State of Rhode Island
Department of Administration, Office of Accounts and Control
Best Practices: Accounts Receivable

Objective

Departments shall devise and implement techniques and procedures to properly account for, record, manage, and collect receivables. Departments must take appropriate and cost-effective actions to aggressively collect accounts receivable.

Risks

- Liquid asset (i.e. convertible to cash) subject to theft or misappropriation
- Lost or misstated receivables and revenue due to inadequate procedures
- Impaired cash-flow due to delays in billing or collection
- Loss of interest revenue

Best Practices Include:

Written procedures exist for all accounts receivable and collection activities. Procedures should address preparing bills, recording receivables in the detail accounts receivable records, collecting the accounts, recording payments, adjustments to receivables, and follow-up of delinquent accounts.
[Documentation]

The responsibilities for maintaining detail accounts receivable records are segregated from collections and general ledger posting (if practicable).
[Segregation of Duties]

Maintain an accurate record of receivables transactions; automated systems should be utilized (e.g. RIFANS or other software) where practical to facilitate processing and reconciliation.
[Documentation & Safeguarding of Assets]

Receivables, collections, and revenues are properly accumulated, classified, and summarized in the accounting records.
[Documentation & Reporting]

Monthly reconciliation of the detail accounts receivable subsidiary ledger, if RIFANS, to the accounts receivable control account in the general ledger.
[Reconciliation]

Monthly reconciliation of the accounts receivable non-RIFANS system balances to the RIFANS general ledger accounts receivables balances.
[Reconciliation]

Procedures ensure the billing and collection of all receivables is performed promptly as part of an effective cash management program; use measurable goals and standards to monitor collection performance.
[Safeguarding of Assets & Monitoring]

Billings are generated and sent to customers at least monthly; payment terms should be indicated on the bill.
[Documentation & Independent Internal Verification]

Collections on accounts receivable are deposited in a timely manner (i.e. daily when greater than $500), rather than being held for posting to detail accounts receivable records.
[Safeguarding of Assets]

Periodically customer statements are issued which show the status of the customer's account and activity, including outstanding unpaid invoices and recent payments.
[Reconciliation & Safeguarding of Assets]

Maintain adequate control over the issuance of customer statements to prevent interception before mailing, if applicable.
[Segregation of Duties & Safeguarding of Assets]

Active efforts must be made to collect on accounts that are past due; document actions taken to collect on delinquent accounts.
[Safeguarding of Assets & Documentation]

Write-offs or other reductions of receivables (where allowable) are approved by a supervisor not involved in the accounts receivable recording or collection functions.
[Authorization & Segregation of Duties]

Accounts receivable are recorded in a manner to permit an analysis of the aging of such receivables (e.g. <30 days, 30-60 days, etc.).
[Reconciliation & Reporting]

An aging of accounts receivable is prepared monthly and is reviewed by a responsible supervisor.
[Monitoring]

A responsible supervisor reviews credit balances before a refund check is issued.
[Authorization & Segregation of Duties]

Follow the procedure for uncollectible accounts that is distributed annually to all agencies by the RI Office of Accounts and Control. Report accounts deemed uncollectible using the AR-1 series of forms posted on the Controller's website. [Reporting & Documentation]

Comply with **Cash Receipts Cut-Off and Revenue Recognition at Fiscal Year End** as instructed in the Accounting Policy A-61 document issued by the RI Office of Accounts and Control.
[Reporting]

Upon suspicion of fraud or theft, immediately notify the appropriate personnel (i.e. management, Office of Internal Audit, law enforcement).
[Safeguarding of Assets]

Glossary of Internal Control Principles:

Internal control consists of all of the related methods and measures adopted within a business to enhance the accuracy and reliability of its accounting records by reducing the risk of errors (unintentional mistakes) and irregularities (intentional mistakes and misrepresentations) in the accounting process.

Authorization and Approval – Control is most effective when those responsible for a task are limited to as few employees as possible who are authorized and trained appropriately. In order to have appropriate backup in place, another person should be trained to perform those duties in the event of a planned or unplanned absence.

Documentation - Standardizing documents used for financial transactions, such as invoices, internal materials requests, inventory receipts and travel expense reports, can help to maintain consistency in record keeping over time. Using standard document formats can make it easier to review past records when searching for the source of a discrepancy in the system. A lack of standardization can cause items to be overlooked or misinterpreted in such a review.

Safeguarding of Assets – Methods and measures adopted to protect assets from employee theft, robbery, and unauthorized use. These controls include physical, mechanical and electronic controls.

Segregation of Duties – The work of one employee should provide a reliable basis for evaluating the work of another employee, and the responsibility for record keeping for an asset should be separate from the physical custody of the asset.

Monitoring – After internal controls are put in place, their effectiveness should be periodically monitored to ensure that controls continue to be adequate and function properly. Management should also monitor previously identified problems to ensure they are corrected.

Independent Internal Verification – Review, comparison, and reconciliation of data prepared by employees performed by an employee independent of the personnel responsible for the information.

Reporting – Effective and accurate reporting provides information on financial position and helps to promote accountability for actions and decisions.

Reconciliation – This verification is the determination of the completeness, accuracy, authenticity and validity of transactions, events, or information. It is a control activity that enables management to ensure activities are being performed in accordance with directives.