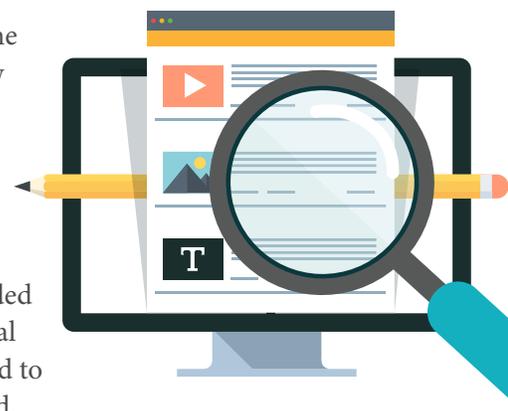
Review reports to ensure the proposed write-off amount is complete and accurate before submitting it for approval. In addition, verify that staff have accurately updated your system records after write-off approval.

Regularly review an accounts receivable aging report

Review an accounts receivable aging report often (e.g., weekly or monthly). Compare the information to historical trends, review for individually significant accounts, and follow up on red flags.

Make sure your general ledger is complete and accurate (GAAP reporting)

If your government reports under GAAP, ensure that all accounts receivables are recorded in a billing and collection module, and each module is reconciled monthly to the general ledger. Review for any accounts with credit balances, as these can represent money owed to the customer or debtor and can understate the accounts receivable balance if unresolved.



Managers

Reduce your billing and collection risks

Billing and collection risks include fraud-related revenue loss, error, or mismanagement. Managers can help reduce risks of revenue loss in these ways:

Monitor customer or debtor master file

A messy customer or debtor file can lead to staff billing the wrong account, wasted time researching amounts owed, or collection actions that do not include everything that is owed. Make sure that staff are keeping it free of duplicates and obsolete accounts.

Segregate incompatible duties

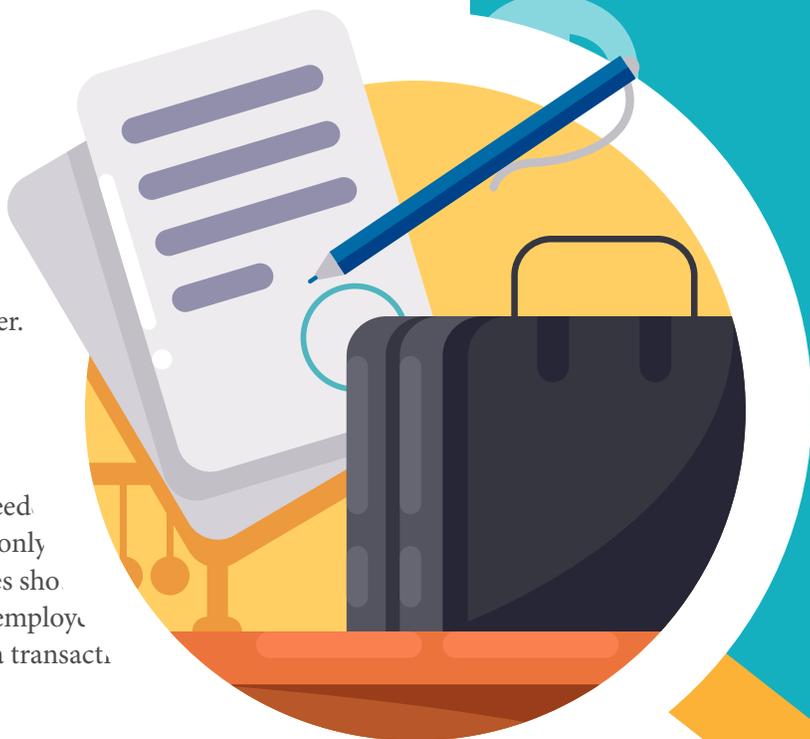
To reduce your government's risk for fraud or error, the accounts receivable staff who handle billings and collections should not have other roles like cash or check handling. If you cannot segregate duties, then you should implement strong monitoring controls covering specific risks. To learn more, see SAO's [Segregation of Duties Guide](#) (section 2, chapter 2).

Use third parties to receive cash receipts

This can reduce your fraud risk, especially if you cannot segregate duties effectively. One option is a bank lockbox service that collects and deposits payments, and electronically transmits remittance details. An added benefit of a lockbox is that it can reduce payment-posting errors and may free up staff time to perform collection activities. Another option is to directly receive payments via electronic funds transfer.

Review software permissions at least once per year

Employees should have only the system permissions need to perform their job duties and no more. For example, only those employees authorized to adjust customer balances should have the ability to do so in the system. In addition, no employee should have the ability to create, approve, and process a transaction from start to finish – not even the manager.



Make sure your records are accurate

Your records need to agree to those of your customers or debtors, or your staff will waste time and resources when collecting past-due balances. Ask customers or debtors to provide payment details and then require staff to post them according to their instructions. Make sure that staff post payments promptly so that your records accurately reflect what is past due.

Impose restrictions for account adjustments, billing reversals, or other credits

Billing or collection staff can use adjustments to conceal a theft, avoid taking collection action, or circumvent a write-off process. You should specifically review controls over adjustments and ensure the proper safeguards are in place. For example, this might include ensuring adjustment limits are in place for certain levels of staff, clearly communicating expectations about adjustment documentation, and establishing adequate oversight to monitor adjustment activity.

Actively pursue collections until resolution

Make sure that your government has processes in place to actively pursue collections until all accounts are paid or written off, or you will end up with a large build-up of uncollectible accounts. It also sends the message that all customers and debtors are expected to pay their bills.

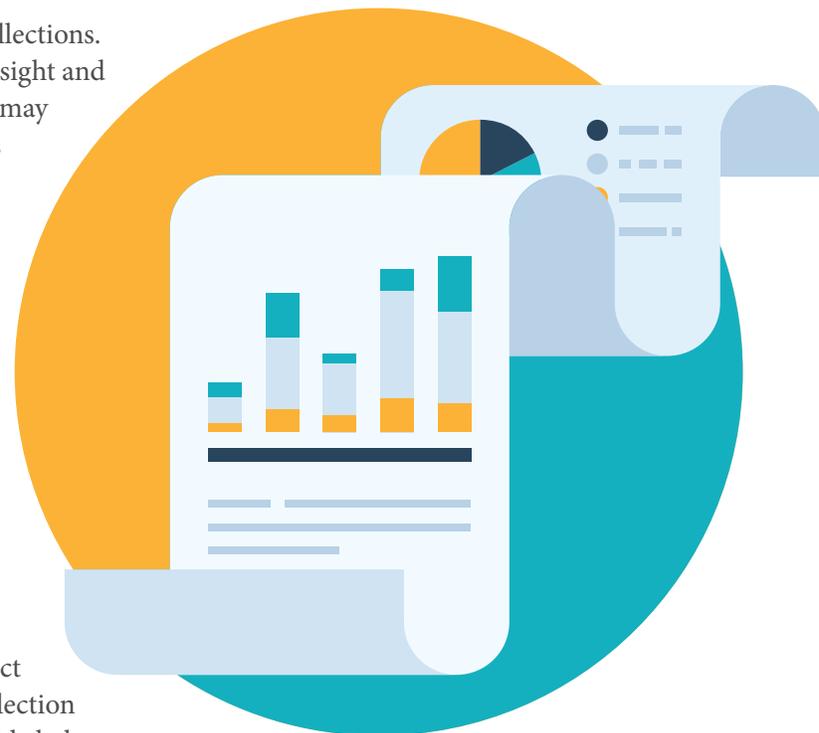
Support stand-alone billing systems

Perform outreach to any departments engaged in billing or collections. This should include communicating policies, performing oversight and spot checks, and providing training. Remember, departments may lack critical knowledge and resources, and collection activities may not be a high priority.

Establish performance measures to identify issues and opportunities

Establish realistic performance goals and create an action plan if you do not meet them. Trend the metrics monthly and compare results between your different billing systems. Evaluate this information to identify opportunities. Some example measures are:

- Number or percent of billings that were revised or corrected (billing accuracy)
- A/R collection period or how many days it takes you to collect payment. In general, you want less than a 60-day average collection period. [To calculate it, divide your average accounts receivable balance



(beginning A/R and ending A/R divided by two) by net credit (billed) sales for a specific period, then multiply by 365 days.]

- Number of repeat delinquent accounts
- Collection to cost ratios (the amount collected for each dollar spent) to determine the efficiency of collecting on debt
- Collection rate (dollars collected divided by total billed)
- Percentage of A/R over 90 days (number of days can be adjusted)
- Percentage of customers or debtors paying late
- A/R turnover ratio (billings divided by average accounts receivable) – how quickly you are collecting accounts receivable. The higher the number, the more efficient you are.

Give your controls a periodic check-up

Perform an in-depth internal control review annually or when changes are made. Consider using SAO's [Internal Control Checklist for Accounts Receivable](#) to evaluate your control system.



Add these resources to your tool belt

Best practices to ensure accurate billing from meter-read data

Center for Government **Innovation**

Internal Control Checklist for Accounts Receivable

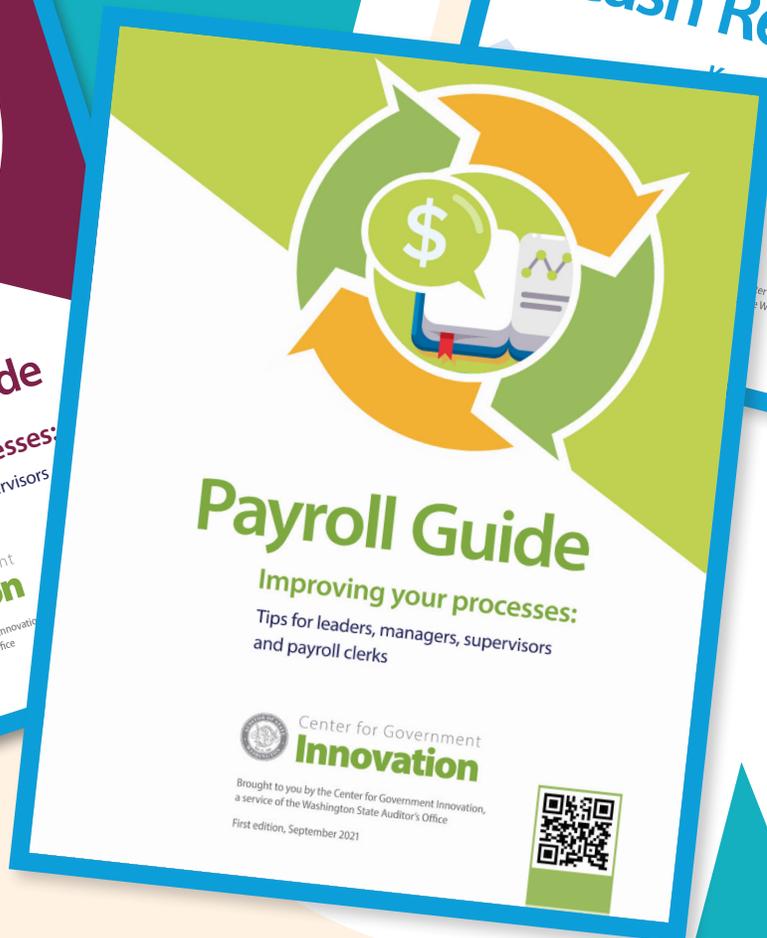
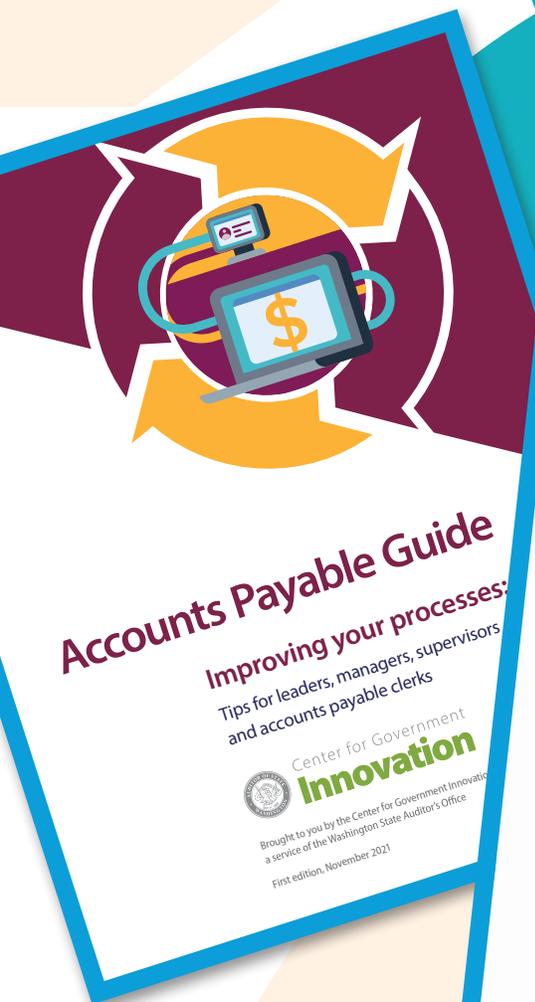
Date of Review: _____
Completed by: _____
Key recommendations: _____

Instructions: Answer questions below as they relate to each accounts receivable system in use at your government. Further evaluate any "no" answers to determine if you have any compensating controls in place or should change your control processes. Some questions include additional information in cell comments.

Question	Yes	No	N/A	Comments
Policy: Has the government adopted policies and procedures covering all important aspects of collection, payment, adjustments, and write-off processes? Has your government provided a policy manual or other areas your policy might address?				
Policy: Has your government formally adopted billing rates or fees, as well as any other programs (discounts, etc.) that are used to determine the amount of revenue to be collected, and are these programs reasonable, recovering costs, and properly documented?				

This self-assessment checklist will help you assess your government's internal control environment for the accounts receivable function.

Be sure to check out our guides for Accounts Payable, Cash Receipting, and Payroll.





“Our vision is to increase **trust** in government. We are the public’s window into how tax money is spent.”

– Pat McCarthy, State Auditor

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