VA Financial Policies and Procedures
Accounts Receivable

CHAPTER 6

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0601 OVERVIEW

This chapter establishes Department of Veterans Affairs (VA) financial policies and procedures for the accounting and reporting of accounts receivable. The Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities,* recommends accounting standards for selected assets, which include accounts receivable. Receivables, representing amounts due from others, are recorded as assets from the time the act is given until such claims are completed and collected, or determined to be uncollectible in whole or in part. A receivable will be recorded in the accounting records in the period in which said claims are established.

VA accounts receivable consist of two categories: (1) intragovernmental and (2) public. Intragovernmental accounts receivable consists of amounts due from other Federal Government agencies, and are considered to be fully collectible. Therefore, no allowances for losses are required for intragovernmental accounts receivable. Public accounts receivable consists mostly of amounts due for Veterans health care and amounts due for compensation, pension and readjustment benefit overpayments to Veterans and beneficiaries. Public accounts receivable also includes debts from employees, vendors, foreign Governments and companies and organizations outside of the U.S. Government. Allowances for losses on public accounts receivable are based on prior experience.

Receivables may also be categorized by type, such as loans receivable, refund receivables, and reimbursement receivables. These types will be maintained separately in the general ledger to permit full disclosure of the nature of receivables in financial reports.

This chapter is written primarily from the perspective of the financial statements and reporting requirements. To view related guidance, inclusive of accounts receivable debt management processes and associated internal controls, refer to the following Office of Financial Policy (OFP) Volume XII, Debt Management chapters:

- Chapter 1, *VA Debt Collection Standards*
- Chapter 1A, *Interest, Administrative Costs and Penalty Charges*
- Chapter 1B, *Waiver of Debts*
- Chapter 1C, *Compromise of Debts*
- Chapter 1D, *Salary Offset for Federal Employees Indebted to U.S.*
- Chapter 1E, *Treasury Offset Program and Treasury Cross-Servicing*
- Chapter 1F, *Administrative Wage Garnishment*
- Chapter 1G, *Referrals for Enforced Collection (Litigation)*
- Chapter 1H, *Suspension of Collection Action*
- Chapter 1I, *Termination of Collection Action and Close Out of Debt*
- Chapter 1J, *Reporting Discharge of Indebtedness to IRS*
- Chapter 1K, *Records, Reports and Cost Analysis*
- Chapter 2, *Federal Accounts Receivable*

- Chapter 3, *Freedom of Information Act Fees*
- Chapter 4, *Employee Debts*
- Chapter 5, *Medical Care Debts*
- Chapter 6, *Benefit Debts*
- Chapter 7, *Vendor Debts*

0602 POLICIES

060201 Accounts receivable from the sale of goods and services will be recorded in the accounting period when earned from the sale of goods and services, or when a debt is recognized. Receivables for exchange transactions will be recorded at the full value of goods or services provided, or as mandated by legislation or regulation. To the extent collection of the full amount of the receivable is not probable, an allowance for bad debts or contractual adjustments will be established.

A. VA will recognize receivables when it establishes a claim against other entities, based on legal provisions, or when goods and/or services are provided, as required by Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*.

B. VA will comply with SFFAS No. 1, which requires intragovernmental receivables from Federal entities be reported separately from receivables from public entities. Intragovernmental and public receivables are treated differently because of the different legal and administrative requirements and concepts that apply to them.

C. VA will post adjustments or corrections to accounts receivable promptly and within the accounting period when the adjustments or corrections occur.

060202 VA will maintain receivables according to type, such as loans receivable, refund receivables, and reimbursement receivables. All refunds will be credited as prescribed by statutory authorities and appropriations law. Refer to OFP Volume V Chapter 7F, *Rebates and Refunds,* for additional information on the proper application and deposit of refunds, to include improper payment refunds and Volume VII Chapter 9, *Financial Reporting - Erroneous and Improper Payment Reporting under OMB Circular A-123 Appendix C*, for additional information related to these refund payments.

A. Loans receivables are covered in OFP Volume V, Chapter 7, *Loans Receivable (VBA).*

B. Refund receivables are claims for payment resulting from such transactions as payments in error and overpayment of beneficiaries.

1. Refunds will be credited to the appropriation originally charged and will be accounted for as reductions of expenditures.

2. Refunds 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. Refunds due from non-Federal sources will recover budgetary authority when the cash is collected.

4. Refunds associated with collections for advanced sick and advanced annual leave will be applied to the appropriation originally charged.

5. Prompt action will be taken for collection of debts of employees due to erroneous payments. VA regulations covering these collections will be approved by the Office of Management and Budget.

C. Reimbursement receivables are claims for commodities or services furnished, or to be furnished, and which by law may be credited directly to appropriations. An example of this type is a claim for payment resulting from contracts or agreements made with non-Federal entities.

060203 VA will establish identified unbilled claims as an accrued receivable in the financial records at the end of each accounting month, reversing such entries on the first day of the subsequent month.

060204 Under written agreements between VA and an ordering entity, VA will document the requirements for authorized goods to be sold or services to be provided. The activity receiving the goods or services (i.e., ordering entity) from VA will reimburse VA accordingly.

060205 VA will establish adequate internal controls to ensure accurate and timely recording, documenting, and maintaining accounts receivable.

A. Appropriate separation of duties requires several individuals being involved in the recording and reporting of both public and intragovernmental accounts receivable activity. Ideally, no one person will control or perform all key aspects of an accounts receivable transaction or event from beginning to end. For example, the person who opens the mail and prepares a listing of checks received will not be the person who maintains the accounts receivable records.

B. The Chief of the Finance Activity and/or Director of the Debt Management Center are responsible for coordinating their actions to ensure public accounts receivable are recorded, aged, written-off or closed-out as required. Adequate documentation will be maintained to support all of these actions.

C. Subsidiary records will be reconciled to the control accounts on a monthly basis.

060207 VA will record receivables for exchange transactions at the full value of goods or services provided.

060208 VA will distinguish between entity receivables and non-entity receivables in its financial statements, as prescribed by SFFAS No. 1.

060209 VA financial managers in finance activities and the DMC will establish and maintain, for reporting and accounting purposes, accounts receivable records in a current status, including records of debts waived, compromised, suspended, terminated, or referred to the Regional Counsel or Department of Justice for enforced collection.

060210 VA will identify and write off uncollectible accounts receivable in accordance with OFP Volume XII, Chapter 1H, *Suspension of Collection Action,* and Chapter 1I, *Termination of Collection Action and Close Out of Debt.*

0603 AUTHORITY AND REFERENCES

060301 31 U.S.C. 1552, Procedure for Appropriation Accounts Available for Definite Periods

060302 31 U.S.C. 3711-3720, Money and Finance, Subtitle III, Financial Management, Claims of the United States Government

060303 31 C.F.R. 902, Standards for Compromise of Claims

060304 31 C.F.R. 903, Standards for Suspending or Terminating Collection Activity

060305 Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities,* March 30, 1993

060306 Treasury Financial Manual (TFM) Volume 1, Supplement, *Managing Federal Receivables*

060307 TFM Volume I, Part 2, Chapter 4100, Supplement, *Instructional Workbook for Preparing the Treasury Report on Receivables and Debt Collection Activities*

060308 TFM Volume I, Part 2, Chapter 4700, Agency Reporting Requirements for the Financial Report of the United States Government, May 30, 2008

060309 Federal Intragovernmental Transactions Accounting Policies Guide, August 8, 2007

060310 Office of Management and Budget (OMB) Business Rules for Intragovernmental Transactions, Memorandum M-07-03, November 13, 2006

060311 OMB Circular A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*

060312 OMB Circular A-136, Financial Reporting Requirements - Revised

060313 United States Standard General Ledger (USSGL)

060314 Financial Systems Integration Office (FSIO), Financial Management Systems, Standard Business Processes for U.S. Government Agencies, November 2008

060315 OFP Publications Library Web Site

0604 ROLES AND RESPONSIBILITIES

060401 The Assistant Secretary for Management/Chief Financial Officer (CFO) oversees all financial management activities relating to the Department's programs and operations as required by the Chief Financial Officers Act of 1990 and 38 U.S.C. 309. Specific responsibilities include the direction, management and provision of policy guidance and oversight of VA's financial management personnel, activities and operations. The CFO establishes financial policy, systems and operating procedures for all VA financial entities and provides guidance on all aspects of financial management.

060402 Under Secretaries, Assistant Secretaries, Chief Financial Officers, Fiscal Officers, Chiefs of Finance Activities, Chief Accountants, and other key officials are responsible for ensuring compliance with the policies and procedures set forth in this chapter.

060403 The Office of Financial Policy (OFP), under the CFO's direction, provides Departmentwide financial policy and guidance. Among its responsibilities, OFP develops, coordinates, issues, evaluates, and reviews VA's financial policies, systems and procedures for compliance with all financial laws and regulations and develops policies and procedures for cash and debt management in accordance with the Debt Collection Improvement Act of 1996 and other Governmentwide programs and initiatives.

060404 All VA financial managers and the Debt Management Center will establish and maintain accounts receivable records in a current status by program, type of debt, and appropriation.

060405 All VA Finance activities that refer accounts receivable to other VA components or external agencies for additional collection action or advice are responsible for tracking the current status of those receivables for reporting and accounting purposes.

060406 Payroll offices, legal offices, procurement offices, or any entity that determines a refund is due to VA will notify the appropriate VA activity of the need to record an accounts receivable in the Financial Management System.

0605 PROCEDURES

INTRAGOVERNMENTAL RECEIVABLES.

060501 RECOGNITION.

A. Intragovernmental receivables due from other Federal entities are normally incurred for materials furnished, services rendered, or refunds of amounts erroneously paid by one Federal agency to another.

B. Intragovernmental receivables are recognized when VA establishes a claim against another Federal entity, based on goods and/or services provided (see SFFAS No. 1).

060502 RECORDING.

A. Intragovernmental receivables are recorded as assets from the time of the act giving rise to such claims is completed until the time the receivables are collected or determined to be uncollectable, in whole or in part.

B. VA billing(s) arising from transactions with other Federal departments and agencies will be recorded as accounts receivables in the accounting month during which the associated revenue is earned and/or said claims are established.

060503 DEBT CANCELLATION/SETTLEMENT.

A. Intragovernmental receivables cannot be written off, unless a debt is deemed to be uncollectible due to a lack of valid documentation. At that point, the invalid billing is canceled. The decision to cancel such a billing to another Federal agency is the responsibility of the VA field station director or designee.

B. Intragovernmental receivables cannot be compromised[1], although the amount due VA may be reduced through settlement, which is not a compromise and will not be recorded as a compromise. Instead, the original billing will be amended to reduce the debt to the corrected amount. The amount of the reduced debt is absorbed by the VA appropriation used to provide the goods or services which became the intragovernmental receivable.

[1]OFP Volume XII, Chapter 2, *Federal Accounts Receivable*, provides guidance on when non-intragovernmental or public debts can be compromised. Intragovernmental debt, on the other hand, can only be settled through negotiation between Governmental entities.

060504 REPORTING REQUIREMENTS.

A. Receivables from Federal entities are intragovernmental in nature and will be reported separately from non-Federal receivables, as described in SFFAS No. 1.

B. Receivables will be classified as entity receivables and non-entity receivables.

1. VA will combine entity and non-entity intragovernmental accounts receivables on the face of the balance sheet.

2. VA will disclose non-entity assets in a note to the financial statements.

060505 Reconciliation and Elimination.

A. VA will reconcile accounts receivable with its trading partners, under intragovernmental agreements, for transactions recorded in the same reporting period[2].

B. VA will comply with the Intragovernmental Business Rules contained in OMB Memorandum M-07-03, *"Business Rules for Intragovernmental Transactions*," including the need for reconciliations between the entity ordering goods and services and the entity providing the goods and services.

C. VA will include its trading partner identity on all reimbursable agreements as well as any other receivable or payable involving another Federal agency. With the identification of the trading partner codes on each receivable transaction, elimination of intragovernmental accounts receivable against applicable accounts payable can be accomplished accurately by Treasury for the Governmentwide financial statements.

D. Intragovernmental receivables due from other VA organizations will also be excluded from any external reporting of receivables (e.g., Treasury Report on Receivables).

PUBLIC ACCOUNTS RECEIVABLE.[3]

060506 RECOGNITION.

A. Public receivables will be recognized when VA establishes a legal claim against non-Federal entities (see SFFAS No. 1).

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[2]Refer to OFP Volume VII, Chapter 5, *Financial Reporting - Intragovernmental Activity and Reconciliations*, for policy and related management requirements necessary to record, reconcile, and report Intragovernmental transactions.

[3]Three major types of public receivables are: (1) VBA's loans receivable; (2) reimbursement receivables; and (3) refund receivables. These are covered either in the definition section of this chapter or another volume and chapter.

B. Public receivables may include debts owed by public entities, state and local Governments, foreign Governments, companies (foreign and domestic), employees and any other organization outside of the U.S. Government.

C. Public receivables are created when the revenue is earned or, in the case of a refund receivable, when the need to make a collection is identified.

060507 RECORDING.

A. Receivables representing amounts due from public entities are recorded as assets from the time they are recognized, until the time they are collected or determined to be uncollectible in whole or in part.

B. Receivables for exchange revenue transactions[4] will be recorded at the full value of goods or services provided. To the extent collection of the full amount of the receivable is not probable, an allowance for possible uncollectibles or contractual adjustments will be established (see 060509, Allowance for Loss).

C. VA's Finance activity will record a valid receivable for claims rendered for third-party medical care, including workers' compensation, no-fault, tort feasor and reimbursable insurance cases.

D. Payroll offices, legal offices, procurement offices or any VA entity that determines a refund is due to VA will notify the appropriate VA Finance activity of the need to record an accounts receivable in the accounting system. Such notification will be made in the same accounting cycle that the debt is recognized.

E. VA's automated accounting system, as well as the Defense Finance and Accounting Service (DFAS) system, will generate (or increase) refund receivables for Federal Employees Health Benefits (FEHB) amounts that are advanced on behalf of all VA employees who are in an insufficient pay or leave without pay (LWOP) status, and for pre-tax benefits for FEHB amounts that can be repaid via payroll deductions.[5] Receivables will not be automatically generated for employees of the Veterans Canteen Service (VCS). Local payroll and accounting offices will continue the manual process of recording receivables for VCS employees.

060508 AGING. SFFAS No. 1 states a systematic methodology will be used to measure losses based on analysis of both individual accounts and a group of accounts as a whole.

A. VA will age accounts receivable on a periodic basis by calculating the length of time the individual accounts have been outstanding since the due dates. (See FSIO,

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[4]Exchange revenues arise when an entity provides goods or services to the public for a price.
[5]Also included are invalid FEHBLWOP debts for eligible employees on military leave or on disability retirement.

Financial Management Systems, Standard Business Processes for U.S. Government Agencies, November 2008, section 4.7).

1. VA Finance activities will regularly produce detailed aging schedules for all outstanding receivables and make this data available to the appropriate CFO office(s).

2. The Allowance for Loss on Accounts Receivable process, discussed below, is determined, in part, from the aging schedule for the period of time outstanding for all receivable balances.

B. VA will prepare the Treasury Report on Receivables (TROR) on a quarterly basis and analyze all open accounts receivables.

1. The analysis will be performed prior to the normal billing process.

2. The original debt and any additional charges, including related administrative fees, interest, and penalties, will be aged as of the date the original debt became delinquent.

C. VA will prepare accounts receivable aging information, monthly and quarterly, as part of its TROR and other periodic monitoring and controls submissions.

060509 ALLOWANCE FOR LOSS.

A. Recognition.

1. To the extent collection of the full amount (gross value) of the receivable is not probable, VA will establish an Allowance for Loss on Accounts Receivable. Losses on receivables will be recognized when it is more likely that the receivable will not be collected in full.

2. An allowance for estimated uncollectible amounts will be recognized to reduce the gross amount of receivables to its net realizable value, which is based on the receivable balances less balances of any corresponding allowance accounts.

B. Calculation.

1. VA will establish amounts in the allowance accounts based on historical experience with losses (see Treasury Financial Manual, Volume I, Supplement, Managing Federal Receivables).

2. The analytical process begins by preparing a summary of accounts receivable balances (outstanding for designated periods of time) which will help to identify the portion of accounts receivable (outstanding and accrued) that may be uncollectible. An estimate is then made of those receivables likely to be uncollectible.

3. Specific customer receivable balances representing significant amounts will be individually analyzed.

4. VA will periodically recalculate and adjust the allowance accounts by fund (i.e., Allowance for Loss on Accounts Receivable and Allowance for Losses on Penalties, Fines and Administrative Fees Receivable), but not less frequently than annually. (see SFFAS No. 1 and FSIO, Financial Management Systems, Standard Business Processes for U.S. Government Agencies, November 2008, section 4.7).

C. Recording.

1. The allowance for losses will be calculated periodically for accounting purposes and financial statement reporting. A significant fluctuation in the allowance calculation, from period to period, may impact accounting operations.

2. The calculated allowance will be reviewed by designated personnel with knowledge of the outstanding accounts receivable balances.

3. The calculated allowance will be approved or disapproved by designated personnel, other than personnel calculating the proposed allowance, with knowledge of the outstanding accounts receivable balances. Upon approval, an allowance account is established in the General Ledger.

4. The journal entries (i.e., proprietary accounting) are recorded using the general ledger account transactions provided in the VA Financial Services Center's Web site link at http://vaww.fscdirect.fsc.va.gov/FMSAccountResource.

060510 WRITE-OFF OF PUBLIC ACCOUNTS RECEIVABLE.

Procedures for writing off accounts receivable include (1) analyzing, reviewing and approving debt for write-off, (2) recording general ledger entries, (3) classifying debt according to collection status, (4) obtaining required approval for termination action, (5) closing out debt and (6) notifying the Internal Revenue Service (IRS) about cancelled debt, as applicable.

A. Analyzing, Reviewing and Approving Debt for Write-off.

1. VA will review each debt that is a candidate for termination and write-off and clearly identify those that appear eligible.

2. VA will use selection criteria to help in this determination, to include: delinquent debt age category; customer type, and receivable type. As described in Treasury Financial Manual (TFM) titled *Managing Federal Receivables,* OMB Circular A-129 and 31 C.F.R. 903.3, *Termination of Collection Activity*, each delinquent debt due to the Government will be reviewed to determine whether it has value for accounting purposes.

3. If the debt meets the write-off selection criteria, it will be written off for accounting purposes.

4. Writing off a debt does not necessarily mean the debt is closed because there may still be some potential for collection.

5. VA will maintain its original debtor records and remains responsible for any and all financial reporting associated with the debt.

B. Recording General Ledger Entry.

1. Amounts being written off will go through the appropriate allowance account and may not be charged directly to an expense or asset account.

2. The write-off of a customer account (uncollectible receivable) is captured in the subsidiary ledger, and entries are recorded in applicable accounts in the general ledger to reflect the write-off of debt, including interest, penalties and administrative charges, if applicable.

3. The journal entries are recorded using the general ledger account transactions provided in the VA Financial Services Center's Web site FMS General Ledger Account and Proforma Transaction Resource link, http://vaww.fscdirect.fsc.va.gov/FMSAccountResource/.

4. If the amount of receivables to be written off exceeds the balance in the allowance account, the allowance account will be increased before the receivables are written off.

C. Classifying Debt as Currently Not Collectible or Close-Out.

1. Once receivables are written off, the write-offs will be further classified into two distinct categories, Currently Not Collectible (CNC) or Close-Out, in accordance with OMB Circular A-129. VA will perform analysis to determine which classification would best describe each write off.

2. CNCs are those for which VA intends to continue cost effective debt collection action after write-off. Typically, the decision to classify written-off debt as CNC is supported by circumstances warranting the temporary suspension of collection activity, when VA plans to resume collection action at a future time, triggered by an improvement in the debtor's financial position.

3. Closed out debts are those for which a determination has been made indicating additional collection efforts are futile or VA does not plan to take any further collection action. Close-out, therefore, is the process of terminating collection actions.

Termination of collection action is a decision to cease active collection action on a debt because such action is not economically worthwhile or is otherwise inappropriate.[6]

D. Obtaining Required Approval for Termination Action.

1. Termination Approval Hierarchy.

a. VA will determine whether approval from the Department of Justice (DOJ) or Treasury's Financial Management Service (FMS) may be required prior to termination of collection actions for an accounts receivable.

b. VA has the authority under 31 U.S.C. 3711 (a)(2) and (3) to compromise, suspend, or terminate collection action on debts with principal amounts not in excess of $100,000.

c. Except where VA has independent statutory authority, DOJ concurrence is required, as applicable, when VA compromises, suspends or terminates collection action on debts over $100,000 (principal only), exclusive of interest, penalties and administrative charges. Only DOJ has authority to compromise, suspend or terminate collection actions for accounts receivable at this level.

d. DOJ has delegated to Treasury's FMS the authority to approve termination of collection action on a debt with a principal amount of $500,000 or less when the debt is being serviced by Treasury FMS in its cross-servicing program.

e. In compromising a debt, the authority to accept a compromise offer on such a debt rests solely within the jurisdiction of DOJ (31 U.S.C. 3711 and 31 C.F.R. 902.1) when the principal balance of the debt before compromise exceeds $100,000.

f. If a debt is $500,000 or less and the debt is in Treasury FMS' cross-servicing program, approval is needed from FMS unless VA has independent statutory authority to compromise the debt.

2. Terminated Receivables Not Closed-Out.

a. A terminated debt which has not been closed out and reported to the IRS as taxable income is removed from the Department's records for accounting purposes.

b. A terminated debt may be reestablished in the future if prospects for collection improve.

c. Because terminated benefit debts are no longer reported to the IRS as taxable income, none are ever actually "closed out." For example, even though they have not been closed out, terminated nonmedical benefit debts can only be reestablished in

[6]"Termination" and "suspension of collection" are legal procedures, which are separate and distinct from the accounting procedure of "write-off."

restricted circumstances because of data processing limitations inherent in current systems.

d. A terminated debt which is not closed out and has been referred to the Department of Treasury's Treasury Offset Program (TOP) for offset or cross-servicing may remain at the Treasury Department with no time limitation.[7] Refer to Volume XII, Chapter 1E, *Treasury Offset Program and Cross-Servicing,* for additional information on the Treasury programs.

e. For reporting purposes, the terminated debts not closed out will be classified as CNC on the Treasury Report on Receivables Due from the Public.

f. As with all terminated and written-off (i.e., of the accounting records) debts, they do not appear on the Department's financial statements.

E. Closing Out Debt.

1. A decision to close out the account ceases all collection activity permanently (i.e., the debt may not be reestablished at some future time for further collection action). However, this does not preclude voluntary repayments of a debt at any time.

2. Treasury's *Managing Federal Receivables* guidance states that once VA determines collection action is legally barred or is no longer cost effective, the debt will be classified as a close-out.

3. If the debt is written off and classified as CNC, the debt may be reclassified as closed out in the future, when all collection activities pertaining to the debt cease.

4. VA will maintain appropriate documentation to substantiate write-off and close-out actions including evidence of the applicable reviews and approvals. Documentation will also be maintained in the event the debtor pays VA in the future.

F. Notifying the IRS about Cancelled Debt, as applicable.

1. VA determines whether the debt will be reported to the IRS as potential income.

2. VA will follow statutory guidelines and IRS 1099-C reporting requirements and instructions concerning discharge of indebtedness and will report such discharge in the amount of $600 or greater. VA may decide not to report debts less than $600 which had been discharged in a calendar year. See IRS instructions and OFP Volume XII, Chapter 1J, *Reporting Discharge of Indebtedness to IRS,* for additional information on 1099-C reporting.

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[7] This applies to collection of debt for nontax payments by applying the offset of tax refund payments to collect past-due nontax debt. A notice of intent to offset the debt must have been sent to the debtor after the debt became ten years delinquent. Refer to 31 C.F.R. Part 285.

3. Depending on the type and amount of debt being compromised, VA may be required to report to the IRS--as potential income on Form 1099C--the difference between the full amount of the debt and the amount paid by the debtor in a compromise agreement. For example, if VA agrees to accept payment for less than the full amount owed for a $300,000 debt because the debtor claims an inability to pay, VA will request DOJ's approval for such compromise. If DOJ decides not to seek enforcement and approves the compromise, then the amount discharged will be written off as closed out and reported to the IRS on Form 1099-C.

4. VA or the entity to which debt has been referred generates Form 1099-C, Cancellation of Debt, and sends it to the customer/debtor and the IRS.

G. Debts Not Reportable to IRS When Written Off[8].

1. Debts as a result of participation in a VA benefit or home loan program.

2. Medical care, extended care, and prescription co-payments.

3. Debts, where the payment of funds has already been reported to the IRS for income tax purposes, i.e., salary or payments reported on IRS Form 1099 MISC.

4. Discharge of indebtedness due to death.

5. Debts which are in dispute (validity of the debt is being challenged and VA cannot substantiate its validity) and are written off. The debt is terminated/written off because it should never have been created in the first place.

060511 WRITE-OFF OF THIRD PARTY REIMBURSEMENT RECEIVABLES.

A. Only the General Counsel has the authority to write off (terminate) Medical Care Collections Fund (MCCF) account third party insurance claims, pursuant to 38 U.S.C. 1729(b)(2)(c), 38 C.F.R. 2.6(e)(9) and 38 C.F.R. 1.942(d). Local Activity officers (i.e., those at all VA facilities) do not have authority to write off third party insurance claims.

B. The Fiscal Year-End Financial Reports and Statements Certification require certification that all accounts receivable are correct as of September 30. To support this certification, each VA medical facility will have documentation to support every established receivable and subsequent adjustments, deposits and write-offs.

C. Third party reimbursement receivables are adjusted by an estimate of contractual adjustments under the MCCF account.

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[8]For additional guidance, refer to OFP Volume XII, Chapter 1J, *Reporting Discharge of Indebtedness to IRS*.

D. Actual contractual adjustments are to be recorded at the time of notification by the insurance carrier.

060512 REVERSAL OF ERRONEOUS, INVALID OR UNSUBSTANTIATED ACCOUNTS RECEIVABLE.

A. VA will review receivables for completeness, accuracy and supportability on a monthly basis. Any account receivable found to be erroneous, invalid, or unsupportable will no longer be classified as collectible. If it is determined the debt was never owed (e.g., a duplicate name and VA records reflected the wrong person) and should not have been classified as an account receivable, the entries which established the receivable will be reversed and no IRS 1099-C report will be generated.

B. If the documentation necessary to support a claim is no longer available, the accounts receivable will be reversed. In this case, VA would be precluded from attempting collection action without any valid support. Justification for reversing this type of account receivable will be documented and maintained for future audit purposes. Like the example above, no IRS 1099-C will be generated.

C. If it is determined VA lacks a legitimate basis for the claim, either as a result of a regular review of receivables or a claims dispute, the entries that established the accounts receivable will be reversed. Again, no IRS 1099-C will be produced.

D. If an erroneous, invalid or unsupported accounts receivable is to be reversed, the reversing entry will be recorded in the period in which the determination was made indicating the receivable was invalid.

060513 CANCELED (CLOSED) APPROPRIATIONS.

A. On September 30th of the 5th fiscal year after the period of availability for obligation of a fixed appropriation account ends, the appropriation account will be closed and any remaining balance (whether obligated or unobligated) in the account shall be canceled (closed), and thereafter, shall not be available for obligation or expenditure for any purpose (31 U.S.C. 1552).

1. Canceled (closed) appropriations will not relieve VA of the responsibility to pursue collection or recovery of any debt and the associated accounting. Outstanding accounts receivables will be maintained in the accounting records regardless of whether the appropriation has been canceled (closed). VA will need to continue its collection activity.

2. If VA is not able to collect the debt, the receivable will then be reviewed for possible termination (write-off), in accordance with VA's policy on debt management. Collections received after the appropriation is canceled (closed) will be deposited in the Department

of the Treasury's Miscellaneous Receipts Account 3200, Collections of Receivables from Canceled Accounts.

060514 REPORTING REQUIREMENTS.

A. Report on Receivables and Debt Collection Activities.

1. VA will complete a Treasury Report on Receivables (TROR) quarterly.

2. VA is required to regularly provide information concerning its non-tax receivables and delinquent debts to Treasury's FMS for inclusion in the TROR. (See 31 U.S.C. 3719 and Treasury Financial Manual Volume 1, Supplement, Managing Federal Receivables.)

a. The TROR is Treasury's only comprehensive means for periodically collecting data on the status and condition of the Federal Government's non-tax debt portfolio. The information contained in the report is disseminated to the public, Congress, and OMB.

b. The TROR serves as a management report which informs Federal decision-makers of the gross book value of the debts held by the Federal Government and the actions taken to enforce collection of the Government's receivables.

c. Thus, the debt amounts listed in an agency's receivables report are not necessarily identical to the amounts reported on an agency's financial statements, which are presented in accordance with Credit Reform guidance (i.e., using net present value).

d. Agencies (including VA) are, however, required to reconcile their TROR reporting with the receivables data reported on their financial statements.

3. To assist VA and other agencies in properly reporting receivable and debt information to Treasury FMS, FMS has published an "Instructional Workbook for Preparing the Treasury Report on Receivables." (See Treasury Financial Manual Volume I, Part 2, Chapter 4100, Supplement, "Instructional Workbook for Preparing the Treasury Report on Receivables and Debt Collection Activities." The workbook and contact information are also available on FMS' Web site at *www.fms.treas.gov/debt*.)

B. Reporting Receivables in the Audited Financial Statements.

1. Accounts receivable are reported on the annual audited financial statements of the Department.

2. Public and intragovernmental receivables are reported separately.

3. Receivable amounts are identified on the Balance Sheet and information concerning the composition and aging of receivables is disclosed in the Notes to the Financial Statements.

060515 RECONCILIATION OF PUBLIC ACCOUNTS RECEIVABLE.

A. VA will reconcile its public accounts receivable balances reported in the annual audited financial statements. These balances will reflect the same information VA has entered into the Federal Agencies' Centralized Trial Balance System I (FACTS I) as well as the accounts receivables reported on the Treasury Report on Receivables (TROR).[9]

B. Accounts receivable general ledger balances will be reconciled monthly with the subsidiary ledgers.

0606 DEFINITIONS

060601 Accounts Receivable. Receivables arise from claims against another entity. Accounts receivable may result from the performance of services, the delivery of goods, refunds due or court ordered assessment. Receivables include, but are not limited to, monies due for indebtedness. Examples of indebtedness include reimbursements to VA for work performed for other parties, overpayments to vendors and employees as well as benefits payments, dishonored checks, interest, fees, claims, damages or any other event resulting in a debt owed VA. The accounts receivable USSGL account number is 1310. Sources of an accounting transaction entry include billing documents, cost reports, receiving reports, payroll records, cash collection vouchers and collection and disbursing documents. The normal balance for this account is a debit.

060602 Allowance for Loss on Accounts Receivable (USSGL Account Number 1319). The estimated amount of uncollectible accounts receivable from the public that allows VA to report the net realizable value (i.e., net estimate of receivables reasonably likely to become uncollectible). Increase the account by the amount estimated to be uncollectible. Decrease the account by the actual amount subsequently written off. The amount will include outstanding advances. The normal balance for this account is a credit.

060603 Business Rules. Standard rules issued by OMB providing guidance to Federal entities regarding recording and reconciling fiduciary transactions and intragovernmental exchange activity. These rules standardize business practices across the Federal Government.

060604 Close-out. Close-out occurs after determination has been made that additional collection efforts on a debt would be futile so collection efforts are terminated. The amount of the debt is reported to the IRS as income to the debtor on Form 1099-C, "Cancellation of Debt." Close-out may occur concurrently with the write-off of an account or at a later date, depending on the collection strategy and the ultimate determination indicating the debt has been discharged.

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[9]Refer to OFP Volume XII, Chapter 1K, *Records, Reports and Cost Analysis*, for additional information and procedures on the reconciliation of VA financial statement(s) receivables with TROR receivables.

060605 Collection Actions. Collection actions include issuance of demand letters and referral to debt collection entities such as the Department of the Treasury.

060606 Compromise. An agreement by the Government to accept from a debtor as payment in full an amount less than the full amount of the established debt.

060607 Currently Not Collectible (CNC). This means debts have been written off; however, the agency intends to continue cost effective debt collection action. Also, this means debts that have been terminated, but not closed out and which VA may still collect in the future. While this designation may be used for any such debts, the primary use of this designation is for those debts VA has terminated, and thus removed from the Department's financial records, but have been referred to Treasury for the Treasury Offset Program (TOP) and/or for cross-servicing.

060608 Delinquent Receivables. Receivables not paid by the date specified in the initial written demand for payment or applicable agreement unless other payment arrangements have been made. Delinquent receivables are aged from the payment due date. If a payment "grace" period is provided and expires without payment, then the receivable becomes delinquent from the original payment due date.

060609 Entity Assets. These are assets the reporting entity has authority to use in its operations. The authority to use funds in an entity's operations means the entity management has the authority to decide how funds are used, or management is legally obligated to use funds to meet entity obligations (e.g., repay loans from Treasury).

060610 First-party Accounts Receivable. A debt owed by an individual and resulting from the provision of medical care or services under the authority of 38 U.S.C. Chapter 17. These debts include prescription copayments, inpatient and outpatient copayments, extended care copayments, per diem charges for hospital care or nursing home care, and debts resulting from the provision of care on a humanitarian basis or to individuals who are not eligible for VA medical benefits.

060611 Intragovernmental Receivables. Claims of a Federal entity against other Federal entities.

060612 Intragovernmental Transactions. Business activities occurring within or between Federal agencies.

060613 More Likely Than Not. The event has a better than 50 percent chance of occurring.

060614 Non-Entity Assets. Assets held by an entity but are not available to the entity. An example of non-entity assets is income tax receivables, which the IRS collects for the U.S. Government, but has no authority to spend.

060615 Non-Federal Receivables. Claims by VA or an entity within the Federal Government against non-Federal entities. The term "non-Federal entities" encompasses public entities, domestic and foreign individuals, and organizations outside of the U.S. Government. Non-Federal receivables are also called public receivables.

060616 Penalties, Fines and Administrative Fees Receivable (Account Number 1360). The amount owed representing penalties, fines and administrative fees that have been assessed as a result of delinquent accounts receivable and loans receivable. The normal balance for this account is a debit.

060617 Recognition. The process of formally recording or incorporating an item into the financial statements of an entity as an asset, liability, revenue, expense or the like on a certain date. (See FASB Statement of Financial Accounting Concepts No. 5, par. 6.)

060618 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.

060619 Reimbursements. Reimbursements are amounts earned and collected for goods or services furnished.

060620 Reimbursement Receivables. Revenue reimbursement receivables are claims for payment of services furnished and which by law may be credited directly to appropriations. Two examples of reimbursement receivables are: (a) first-party accounts receivable (see 060610); and (b) Medical Care Collections Fund (MCCF) third-party accounts receivable (see 060613).

060621 Revenue. Revenue comes from two sources: exchange transactions and nonexchange transactions.

A. Exchange revenues arise when an entity provides goods or services to the public or to another Federal entity for a price. Exchange revenue is also known as earned revenue.

B. Nonexchange revenues come primarily from power of the U.S. Government to demand payments from the public, such as taxes, duties, fines, and penalties.

060622 Settlement. Federal receivables cannot be compromised, although the amount due VA may be reduced through settlement. The field station director, or designee, may consider the feasibility of settling an indebtedness owed by another Federal agency through negotiation with the debtor agency as to the amount the debtor agency agrees is due VA. Such settlement of a Federal receivable is not a compromise and will not be recorded as a compromise. Instead, the original billing will be amended to

reduce the debt to the corrected amount. Documentation on the settlement will be placed in the indebtedness file.

060623 Termination. A decision by the Government to stop all collection activity on an account. This decision is made when it is determined further collection activity will be fruitless, or not cost effective at the time. Terminated debts may be reactivated and collected if they were written off, but not closed out.

060624 Third Party Receivables. Claims against a third party (i.e., insurance company, workers' compensation carrier, employer or other responsible person) for reimbursement to VA for the cost of treating a Veteran for a non-service-connected disability or condition when that party is obligated to provide for or pay the expenses of such treatment, under the authority of 38 U.S.C. Chapter 17. VA health care facilities generate claims for non-service connected treatment either provided by VA or obtained at VA expense.

060625 Trading Partner. An agency, department, bureau or other Federal entity which is a party to intragovernmental transactions with another Federal agency.

060626 Trading Partner Code. The designated code or attribute used to identify the trading partner agency.

060627 Write off. The process of reducing receivables in accounting records[10] as a result of the determination the receivables are uncollectible. All write-offs will be made through allowance accounts for bad debts. Under no circumstances are debts to be written off directly to expense. Write-off of debt does not automatically imply the end of collection efforts. If a debt is written off, collection efforts could continue. Write-offs will also be distinguished from reversals of receivables, which result from corrections or a determination there is not a valid basis for the claim by VA.

0607 RECISSIONS

060701 OFP Volume V, Chapter 6, *Accounts Receivable*, August 2009

060702 VA Directive 4669, Receivables Accounting Policy

[10]In VA's VistA system, the option is to "terminate" a bill. Once terminated, the bill has a current status of "Write-Off." The debt still shows a balance. VistA does not have two separate processes (i.e., write-off and close-out) for this.

0608 QUESTIONS

Questions concerning these financial policies and procedures should be directed as follows:

VHA	VHA Accounting Policy (Outlook)
VBA	VAVBAWAS/CO/FINREP (Outlook)
All Others	OFP Accounting Policy (Outlook)