



# Department of Veterans Affairs

## Financial Policy

### Volume V

#### Assets

### Chapter 6

#### Accounts and Interest Receivables

Approved:

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## 0601 Overview

This chapter establishes the Department of Veterans Affairs' (VA) financial policies for the recognition, recording, and reporting of accounts and interest receivable. Statement of Federal Financial Accounting Standards (SFFAS) No 1, Accounting for Selected Assets and Liabilities, recommends accounting standards for accounts and interest receivables due VA.

Key points covered in this chapter:

- VA will recognize, record and report accounts receivable noting the underlying classification;
- VA will prepare an aging of accounts receivable, measure and record allowance for potential losses and identify and write off accounts' receivable deemed to be uncollectible;
- VA will recognize, record, and report interest receivable due on investments and debt; and
- VA will, in accordance with OMB Circular A-136, Financial Reporting Requirements, report accounts and interest receivables on the consolidated balance sheet and disclose required information in the accompanying notes.

## 0602 Revisions

See Appendix A for a full listing of previous revisions to this policy.

Section	Revision	Office	Reason for Change	Effective Date
Various	Reformatted to new policy format and completed five-year update	OFP (047G)	Reorganized chapter layout	June 2021
0603 Definitions	Updated Allowance for Loss on Accounts Receivable	OFP (047G)	Rescission of policy prohibiting recording of Loss Allowances on Intragovernmental Receivables (September 15, 2017)	June 2021
0604 Roles and Responsibilities	Removed OFP Roles and Responsibilities from Chapter. Added OFR to reflect reporting responsibilities	OFP (047G)	Alignment of tasks to specific offices	June 2021

Section	Revision	Office	Reason for Change	Effective Date
0605 Policies	Updated Policy Statements	OFP (047G)	To properly reflect VA's accounts and interest receivable accounting and reporting requirements per updated guidance	June 2021
0606 Authorities and References	Added new FASAB Technical Bulletin	OFP (047G)	FASAB Technical Bulletin 2020-1, Interpretation of Federal Financial Accounting Standards 9, Loss Allowance for Intragovernmental Receivables	June 2021
Appendix A	Moved revisions prior to June 2021 to Appendix A	OFP (047G)	Functional placement	June 2021

### 0603 Definitions

**Accounts Receivable** – A claim against another entity. Accounts receivable may result from the performance of services, the delivery of goods, refunds due or a court ordered assessment. Examples include, amounts due to VA for work performed, overpayments to vendors, employees and beneficiaries, dishonored checks, and damages.

**Allowance for Loss on Accounts Receivable** – The estimated amount of uncollectible accounts receivable that allows VA to calculate and report a net realizable value (i.e., net estimate of receivables reasonably likely to be collected).

**Allowance for Loss on Interest Receivable** – The estimated amount of uncollectible interest receivables reported as an offset so that a net realizable value can be calculated and reported.

**Close-out** – A classification after write-off, also referred to as a Discharge of Indebtedness, when the agency has determined that no further debt collection action will be taken and the debt will be discharged, in accordance with 31 C.F.R. § 903.5, 38 C.F.R. § 1.944, and OMB Circular No. A-129. A non-benefit debt close-out of \$600 or more must be reported to the Internal Revenue Service (IRS) per 26 U.S.C. § 6050P.

**Collections** – An inflow of funds for items such as: a payment for goods and/or services provided, debt collections, cash and checks from Veterans, returned benefit checks, intra-governmental collections, refunds, rebates, and other miscellaneous receipts

**Compromise** – Governed by 31 U.S.C. § 3711, a compromise is an offer and acceptance of a partial payment in settlement and full satisfaction of the offeror's indebtedness as it exists at the time the offer is made. It is a final settlement, binding on the parties to the compromise, unless procured by fraud, misrepresentation of a material fact or mutual mistake of fact.

**Currently Not Collectible (CNC)** – A classification of a debt after write-off whereupon cost effective debt collection efforts should continue if an agency determines that continued collection efforts are likely to yield a return. In such cases, the written-off debt is not closed out but classified as CNC.

**Delinquent Receivables** – Delinquency occurs when payment is not made by the due date specified in the initial billing notice. Delinquent receivables are aged from the payment due date.

**Entity Receivables** – 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).

**Interest Receivable** – Interest income earned but not received as of the reporting date. Amount represents accrued interest charges on delinquent accounts receivable, loans receivable and investment securities.

**Intragovernmental Receivables** – Claims of a Federal entity against other Federal entities.

**Intragovernmental Transactions (IGTs)** – These transactions result from business activities conducted by two different federal government entities. There are two types of IGTs: intradepartmental and intragovernmental. For the purposes of this chapter, business activities conducted between federal entities whether inside or outside VA will be known as intragovernmental transactions (IGT).

- Intradepartmental transactions result from activity between trading partners within the same department.
- Intragovernmental transactions result from activity between federal entities not within the same department.

**Non-Entity Receivables** – Amounts due to an entity that are not available for the entity's use. 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.

**Non-Federal Receivables** – Amounts due from 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.

**Penalties, Fines and Administrative Fees Receivable** – The amount owed representing fees charged on any portion of a debt (including employee debts) more than 90 days past due in addition to late payment interest charges and administrative costs.

**Recognize (or Recognition)** – Recognition occurs when you record the transaction in the financial system of record. A recognized item is depicted in both words and numbers, with the amount included in the statement totals. Recognition includes both the initial recognition of an item and recognition of subsequent changes in or removal of a previously recognized item.

**Refunds** – A return of funds previously disbursed as a result of an overpayment, return of an advance, adjustments, or recovery of erroneous disbursements.

**Reimbursements** – Fees collected to cover cost incurred for providing goods or performing a service.

**Revenue** – The inflow of resources, earned through exchange transaction activity or received through non-exchange transactions. This may include sales of products (sales), rendering of services (revenues) and earnings from interest, dividends, lease income and royalties.

**Trading Partner** – A federal entity that is party to IGTs as either the buyer or the seller.

**Write-off** – An accounting action that results in reporting the debt as having no value on the agency’s financial and management report. Write-off may occur before, concurrently with, or after the agency determines that collection action should be terminated. A write-off must be classified as either Currently Not Collectible (CNC) or as a close out per OMB Circular A-129 guidance.

## **0604 Roles and Responsibilities**

**VA Debt Management Center (DMC)** is a franchise fund (fee-for-service) organization in VA. The DMC offers a wide range of debt management services including debt resolution activities, (waivers, compromises, etc.) and is responsible for debt referral to the Treasury Cross-Servicing program.

**Financial Services Center (FSC)** is a franchise fund (fee-for-service) organization where VA has centralized common administrative services. FSC is responsible for initiating the collection of debts on the payments it issues. FSC will forward debts to

DMC for delinquent debt processing in accordance with their Service Level Agreement, i.e., when debts become 90 days past due.

**Office of Financial Reporting (OFR)** ensures accounts and interest receivable are properly disclosed on VA's agency financial report (i.e., disclosures meet OMB, Treasury and other external guidance).

**Office of General Counsel (OGC)** is authorized in matters within the jurisdiction of VA's General Counsel, delegated or otherwise assigned, to conduct investigations, examine witnesses, take affidavits, administer oaths and affirmations and certify copies of public or private documents.

## **0605 Policies**

### **060501 General Policies**

- A. VA will comply with the following authorities for the accounting and reporting of accounts and interest receivables:
  - FASAB Statement of Federal Financial Accounting Standards (SFFAS) No.1 Accounting for Selected Assets and Liabilities;
  - OMB Circulars A-129 and A-136;
  - 31 U.S.C. § 3719; and
  - Treasury Financial Manual (TFM)
- B. VA will establish an accounts receivable when it holds a claim to cash or other assets from another entity.
- C. VA is required to charge interest, penalties, and administrative costs in accordance with 31 C.F.R § 901.9, on debts owed to the Federal Government. Some compensation and pension benefit debts are exempt from these charges in accordance with VA's Principi Decision Memo. See VA Financial Policy Vol XII, Ch 2, Benefit Debt Policy, for additional information.
- D. VA intragovernmental accounts receivable with other federal entities will not be eliminated from the Department's financial statements as they will be eliminated on the Financial Report of the US Government.
- E. VA intragovernmental accounts receivable balances with a federal trading partner must match the trading partners accounts payable balances.
- F. VA will report Accounts and Interest Receivables on the quarterly Treasury Report on Receivables and Debt Collection Activities (TROR) as required by 31 U.S.C. § 3719. See VA Financial Policy, Volume XII Chapter 15, Treasury Report on Receivables, for detailed information.

### **060502 Classifying Accounts Receivable**

- A. In accordance with OMB Circular A-136, VA will distinguish intragovernmental receivables and public receivables separately because of the different legal and administrative requirements and concepts that apply to them.
1. Intragovernmental accounts receivable consists of amounts due from other Federal entities primarily for reimbursement of costs and lease payments receivable. See VA Financial Policy Volume I, Chapter 11, Intragovernmental Transactions, for additional information on transactions between Federal entities.
  2. Public accounts receivable consists of amounts due from public entities and consist primarily of:
    - Amounts due for Veterans' Health Care;
    - Amounts due for Veterans' benefit program related overpayments;
    - Excess contingency reserve funds due from Prudential; and
    - Other miscellaneous receivables due primarily for general fund advances and medical research.
- B. In accordance with OMB Circular A-136, VA will further distinguish receivables as being either an entity or non-entity receivable.
1. Entity receivables are amounts which VA is authorized by law to include in its obligational authority or to offset its expenditures and liabilities upon collection. Entity receivables result primarily from the exchange of goods or services to the public or other Federal entities.
  2. Non-Entity receivables are amounts VA is not authorized to obligate that are collected on behalf of the U.S. Government or other entities. Non-entity receivables should be reported separately from entity receivables.

### **060503 Recording Accounts Receivable and Related Payments**

- A. VA will establish and maintain accounts receivable records in a current status by classification, type of debt, and appropriation.
- B. VA will support general ledger receivable balances with detailed records of each amount receivable from each customer. The detailed transactional data should include at a minimum, the date recorded, the Notice of Indebtedness (NOI), and date billed.
- C. VA will maintain records with enough detail to readily identify the type of receivable (e.g., intragovernmental, public, employee, criminal, etc.).



- D. In accordance with SFFAS 1, VA will record an accounts receivable from the sale of goods and services in the accounting period when earned, or when a debt is recognized.
- E. VA will post payments, adjustments, or corrections to receivables promptly and within the accounting period when the adjustments or corrections occur.

In accordance with 38 C.F.R. § 1.915, VA will apply payments received from the debtor in the following order:

- Penalties;
  - Administrative cost;
  - Interest; and
  - Principal
- F. In cases where late payment charges have been waived or are prohibited by law, VA will apply the payment received to principal.
  - G. VA will calculate accrued receivables and record in the financial records at the end of each accounting period, reversing such entries on the first day of the subsequent period. Unbilled receivables should be billed in the next cycle or in accordance with the inter-agency agreement.

#### **060504 Allowance for Loss on Accounts and Interest Receivables**

- A. In accordance with OMB Circular A-136, VA will document factors and criteria considered regarding the methodology to estimate receivable losses.
- B. VA will maintain accounts receivable until they are collected or determined to be uncollectible in whole or in part. To the extent that collection of the full amount of the receivable is not probable, an allowance for the uncollectible amount (allowance for loss) will be established. FASAB Technical Bulletin 2020-1 clarifies SFFAS 1, by providing that recognition of potential losses through an allowance applies to both intragovernmental receivables and public receivables.
- C. VA will establish an allowance for loss to the extent that collection of the full amount of the interest receivable is not likely to be collected. An allowance for estimated uncollectible amounts should be recognized to reduce the gross amount of interest receivables to its net realizable value.
- D. VA will recalculate and adjust the allowance account at least annually or when information indicates that the latest estimate is no longer correct. Losses due to uncollectible amounts should be measured through a systematic methodology based on analysis of both individual accounts and groups of similar accounts.

- E. VA will write-off delinquent debt that has not been collected within two years of delinquency unless documented and justified to OMB in consultation with Treasury. As required by OMB Circular A-129, all write-offs must be made through the allowance account. Debts will not be written off directly to expense. See VA Financial Policy, Volume XII, Chapter 12, Suspension of Debt Collection, and Volume XII, Chapter 13, Termination of Collection Action and Reporting Discharge of Debt to IRS, for additional information, delegation of authority, and reporting requirements.

**060505 Interest Receivable**

- A. VA will recognize and record interest receivable, to include interest receivable due on investments and debt, in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 1, Accounting for Selected Assets and Liabilities, 38 U.S.C. § 5315 and VA Financial Policy, Volume XII, Chapter 9, Interest, Administrative Costs, and Penalty Charges. See VA Financial Policy, Volume V, Chapter 5, Investments, for information specific to VA investments.
- B. VA will charge the minimum annual interest rate equal to the U.S. Treasury's Current Value of Funds Rate on delinquent debts. The rates are published annually by the Secretary of the Treasury in the Federal Register and are available on the Fiscal Service website. For further information regarding interest rate charges refer to VA Financial Policy Vol XII, Chapter 9, Interest, Administrative Costs, and Penalty Charges.
- C. The rate of interest will remain fixed for the duration of the delinquent debt. However, per C.F.R. § 901.9, Interest, Penalties, and Administrative Costs, when a debtor defaults on a repayment agreement and seeks to enter into a new agreement, VA may set a new interest rate. Interest will be computed as follows:  $\text{Interest} = \text{Principal} \times \text{Annual Rate} \times \text{Days Outstanding} / 360$ .
- D. The following standards will be applied for recognition of interest receivable:
  - 1. Interest will be recognized as it is earned on investments in interest-bearing securities.
  - 2. Interest will be recognized on outstanding delinquent accounts receivable and other U.S. government claims against persons and entities in accordance with provisions in 31 U.S.C. § 3717.
  - 3. VA will not recognize interest receivable on Federal accounts receivables.
  - 4. Interest will not be charged on accrued interest and administrative costs.

5. Interest will not be recognized on accounts receivable or investments that are in dispute, in bankruptcy, have been referred to the Department of Justice (DOJ) or determined to be uncollectible unless the interest is actually collected. However, until the interest payment requirement is officially waived, or the related debt is written off, interest accrued on uncollectible accounts receivable will be disclosed.
6. All or any part of the interest and administrative costs assessed are subject to consideration for waiver under 38 U.S.C § 5302(a).
  - a. VA may forbear collection of interest and administrative costs, exclusive of collection of the principal of the debt on which they are assessed.
  - b. VA may terminate further assessment of interest and administrative costs when the collection of such interest and costs are determined to be not in the government's best interest.

#### **060506 Reversal of Invalid Accounts and Interest Receivable**

- A. VA will review receivables for completeness, accuracy, and supportability on a monthly basis.
- B. Any account receivable found to be erroneous, invalid, or unsupported 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. Normally when debts in excess of \$600 are forgiven, a 1099-C will be generated and sent to the debtor and the IRS. As in this instance there was never an official debt, an IRS 1099-C report will not be generated.
- C. VA will reverse erroneous, invalid, or unsupported accounts receivable in the period in which the determination was made.

#### **060507 Canceled (Closed) Appropriations and Collection Activities**

- A. On September 30 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).
- B. Canceled (closed) appropriations will not relieve VA of the responsibility to pursue collection or recovery of debt and additional charges and the associated accounting. Outstanding accounts receivable will be maintained in the accounting records

regardless of whether the appropriation has been canceled (closed). VA will need to continue its collection activity. Collections received after the appropriation is canceled (closed) will be deposited in the Department of the Treasury's (Treasury) Miscellaneous Receipts Account 3200, Collections of Receivables from Canceled Accounts.

## **0606 Authorities and References**

[31 U.S.C. § 1552, Procedure for Appropriation Accounts Available for Definite Periods](#)

[31 U.S.C. § 3711-3720E, Money and Finance, Subtitle III, Financial Management, Claims of the United States Government](#)

[38 U.S.C. § 5302, Waiver of Recovery of Claims by the United States](#)

[38 U.S.C. § 5315, Interest and Administrative Cost Charges on Delinquent Payments of Certain Amounts Due the United States](#)

[31 C.F.R. § 901.9, Interest, Penalties, and Administrative Costs](#)

[31 C.F.R. § 902, Standards for Compromise of Claims](#)

[31 C.F.R. § 903, Standards for Suspending or Terminating Collection Activity](#)

[38 C.F.R. § 1.915, Interest, Administrative Costs, and Penalties](#)

[FASAB Technical Bulletin 2020-1, Interpretation of Federal Financial Accounting Standards 9, Loss Allowance for Intragovernmental Receivables](#)

[Statement of Federal Financial Accounting Standards \(SFFAS\) No. 1, Accounting for Selected Assets and Liabilities](#)

[Statement of Federal Financial Accounting Standards \(SFFAS\) No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting](#)

[OMB Circular A-129, Policies for Federal Credit Programs and Non-Tax Receivables](#)

[OMB Circular A-136, Financial Reporting Requirements  
Treasury Financial Manual, United States Standard General Ledger \(USSGL\)](#)

[Treasury Financial Manual Volume 1, Supplement, Managing Federal Receivables](#)

[Treasury Financial Manual Volume I, Part 2, Chapter 4700, Federal Entity Reporting Requirements for the Financial Report of the United States Government](#)

[VA Financial Policy Volume 1, Chapter 11, Intragovernmental Reimbursable Agreements](#)

[VA Financial Policy Volume II, Chapter 7F, Refunds and Rebates](#)

[VA Financial Policy Volume V, Chapter 5, Investments](#)

[VA Financial Policy Volume V, Chapter 7, Loans Receivable \(VBA\)](#)

[VA Financial Policy Volume VII, Chapter 9, Payment Integrity and Fraud Reduction](#)

[VA Financial Policy Volume XII, Chapter 2, Benefit Debts](#)

[VA Financial Policy Volume XII, Chapter 9, Interest, Administrative Costs, and Penalty Charges](#)

[VA Financial Policy Volume XII, Chapter 12, Suspension of Debt Collection](#)

[VA Financial Policy Volume XII, Chapter 13, Termination of Collection Action and Reporting Discharge of Debt to IRS](#)

[VA Financial Policy Volume XII, Chapter 15, Treasury Report on Receivables](#)

### **0607 Rescissions**

OFP Volume V, Chapter 6, Accounts and Interest Receivables, January 2013

### **0608 Questions**

Questions concerning this financial policy should be directed to the following points of contact:

VHA	<a href="#"><u>VHA 10A3A Accounting Policy</u></a> (Outlook)
VHA	<a href="#"><u>VAFSC Nationwide Accounting</u></a> (Outlook)
VBA	<a href="#"><u>VAVBAWAS/CO/FINREP</u></a> (Outlook)
VBA	<a href="#"><u>VAVBAWAS/CO/OPERATIONS</u></a> (Outlook)
NCA	<a href="#"><u>NCA Financial Policy Group</u></a> (Outlook)
NCA	<a href="#"><u>NCA Budget Service</u></a> (Outlook)
All Others	<a href="#"><u>OFP Accounting Policy</u></a> (Outlook)

**Appendix A: Previous Policy Revisions**

Section	Revision	Office	Effective Date
Vol V Ch 6 Accts Receivable & Ch 6A Interest Receivable	Merged chapters and updated information as needed. Chapter focus revised to the accounting aspect rather than the administration of debt and authority for interest. References to other chapters included.	APPS (047GA1)	January 2013
Ch 6 & Ch 6A 0601 Overview	Detailed information moved into appropriate policies and procedures sections. Reorganized information.	APPS (047GA1)	January 2013
Ch 6 Accts Receivable	Deleted sections related to TROR, and IRS reporting deleted. Reference to other chapters included.	APPS (047GA1)	January 2013
Ch 6 Accts Receivable	Write-off and close-out updated to clarify difference. Authorities for approval of termination and close-out deleted. Reference to other chapters included.	APPS (047GA1)	January 2013
Ch 6A Interest Receivable	Deleted reference for 1992 decision for not charging interest on compensation and pension debts.	APPS (047GA1)	January 2013
Ch 6A Interest Receivable	Deleted detailed authority information for interest. Reference to Vol XII Ch 1, Interest, Admin Costs, and Penalty Charges included.	APPS (047GA1)	January 2013