



GFOA Recommended Practice

Revenue Control and Management Policy: Accounts Receivable Controls (2003 and 2007) (CASH)

Background. To ensure sound financial management practices, the proper controls over revenues are imperative in accounts receivable management and general oversight over the various revenues collected. Sometimes governments bill for services provided or levy taxes. This generates the need to set up accounts receivables and thereafter, a process to collect these receivables. It is incumbent on management to ensure proper controls exist over these receivables.

Recommendation. The Government Finance Officers Association (GFOA) recommends the inclusion of accounts receivable controls and policy statements as part of a revenue control and management policy. When formulating accounts receivable controls, it is imperative that such controls abide by generally accepted accounting procedures (GAAP), local ordinances, and state laws.

The following factors, as applicable, should be considered in the development of accounts receivable controls in a revenue control and management policy:

- Internal Controls - All aspects of revenue recording and accounts receivable monitoring should be subject to proper internal controls. Management should establish standard internal controls that are properly documented and followed by affected department(s) generating the receivable, receipting the payment, and performing collection activities on delinquent accounts.
- Billing Practices – Bills should be initiated following established procedures, recorded in an accounts receivable system and generated within an established time period after initial service delivery.
- Deposits - Collections should be recorded in an accounts receivable system and deposited timely. Due to the special nature of funds received from grants, developers, partners and other entities, consider if separate procedures should be established for recording and depositing these funds.
- Returned Checks - There should be established procedures for processing and collection of returned checks.
- Accounts Receivable Management - All accounts receivable should be recorded in a manner to permit aging analysis. Review all collection options available and establish procedures to maximize collections. When cost effective, consider utilization of collection agencies that are familiar with all federal, state, and local notice requirements and regulations.
- Bad Debt Expense - Bad debt expense should be estimated based upon a documented method of calculation. An allowance for doubtful accounts should be recorded. Write-offs should be performed periodically to ensure that accounts receivable and allowance balances are not overstated. Efforts should be made to pursue the timely collection of delinquent accounts.

References.

- GFOA Recommended Practice, *Revenue Control and Management Policy: Cash Receipts Controls*, www.GFOA.org
- GFOA Recommended Practice, *Revenue Control and Management Policy*, www.GFOA.org
- GFOA Recommended Practice, *Adoption of Financial Policies*, www.GFOA.org
- *Evaluating Internal Controls: A Local Government Manager's Guide*, GFOA, Stephen J. Gauthier, 1996.
- *Revenue Collection Administration: A Guide for Smaller Governments*, GFOA, Ian J. Allan, 1993.

Approved by the GFOA's Executive Board, October 19, 2007.