

A Review of
**Accounts Receivable Management at
Higher Education Institutions, Medical
Institutions, and University System Offices**

May 1, 2002

Members of the Legislative Audit Committee:

Results of our survey of 55 higher education institutions, medical institutions, and university system offices indicate that these entities need to improve their accounts receivable management systems. The size of these entities' accounts receivable balances underscore the need to have adequate accounts receivable management systems:

- Medical institutions had \$752.4 million in gross accounts receivable at August 31, 2000. During fiscal year 2000, eight of the medical institutions we surveyed wrote off \$259 million in uncollectible accounts receivable.
- Higher education institutions and university system offices had \$325.6 million in gross accounts receivable at August 31, 2000. During fiscal year 2000, 31 of the higher education institutions and system offices we surveyed wrote off \$7.4 million in uncollectible accounts receivable.

Forty-one of the 55 surveyed entities indicated that they wrote off a total of \$771,463,212 in uncollectible accounts receivable in fiscal years 1998 through 2000. The receivables that were written off were from a variety of accounts, including patient care services and student tuition, fees, and loans. Fourteen of the 55 entities we surveyed (25 percent) did not write off any accounts receivable during that time.

Survey results indicate that these entities could improve their accounts receivable management systems by:

- Documenting procedures for valuing accounts receivable, determining allowances for doubtful accounts, and writing off uncollectible accounts receivable. Eighteen of the 50 entities (36 percent) to which related survey questions applied indicated that they do not have documented procedures for determining the allowance for doubtful accounts and/or for writing off accounts receivable.
- Using written agreements when extending credit. Sixteen of the 48 entities (33 percent) to which related survey questions applied do not require signed written agreements from students who pay tuition and fees under an installment plan.
- Performing a monthly accounts receivable aging analysis. Nine of the 55 entities (16 percent) to which related survey questions applied do not prepare aging reports or they prepare them for only some of the departments that handle accounts receivable. In addition, 20 entities prepare aging reports less frequently than monthly in at least one department.
- Increasing their diligence in pursuing collection of balances owed to them and imposing sanctions for nonpayment. Six of the 48 entities (13 percent) to which related survey questions applied do not bill students

Summary of Objective, Scope, and Methodology

The project objective was to identify ways to increase accounts receivable collections at higher education institutions, medical institutions, and university system offices.

To achieve this objective, we performed a limited review of accounts receivable management practices. We surveyed 41 higher education institutions, nine medical institutions, and five university system offices in fiscal year 2001. Through this survey, we obtained financial data, information on billing and collection practices, and information on accounting and reporting of accounts receivable for fiscal years 1998, 1999, and 2000.

The survey contained 36 questions. Some questions were not applicable to university system offices and some medical institutions because these entities do not have student accounts receivable. Our conclusions are based on the entities' responses to 16 of the 36 survey questions. We did not audit the accuracy of the entities' responses.

We conducted the survey between April and June 2001.

for prior balances. Of the 42 entities that bill students for prior balances, 24 entities (57 percent) bill less frequently than monthly. Under certain conditions, 6 entities (13 percent) allow continued enrollment without payment of outstanding tuition and fee balances, 30 entities (63 percent) give students credit for academic work without payment of outstanding balances, and 29 entities (60 percent) allow students to graduate without payment of outstanding balances.

- Assessing the adequacy of staffing in their billing and collection departments. Thirty-nine of the 55 responding entities (71 percent) reported employee turnover in their billing and collection departments. Reported annual turnover rates ranged from 8 percent to 75 percent. More than half of the 39 entities reported turnover in cashiers, billing and accounts receivable clerks, or accounting clerks.
- Comparing billing and collection data to goals and benchmarks. Eighteen of the 53 entities (34 percent) that responded to the related question do not use analyses other than aging reports. Twenty-two entities (42 percent) do not compare accounts receivable collection performance to benchmarks.

Without a good accounts receivable management system, there is increased risk of:

- Revenue loss as a result of billing errors or omissions.
- The withholding or delayed recording of cash receipts.
- The diversion of cash receipts for personal use.
- Unauthorized or inappropriate reductions of accounts receivable balances, including improper write-offs.
- Limited cash flow from delayed billings, receipt of improper amounts, or slow or ineffective collection procedures.

We have incorporated the entities' survey responses in our Office's risk assessment process and will consider this information when planning future audits of these entities.

If you have any questions, please contact Ron Franke, Audit Manager, at (512) 936-9500.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

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cc: Higher Education Institutions, Medical Institutions, and University System Offices
Chancellors and Presidents
Chief Financial Officers/Vice Presidents for Finance and Business Affairs
Internal Audit Directors