

COUNTY OF HENRICO
ACCOUNTS RECEIVABLE POLICY



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Table of Contents

OVERVIEW AND DEFINITIONS	3
RESPONSIBILITIES.....	5
PROCESSES AND PROCEDURES.....	6
TAXES RECEIVABLE	7
General Information.....	7
Oracle Account Structure for Taxes Receivable	8
Oracle Update Procedures for Personal Property Tax Transactions.....	8
Oracle Update Procedures for Real Estate Tax Transactions	8
Taxes Receivable Reconciliation	10
Allowance for Doubtful Accounts (Tax).....	11
VEHICLE LICENSE TAXES RECEIVABLE	12
Exhibit #1: Approval limits for exonerations, transfers and refunds.....	13

OVERVIEW AND DEFINITIONS

Purpose:

This document outlines the Policies that the County of Henrico (County) utilizes to invoice, control and collect accounts receivable. The goal of the County is to take all appropriate and cost effective means to aggressively collect accounts receivable. The objective is to improve the management, recordation and accounting for accounts receivable owed to the County's various Departments, whether their systems are manual or automated.

Background:

Many times governments levy taxes or provide goods and services on a credit basis, which result in accounts receivable and the need for processes to control and collect these receivables in an appropriate and cost effective manner.

Definitions:

Levy - A tax assessment or tariff creating taxes due as taxes receivable.

Exoneration - The abatement or removal of a levy, penalty or interest improperly imposed on a taxpayer.

Refund - A reimbursement to a taxpayer having a credit balance. A credit balance may be caused by exoneration, after payment or by an overpayment.

Tax Relief for the Elderly - Allows a percentage exemption of tax levy for qualified elderly taxpayers.

Accounts Receivable (A/R) - Any amount owed to an agency of the County of Henrico, including, but not limited to, taxes, loans, and notes, as well as amounts due for goods and services provided, for licenses and fees, from employees, from other agencies and from the state and federal government for grants and contracts. Receivables also include judgments, fines and costs and penalties imposed. This policy does not include Petty Cash, Change Funds or Advances, which are not considered receivables for accounting and reporting purposes.

Past Due (Delinquent) Receivable – Any account for which a payment has not been received by the payment due date.

Allowance for Doubtful Accounts - Management's estimate of the amount of the gross receivable which will be or will prove to be uncollectible.

Write-Off - A transaction that removes an account which management has determined to be uncollectible from an Agency's financial accounting records. Writing off the debt for accounting purposes does not discharge the debt. The debt is still owed to the County, but is no longer reported on the Agency's books as a receivable.

Grant and Contract Receivables - Grants, entitlements and shared revenues that are susceptible to accrual, that is, both measurable and available, and expenditures / expenses that have been incurred but

have not been reimbursed. Entitlements, certain grants and shared revenues, should be recorded at the time of receipt or earlier if they are both measurable and available, and expenditures / expenses have been incurred but have not been reimbursed. Other receivables, such as reimbursement type grants, are recognized when the expenditure is made. Questioned costs or expenditures incurred in excess of grant and contract provisions should not be considered receivables of the County unless authorized by the grantor.

Loans / Notes Receivable - Amounts owed to agencies and institutions on loans or other notes from individuals or organizations other than state or federal agencies and institutions.

Miscellaneous Receivables - Receivables that include amounts owed to an agency or institution for which a category has not been provided.

Accounting Division – The Accounting Division of the Department of Finance.

Treasury Division – The Treasury Division of the Department of Finance.

Real Estate Assessment Division – The Real Estate Assessment Division of the Department of Finance.

Revenue Division – The Revenue Division of the Department of Finance.

RESPONSIBILITIES

The Director of Finance is responsible for ensuring that all accounts receivable are recorded, recognized and reported in accordance with generally accepted accounting principles as prescribed for governments by the Governmental Accounting Standards Board (GASB).

Each Agency Head whose department creates an account receivable is responsible for all actions necessary to account for and collect the receivable. Examples of Departmental accounts receivable subject to the following general responsibilities include, but are not limited to, water & sewer services, wastewater discharge, landfill usage, false alarms, state and federal grants and NSF checks.

In General:

- All receivables must be billed on a timely basis, whether the receivables are due from private entities, the federal government, localities or state agencies. Accounts should be billed when goods are provided or services rendered, unless contractual requirements specify other billing terms or billing terms used are in accordance with industry standards.
- If no subsystem is currently used to bill and control receivables, a miscellaneous invoice will be generated within the Oracle Accounts Receivable system, by the appropriate department, accurately identifying the customer and the customer's billing address, containing the amount of the receivable, the terms for its payment and a description of the activity that resulted in the receivable.
- Maintain an accurate record of receivables transactions.
- Maintain a control record that summarizes and ages the receivables transactions.
- Each Department having an outstanding receivable will be responsible for all collection efforts.
- Each Department having outstanding receivables will be responsible for identifying uncollectible accounts and for sending timely notification to the Director of Finance of the doubtful accounts.
- Provide for the accrual of interest and penalties as allowed or as required by law.
- Agencies shall obtain the following minimum prescribed information on prospective debtors:
 - Full name
 - Home and office address
 - Telephone numbers for home and place of employment
 - Federal Employer Identification Number (FEIN) for businesses
 - Social Security Number (SSN) for individuals or sole proprietorships
- The County of Henrico shall employ all collection tools at its disposal in the pursuit of delinquent balances.
- The Treasury Division is available to provide debt collection guidance.

PROCESSES AND PROCEDURES

Invoice Entry

Departmental accounts receivable invoices are keyed directly into the Oracle A/R module by authorized county personnel within each department. The Accounting Division (Accounting) prints and reviews the "Incomplete Invoices Report" daily and makes corrections to incomplete invoices as necessary.

Invoice Printing and Mailing

Accounting prints accounts receivable invoices weekly through the Oracle A/R module and as requested by specific departments. Accounting mails all accounts receivable invoices when printed unless directed otherwise by a specific department. Departments that need to attach additional backup to the accounts receivable invoice may request Accounting hold the invoice for the department to pick up and mail.

Unapplied Receipts

Accounting runs the "Unapplied Receipts Register" report weekly and identifies unapplied cash receipts received within the Oracle A/R module. Unapplied receipts are monies processed through the Treasury Division that have not been properly applied to a specific customer's account. The unapplied receipts are investigated as needed and applied to the appropriate customer account within the Oracle A/R module.

General Ledger Interface

Accounting runs the Oracle A/R to G/L transaction interface weekly for all open A/R accounting periods.

A/R Reconciliations

Accounting runs the Oracle A/R Aging Report monthly and at year end. The A/R Aging Reports are compared to the Oracle G/L balances and variances are investigated and corrected as deemed necessary.

Payment Terms:

Payment terms shall be net thirty days after the billing date unless otherwise established by law or contract.

Detailed Oracle Procedures:

Detailed procedures for the processing of accounts receivable in Oracle can be located on the Finance Department's Intranet site under Oracle Help / Help by Module or at the following link:

<http://wfin126/FinHome/ACCOUNTS%20RECEIVABLE.pdf>

TAXES RECEIVABLE

General Information

Personal Property Tax:

This tax is imposed on motor vehicles, boats, trailers, mobile homes and business personal property. The Revenue Division calculates the fair market value of tangible personal property as of January 1st each year. The tax rate is set in April of each tax year by the Board of Supervisors. Prior to the tax rate being set, there is a careful review of the County's budgetary needs and public hearings are held. Personal property taxes are billed in May and November, and are due on the 5th day of June and December, annually. Personal property bills also reflect a charge for the County's Vehicle License Tax. All tax transactions from the personal property tax system are interfaced to the Oracle General Ledger (G/L).

Personal property taxes receivable (summarized balances) are maintained in Oracle for six years (current year plus five delinquent years). The detail and aging of each personal property tax receivable is maintained in the personal property tax system. Payments received subsequently are coded to delinquent revenue. Interest income is recorded in Oracle only when collected.

Real Estate Tax:

All real property in the County is subject to taxation except those properties that are specifically exempted by law. The Real Estate Assessment Division assesses property as of January 1st each year. The tax rate is set in April of each year by the Board of Supervisors. Prior to the tax rate being set, there is a careful review of the County's budgetary needs and public hearings are held. Real estate taxes are billed in May and November, and are due on the 5th day of June and December, annually.

If land has improvements added after the original billing, there are additional early and late prorate billings on the improvements. The early prorate is due December 5th and the late prorate is due February 5th of the following year. The collections of real estate taxes receivable are interfaced to Oracle. The Taxes Receivable Accountant must update Oracle via journal entries to the general ledger for any levies, exonerations, changes in tax relief, adjustments, etc. generated by the real estate tax system.

Real estate taxes receivable (summarized balances) are maintained in Oracle for four years (current year plus three delinquent years). The detail and aging of each real estate tax receivable is maintained in the real estate tax system. Real estate taxes remain due and payable to the County for the current year, plus twenty (20) prior tax years. Payments received subsequently are coded to land redemption. Interest income is recorded in Oracle only when collected.

Oracle Account Structure for Taxes Receivable

Taxes receivable for personal property and real estate are coded to a five-digit series number beginning with 14xyz for personal property and 13xyz for real estate. The third digit (“x”) for both personal property and real estate is “0.” The fourth digit (“y”) indicates the tax year. The fifth digit (“z”) indicates the half (“1” = first half and “2” = second half.) For real estate only, the fifth digit (“z”) also indicates early or late prorata (“3” = early prorata and “4” = late prorata.)

A personal property example for the 2006 tax year would be as follows:

14061 – 2006 1st Half

14062 – 2006 2nd Half

A real estate example for the 2006 tax year would be as follows:

13061 – 2006 1st Half

13062 – 2006 2nd Half

13063 – 2006 1st Half Early Prorata

13064 – 2006 2nd Half Late Prorata

Oracle Update Procedures for Personal Property Tax Transactions

All personal property tax transactions (i.e. levies, penalties, interest, exonerations, adjustments, etc) generated by the personal property tax system are interfaced to Oracle. Personal property public service corporation levies are not generated via the personal property tax system but are put in Oracle as taxes receivable via journal entries to the general ledger. The procedures for recording the personal property public service corporation levies in Oracle are similar to the procedures outlined in the real estate public service corporation section except that personal property is only billed in the second half of each tax year.

Oracle Update Procedures for Real Estate Tax Transactions

Annual Levy

The Taxes Receivable Accountant in the Accounting Division receives RET810 report titled “Real Estate Billing File Totals for the Tax Year 20XX.” This report shows the new calendar year tax levy amounts to record for the first and second real estate tax halves. A journal entry is made to the general ledger in Oracle to record each tax half.

Supplements and Prorata Levies

The Calculating Section Supervisor in the Real Estate Assessment Division sends the Taxes Receivable Accountant supplemental and prorata levy copies. After the levies are keyed into the real estate system by the Real Estate Assessment Division, the Taxes Receivable Accountant receives a report titled “Real Estate Billing Supplement” for supplemental levies, etc. This report shows the amount posted to the real estate system by tax year and half. The Taxes Receivable Accountant records these levies via journal entry in Oracle G/L.

Occasionally supplemental levies are done to reestablish accounts. These supplements are done by the Real Estate Adjustment Clerk in the Treasury Division. The procedures for these supplements are the same as those listed above except no batch sheet is received.

Public Service Corporation Levies

Public service corporation bills are sent out by the Management Specialist in the Revenue Division twice a year for first and second half. Once the bills are mailed, the Management Specialist sends the Taxes Receivable Accountant a copy of the spreadsheet via email used to bill the public service corporations. The Taxes Receivable Accountant records the levies and payments via journal entries. The spreadsheet obtained from the Management Specialist is modified by the Taxes Receivable Accountant and used to track the taxes receivable balance as payments are made. The Taxes Receivable Accountant receives copies of the paid bills once they are validated by the Treasury Division. The payment amount and month received is keyed into the public service corporation spreadsheet by the Taxes Receivable Accountant. Payments that are not made yet for the levy will be a reconciling item.

Exonerations

The Calculating Section Supervisor in the Real Estate Assessment Division and the Real Estate Adjustment Clerk in the Treasury Division send the Taxes Receivable Accountant information regarding exonerations.

After the exoneration is keyed to the real estate system by the Real Estate Assessment Division, the Taxes Receivable Accountant is sent a report titled, "Exoneration Input Error and Total Listing." The real estate exoneration report shows exonerations by tax year and half. The Taxes Receivable Accountant records the exonerations in Oracle G/L via journal entries.

Exonerations, transfers and refunds are approved based on the limits as set forth in exhibit #1.

Tax Relief for the Elderly

Changes in tax relief for the elderly are taken from the RET 810 report titled, "Real Estate Billing File Totals for the Tax Year 20XX." The RET 810 report shows the total tax relief exemption awarded by tax year and half. A monthly journal entry is made by the Taxes Receivable Accountant to update Oracle when the amount of tax relief exemption awarded changes. The journal entry to post an increase in tax relief records an increase in revenue and expenditures and a decrease in Taxes Receivable. The journal entry to post a decrease in tax relief records a decrease in revenue and expenditures and an increase in Taxes Receivable.

Refunds

The refund process is started by the Real Estate Adjustment Clerk who submits properly approved direct pay invoices (DPI's) to the Accounting Division. The DPI clerk in the Accounting Division processes the DPI's in Oracle in order to issue refunds to the appropriate taxpayers. The Real Estate Adjustment Clerk also does adjustments to taxpayer accounts on the real estate system to reflect the refunds. Unless the refunds are improperly coded on the DPI's, no manual journal entries need to be done in Oracle by the Taxes Receivable Accountant.

Adjustments

Adjustments are made to the real estate system by the Real Estate Adjustment Clerk. After an adjustment batch is keyed to the real estate system by the Real Estate Assessment Division, the Taxes Receivable Accountant receives the RET 669 report titled, "Adjustment Edit Errors and Total Run" report. This report reflects adjustments by tax year, tax half and prorata. Type 1 adjustments are usually for refunds. Type 2 adjustments are usually to post payments rejected by the real estate system. Type 3 adjustments are usually for other adjustments, transfers, write-offs, bad check reversals, etc.

Each month, the Taxes Receivable Accountant analyzes the RET 669 reports received during the month to determine whether any adjustment journal entries need to be posted to Oracle to keep the accounts balanced with the real estate system. Since refund transactions are posted to Oracle through the DPI process, there is usually no need to process any journal entries for Type 1 adjustments. In addition, it is usually not necessary to process journal entries for Type 2 adjustments since the payments that are being applied to the real estate system have already been reflected in Oracle. Adjustment journal entries only need to be done for Type 3 adjustments. Type 3 adjustments must be analyzed to determine which adjustments have not been reflected in Oracle.

Once it has been determined what the net adjustment effect for the month has been, journal entries are then processed by the Taxes Receivable Accountant in order to update Oracle for any adjustments that have not been reflected in Oracle. The adjustment journal entries are posted by tax year, half and prorata.

Taxes Receivable Reconciliation

The personal property and real estate tax systems are reconciled to Oracle by the Taxes Receivable Accountant.

Personal Property Accounts Receivable Reconciliation

The reconciliation is performed on a spreadsheet. The balances per the personal property system are taken from the month-end PAL 466 report titled, "Month-End Outstanding Receivable Due Report." This report shows accounts receivable balances by tax year and half. The balance used for the reconciliation is the "Line Total" balance. The G/L balances are taken from a monthly trial balance generated from Oracle. This trial balance shows taxes receivable balances by tax year and half. All of the above-mentioned amounts are then keyed to a spreadsheet.

Differences are shown by tax year and half. A grand total for all tax years with an overall difference is also computed. Differences are researched as deemed necessary by the Taxes Receivable Accountant.

Real Estate Accounts Receivable Reconciliation

This reconciliation is performed on a spreadsheet. The balances per the real estate system are taken from the month end RET 639 report titled, "Accounts Receivable Half/Prorata Real Estate listing for the Tax Year XXXX." This report shows accounts receivable balances by tax year, half and prorata. There are two parts to this report. One part includes both debits and credits and the other part includes credits only. The credit only part is not used for the reconciliation. The G/L balances are taken from a monthly trial balance generated from Oracle. This trial balance also shows accounts receivable balances by tax year,

half and prorata. All of the above-mentioned amounts are then keyed to a spreadsheet.

Differences are computed for each tax year, half and prorata. An overall difference for all tax years is also computed. Any differences between halves and proratas within the same tax year are due to transactions that have been incorrectly coded to the wrong half or prorata. Differences between tax years are investigated and corrected as needed. It is important to keep each tax year balanced because each year a tax year is removed from the real estate system and Oracle.

Any differences between the two systems are usually due to, but not limited to the following:

- ❑ Levy, exoneration, adjustment, tax relief, etc., transactions posted to the real estate system in a different month than on Oracle (timing difference).
- ❑ Lockbox revenue recorded on the real estate system in a different month than on Oracle (timing difference).
- ❑ Outstanding refunds that have not hit Oracle or the real estate system (timing difference).
- ❑ Invalid payments to hit the real estate system. This occurs when payments do not post to a taxpayer's real estate account due to an incorrect account number, etc. The "Application of XXXX Real Estate Payments for the Period of X" daily real estate report shows any payments rejected by the real estate system. Unless the invalid payments are corrected by the Real Estate Adjustment Clerk by the end of each month, differences may result since the revenue has already been recorded in Oracle.
- ❑ Transactions coded to the wrong account (i.e., refunds, pay-in-vouchers, etc.). In this case, manual journal entries may need to be done by the Taxes Receivable Accountant.
- ❑ Public service corporation levies not paid in the same month as recorded in Oracle. Since public service corporation levies are not posted to the real estate system, they will be a reconciling item if not paid in the same month as billed and recorded in Oracle.

Allowance for Doubtful Accounts (Tax)

An allowance for doubtful accounts is maintained for personal property and real estate taxes receivable. The Accounting Division computes the allowance in accordance with the methodology established by the Auditor of Public Accounts in Chapter 8, Appendix 1 of the Specifications for Audits of Counties, Cities and Towns manual. Use of the Auditor of Public Accounts methodology is strictly optional.

The allowance is analyzed by the Taxes Receivable Accountant at the end of each fiscal year and adjusted as deemed appropriate by the Taxes Receivable Accountant and the Accounting Section Manager.

VEHICLE LICENSE TAXES RECEIVABLE

General Information

The license tax is imposed on every motor vehicle; trailer and semi-trailer operated on the streets, highways or roads within the county in business or for the private use or benefit of the owner. The license tax shall apply to all vehicles normally garaged, stored or parked within the county. The license tax year shall commence on February 16th of each year and shall expire on February 15th of each year. The license tax is included on the first half personal property tax bill each year that is mailed to taxpayers.

Motor vehicles, trailers and semi-trailers moving into the County from out of state or from a Virginia locality to which no license tax or fee has been paid or from which no license decal purchased shall first become assessable upon moving into the County.

Only one-half of the license tax shall be assessed and collected whenever any such license tax first becomes assessable during the period beginning on July 1st in any year and ending on December 31st in the same license tax year. No license tax shall be assessed and collected whenever any such license tax first becomes assessable after December 31st in the same license tax year.

Motor vehicles, trailers and semi-trailers moving into the County from a Virginia locality to which a license tax or fee has been paid or from which a license decal purchased shall first become assessable only after the tax, fee or decal expires, as follows:

During the period February 16th through June 30th, the license tax shall become assessable July 1st.

During the period July 1st through February 15th, no license tax shall be assessable for that same license tax year.

All vehicle license tax transactions generated by the personal property tax system are interfaced to Oracle.

Oracle Accounts Structure for Vehicle License Tax Receivable

Vehicle license taxes receivable are coded to a five digit Oracle account number beginning with 1020x. The fifth digit (x) indicates the tax year. For example, the 2006 tax year is 10206.

Vehicle License Taxes Receivable Reconciliation

Vehicle license taxes receivable per the personal property tax system are reconciled to Oracle by the Taxes Receivable Accountant.

The reconciliation is performed on a spreadsheet. The balances per the personal property system are taken from the month-end PAL 666 report titled, "Month-End Outstanding Receivable Due Report." This report shows accounts receivable balances by tax year and half. The balances used for the reconciliation are taken from the "Taxes Due" column. The balances per Oracle are taken from a monthly trial balance generated from Oracle. This trial balance shows accounts receivable balances by tax year. All of the above-mentioned amounts are then keyed to a spreadsheet.

Differences are shown for each tax year. A grand total for all tax years with an overall difference is also computed. Differences are researched as deemed necessary by the Taxes Receivable Accountant.

Exhibit #1: Approval limits for exonerations, transfers and refunds

DEPARTMENT OF FINANCE Exonerations, Transfers, and Refunds

APPROVAL LIMITS

A. Treasury Division

	<u>Transfers & Refunds</u>	<u>Exonerations*</u>
Account Clerk III/Senior Accountant	up to \$500	None
Treasury Supervisor	\$501 to \$1,500	up to \$500
Treasury Division Director	\$1,501 to \$5,000	\$501 to \$1,000
Director of Finance	\$5,001 to \$50,000	over \$1,000
Deputy County Manager	over \$50,000	

*Payment penalties and interest only.

B. Revenue Division

	<u>Refunds</u>	<u>Exonerations</u>
Supervisor	up to \$500	up to \$1,500
Section Manager	\$501 to \$1,500	\$1,501 to \$10,000
Revenue Division Director	\$1,501 to \$10,000	\$10,001 to \$35,000
Director of Finance	\$10,001 to \$50,000	over \$35,000
Deputy County Manager	over \$50,000	

C. Real Estate Assessment Division

	<u>Refunds</u>	<u>Exonerations</u>
Real Estate Section Manager	up to \$10,000	up to \$20,000
Real Estate Assessment Director	up to \$10,000	up to \$50,000
Director of Finance	\$10,001 to \$50,000	over \$50,000
Deputy County Manager	over \$50,000	

D. Miscellaneous

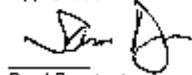
Each Division will be responsible for obtaining all of the required signatures for any transfer, refund, or exonerations originated in that Division in accordance with Sections A, B, and C above prior to forwarding to the Treasury Division for processing.

Exonerations and refunds received in the Treasury Division for processing must be reviewed and initialed by the Treasury Division Director or designee before being processed to insure compliance with the approval limits outlined in Sections A, B, and C above.

If a higher level of approval is substituted for a lower level of approval, approval signatures at each lower level are not required. A minimum of two signatures should appear on every transaction, the signature of the originator of the transaction and the signature of at least one approver.

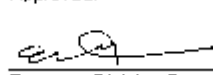
The limits established for exonerations refer to assessed values.

Approved:



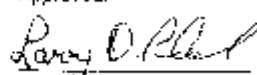
Real Estate Assessment
Director

Approved:



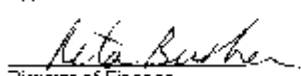
Revenue Division Director

Approved:



Treasury Division Director

Approved:



Director of Finance

5/3/06
Date

04/24/06