

**AMS/FGIS INSTRUCTION 2130.1 10-15-82**

Agricultural Marketing Service-Office of Transportation-  
Federal Grain Inspection Service  
ACTION BY Division ant Staff Directors, AMS, P&SA, FGIS, OT, and ACS

Debt Management Internal Controls

I PURPOSE

This Instruction sets forth guidelines for debt management internal controls in the Agricultural Marketing Service (AMS), Packers and Stockyards Administration (P&SA), Federal Grain Inspection Service (FGIS), Office of Transportation (OT), and Agricultural Cooperative Service (ASC):

II AUTHORITY

A Office of Management ant Budget (OMB) Circular No. A-123, dated October 28, 1981, prescribes policies ant standards to- be followed by Agencies in establishing and maintaining internal controls for program and administrative activities.

B Internal controls consist of the plan of organization and the methods and measures adopted within an Agency to safeguard its resources, assure accuracy and reliability of information, assure adherence to applicable laws, regulations, and policies, and promote operational economy and efficiency.

C Each level of management is responsible for those debt management activities directly or indirectly under their control.

III OBJECTIVES OF DEBT MANAGEMENT CONTROLS

The objectives of debt management controls are to insure that:

A Receivables are promptly and accurately recorded as of the date of the transaction.

B Collection efforts on delinquent accounts are aggressively applied in accordance with the Federal Collection Standards (4 CFR 101-105).

C The total receivables reflected in the accounting reports represent the amounts deemed collectible.

D There is adequate segregation of duties.

E Transactions are executed in accordance with proper authorization.

IV GRANTING CREDIT

Credit transactions should be subject to approval by a responsible program official, e.g., Field Office Manager, Regional Office Supervisor, Headquarters Office Manager, etc. If a credit investigation reveals that the debtor is delinquent on other debts due the Agency or is otherwise judged to be a poor credit risk, the granting of credit should be refused until the situation is corrected.

V BILLINGS AND COLLECTIONS

Personnel handling billing and collection activities should be adequately qualified and trained to perform their assigned duties, and supervised to the extent necessary to ensure adherence to establishes procedures.

Guidance in the form of written instructions, manuals, directives, and notices should be readily available to them.

A        Segregation of Duties. Operations related to billings and collections should provide for segregation of duties to the maximum extent feasible. Adequate segregation of duties is a basic element of control for preventing the misuse of accounts receivable and related cash receipts. However, where segregation of duties is not feasible, alternative procedures must be established to insure proper internal control. Specifically, the following functions should be performed by separate employees:

- 1            Maintaining of general ledger accounts.
- 2            Maintaining of accounts receivable subsidiary records.
- 3            Billing for services rendered.
- 4            Preparing and mailing statements of balances due.
- 5            Authorizing and approving credit for adjustment of accounts.
- 6            Handling cash receipts.
- 7            Approving credit.
- 8            Transferring uncollectible accounts to National Finance Center (NFC).

B        Recording Transactions. Transactions shall be recorded when executed, and shall be properly classified. The accounting system used by the Agency should provide adequate support to the credit management and debt collection functions. At a minimum, it should provide for:

- 1            Recording receivables upon completion of the activity which entitles the Agency to collect amounts owed.
- 2            Current and accurate statements of amounts owed by each debtor.
- 3            Routine aging of delinquencies.
- 4            Total amount owed by the debtor when the debtor has more than one account.
- 5            Computation of penalties on delinquencies.
- 6            Separation of delinquent accounts from current accounts.
- 7            Expeditious generation of bills and followup collection letters.
- 8            Prompt updating of debtor records for account transactions.
- 9            Timely flow of information to appropriate personnel in order to preclude duplicate billings and/or erroneous followup collection efforts on already paid-up accounts.
- 10          An administrative record of the Division's collection efforts.

C        Authorization for Adjustments. All noncash credits to a debtor's account such as adjustments due to errors, bankruptcy, or writeoff of uncollectibles, must be properly authorized by a responsible official.

D        Access to Accounting Records. Effective control allows only limited access to accounting records to reduce loss through errors and irregularities.

Limitation of direct access requires physical segregation of the files.

E        Reconciliation of Accounts. The total of individual accounts (subsidiary records) shall be reconciled, at least monthly to the total accounts receivable by Program Division.

F        Reporting Requirements. Timely, accurate, and relevant financial data summarized and provided Program Divisions, as follows:

1        The receivables shall be aged, monthly, and formal reports provided Program Divisions. The aging shall be in sufficient detail to isolate problem accounts for corrective action. For example, the aging shall show past due accounts for:

1-30 days

31-60 days

61-90 days

91-180 days

181-360 days

2        Program Divisions shall also be provided monthly reports that show:

a        The total indebtedness by category and age.

b        The amount in delinquent status.

c        The increase or decrease in receivables during the reporting month.

G        Billing Controls. Adequate debt management requires prompt, accurate, and effective billing. The following controls are prescribed:

1        Issue bills in a timely manner according to contractual provisions or other established practices.

2        Prenumber billing statements, and account for all numbered billing

3        Verify all data entered on the billing statement, by comparing with certificates or other originating documents to the maximum extent feasible.

4        Check the mathematical accuracy of the billing statement using proper statistical sampling procedures.

5        Assure that initial billing reflects:

a        The basis for indebtedness.

b        A statement that all checks should be made payable to "U.S. Department of Agriculture" for deposits at NFC and to "Agricultural Marketing Service-USDA" for deposits by Fiscal Operations and Systems Branch, Financial Management (FM) Division.

e        Where payment is to be sent.

d        The payment due date.

6        Inform debtors of consequences for late payments.

7        Followup promptly on past due accounts.

VI DELINQUENCY RESOLUTION

A Continuous monitoring of the status of delinquencies is required in order to implement corrective action promptly. Compliance with the Federal Claims Collection Standards (4 CFR 101-10S) is a mandatory prerequisite for resolving delinquent accounts. The first 90 days of a delinquency are critical, as collection after 90 days is highly unlikely. In accordance with aforementioned standards, actions such as automatic overdue notices and telephone calls to the debtor are most effective when the debt is slightly overdue.

B Rescheduling the debt is useful when the debtor cannot pay immediately but the debt is not foreseen as uncollectible. The use of rescheduling should be carefully monitored and set out separately in management reports in order to draw attention to the extent to which rescheduling is being used.

VII DOCUMENTATION OF COLLECTION ACTIONS

Program Divisions shall document all collection actions. The basis for compromise, termination, or suspension of collection action, shall be justified, in writing, by the Program Division official who has written delegation of authority. The justification shall clearly demonstrate how the decision complies with any legal or regulatory requirements, as well as the debt management standards of the Agency. Retain the documentation in an appropriate delinquency file.

VIII UNCOLLECTIBLE DEBT POLICY

A It is Agency policy to consider an account uncollectible if it is not paid within 150 days of the original billing date unless a firm commitment is received stating that the account will be paid within a reasonable period of time.

B Uncollectible accounts will be written off as accounts receivable and established as claims receivable and referred to NFC for action.

C The Claims Section, NFC, will process claims actions on uncollectible accounts.

IX INTERNAL REVIEW

A A periodic analysis of all costs associated with various levels of delinquency shall be conducted to determine the point at which it is expedient for the program to discontinue attempts to recover delinquencies.

B Maintaining a strong internal control for strengthening the debt management practices of the Agency requires continuous monitoring of operations. The following action shall be performed periodically by an employee who is independent of receivable functions:

- 1 A review of compliance with policies and procedures.
- 2 An examination and verification of financial transactions.
- 3 Confirmation of the balance of the debt with the debtor.

C Any discrepancies shall be investigated and appropriate action taken.

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