

# Reclamation Manual

Directives and Standards

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## SUPPLEMENT TO THE DEPARTMENT OF THE INTERIOR DEPARTMENTAL ACCOUNTING MANUAL

### FILE: 08 ACCOUNTS RECEIVABLE

#### 30 Allowance Account for Doubtful Receivables

**Subject(A):** Estimating the Allowance for Doubtful Accounts and Loans Receivable

**Purpose:** Establishes policies, procedures, and responsibilities for estimating potentially uncollectible accounts receivable and uncollectible loans receivable on Reclamation's financial statements.

**Authority:** Department of the Interior, Departmental Accounting Manual (Section 8-30); Financial Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*; SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*

**Contact:** Financial Policy Division (FPD) by calling (303) 445-3430

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### 1. Allowance Account for Doubtful Receivables.

#### A. Responsibilities.

(1) **Regional Finance Officers** are responsible for the following on a quarterly basis:

(a) Reviewing the account receivable overdue status codes and dates that have been assigned to delinquent account receivable debt to verify their accuracy.

(b) Reporting to FPD, by no later than the 15<sup>th</sup> day of the last month of each quarter, any loan balances that are potentially uncollectible. The report should be based on an analysis of both current and long-term loan balances. For each loan which is deemed potentially uncollectible, the following information should be provided:

- Name of loan
- Fund
- Program
- Cost authority
- Unbilled amount (with separate columns for principal and interest)
- Billed amount not yet paid (with separate columns for principal, interest,

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penalties, and administrative fees)

- Factors which might indicate that collection is uncertain, including individual risk factors associated with groups or categories of similar loans

- (2) The **Finance and Accounting Division (FAD) Accounts Receivable and Travel Team** is responsible for the following, on a quarterly basis:
- Reviewing overdue status codes to determine which should be excluded from the allowance for doubtful accounts.
  - Ensuring the FAD Intranet Site has been updated with the current listing of overdue status codes.
  - Analyzing specific debts which are less than 180 days delinquent and which are associated with debtors who have one or more other outstanding debts that are more than 180 days delinquent to determine if all delinquent debts associated with the debtor should be included in the allowance.
  - Summarizing the Reclamation-wide totals by region and fund to establish the current estimate for the allowance for doubtful accounts receivable.
  - Preparing and entering the document(s) into FFS to adjust the allowance for accounts receivable standard general ledgers (SGLs) by region and fund to equal the current estimate.
  - Performing a Reclamation-wide analysis of the estimate of the allowance for doubtful accounts receivable for adequacy.
- (3) **FAD** is responsible for:
- Oversight of accounts receivable and loans receivable activities to ensure that FAD and the regional offices are complying with current policy.
  - Reviewing the final results of the Reclamation-wide Account Receivable Analysis from the Accounts Receivable and Travel Team for reasonableness.
  - Compiling the information provided by the regional offices for the allowance for loans receivable and entering the information into FFS to adjust the balances in SGL 1349/1359/1369 in accordance with current policy.

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(d) Reviewing the final results of the Reclamation-wide allowance for loans receivable for reasonableness.

### B. Accounts Receivable.

(1) Accounts receivable arise from claims to cash or other assets. Since it is a normal part of doing business that not all receivables are actually collected, an allowance for doubtful accounts should be established to reduce the gross amount of receivables to its estimated net realizable value. Accounts receivable and associated interest, penalties, fines, and administrative receivables are recorded in the following asset SGL accounts:

- 131A – Accounts Receivable, Off-Budget, Billed
- 131C – Accounts Receivable, On-Budget, Billed
- 134A – Interest Receivable- Billed
- 136A – Penalties, Fines, and Administrative Fees Receivable- Billed

(2) The allowance for doubtful accounts should take into consideration not only the principal amounts of potentially uncollectible accounts receivable but also the amount of any related interest, penalties, fines, and administrative fees. The allowance for doubtful accounts receivable is recorded as a credit in the contra-SGL accounts with a debit to SGL 6720 – Bad Debt Expense. The contra-SGL accounts are:

- 1319 – Allowance for Loss on Accounts Receivable vs. SGL 131A & 131C
- 1349 – Allowance for Loss on Interest Receivable vs. SGL 134A
- 1369 – Allowance for Loss Penalties, Fines, and Administrative Fees Receivable vs. SGL 136A

### C. Accounts Receivable - Criteria for Collectibility.

- (1) According to the FASAB, losses on receivables should be recognized when it is more likely than not that the receivables will not be totally collected. The phrase “more likely than not” means more than a 50 percent chance of loss occurrence.
- (2) The primary criterion used by Reclamation in estimating the allowance for Accounts receivables that will not be collected is the age of receivables. Except as adjusted below, the estimate for the allowance for doubtful accounts receivable will be all debts more than 180 days delinquent. This amount will be adjusted as follows:

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- (a) The allowance will be increased for the total amount of debt that is less than 180 days delinquent but which has an overdue status code of B (Bankruptcy).
- (b) The allowance *may* be increased for debt less than 180 days delinquent if it is owed by a debtor who has other debt owed to Reclamation which is over 180 days delinquent. FAD will analyze the debtor's history and related factors to determine if it is appropriate to include the debt less than 180 days delinquent in the allowance.
- (c) The allowance *may* be decreased for debt more than 180 days delinquent if the debt has certain overdue status codes assigned to it. For example, a debt with an IP status code (meaning that it is being collected through installment payments) will be excluded from the allowance estimate even though the debt is more than 180 days delinquent. (A complete list of overdue status codes, including their definitions and information on whether or not they are included in the allowance estimate, is available on the FAD Intranet Site.)

#### D. Loans Receivable.

- (1) Current loans receivable are recorded in SGL 135A- Loans Receivable, Billed. Potentially uncollectible balances should be recorded in SGL 1359 – Allowance for Loss on Loans Receivable. If it is determined that the current portion of the loan is probably uncollectible, it follows that the long-term portion of the loan in SGL 135B – Loans Receivable – Unbilled may also be uncollectible. If this is the case, SGL 1359 should also include the long-term portion of the loan.
- (2) SGL 134L – Interest Receivable – Loans and SGL 136L – Penalties, Fines, and Administrative Fees Receivable on Loans use the same contra-asset SGLs as are used for accounts receivable. SGL 1349 – Allowance for Loss on Interest Receivable and SGL 1369 – Allowance for Loss on Penalties, Fines, and Administrative Fees Receivable are credited to off-set the asset SGLs, respectively, with a debit to SGL 6720 – Bad Debt Expense.
- (3) Loans governed by the Credit Reform Act of 1990 should not be considered or included in the analysis to establish an allowance for doubtful loans receivable. The allowance for Credit Reform Loans is already taken into account in the subsidy analysis for such loans.

- E. **Loans Receivable - Criteria for Collectibility.** Factors which might indicate that collectibility is uncertain include the following:

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- (1) Loan performance experience:
  - Loan being delinquent either presently or intermittently in the past.
  - Payer/debtor having another loan that is delinquent or has been written off.
  - This type/group of loan having a greater than normal number of defaults.
  
- (2) Current and forecasted international, national, or regional economic conditions that may affect the performance of the loans:
  - Drought conditions or other regional economic conditions exist which indicate potential deferral or non-payment.
  
- (3) Financial and other relevant characteristics of borrowers:
  - Loans are being reviewed for “Ability to Pay.”
  - Loans have been granted “Ability to Pay” relief.
  - Payers/debtors are in known financial difficulty.
  - Payments were renegotiated, or renegotiation has been proposed.
  - Billed portions of a loan are delinquent or have been written off.
  - Non-loan bills for the same debtor are delinquent or have been written off.
  - The debtor is in bankruptcy.
  
- (4) Newly developed events that would affect the loan’s performance. An allowance will be booked at the region, fund and project level for each loan where any factor would indicate that there is doubt about its collectibility at the present time.

### F. Related Reference.

- FASAB, SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees*
- FASAB, SFFAS No. 19, *Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees*
- Reclamation Manual, *Tracking and Write-Off of Delinquent Accounts Receivable*, FIN 08-20(A)
- OMB Circular A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*
- Department of the Interior Financial Administration Memorandum No. 2001-014, September 27, 2001