

RECEIVABLE ACCOUNTING POLICY

1. REASON FOR ISSUE: To establish Department of Veterans Affairs (VA) receivable accounting policy.

2. SUMMARY OF COMMENTS/MAJOR CHANGES: This Directive sets forth the policies for receivable accounting in the VA, which includes the recording, reconciliation, write-off and referral of receivables. This Directive contains:

- a. The VA policy on loans receivable to incorporate requirements of the Credit Reform Act of 1990.
- b. Requirements for reviewing allowance for bad debt and contractual adjustments accounts on a monthly basis.
- c. The VA policy to incorporate requirements for the Expired Appropriation Act of 1990 (Public Law 101-510).

3. RESPONSIBLE OFFICE: Accounting Policy Division (047GA1), Office of the Deputy Assistant Secretary for Financial Management is responsible for the material contained in this Directive.

4. RESCISSIONS: None.

CERTIFIED BY:

Nada D. Harris
Deputy Assistant
Secretary for Information
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**BY DIRECTION OF THE
SECRETARY
OF VETERANS AFFAIRS**

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RECEIVABLES ACCOUNTING POLICY

1. PURPOSE. This Directive provides Departmental policy on accounting for the receivables of the VA.

2. POLICY

a. **General.** Receivables representing amounts due from others are recorded as assets from the time the act giving rise to such claims are completed until the time they are collected, or determined to be uncollectable in whole or in part. A receivable must be recorded in the accounting records in the period in which said claims are established.

(1) Receivables for exchange transactions should be recorded at the full value of goods or services provided, or as mandated by legislation or regulation. To the extent that collection of the full amount (gross value) of the receivable is not probable, an allowance for bad debts or contractual adjustments should be established.

(2) Major categories of receivables will be maintained separately in the general ledger to permit full disclosure of the nature of receivables in financial reports. The three major types of receivables include loans receivable, refund receivables and reimbursement receivables.

(a) **Loans Receivable.** A financial resource of a federal entity representing claims for payment from nonfederal entities, based on a formal agreement under which the borrower promises to return cash (or other assets), with or without interest, in exchange for the right to use cash (or other assets) for a specified period of time. All VA credit programs which disburse direct loans or make loan guarantee commitments are to be accounted for in accordance with the Federal Credit Reform Act of 1990 (Title V of the Congressional Budget Act of 1974, as amended by Section 13201 of the Omnibus Budget Reconciliation Act of 1990).

1. **Direct Loans.** A disbursement of funds by the government to a nonfederal borrower under a contract which requires the repayment of such funds within a certain time, with or without interest.

2. **Loan Guarantees.** Any guarantee, insurance, or other pledge with respect to the payment of all or part of the principal or interest on any debt obligation of a nonfederal borrower to a nonfederal lender, but does not include the insurance of deposits, shares or other withdrawable accounts in financial institutions.

3. **Loans to others** should be accounted for as receivables only after the funds have been disbursed. Loans authorized but not disbursed are a form of commitment to be disclosed in explanatory notes to financial reports.

4. All direct loans or loan guarantees will be grouped into cohorts to facilitate financial reporting and budgetary subsidy calculations.

5. All credit programs will measure and report direct loans and loan guarantees using a net present value measurement determined by the Office of Management and Budget (OMB) and the Federal Accounting Standards Advisory Board (FASAB).

(b) **Refund receivables.** Claims for payment resulting from (1) payments made in error, (2) overpayments made to vendors or benefit recipients, (3) items rejected and returned, and (4) returns of authorized advances.

(1) Refunds should be credited to the appropriation originally charged and must be accounted for as reductions of expenditures.

(2) Refunds due from nonfederal sources will not recover budgetary authority until the cash is collected. Refund receivables due from federal sources will recover budgetary authority upon establishment of the debt only when a refund payable has been obligated by the refunding account.

(3) Collections for advanced sick and advanced annual leave will be treated as an appropriation refund and applied to the appropriation originally charged.

(4) Prompt action should be taken for collection of debts of employees due to erroneous payments. Agency regulations covering these collections must be approved by the Office of Management and Budget.

(c) **Reimbursement Receivable.** Claims for payment for commodities or services furnished, or to be furnished, and which by law may be credited directly to appropriations. Claims for payment under this type of repayment result from contracts or agreements made with non-federal entities or by one agency with another to furnish commodities or services.

b. **Receivable Accruals.** Identified unbilled claims will be established as an accrued receivable in the financial records at the end of each accounting month. Accruals will be reversed at the first day of the subsequent month.

c. **Allowance for Uncollectable Accounts.** Monthly reviews will be made to determine the portion of accounts receivable (outstanding and accrued) that may not be collectable.

(1) The amount posted to the allowance account should be based on an analysis of past collection activity at each station. Allowance for doubtful accounts are not used for direct loans or loan guarantees which are covered under the Credit Reform Act of 1990.

(2) The monthly change in the allowance amount must be recorded at the end of the accounting period, with an offsetting debit or credit to a valuation reserve or allowance account.

(3) Third party reimbursement receivables are adjusted by an estimate of contractual adjustments under the Medical Care Cost Collection Fund (MCCF) and sharing agreements under the Department's Medical Care account. Actual contractual adjustments are to be recorded at the time of collection from the insurance carrier.

d. Review of Accounts Receivable. Accounts receivable general ledger balances will be reconciled monthly with the subsidiary ledgers. Prompt action must be taken on delinquent accounts, which includes referral or write-off of the receivable.

e. Receivables for Canceled Appropriations. Any receivable in an expired appropriation that will be canceled must be reviewed to determine if collectible. If all collection action has been taken, the receivable will be reviewed for termination (write-off) in accordance with the guidelines contained in MP-4, Part VIII (to be reissued as VA Directive 4800 and associated 4800 series Handbooks). Active receivables must be transferred to appropriation 36 3220 "Proprietary Receipts--Not Otherwise Classified" prior to the cancellation of the appropriation pursuant to 31 U.S.C. 1552 (b).

f. Uncollectible Checks. Checks returned for insufficient funds will be recorded by depositories on an SF 5515, Debit Voucher. Depositories will forward the appropriate copies of the debit voucher together with the uncollectible item to the depositing station. Upon receipt of the copies of the debit voucher, appropriate adjustments must be made to adjust or reestablish the receivable balance.

g. Uncollectible Accounts Receivable When action has been taken to suspend collection action or refer an indebtedness to the Internal Revenue Service, Debt Management Center, General Accounting Office or Regional Counsel, the receivable is to remain part of the total outstanding receivable balance of the Department.

(1) Write off of receivables will occur when a determination is made that further collection action is no longer cost effective. When a receivable is terminated (including receivable amounts that are waived or compromised) the applicable receivable and allowance general ledger account must be reduced. The criteria and procedures to terminate collection of receivables is set forth in 38 CFR Section 1.942, 4 CFR Part 104.

(2) Cancellation of receivables occurs when the bill or claim was established in error. In those instances, the original receivable is reversed in the accounting records and does not represent a writeoff.

(3) Policy and procedures for terminations (write-offs), waivers, compromises, debt referrals, offsets and bankruptcies are set forth in MP-4, Part VIII (to be reissued as VA Directive 4800 and VA Handbook 4800).

3. RESPONSIBILITIES: Administration Heads, Chief Financial Officers, Fiscal Officers, and Chief Accountants Chiefs within the Department are responsible for ensuring that receivables are classified and recorded in accordance with the policy issued in this Directive.

4. REFERENCES:

- a. OMB Circular A-11 "Preparation and Submission of Budget Estimates."
- b. OMB Circular A-34 (Part XI, 111.5(a) "Instructions on Budget Execution."
- c. Federal Accounting Standards Advisory Board (FASAB), "Accounting for Selected Assets and Liabilities, Number 1, March 30, 1993.

5. DEFINITIONS:

- a. Cohort.** Those direct loans obligated or loan guarantees committed, respectively, by federal credit program for fiscal year 1992 or thereafter that are subsidized by appropriations in the same fiscal year, even if disbursements are made in subsequent fiscal years.
- b. Contractual Adjustment.** An allowance for the difference between charges for services and treatment rendered and the amount of money that is actually paid by a third party based on a contractual agreement.
- c. Credit Program.** For the purpose of this Directive, federal credit programs make loans and loan guarantees to nonfederal borrowers.
- d. Credit Subsidy Cost.** The estimated long term cost to the government of a direct loan or loan guarantee calculated on a net present value basis, excluding administrative costs.
- e. Delinquent.** Refund and reimbursement receivables for which payment plans have not been established become delinquent when payment is not made by the due date specified in the initial billing notice (usually 30 days from the date the notice is mailed). For first party medical debts, delinquency occurs 30 days after the charge first appears on a Patients Statement. In the case of loan receivables and other debts being paid in installments, delinquency occurs when payment is not made by the due date or the end of the "grace period" as established in the loan or repayment agreement. Unless VA has initiated foreclosure proceedings or unless an installment agreement is 180 days past due, only the amount of delinquent installments is considered to be delinquent. Once foreclosure has been initiated or once an installment agreement becomes 180 days past due, the entire amount of the receivable is considered delinquent.
- f. Exchange Transaction.** Occur when each party to a transaction sacrifices value and receives value in return.