




**King County
Administrative Policies and Procedures**

Executive Policies

King County

Title	Document Code No.
Provision for Estimated Uncollectible Accounts Receivable	FIN 11-2-1 (AP)
Department/Issuing Agency	Date
DES / FBOD / Financial Management	1/02/2012
Approved	
Dow Constantine	

1.0 SUBJECT TITLE: **Provision for Estimated Uncollectible Accounts Receivable**

1.1 EFFECTIVE DATE: 10 days after signed by Executive.

1.2 TYPE OF ACTION: SUPERSEDING FIN 11-2 (AP), March 1, 1990.

1.3 KEY WORDS: (1) Administrative Policies and Procedures, (2) Accounts Receivable, (3) Aged Trial Balance, (4) Estimated Uncollectible Accounts Receivable

2.0 PURPOSE:

2.1 BACKGROUND:

County agencies provide goods/services to private sector, public and government agencies. At the point of sale revenue and an account receivable is recorded. The county receives subsequent payments of the accounts receivable from the customers. A number of the accounts receivable are administered through the Oracle EBS Receivables System managed by the Accounts Receivable Group of the Financial Management Services Section, while others are administered directly by the agencies.

On an annual basis, county agencies and FMS analyze outstanding account receivables to determine whether the account receivables will be collected. This analysis results in an estimate of the value of the account receivables for financial statement presentation. Since revenues were recognized at the point of sale and a corresponding asset recorded, the valuation accounts, "Estimated Uncollectible Account Receivable" or "Estimated Uncollectible Due from Other Governments" are used to properly reflect an estimate of the value of the account receivable assets. A corresponding offset to revenue is also recorded.

On the Balance Sheet, the estimate of uncollectible accounts is carried as a credit balance in a valuation account titled "Estimated Uncollectible Accounts Receivable" or "Estimated Uncollectible Due from Other Governments". A separate valuation account is used because it is not known which specific accounts will prove uncollectible and the "Accounts Receivable" control account must agree with the subsidiary ledger total.

2.2 PURPOSE:

To provide uniform guidelines for the calculation of the provision for estimated uncollectible accounts receivable and recording in the accounting records to avoid an overstatement of assets and revenues in the period in which receivables are recorded.

3.0 ORGANIZATIONS AFFECTED:

All County agencies involved with non-tax receivables.

4.0 REFERENCES:

- 4.1 Administrative Policy/Procedure FIN 11-3-1 (AP), "Write-Off of Uncollectible Accounts Receivable".
- 4.2 "GAAP": Generally Accepted Accounting Principles promulgated by both the Governmental Accounting Standards Board and the Financial Accounting Standards Board.
- 4.3 State of Washington Office of Financial Management Policy 85.54.55 "Uncollectable receivables."

5.0 DEFINITIONS:

- 5.1 "ORACLE EBS RECEIVABLES": Automated Invoicing and Receivables System. This is King County's centralized accounts receivable system.
- 5.2 "Accounts Receivable": This includes all non-tax debts owed to King County by the private sector and by other governments.
- 5.3 "Aged Trial Balance of Accounts Receivable": A schedule classifying the balances of all accounts receivables according to varying lengths of time the accounts are past due. Generally, a strong correlation exists between the length of time an account is past due and its collectability. A provision for estimated accounts receivable can be computed by estimating the probability of collection for each age class. The number of different age classes to be used depends on experience. An estimate of the average collection experience for each age class provides a basis for estimating the portion of outstanding accounts receivables that may be uncollectible. In the process of aging the accounts receivable, an evaluation of major customers should be made in order to assess more fully the probability of collection. (See Section 9.1.)
- 5.4 "Accounts Written Off": Accounts Receivable determined to be bad debt and requested to be written off according to FIN 11-3-1 (AEP) Write Off of Uncollectible Accounts Receivable.

- 5.5 "Estimated Uncollectible Accounts Receivable": A separate valuation account used to record an estimate of those receivables which are considered to be uncollectible to avoid an overstatement of assets and revenues in the period in which receivables are recorded.
- 5.6 "GAAP": Generally Accepted Accounting Principles promulgated by both the Governmental Accounting Standards Board and the Financial Accounting Standards Board.
- 5.7 "FMS" – Financial Management Section of the Finance and Business Operations Division.
- 5.8 "Accounts Receivable" – Group within FMS managing accounts receivable.

6.0 POLICIES:

- 6.1 County agencies with non-tax receivables shall comply with these policies and procedures in order to ensure accounts receivable balances are stated in accordance with Generally Accepted Accounting Principles for presentation in the King County's financial statements.
- 6.2 County agencies shall prepare and review an Aged Trial Balance of their accounts receivable, monthly and at year end determine an appropriate amount for estimated uncollectible accounts receivable. This analysis shall be completed and recorded at least annually, but prior to the closing of each 13th month. County agencies may request in writing to FMS, approval to use an alternative methodology if they feel that the Aged Trial Balance method will not fairly represent their accounts receivable.
- 6.3 County agencies shall send a request to the Chief Accountant, FMS, to record a provision for estimated uncollectible accounts receivable in the County's accounting records. The request will be authorized by the department Director
- 6.4 For accounts receivable on ORACLE EBS RECEIVABLES, FMS Accounts Receivable shall prepare and review the accounts receivable Aged Trial Balances, accounts previously written off, collections of accounts previously written off, compute the provision for estimated uncollectible accounts receivable, and provide recommendations to County agencies on the appropriate amount of the provision(s) for estimated uncollectible accounts receivable.
- 6.5 County agencies shall review the recommendations per Section 6.4 and respond to FMS Accounts Receivable in writing within 10 working days from the date of the recommendations, affirming the allowance amount.
- 6.6 FMS shall have final decision authority over the provisions for estimated uncollectible accounts receivable to be recorded, and shall record the provisions in accordance with GAAP.

7.0 PROCEDURES:

Action By: County Agencies, FMS Accounts Receivable

Action:

7.1 PROCEDURAL OVERVIEW:

- 7.1.1 Decentralized accounts receivable administered by County agencies shall be addressed in accordance with subsections 7.2 through 7.8.
- 7.1.2 Accounts receivable administered centrally through ORACLE EBS RECEIVABLES by FMS Accounts Receivable shall be addressed in accordance with subsection 7.9.

Action By: Agency

Action:

7.2 EVALUATING THE COLLECTABILITY OF ACCOUNTS RECEIVABLE:

- 7.2.1 Group accounts receivable by type and age (e.g., accounts receivables due from other governments, from private organizations, and individuals).
- 7.2.2 Prepare an Aged Trial Balance for each accounts receivable group by classifying the balances according to varying lengths of time they are past due (see Section 9.1). The number of different age classifications to be used depends on collection experience.
- 7.2.3 Prepare a separate schedule for each of the following groups, if applicable:
 - 7.2.3.1 Accounts receivable being disputed by the debtor. Also indicate the most likely outcome of each disputed account.
 - 7.2.3.2 Accounts receivable in litigation. Also indicate the most likely outcome of each.
 - 7.2.3.3 Accounts receivable which have been sent to collection agencies and returned as uncollectible.
 - 7.2.3.4 Accounts receivable related to services provided without (or pending) a signed contract.
- 7.2.4 Determine the collection rates of the various accounts receivable groups after segregating out the four groups referred to in subsection 7.2.3 above. Using these rates, determine the probability of collecting the accounts receivable balance for each group.

7.2.4.1 As a general rule, consider all balances over one year old as estimated uncollectible, unless there are justifiable reasons to exempt an account or a group of accounts.

7.2.4.2 Determine the probability of not collecting balances less than one year old by reviewing past collection experience and compute the provision for estimated uncollectible accounts receivable accordingly. Retain a record of the computations and justification.

Action By: Agency

Action:

7.3 ACCOUNTS RECEIVABLE IN DISPUTE:

7.3.1 Evaluate the probable outcome of accounts receivables in dispute to determine whether a provision for estimated uncollectible accounts receivable should be established and the amount.

Action By: Agency

Action:

7.4 ACCOUNTS RECEIVABLE UNDER LITIGATION:

7.4.1 Evaluate the receivable under litigation with the help of the Prosecuting Attorney's Office and establish a provision for estimated uncollectible accounts receivable where appropriate.

Action By: Agency

Action:

7.5 SERVICES PROVIDED WITHOUT (OR PENDING) A SIGNED CONTRACT:

7.5.1 Evaluate the likelihood of obtaining a signed contract and determine whether the contract will cover all of the receivables recorded. Determine if a provision for estimated uncollectible accounts receivable is needed.

Action By: Agency

Action:

7.6 ACCOUNTS RECEIVABLE PENDING WITH COLLECTION AGENCIES:

7.6.1 Compute a provision for estimated uncollectible accounts receivable based upon the agency's collection rate(s) on these accounts.

- 7.6.2 Classify all accounts receivable which have been processed and returned by the collection agency as "uncollectible", if they have not been written off in the meantime.

Action By: Agency

Action:

7.7 REQUESTING A PROVISION FOR ESTIMATED UNCOLLECTIBLE ACCOUNTS RECEIVABLE:

- 7.7.1 Prepare a request for a provision for estimated uncollectible accounts receivable addressed to the Chief Accountant, FMS. Support the request by an aged trial balance and any correspondence, notes or analyses which form the basis for the provision.
- 7.7.2 Review and approve the request for a provision for estimated uncollectible accounts receivable and determine whether it is material in the context of the agency's fund and the County's financial statements.

Action By: FMS

Action:

7.8 RECORDING THE PROVISION FOR ESTIMATED UNCOLLECTIBLE ACCOUNTS RECEIVABLE:

- 7.8.1 Reverse prior year's provisions, if any.
- 7.8.2 Record current year's provision for estimated uncollectible accounts receivable which have been approved.

Action By: FMS Accounts Receivable

Action:

7.9 ACCOUNTS RECEIVABLES ADMINISTERED THROUGH ORACLE EBS RECEIVABLES

- 7.9.1 Obtain the Oracle Accounts Receivable Aged Trial Balance Report.
- 7.9.2 Obtain list of accounts receivable written off during the year.
- 7.9.3 Compute the recommended provisions for uncollectible accounts receivable by ORACLE EBS RECEIVABLES customer groups.

- 7.9.4 Notify each County agency with recommendations for the amount of the provisions for estimated uncollectible accounts receivable.
- 7.9.5 Review the recommended provisions and respond in writing within 10 working days to FMS Accounts Receivable as to whether or not agreement is expressed.

Action By: Agency

Action:

7.10 **RESOLVING DISAGREEMENTS ON RECOMMENDED PROVISIONS FOR ESTIMATED UNCOLLECTIBLE ACCOUNTS RECEIVABLE:**

- 7.10.1 Prepare and submit a schedule to the Chief Accountant, FMS, showing the desired provision for estimated uncollectible accounts receivable. Provide supporting computations and documentation.
 - 7.10.2 Review the agency's schedule for reasonableness. If necessary, meet with the agency to resolve the disagreement.
 - 7.10.3 Make a final decision on the amount of the provision to be recorded in the County's accounting records.
- 7.11 After disagreements have been resolved, follow the procedures outlined in subsection 7.8.

8.0 **RESPONSIBILITIES:**

- 8.1 Department Directors are responsible for ensuring that all provisions of this policy/procedure are met.
- 8.2 Agency personnel are responsible for evaluating the collectability of accounts receivable and requesting a provision for uncollectable accounts receivable.
- 8.3 FMS Accounts Receivable- is responsible for reviewing the work of the County agencies to ensure that a reasonable method was used to establish a provision for estimated uncollectible accounts receivable and that complete and adequate documentation supports the provision.
- 8.4 FMS –responsible to approve agencies' allowance for uncollectible accounts receivable, and post to general ledger.

9.0 **APPENDICES:**

This appendix is available from FMS Accounts Receivable:

9.1 Sample AR Transaction Aging Report.