



Virginia Department of Corrections

Financial Management and Procurement

Operating Procedure 210.3

Accounts Receivable

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REVIEW

The Content Owner will review this operating procedure annually and re-write it no later than three years after the effective date.

COMPLIANCE

This operating procedure applies to all units operated by the Virginia Department of Corrections (DOC). Practices and procedures must comply with applicable State and Federal laws and regulations, American Correctional Association (ACA) standards, Prison Rape Elimination Act (PREA) standards, and DOC directives and operating procedures.

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DEFINITIONS

Accounts Receivable - Accounts that are characterized as “normal” trade type receivables; generally, for DOC organizational units this may include, but is not limited to room and board charges, out of state inmate revenue, etc.

Billing - A recognition of the amount owed; this generally occurs at the time goods or services are provided, even though a formal statement to the customer or agency has not been sent. Payroll overpayment billings occur when the debt is discovered as well as unreturned State Property when payroll is exhausted.

Collection - All payments applied toward billings or accounts actually received by the agency.

Collection Agency - A business that acts as an agent for an entity to be the collector of debts, usually for a percentage of the amount collected.

Commonwealth Accounting Policy and Procedure Manual (CAPP) - State accounting policies and procedures promulgated by the Virginia Department of Accounts to guide financial management processes for all state agencies.

Debt - A result of the delivery of goods, services, or money today in exchange for a promise to pay at a future date.

Delinquent Account - A past due receivable for which payment has not been received within 60 days after the payment due date.

Discharge - The compromise and settlement of disputes, claims, and controversies of the Commonwealth by the Office of the Attorney General as authorized by COV §2.2-514, *Compromise and settlement of disputes*.

Due Date - The date a payment is due; the due date is calculated as 30 days after the receipt of the goods or service, or the operating unit's receipt date of the invoice, whichever is later, or as specified by contract payment terms.

Dunning Notice - A collection letter.

Garnishment - A legal proceeding to directly attach funds from wages to satisfy a creditor.

Interagency Receivable - Any amount owed a state agency or facility by another state agency or facility for goods or services provided or any other type of transaction.

Organizational Unit - A DOC unit, such as a correctional facility, Regional Office, Probation and Parole Office, Virginia Correctional Enterprises, Academy for Staff Development, Infrastructure and Environmental Management Unit, Agribusiness Unit, and individual headquarters units, e.g., Human Resources, Offender Management, Internal Audit.

Past Due Receivable - Any receivable for which payment has not been received by the payment due date.

Receivable - Any amount owed to an agency or facility of the Commonwealth, including taxes, loans, and notes receivable, as well as amounts due for services and goods provided; for licenses and fees, amounts due from employees, from other state agencies and facilities, and from the federal government for grants and contracts. Petty cash, and advances made from petty cash accounts are not considered receivables for reporting purposes.

State Agency or Instrumentality - An authority, board, department, or other unit of state government; the term will not include any county, city, or town, or any local or regional governmental authority or any "non-state agency" as defined by the Appropriations Act.

Write-Off - A transaction to remove an account receivable that management has determined to be uncollectible, from the agency's financial accounting records. Written off receivables are still eligible for placement with the Office of the Attorney General Financial Recovery Section, a collection agency, or the tax debt setoff system and are legal obligations owed to the Commonwealth.



PURPOSE

This operating procedure provides all Department of Corrections (DOC) organizational units with guidance in the proper management and administration of the total agency accounts receivable function in accordance with accepted accounting procedures established by the Department of Accounts (DOA), Commonwealth Accounting Policies and Procedures Manual and other applicable state and federal guidelines.

PROCEDURE

I. Managing Accounts Receivable

- A. All DOC Fiscal Officers will utilize the procedures outlined in Commonwealth Accounting Policy and Procedure Manual *Topic 20505, Accounts Receivable*. Fiscal Officers will make copies available to organizational unit heads on an “as needed” basis to assist in individual unit receivable actions.
- B. Internal Procedures
 1. Internal management and collection procedures must be followed in the accounts receivable management/collection process.
 2. Past due/delinquent receivables, owed by current DOC employees, will be collected via payroll deduction pursuant to COV § 2.2-4806 *Utilization of certain collection techniques* and COV §34-29(a) *Virginia Garnishment Act*, except in those instances where the employee has authorized, in writing, full payroll deductions, e.g., temporary, or permanent travel advances, etc., at the discretion of the respective fiscal officer.
 3. For past due or delinquent receivables owed by former DOC employees, known to be employed by a state agency other than DOC, collections may be attempted by working through the respective agency's business office. Any reluctance by that agency's business office to assist in the collection should be reported to the Director of Financial Services, who will work with the DOA Financial Reporting Unit in resolving the issue.
 4. Past due/delinquent receivables owed by former DOC employees will be collected in accordance with this operating procedure.
- C. External management and collection procedures will be utilized only after unsatisfactory results have come from utilizing all internal procedures in accordance with CAPP Manual Topic 20505 related to receivable actions.

II. Debt Collection

- A. Basic steps, such as collections letters and telephone contact, should be used in notifying a debtor of a delinquent account. In exercising either of these methods, management actions must conform to the 41 U.S.C. §§801 - 819, *Fair Debt Collection Practices Act* and any other relevant guidance.
- B. When locating and acting against debtors, billing schedules can be adjusted to allow individuals to pay on an installment basis because of temporary financial hardship, i.e., sickness, unemployment, etc. This would allow for reasonable monthly or weekly collection.
- C. Other agencies available to DOC to share their databases to help locate and take action against debtors are the Virginia Department of Taxation (TAX), the Virginia Employment Commission (VEC), the State Corporation Commission (SCC), and the Virginia Department of Motor Vehicles (DMV).
- D. For more information, please refer to the CAPP Manual Topic 20505.

III. Concurrent Method of Managing Accounts Receivables After Utilizing Internal Procedures

- A. Setoff Debt Program - This program must be used concurrently while an account is listed with either the collection agency or the Financial Recovery Section if the debtor is on the Commonwealth of Virginia tax role. The debt can only be in one or the other.



B. Introduction

1. COV §58.1-520 through §58.1-535, *Setoff Debt Collection Act*, mandates that the Department of Taxation (TAX) administer the *Setoff Debt Collection Program*. This program is a process through which state agencies and facilities, county, city or town governments, and the state Court system, can cooperate with the TAX to identify those debtors who may be receiving an individual income tax refund or other applicable payments that can be offset against, collected, and applied towards the satisfaction of debts owed.
2. Under the guidelines of the CAPP Manual Topic 20505, all agencies and facilities must use the TAX *Setoff Debt Collection Program*. In addition, COV §58.1-4000 through §58.1-4028, *Virginia Lottery Law*, subjects the payment of certain lottery prizes, specifically those greater than \$600, to offset the delinquent debts owed to agencies of the Commonwealth.

C. Using the Setoff Debt Collection Program

1. COV §58.1-521(A), *Remedy additional; mandatory usage; obtaining identifying information* states that "The collection remedy under this article is in addition to and not in substitution for any other remedy available by law." Accordingly, agencies and facilities are still required to pursue all other available collection procedures, including internal procedures and use of the Office of the Attorney General (OAG), outside collection agencies, in addition to submitting the debt to TAX.
2. Once an Organizational Unit has followed the appropriate collection procedures to collect a debt and are still unsuccessful, the Organizational Unit should submit particulars about the amount of the debt and identity of the debtor to HQ Collection Accountant. The HQ Collection Accountant will contact TAX. For more information, see CAPP Manual Topic 20205.
3. Organizational Unit Business managers may submit claims via the HQ Collection Accountant at any time of the year, but the tax database is purged annually in December.

D. User's Guide - The TAX system to offset debts against income tax refunds is highly automated and requires extensive policies and procedures to operate efficiently.

E. Setoff Debt Coordinator (SODC) - The HQ Collection Accountant will be the central coordinator between the DOC and TAX on setoff debt collection for all organizational units of the DOC.

F. SODC Duties and Responsibilities - The SODC will coordinate setoff debt collection of delinquent debts with all DOC fiscal officers and the payroll office. The SODC will comply with suspense dates established by TAX, which work includes but is not limited to the following:

1. Verifying, DOC intention to participate in the program in accordance with the schedule established by TAX.
2. Submitting and updating data related to individual debtors.
3. Resubmission of data between November 1st and December 31st of each year in accordance with the schedule established by TAX.
4. Receiving input from DOC organizational unit fiscal officers on delinquent accounts, as necessary and as requested.
5. Performing as the DOC liaison on delinquent debts with TAX and the OAG Financial Recovery Section as required.

G. Setoff Debt Collection - Debtor Appeal Hearings

1. Debtors have a right to contest the validity of any setoff debt claim before the DOC.
2. To make an appeal, the debtor must submit a written notice of protest to the SODC within 30 days of the date a notification of impending setoff was mailed by the DOC. Failure to file the written protest within 30 calendar days will be deemed a waiver of the opportunity to contest the claim and result in final setoff action.



3. The Director of Administrative Compliance or designee is designated as hearing officer to hear appeals to the setoff debt collection.
 - a. Hearings will be heard in the DOC Administrative Headquarters in Richmond.
 - i. The debtor may request to participate telephonically, and that request will be granted but must be made at least seven calendar days before the hearing is scheduled.
 - ii. A Notice of Hearing will be mailed to the debtor at least 14 calendar days before the scheduled hearing.
 - iii. The Notice of Hearing will include the date, time and place of the hearing, and the issue or issues to be addressed at the hearing.
 - b. The hearing officer will review documentation and hear testimony from the HQ Collection Accountant, Organizational Unit, and debtor relating to the setoff debt.
 - c. The SODC will provide the hearing officer with copies of appropriate unit documents relating to the debt. The SODC will also mail all documents to the debtor with the Notice of Hearing.
 - d. The hearing officer will determine at the hearing if the claimed sum is due and owed. If the amount claimed is not correct, an adjustment will be made.
 - e. The hearing officer will record all testimony provided at the hearing.
 - i. This recording will become part of the case file for future use if required for court action.
 - ii. If required, a summary transcript will be prepared from the tape recording for the court.
 - f. The hearing officer will notify the debtor and the SODC in writing of the finding of fact and decision reached within ten calendar days after the hearing.
4. Debtor appeals of administrative hearings
 - a. Within ten days after the DOC decision, the aggrieved debtor may make a request for a judicial review of the hearing to the Circuit Court of the county or city where the hearing was held, or where the debtor resides.
 - b. The DOC will be named as a defendant in the petition for judicial review.
 - c. The petition for judicial review will state the grounds upon which the review is sought and will be served upon the DOC Director.
 - d. The hearing officer will certify and file with the court all documents and a summary transcript of the hearing.

IV. External Methods of Managing Accounts Receivable Greater Than \$3,000

- A. OAG Financial Recovery Section - This is the second external collection step after all internal collection procedures have proved ineffective for delinquent accounts greater than \$3,000 and over 60 days past due.
 1. All internal procedural information obtained, and actions initiated should be included in the transmittal data for referred accounts, preferably in chronological order.
 2. DOC units should submit all non-payroll related accounts greater than \$3,000 and over 60 days past due to the DOC HQ Collection Accountant who will then forward them to the OAG Financial Recovery Section.
 3. The Payroll Manager should submit payroll related accounts to the DOC HQ Collection Accountant who will then forward to the OAG Financial Recovery Section.
- B. Referral of Accounts
 1. First 60 days - If within the first 60 days, it is apparent that collection will not be secured without legal assistance, or that compromise of the claim is justified, i.e., a formal settlement is to be made by the OAG with part of the debt paid and the remainder discharged, the account will be forwarded immediately to the DOC HQ Collection Accountant who will forward it to the OAG Financial Recovery Section. An explanation of why the DOC has made this determination will be included in the transmittal letter.



2. After 60 days - OAG Financial Recovery Section actions for claims that exceed \$3,000.00
 - a. Collectible - If the DOC believes the claim is collectible, it should be sent to the DOC HQ Collection Accountant who will forward it to the OAG Financial Recovery Section for collection. All submissions must include the following information:
 - i. Name of debtor.
 - ii. Current address of debtor.
 - iii. Telephone number of debtor.
 - iv. Social Security Number or Tax ID Number of debtor.
 - v. Date the debt was incurred.
 - vi. Place and type of employment.
 - vii. Employer's address.
 - viii. Status of business if the debtor is a corporation, partnership, or sole proprietorship.
 - ix. Principal amount of the debt.
 - x. Amount of attorney's fees or collection costs.
 - xi. Original of any pertinent documents.
 - b. Collectible vs. Uncollectible Claims - The Office of the Attorney General will make the decision if claim is/is not collectible. If it is not, then the DOC has option to submit to collection agencies or process a discharge request.

V. External Methods of Managing Accounts Receivable Less Than \$3,000

A. Collection Agencies - The DOC use of the state contracted collection agency would be the third external collection step after all internal collection procedures have proved ineffective for delinquent accounts less than \$3,000 and over 60 days past due.

B. Background

1. Collection agencies are organizations that provide a service to their clients by providing trained full-time staff to collect delinquent accounts. Collection agencies employ many of the same collection techniques that DOC organizational units should employ as part of their internal procedures, e.g., telephone contact and dunning notices, and should be utilized after an organizational unit has exhausted all internal efforts to collect the less than \$3,000 debt, following the first year listed with TAX. Collections with TAX must cease when collection agencies are utilized.
2. The DOC should also transmit information obtained from the databases available to them (such as that provided by TAX, VEC, and DMV for obtaining information and locating debtors) to assist the collection agency.

C. Maintenance of accounts with the DOC collection agency

1. An account that has no collection activity should not remain with the collection agents longer than six months, with two separate non-concurrent collections. When uncollected accounts are returned from collection agencies, the HQ Collection Accountant will notify the DOC Director of Financial Services for approval of a discharge.
2. Collection agencies charge a fee for their services that is usually computed as a percentage of the amount of the debt collected. If the debtor has agreed in advance to pay a fee when the debt is referred to a collection agency, or has been placed on notice in advance, then the agency may recover the amount of the collection fee.
 - a. COV §2.2-4800, Policy of the Commonwealth; collection of accounts receivable authorizes this action. Absent a contract and when the debtor is not on advance notice, the agency cannot recover the collection agency fee. For example, if the account is for \$100 and the collection agency has contracted for the 25% fee and has collected the \$100, then the agency is only entitled to \$75 and must mark the account paid in full when it receives the \$75. The remaining \$25 would be shown as an adjustment to the DOC's receivables balance.



b. The HQ Collection Accountant or the Director of Procurement may be contacted for verification of current collection agency contractual status.

3. Collection agencies are regulated by the Federal Trade Commission, and the practices that they can employ to collect debts are set forth in 41 U.S.C. §§801 - 819, *Fair Debt Collection Practices Act*. Collection agencies cannot take legal action, nor can they threaten legal action.

D. Specific DOC collection Organizational Unit data

1. If the services of a collection agency are required, the HQ Collection Accountant or the DOC Director of Procurement should be contacted to determine the name, address and phone number of the most current contracted vendor providing such services to the DOC.
2. If the contract information is changed, all fiscal officers will be notified by the DOC Procurement Office.

VI. Unit Based Accounts Receivable Reporting Systems

A. Organizational units should ensure that their information systems are adequate to properly account for, record, and manage their receivables, whether their systems are manual or automated.

B. The receivable systems of organizational units must, at minimum:

1. Bill accounts on a timely basis, whether the receivables are due from private entities, the federal government, localities, or state agencies and facilities.
 - a. Accounts should be billed when goods are provided or services rendered, unless contractual requirements specify other billing terms or billing terms are in accordance with industry standards.
 - b. Payment terms should be 30 days after billing unless contractual requirements specify otherwise, or payment terms are in accordance with industry standards.
2. Maintain an accurate record that summarizes the transaction affecting each account receivable.
3. Maintain a control record that summarizes the transaction affecting each type of receivable account.
4. Effectively interface with other applicable unit-based systems; for example, a unit-based general ledger system.
5. Provide an aged trial balance of receivables; the aging categories should be: 1-30, 31-60, 61-90, 91-120, 121-180, 181-1 year, and over one year past the original due dates.
6. Provide information relative to collection efforts on individual past due accounts.
7. Provide realistic estimates of, and properly account for, doubtful accounts; provide adequate documentation of the methodology used, e.g., allowance method, direct write-off method, etc., to estimate doubtful accounts.
8. Provide reports on the collection status of past-due accounts to management.
9. The following information should be available to management upon request:
 - a. A listing of accounts by type and aging group.
 - b. The dollar amount of the accounts.
 - c. The efforts being taken to collect the accounts.
10. Properly account for receivables that are written off.
11. Include adequate internal controls to maintain the integrity of the systems.
12. Recognize and report receivables in accordance with generally accepted accounting principles.
13. Comply with federal and other contractual regulations regarding the accounting, reporting, and managing of receivables.
14. Maintain a record of year-end receivable balances.



15. DOC is exempt from accruing interest and penalties until it is sent to the OAG.
- C. Each DOC Fiscal Officer will prepare all quarterly *Receivables Summary Reports* in accordance with CAPP Manual Topic 20505. Salient general information relative to these reports includes, but is not limited to the following:
1. All organizational units must notify their respective business office of any debts owed so appropriate collection activities and reporting can occur in accordance with established policies and procedures.
 2. Accounts receivable of organizational units will be reported to the DOC HQ Collections Accountant via the business office quarterly via the established network drive system.
 3. Each business office will submit a report on a quarterly basis, detailing their receivables. If they have no receivables for the period, they should submit a zero-balance report.
 4. If operating conditions change to the extent that receivables are generated, then the agency must begin to report its receivables.
- D. Submission of Reports
1. On or before August 3rd of each year, DOC fiscal officers prepare and submit to the HQ Collection Accountant a summary report of their receivables as of June 30th.
 2. On or before November 3rd, February 3rd, and May 3rd, business offices will prepare and submit to the HQ Collection Accountant a summary report of their receivables for the quarters ended September 30th, December 31st, and March 31st, respectively.
 3. These reports should be prepared in support of DOC efforts to manage receivables and should be reviewed by the Organizational Unit Head. This requirement is not intended to discourage more frequent internal reporting of receivables for review by Organizational Unit management.
- E. The following are suggested minimum review criteria to apply prior to transmittal to the HQ Collection Accountant to enhance accuracy of the data:
1. Foot and cross-foot each section of the report.
 2. Ensure beginning balances are equal to prior report ending balances.
 3. Ensure that gross, collectible, allowance, and past due receivable amounts match and are equal throughout the report.
 4. Explain all adjustments in detail.
 5. Note that the amounts listed with the OAG, collection agency, and TAX do not have to agree with the greater than 60-day past-due amount. The amount reported for TAX, outside collections, and the Attorney General listings will be verified by the HQ Collection Accountant.
 6. The HQ Collection Accountant will ensure that the proper procedures have been followed relative to the reporting of "write-offs vs. discharges".
 - a. Generally, a write-off is an accounting treatment, request submitted to the DOC Director of Financial Services for review and approval.
 - b. A discharge is a formal debt forgiveness authorized at minimum by the OAG.
 7. The HQ Collection Accountant will give full and complete explanations for all appropriate increases or decreases.
- F. The HQ Collection Accountant will compile an Organizational Unit summary quarterly receivable report from the unit reports, excluding VCE.
1. The Unit report is forwarded to the General Accounting Assistant Manager for review prior to entry into the DOA automated accounts receivable system in accordance with the DOA submission deadline.
 2. VCE separately reports its receivables via the DOA automated system in accordance with established

requirements and deadlines.

VII. DOC Fiscal Officer Primary Accounts Receivable Information Sources

- A. CAPP Topic 20505 will be the primary resource for the fiscal officer to be proficient with and use for the proper administration of accounts receivable.
- B. The HQ Collection Accountant will be the second primary resource to refer questions, issues, etc. for the proper administration of receivables.

REFERENCES

41 U.S.C. §§801 - 819, *Fair Debt Collection Practices Act*
Commonwealth Accounting Policy and Procedure Manual (CAPP) Topic 20505, *Accounts Receivable*
COV §2.2-514, *Compromise and settlement of disputes*
COV §2.2-4800, *Policy of the Commonwealth; collection of accounts receivable*
COV §2.2-4806, *Utilization of certain collection techniques*
COV §34-29(a), *Virginia Garnishment Act*
COV §58.1-520 through §58.1-535, *Setoff Debt Collection Act*
COV §58.1-521 A., *Remedy additional; mandatory usage; obtaining identifying information*
COV §58.1-4000 through §58.1-4028, *Virginia Lottery Law*

ATTACHMENTS

None

FORM CITATIONS

None

