

# Accounts Receivable

Aging – Reconciliation – Collections



## Checks & Balances

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## Executive Summary

The State of Ohio is comprised of agencies operating from various revenue sources. For agencies not heavily dependent on the state's general revenue fund or federal funds, the timely collection of fee revenue is imperative to maintaining daily operations and providing services to the citizens of Ohio. Agencies should monitor their receivables for timely collection to be in compliance with Ohio Revised Code section 131.02 which states in part:

*131.02: Collecting amounts due to state:*

*Except as otherwise provided by in section 4123.37, section 5703.061, and division (K) of section 4123.511 of the Revised Code, whenever any amount is payable to the state, the officer, employee, or agent responsible for administering the law under which the amount is payable shall immediately proceed to collect the amount or cause the amount to be collected and shall pay the amount into the state treasury or into the appropriate custodial fund in the manner set forth pursuant to section 113.08 of the Revised Code. Except as otherwise provided in this division, if the amount is not paid within forty-five days after payment is due, the officer, employee or agent shall certify the amount due to the attorney general, in the form and manner prescribed by the attorney general, and notify the director of budget and management thereof.....<sup>1</sup>*

As part of our research, we focused on three components of the accounts receivable process; identification of aging receivables, reconciliation of receivables, and the collection of these receivables. To research the state's current processes in these areas, we met with subject matter experts from the Office of Budget and Management, Ohio Department of Medicaid, Ohio Shared Services, and the Ohio Attorney General's Office. We also met with the Ohio Department of Health to gain an understanding as to why they do not utilize OAKS Financials. Finally, we researched the accounts receivable processes for other public and private sector entities.

The outcome of our research indicated there is not an established standardized process within the state when it comes to identifying aging accounts and reconciling receivables. This is largely in part due to many state agencies having their own internal accounts receivable system.

We recommend the following: past due and certification letters be standardized and required for use by all state agencies; future integration of OAKS Financials system with agency specific accounts receivable systems; create a report that would allow the integration of OAKS Business Intelligence data and other software accounting data; agencies reconcile their AR accounts to the general ledger on a monthly basis. Through our research and subject matter expert interviews, we believe that the implementation of these recommendations will make the monitoring process more efficient and accurate.

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<sup>1</sup> Ohio Revised Code. 131.02: Collecting amounts due to state. Accessed 24 March 2016.

## **Introduction**

### **Problem Statement**

Through the accounts receivable process, billions of dollars are received annually and utilized by state agencies to provide services to the citizens of Ohio. Although this process is an important function for agencies dependent on fee and license revenue, there is little standardization among agencies regarding these processes. A lack of standardization in agency collection methods, reconciliation, and software cause potential inefficiencies within the accounts receivable process.

### **Background**

Currently, state agencies use various accounts receivable software, invoicing systems, monitoring/reporting tools, reconciliation processes, notification letters, and collection processes. The only existing standardization that we found throughout the state is the certification of aging receivables to the Attorney General's (AG) Office. State law mandates that receivables 45 days past due be certified to the AG for collection.

The majority of Ohio's state agencies utilize the Ohio Administrative Knowledge System (OAKS) Financials module as the primary accounting system for functions related to accounts payable, purchasing, and budgeting. The Office of Budget and Management (OBM) has policies and standardized procedures created for these functions. However, many agencies utilize legacy systems for their accounts receivable functions and documentation and were not mandated to switch and utilize the OAKS Financials module when it was created. Because very few agencies decided to use OAKS Financials for their receivable accounts, efforts remained focused on updates to accounts payable and purchasing modules.

It is our intent to bring attention to receivables revenue monitoring and collection by educating stakeholders, standardizing some aging receivables processes, and recommending some best practices.

### **Research Strategies**

Our research focused on meeting with subject matter experts within different state agencies to gain a better understanding of the current procedures being used. Our goal was to learn about the similarities and differences of the methods these agencies were using for accounts receivable (AR) functions of billing, monitoring, collecting, and reconciling. Our subject matter experts included personnel from the Office of Budget and Management, Ohio Department of Health, Ohio Department of Medicaid, Ohio Shared Services, and Ohio Attorney General's Office. We also expanded our research by contacting other public entities and companies in the private sector to review their methods of collection and reconciliation of accounts.

## Findings

### Office of Budget and Management

The team initially met with Melvin Striblin, Senior Financial Manager with the Office of Budget and Management, to discuss issues surrounding accounts receivable in the State of Ohio. From this discussion, we decided to focus on the monitoring, reconciliation and collection of aging receivable accounts.

Mr. Striblin provided several recommendations that would be feasible and beneficial to a majority of the state agencies. The first recommendation was to provide some level of standardization by having agencies utilize the OAKS billing module. This module interfaces with the OAKS accounts receivable module where customer information is entered and stored. Invoices are then generated in the billing module while checking accuracy of customer information prior to it being sent. By using these integrated modules, there is additional data generated that can be useful for tracking and reporting using the OAKS Business Intelligence.

The second recommendation was communicating the importance of reconciling receivable accounts to the general ledger. The general ledger is the state's official accounting record and stores financial data for all state agencies. Agencies can use it to get a summary view of their financial transactions, create reports, and perform analysis. Budget checking rules, ledgers and the chart of accounts are all set up within the general ledger. In emphasizing the importance of this process, it is possible the Office of Budget and Management will create a reconciliation procedure for all agencies to complete during the fiscal year-end process. Mr. Striblin also recommended contacting Renee Gossett with the Ohio Department of Medicaid to discuss the success their agency had in creating a reconciliation process.

### OAKS Business Intelligence Reports

For the agencies who use OAKS Financials to process accounts receivable transactions, the OAKS Business Intelligence (BI) system can be utilized to monitor transactions. It is the reporting tool the State of Ohio uses to turn OAKS Financials data into reports. OAKS BI contains hundreds of pre-built reports that can be utilized to analyze programs, evaluate operations, and drive the decision making process.

With input from the OAKS Business Intelligence team, we identified the AR-0013 - AR Aging Report as a resource that can be utilized to monitor aging receivables. The purpose of this report, as cited by the OAKS BI Report Books, is to determine how much is owed on open pending items.<sup>2</sup> The AR-0013 report is capable of providing high overview data such as aging receivables for all agencies who utilize OAKS Financials to the transactional detail for agency specific data. The data output from this report can be selected to sort or filter on a variety of chartfields to allow for the agency's required analysis. These reporting options include: agency, department and fund; customer and item; agency department, customer, and item; customer and all chartfields; and customers greater than 60 days.

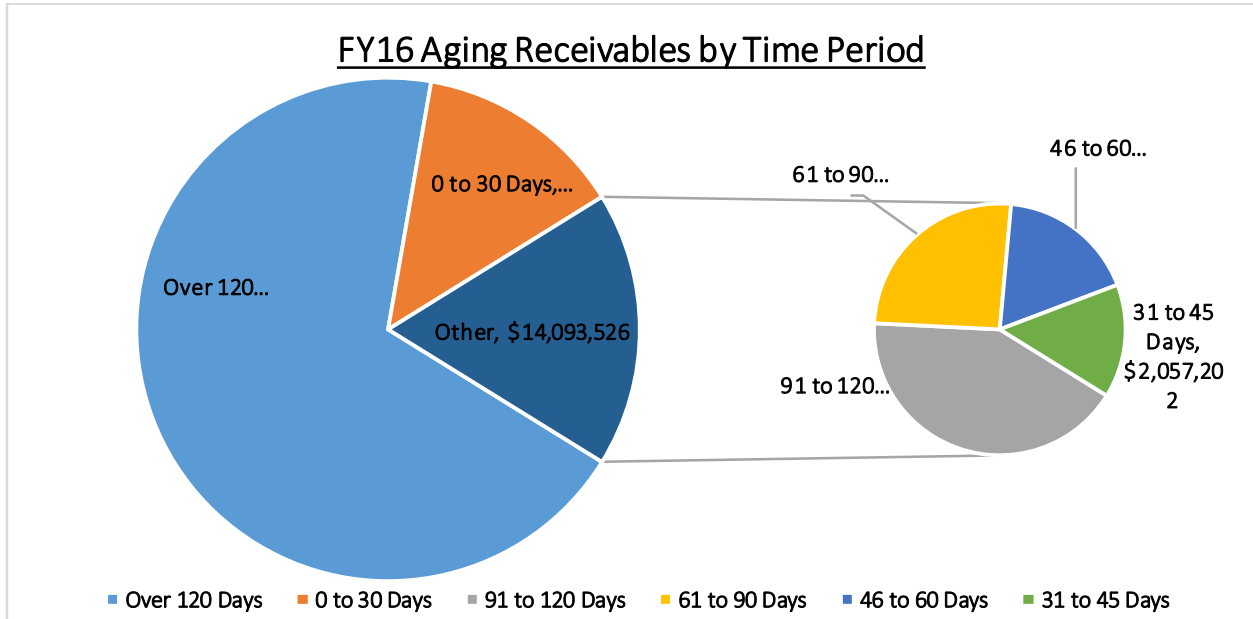
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<sup>2</sup> OAKS BI Report Books. 25 March 2015, <https://bireport.oaks.ohio.gov/cognosprd/samples/ReportBooks>. Accessed 22 August 2016.

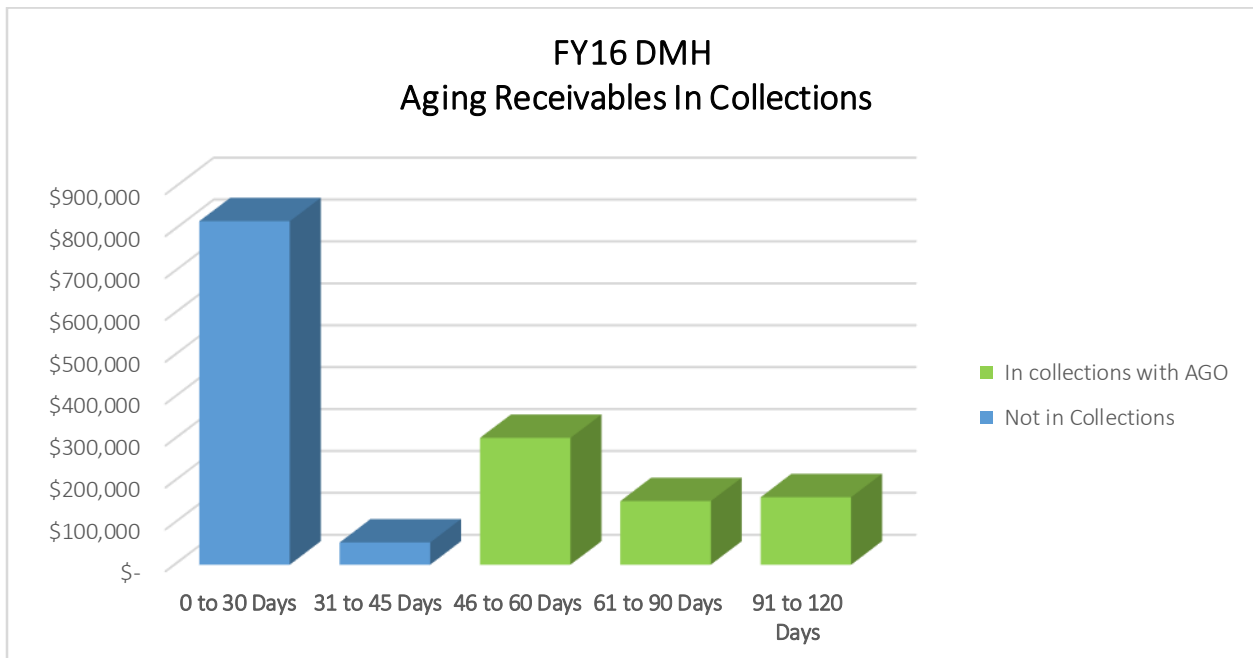
## Accounts Receivable: Aging – Reconciliation - Collections

Once the report is generated, key information provided on the report includes the customer id, customer name, billing agency, item number, if the collection has been turned over to the Attorney General's Office, and the length of time that the item has been outstanding. Agencies can use all or parts of the report data to monitor their aging receivables.

The chart below reflects a summary of all aging receivables for fiscal year 2016. (Created 7/20/16)



This agency specific chart for DMH is for all aging receivables for fiscal year 2016. (Created 7/20/16)



## **Ohio Department of Health – Alternate Accounting System**

To gain an understanding as to why agencies do not utilize the OAKS Financials billing module, we contacted Amadou Diallo, Ohio Department of Health's Chief of Revenue Management. The Department of Health has many revenue sources with various collection periods. The fee-based programs within this agency are dependent on their accounts receivable being collected timely so that they can fund their programmatic functions.

The Department of Health's revenue and accounts receivable system (AR.net) is a centralized system that is used to process detailed customer payments and create a variety of customer invoice types. Revenue received can be a result of either a one-time or recurring payment for services or products provided by the agency. The current system is used to provide three main financial functions; accounts receivable, revenue deposit, and federal draws.

The accounts receivable (billing) function is centralized to create invoices for services or products provided by the department's program areas. The system has four invoice templates to accommodate a variety of billing types: laboratory, general, inspection/licenses and contracts.

The revenue deposit function is used to process customer payments for invoiced and non-invoiced services requested or reimbursement of unspent funds. Additionally, donations received at the revenue room or via mail are deposited into various program accounts.

The federal draw function is used to track federal grant awards and amounts drawn to ensure funds are drawn accurately and prevent the possibility of overdrawing grants that have more than one account in the federal payment system. It also allows for accurate tracking of carryover funds.

The current system is interfaced with many program-related systems for efficiency, automated invoice creation and revenue recognition. Revenue and invoice information fed back into the program stand-alone systems enables them to provide timely services to their customers and make programmatic decisions.

Built to fulfill the Ohio Department of Health's needs, AR.net performs the five agency requirements listed below:

1. Ability to process payment at the customer level without creating a customer record
2. Streamlined revenue entry process
3. Ability to upload customers' electronic payments
4. Automated invoice creation initiated by program systems
5. Program's ability to see customer payments in their systems

Recently, the Department of Health met with the Office of Budget and Management to discuss the option of migrating to the OAKS Financials billing module. It was determined that with the current OAKS Financials environment and the agency's specific requirements, at this time it is not possible for the Department of Health to utilize OAKS for their accounts receivable functions. There are additional discussions with the Office of Budget and Management regarding the possibility of interfacing their AR.net software with OAKS.



## **Ohio Department of Medicaid – Reconciliation**

Renee Gossett is the Chief of Revenue Management for Ohio's Department of Medicaid and has spent the last four years working to reconcile the agency's accounts to the general ledger. Back in 2012 when she discovered agency's receivable accounts were not reconciling to the general ledger, she contacted and began working with a team at the Office of Budget and Management and OAKS Requirements and Configuration Management (RACM).

The team determined that if state agencies' accounts receivable general ledger balances are incorrect, they can affect the accuracy of revenue forecasting and reporting abilities. Incorrect general ledger balances will continue to compound across accounting periods until corrected. In this case, the reconciliation step may be incorrect or omitted and a new accounting period begins with an incorrect receivables general ledger balance. As time passes, deriving the correct receivables balance in the general ledger becomes increasingly more difficult.

It was determined that to balance OAKS transactions to the general ledger, the agency needed to go back to day one of OAKS and review each transaction and its effect on the general ledger. During this process, the following issues were identified:

1. Incorrect coding of accounts receivable adjustments at the agency level resulted in general ledger inconsistencies.
2. Misapplied payments caused compounding errors in accounts receivable and general ledger balances.
3. Incorrect year-end adjustments, which were processed by OBM, negatively affected the general ledger balance.
4. Agencies have the ability to create erroneous transactions to other state agencies' funds. Specifically, accounts receivable transactions were incorrectly credited to the Ohio Department of Medicaid, when they belonged to another agency.

Since 2012, Ms. Gossett and her team have reconciled approximately fifteen funds and have two funds remaining until they can consider this reconciliation project completed. In order to prevent the reconciled funds general ledgers from once again being out of balance, ODM performs a weekly reconciliation using an open receivable invoices report (OAKS BI) and the Agency Daily Cash Balance Report (OAKS Query). Samples of these reports can be found in Appendix A of this report.

## **Ohio Shared Services – Past Due Receivables Service**

Ohio Shared Services (OSS) has a project focusing on the collection of revenue. We met with Sherri Lowe, OSS's Deputy Director and her team to discuss both of our projects and to share knowledge. In January 2016, a past due receivables questionnaire (Appendix B-D) was sent by the Office of Budget and Management to the 26 cabinet level agencies requesting their past due receivables for fiscal year 2015. The 18 agencies who responded to the request used multiple methodologies for determining their past due and certified amounts. Included in the submission was the total dollar amounts billed, past due amounts, dollars collected by the agency, and dollars certified to the Attorney General. Agencies reported \$111 million in past due receivables and \$759 million being certified to the Attorney General's office. Below is a summary of the self-reported questionnaire results.

**Past Due Receivables Questionnaire  
Fiscal Year 2015**

<b>Agency</b>	<b>Total Amount Billed</b>	<b>\$ Past Due</b>	<b>\$ Agency Collect</b>	<b>\$ AG Certified</b>
AGE	\$9,251,439	\$98,294		\$1,410,905
AGR	\$109,123	\$109,123	\$0	\$109,123
COM	\$21,739,113	\$815,956	\$20,838,736	\$0
DDD	\$332,166	\$325,918	\$6,248	\$176,091
DNR	\$37,990,140	\$160,418	\$561,420	\$14,956
DOH	\$104,178,169	\$325,442	\$103,852,728	\$322,572
DOT	\$8,246,942	\$4,009,679	\$593,280	\$3,416,399
DPS	\$12,002,637	\$4,636,703	\$5,090,850	\$563,285
DRC	\$1,300,064	\$190,931	\$39,142	\$0
DVS	\$14,201,652	\$9,971	\$0	\$9,971
EDU	\$27,640,929	\$3,421,889	\$216,118	\$2,992,042
INS	\$38,402,145	\$30,005	\$38,372,140	\$30,005
JFS	\$1,288,746	\$805,147	\$5,573	\$1,283,201
MCD	\$1,175,649,609	\$91,296,189	\$997,240,002	\$87,113,418
MHA	\$5,276,613	\$5,276,613	\$434,623	\$5,008,814
OOD	\$6,544			\$6,544
PUCO	\$14,070,747	\$2,000	\$400	\$1,600
TAX				\$656,545,390
<b>Grand Total</b>	<b>\$1,471,686,778</b>	<b>\$111,514,278</b>	<b>\$1,167,251,260</b>	<b>\$759,004,317</b>

During the Ohio Shared Service's team research, they discovered that accounts over six months old were 50% less likely to be paid. Their primary focus was to work with accounts between 30 and 45 days past due, prior to them being certified to the Attorney General's office for collections.

It was determined that Ohio Shared Services did not have the staff to effectively take on this project without outside assistance. They partnered with DebtNext to not only create user friendly software, but to have access to multiple debt collection agencies to attempt to recover revenue for the state. The software allows state agencies to track past due accounts, while allowing debtors to make payments directly via the internet site. If Ohio Shared Services is unsuccessful in collection, the account will be returned to the originating agency at 45 days for certification to the Attorney General.

There is a 6% fee for an agency to use OSS's service. The fee is split evenly with 2% going to each, Ohio Shared Services, DebtNext, and the debt collection agency responsible for collecting the debt. If nothing is collected, no fees are assessed. If the state agency does not want to pay for these fees, a disclaimer can be added to the invoice stating that if debt is incurred, it will be the debtor's responsibility to pay for additional fees.

The project has proven to be successful. In the last two years, they have managed to collect over \$8 million in past due child support payments for the Department of Job and Family Services. While the project has been successful, it is too early in the process to determine if it will be an available option for agencies in the future.

### **Ohio Attorney General's Certified Accounts**

Our team was able to meet with Christina Frass, Chief Financial Officer with the Attorney General's office. Ms. Frass presented us with a broad overview of their certified collection process.

Larger agencies such as the Ohio Department of Taxation, the Ohio Department of Medicaid and the Bureau of Workers Compensation have systems that interface directly with the Attorney General's office. Their past due accounts are automatically sent for certification. Smaller agencies are able to forward spreadsheet files of accounts that they need to certify.

All certification requests are processed in the order that they are received and categorized by the type of debt. Debts can be worked by internal Attorney General staff in the collections section, sent to third party collection firms, or assigned to special counsel. Depending on the type of debt, accounts may begin accruing interest. Debtors have the ability to set up payment plans and pay over time, or settle debt all in one payment. The certifying agency works with the Attorney General's collection section on terms and settlements for debt.

By statute, up to 11% of the amounts collected by the Attorney General are retained by the office. The exact percentage varies per type of debt and is determined after consultation with the Director of Office of Budget and Management. The fees can either be paid by the agency based on what is collected or be incurred by the debtor if notified of such on the invoice. If a debtor pays the certifying agency directly for the debt owed, the Attorney General's office will then bill the certifying agency for any fees owed.

Fiscal year 2015 had approximately \$4.7 billion in past due accounts certified to the Attorney General's office for collection. During that same time period, approximately \$450 million was collected for both current and past fiscal year certifications.

### **Public Sector**

#### Franklin County, Ohio

Franklin County's General Fund is \$1.4 billion. The Franklin County Prosecutor's office handles the collection of all past due accounts. However, this rarely occurs due to the county's policy of discontinuing service when debt is owed. This policy has helped prevent aging receivables and debt accumulation.

#### State of Kentucky

The State of Kentucky's FY 2016 General Revenue Fund is \$15 billion. Kentucky's receivables are approximately \$250 million. Ninety-five percent of receivables are paid without demand and only five percent go to 45 days past due. By statute, at 45 days, a letter is sent to the debtor advising of the debt owed and how it can be brought current. Debtors are then given until 60 days past due to allow time for payments to be mailed. Debts are typically settled at this first contact with the debtor.

Kentucky has an administrative collections process enacted which grants the Department of Revenue Collections the authority to collect debts. Unpaid tax bills can be sold to debt collection agencies for a percentage of the debt owed. However, this usually does not occur because of their successful debt collection policies.

### State of Pennsylvania

The State of Pennsylvania has approximately \$252 million in open accounts receivable revenue in FY16. Of that amount, \$39 million is currently delinquent and referable for collection. According to Pennsylvania's Management Directive 310.10, AR debts under \$100, for which dunning efforts have been exhausted, can be written off without further collection action. Debt owed over \$100 must be referred to the Office of Attorney General for further collection. Their office will make several attempts to contact the debtor and then forward the debt to outside collection agencies. If after approximately two years the account is still past due, it is referred back to the billing agency. They can then make the decision to continue a collection effort or request the debt be written off.

### U.S. Federal Government

The Department of Treasury regularly reports to Congress details of U.S. Government's receivables and how the agencies go about collecting receivables. In FY 2014, the total outstanding amount (excluding taxes) was \$1.2 trillion. The majority being student loans, small businesses, farmers and veterans, categorized as non-tax receivables. These include fines, penalties and fees. In their cover letter to Congress, Department of Treasury states, "despite challenges in FY 2014, the Department of the Treasury, Bureau of the Fiscal Service, collected \$6.9 billion owed to Federal and State agencies at a relatively small cost to the Federal Government - \$53.16 are collected for every \$1 spent". Information regarding the Federal government's management of receivables is available at [www.Transparency.Treasury.gov](http://www.Transparency.Treasury.gov).<sup>3</sup>

Federal Government provides debtors with an appropriate due process. They first send a notice to the debtor and have them enter into a repayment agreement. The agreement gives a lot of room for the debtor's financial situation. This also provides the debtor with an opportunity to dispute the debt. The collection tools that the federal government uses are as follows:

1. Administrative Wage Garnishment (AWG)
2. Use of Private Collection Agencies (PCA)
3. Treasury Offset Program (TOP)
4. Treasury's Cross-Service Program Collections
5. Litigation (DOJ)
6. Repayment Agreement

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<sup>3</sup> United States Department of the Treasury. Transparency.Treasury.gov. Accessed 12 August 2016.

## Accounts Receivable: Aging – Reconciliation - Collections

While the AWG, PCA, Litigations and Agreements are self-explanatory, the Treasury Offset Programs are a little more complex. Non-tax debts are referred to TOP when the debts are 120 days delinquent and to the Cross-Service program when they are 180 days delinquent. Both programs intercept a debtor's tax refunds, Social Security, retirement, salary etc. These two programs are called collectively "Centralized Government-Wide Debt Collection Programs". DOJ method is an enforced collection when a Federal Creditor Agency is not able to collect a debt administratively through other methods.

Federal Creditor agencies write some debts off. The Office of Management and Budget Circular A-129 requires write-off of non-tax debts that are two years' delinquent. By doing so, the Federal government believes that the Creditor Agencies are then able to reflect an accurate value of receivables. Some of these uncollectable are classified as "Currently not Collectible" (CNC). Collection methods continue on CNC until it is determined collection efforts should terminate.

<b>Total Federal Non-Tax Receivables and Delinquent</b>		
<b>Federal Non-Tax Debt: Top Ten Creditor agencies</b>		
<b>(Dollars in Millions)</b>		
<b>Agency</b>	<b>Receivables Balance</b>	<b>Delinquent Debt Balance</b>
<b>(Federal)</b>	<b>(as of September 30, 2014)</b>	<b>(as of September 30, 2014)</b>
<i>Department of Education</i>	\$874,281.70	\$102,645.10
<i>Department of Agriculture</i>	\$113,994.20	\$4,972.40
<i>Department of Housing and Urban Development</i>	\$23,714.80	\$1,628.90
<i>Export-Import Bank</i>	\$22,916.20	\$1,385.00
<i>Department of Energy</i>	\$19,188.30	\$610.80
<i>Department of Treasury</i>	\$18,342.70	\$219.40
<i>Social Security Administration</i>	\$18,252.00	\$6,356.60
<i>Department of Health and Human Services</i>	\$15,706.60	\$1,428.20
<i>Small Business Administration</i>	\$14,483.30	\$5,277.50
<i>Department of Transportation</i>	\$8,658.70	\$64.60
<b>Top Ten Total</b>	<b>\$1,129,538.50</b>	<b>\$124,588.50</b>
<i>All others</i>	\$40,570.90	\$14,736.90
<b>Government Total</b>	<b>\$1,170,109.40</b>	<b>\$139,325.40</b>

Source: Treasury Report on Receivables and Debt Collection Activities-Fourth Quarter FY 2014

### The Ohio State University

The Ohio State University receives funding from the State of Ohio. However, it has other sources of revenue and handles accounts receivable functions closer to the private sector than government entities. The Ohio State University has three main forms of accounts receivable. These three accounts receivable functions are split amongst the three different accounting areas:

1. The Main University receives tuition payments from students and payments for use of facilities, licensing and sporting events.
2. The Medical Center receives payments for medical expenses.
3. Sponsored Programs receives revenue from grants and awards.

Each function on very different procedures due to regulatory and size constraints and have detailed processes that enable the university, medical center and research across the main campus to run smoothly. The accounts receivable process of the main campus is handled by the bursar, whereas the medical center and sponsored programs each have in house accounts receivable departments. Close monitoring, processing and reconciling contributes to the overall success of the university. Without the constant flow of these receivables, the university would not be able to continue the daily functions that enable it to excel in the areas of athletics, scholarship and research.

### **Private Sector**

#### Accounts Receivable Reconciliation

Some businesses sell goods and services to customers on credit, with payment terms of 30, 60, or 90 days, which become accounts receivable on the company's general ledger. When a reconciliation is performed, the total amounts due from debtors should equal the accounts receivable balance on the general ledger. Companies in the private sector have to be concerned with cash management which involves receivables, collections, payments, liquidity management, and forecasting. Accounts receivable are recognized as assets for a company and impact their solvency and if Cash is not managed properly, a company could be caused to declare bankruptcy.

The reconciliation of accounts receivable is the process of matching the amounts of unpaid customer billings to the accounts receivable total stated in the general ledger. Since receivables could have a duration of 30, 60, 90 days or longer, using technology and uniform guidelines become essential to tracking payments, monitoring balances, and reconciling. Aging delinquent reports are used to understand the payment status of outstanding invoices. Companies may choose to modify customer credit limits based on customer's payment history.

Private sector companies must monitor all receivables which are considered assets. When an invoice is sent to a customer for goods or services received, it is considered an accounts receivable. Some debts owed may also accrue finance charges which would have to be accounted for as accrued receivables. Dividends, fees, commission and interest payments are some examples of accrued receivables. All receivables are shown as credit (increase) in a company's income statement. Not including these would under-report the company's revenues.

### Collecting Accounts Receivable

The private sector's strategy in regards to debt collections is to keep the customer and collect the money by being firm, fair, and friendly. The same basic collection strategy exists in public and private sectors with newly delinquent accounts being given the time to "self-cure", while collection of aging debts is first addressed through internal collection efforts, and finally outsourcing the oldest debts to collection companies. In an effort to reduce accounts receivable and enhance cash flow, companies have adopted electronic invoicing, flexible payment terms, and online payment portals with high security payment processing using encryption keys and PCI-certified payment system to protect the integrity of customer data. This use of technology also circumvents the embarrassment that customers may feel in regards to debt owed.

The private sector uses several models based on mathematical analysis or historical data, and a framework of being sensitive to customer relationships when handling the collection of receivables. Some businesses use the simple process of deducting the paid amounts from invoice totals and compare the outstanding amount due to the general ledger posts for accounts receivable with the reconciliation sheet. Another measurement tool used by businesses is to calculate their accounts receivable turnover by dividing credit sales by the average of opening and closing accounts receivables. The higher the turnover, the more efficient the business is considered to collect customer debts. Private businesses tend to focus more on their performance in collecting debt and mathematically analyze their Collection Effective Index (CEI) as follows: <sup>4</sup>

$$\frac{\text{Beginning receivables} + \text{Credit sales} - \text{Ending total receivables}}{\text{Beginning receivables} + \text{Credit sales} - \text{Ending current receivables}} \times 100$$

The state could benefit from adopting this methodology with measuring the amount of receipts and their performance (CEI) in the collection of accounts receivable.

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<sup>4</sup> Zeng, Sai. Melville, Prem. Lang, Christian A. Boier-Martin, Ioana and Murphy, Conrad. *Using Predictive Analysis to Improve Invoice-to-Cash Collection*. IBM T.J. Watson Research Center.

**Collection Effectiveness Index**

**CREDIT SALES:**

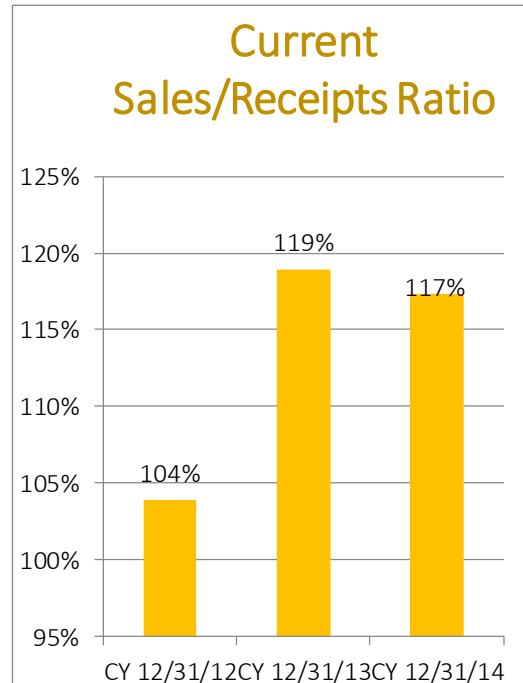
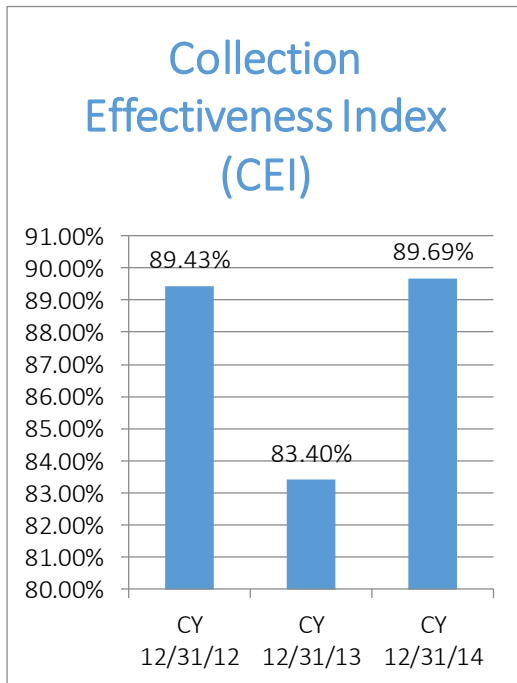
**Some Departments of XYZ Co.**

	CY 12/31/12	CY 12/31/13	CY 12/31/14
Jewelry	\$5,982,908	\$3,043,654	\$3,602,068
Shoes	1,856,695	1,845,031	1,830,800
Handbags	16,011	60,078	110,391
Cosmetics	0	0	184,298
Total Credit Sales	\$7,855,614	\$4,948,763	\$5,727,557

**RECEIPTS:**

Jewelry	5,900,000	2,000,000	2,889,909
Shoes	1,662,100	2,100,202	1,697,088
Handbags	0	60,078	110,391
Cosmetics	0	0	184,298
Total Received	\$7,562,100	\$4,160,280	\$4,881,686

Current Receivables	293,514	788,483	845,871
Begin (Previous Years) Receivables	\$894,066	\$1,187,580	\$1,676,063
Adjustments - Thru collection efforts	0	(300,000)	(1,000,000)
Net Outstanding (restated)	894,066	887,580	676,063
Ending total Receivables	\$1,187,580	\$1,676,063	\$1,521,934



Sales/Receipts Ratio:	104%	119%	117%
Collection Effectiveness Index (CEI)	89.43%	83.40%	89.69%



## Recommendations

As expected, our research indicated a variety of ways that the public and private sectors differ in their collection of past due receivables. While State of Ohio agencies are ultimately governed by the Ohio Revised Code and must certify past due accounts to the Attorney General's office, other public and private sectors offer other options for consideration.

Some public agencies discontinue services when accounts become delinquent. This keeps those agencies from accumulating aging receivables. Others sell unpaid accounts to collection agencies for a fee. Private sectors use key performance indicators, historical data and other mathematical ratios to successfully collect receivable accounts.

Our team strongly believes that standardization is an important aspect in streamlining any process. However, we realize that due to the vast differences in types of receivables, accounting software and specific policies on debt collection standardization would be extremely difficult.

Standardization can begin with the notification letters sent to debtors. All state agencies would be required to use these letters to notify customers when their accounts become past due. The letters include the amount due, how to bring their account current and what consequence will ensue if their account is not paid. Separate template letters have been created to be used based on whether services will be discontinued or the account will be certified to the Attorney General's office. An additional letter was created for state agencies to send to the Attorney General's office when certifying accounts if they do not currently interface these files. Samples of these letters can be found in Appendix E-G.

While transitioning to the OAKS billing and accounts receivable modules is not feasible for the Department of Health due to the volume and complexity of their accounts receivable transactions, they are looking into options for interfacing the systems. It is recommended that other agencies that utilize accounts receivable programs outside of OAKS discuss with the Office of Budget and Management possible options for transitioning to OAKS or interfacing their systems. While this may not be a solution at this time for all agencies, it would be a step in the right direction as the state looks toward enterprise wide information technology solutions that could mitigate equipment, software, and maintenance costs.

While we realize that interfacing software would be a much more difficult task, our more immediate recommendation would be to create a report that would allow the integration of OAKS Business Intelligence data and other software accounting data to merge and create one combined accounts receivable report. This will provide more accurate reporting of the state's overall aging receivables and could provide additional agency specific reporting. Business Intelligence team member, Mike Frost, indicated that there are possibilities of merging outside data with data from OAKS to create such a report. However, further research, programming, licensing and buy-in from other state agencies would be necessary for creation and success.

## Accounts Receivable: Aging – Reconciliation - Collections

Our meeting with the Department of Medicaid justified the importance of reconciliation. The focus for the Office of Budget and Management is addressing reconciliation of accounts receivable as part of the fiscal year-end process. It is our recommendation that reconciliation of accounts to the general ledger be required and performed at the agency level on a monthly basis. Frequent reconciliation, such as monthly, will make it easier to find and resolve discrepancies. All accounts must be reconciled to the state's general ledger in order to maintain an accurate balance, as it is the state's official accounting record.

Through our research and subject matter expert interviews, we believe that these changes will bridge the gap between the current process of monitoring and collection of receivable accounts. It is the duty of State of Ohio employees to be fiscally responsible with the taxpayers' money. One way to do that is to ensure proper measures are in place to efficiently and effectively receive revenue and monitor accounts receivable owed to the state in order that all agencies can function properly and provide services to the Ohio citizens.

[OAKS BI Report]

For internal MCD use only.



Item	Customer Name	Customer ID	Item Status	Monetary Amount	Fund Code	Agency Use
HCA1132815665	Medical Center of Newark	2815665	Open	17,361,651.00	MCDR585	
HCA11212815665	Medical Center of Newark	2815665	Open	78,926,651.00	MCDR585	
HCA1222815665	Medical Center of Newark	2815665	Open	78,926,651.00	MCDR585	
HCA1410050714	SOUTHWEST HEALTHCARE OF BROWN COUNTY OHI	0050714	Open	60,762,651.00	MCDR585	
HCA1420050714	SOUTHWEST HEALTHCARE OF BROWN COUNTY OHI	0050714	Open	60,762,651.00	MCDR585	
				<b>279,393.36</b>		

03/24/16 1:29 PM

State of Ohio  
Agency Daily Cash Balance Report  
Fiscal Year 2016  
As of MAR 23, 2016

Report ID: OGR0032  
BUSINESS UNIT: STATE  
LEDGER: ACTUALS

Page No. 77  
Run Date 03/23/2016  
Run Time 21:48:48

DEPARTMENT: MCD  
FUND

[OAKS Query]

FUND NAME	BEGINNING CASH BALANCE	MONTHLY CASH RECEIPTS	MONTHLY CASH DISBURSEMENTS	MONTHLY NET TRANSFERS	YTD CLOSING CASH BALANCE	YTD PAYROLLS PAYABLE	YTD ACCOUNTS PAYABLE	YTD RECEIVABLES BALANCE
3600 HEALTH INFORMATION TECHNOLOGY	418,533.16	8,050,628.19	7,400,519.01	0.00	1,068,642.34	0.00	3,260,372.17	0.00
3700 HEALTH CARE FEDERAL FUND	2,492,561.11	37,401,704.66	28,369,668.11	0.00	11,524,597.66	0.00	1,091,058.70	69,352,620.48
3900 OEP HEALTH CARE GRANTS	85,453.27	2,163,074.74	873,861.06	0.00	1,374,666.35	0.00	1,241,454.00	482.73
3650 INTERAGENCY REIMBURSEMENT	-13,660,130.40	-15,197.73	772,430.02	0.00	-14,447,758.13	0.00	0.00	0.00
4630 RESIDENTS PROTECTION	8,494,233.14	229,246.21	0.00	0.00	8,723,479.35	0.00	0.00	0.00
4350 HOME/COMM BASED SERVICES/AGED	11,787.03	0.00	0.00	0.00	11,787.03	0.00	0.00	0.00
4K10 ICF MR BED ASSESSMENTS	10,496,257.87	467,215.64	0.00	0.00	10,963,473.51	0.00	0.00	4,792,707.16
4210 HEALTH CARE COMPLIANCE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5210 MONEY FOLLOWS THE PERSON	22,250,707.26	807,295.39	106,160.20	0.00	22,951,842.45	0.00	0.00	161,249.89
5800 MANAGED CARE ASSESSMENT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5C90 MEDICARD PROGRAM SUPPORT STATE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5C90 CHILDREN'S HOSPITAL STATE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5N10 SUPPORT AND RECOVERIES	46,656,404.34	19,875,428.05	1,942.16	0.00	66,529,890.23	0.00	0.00	127,479,481.24
5F50 MEDICARD PAYMENT WITHHOLDING	19,854,986.27	271,533.87	598,047.88	0.00	19,628,472.26	0.00	0.00	0.00
5G50 MEDICARD-HOSPITAL	4,226,210.50	0.00	0.00	0.00	4,226,210.50	0.00	0.00	2,673,522.53
5H00 HEALTH CARE SERVICES_OTHER	937,677.08	0.00	0.00	0.00	937,677.08	0.00	0.00	0.00
5K00 HEALTH CARE SPECIAL ACTIVITIES	91,361,400.20	3,753.00	0.00	0.00	91,365,153.20	0.00	0.00	0.00
5N00 MANAGED CARE PERFORMANCE FMT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5F50 SUPPLEMENTAL INPATIENT HOSPITAL	103,030,152.29	6,009,511.89	955.96	0.00	109,038,708.22	0.00	0.00	33,036,038.85
5S20 NURSING HOME FRANCHISE FMT FEE	0.01	0.00	0.00	0.00	0.01	0.00	0.00	0.00
5S30 JFS ADMINISTRATION & OVERSIGHT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5S40 Maternal & Child Health	3,503,536.94	0.01	3,503,536.95	0.00	0.00	0.00	0.00	0.00
5S50 Medicaid Services-Physician UP	135,030,502.13	1,338,699.64	1,136,759.31	4,778,674.00	140,011,116.46	0.00	0.00	1,775,293.91
5U30 HEALTH CARE SVCS ADMIN	4,135,575.95	0.00	999.99	0.00	4,135,575.95	0.00	0.00	279,393.36
6510 HOSPITAL CARE ASSURANCE PRGM	511,117.59	468,264.63	0.00	0.00	978,382.29	0.00	0.00	0.00
RO55 REFUND AND RECONCILIATION								
TOTAL DEPARTMENT: MCD	439,976,965.73	77,071,138.25	42,764,881.2	4,778,674.00	479,061,816.73	0.00	5,916,564.54	241,956,006.24



## Office of Budget and Management

John R. Kasich  
Governor

Timothy S. Keen  
Director

To: Directors and Fiscal Officers of Cabinet Agencies

From: Timothy S. Keen, Director 

Date: January 8, 2016

Re: Past Due Receivables

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The Director of the Office of Budget and Management (OBM) is granted statutory authority to exercise control over the financial transactions of state agencies. In accordance with this authority, it is the goal of OBM to ensure that state agencies are in compliance with Ohio Revised Code Section 131.02. Specifically, ORC 131.02(A) states in pertinent part:

**(A) Except as otherwise provided in section 4123.37, section 5703.061, and division (K) of section 4123.511 of the Revised Code, whenever any amount is payable to the state, the officer, employee, or agent responsible for administering the law under which the amount is payable shall immediately proceed to collect the amount or cause the amount to be collected and shall pay the amount into the state treasury or into the appropriate custodial fund in the manner set forth pursuant to section 113.08 of the Revised Code. Except as otherwise provided in this division, If the amount is not paid within forty-five days after payment is due, the officer, employee, or agent shall certify the amount due to the attorney general, in the form and manner prescribed by the attorney general, and notify the director of budget and management thereof.**

Attached is a Past Due Receivables questionnaire and worksheet including instructions. Please note that past due receivables do not include ISTV's. OBM is requesting that you please submit the attached Past Due Receivables questionnaire and worksheet as it pertains to fiscal year 2015 past due receivables to your OBM budget analyst via email **no later than January 28, 2016**. If you have questions, please contact your OBM budget analyst.

Attachments

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**OBM**

Office of Budget and Management | 30 East Broad Street, 34<sup>th</sup> Floor | Columbus, Ohio 43215-3457  
www.obm.ohio.gov | (614) 466-4034

**Office of Budget and Management**  
**Collecting monies due to the state**  
**ORC 131.02**

Agency:

- 1) Did your agency have past due receivables in fiscal year 2015?

Yes

No            If no, please forward this document to you OBM budget analyst. Thank you.

- 2) If yes, does your agency have a process in place to manage past due receivables?

Yes

No

- 3) Please provide a description of your agency's process for settling past due receivables including the process used to certify unpaid receivables to the Ohio Attorney General's Office for collection. (Please attach any documentation as needed.)

- 4) Attach FY15 Past Due Receivable and Certification Worksheet.

Jan 2015

Please note that column descriptions are detailed on the Instructions tab.

Insert Agency Name Here											
ORC Sec 131.02(A) OBM Notification for the period FY 2015											
Revenue Source with Past Due Receivables	Total Amount Billed	Number of Past Due Receivables	Amount of Past Due Receivables	Number Collected by Agency	Amount Collected by Agency	Number Certified to AG	Amount Certified to the AG	Revenue Account Code	OAKS Department Code	OAKS Program Code	Fund(s)
<b>TOTAL</b>	<b>\$ -</b>	<b>-</b>	<b>\$ -</b>	<b>-</b>	<b>\$ -</b>	<b>-</b>	<b>\$ -</b>				

**FORM INSTRUCTIONS**

COLUMN	DESCRIPTION
Revenue Source with Past Due Receivables	Enter the descriptive name of each revenue source that experienced past due receivables during FY 2015. (Not the OAKS FIN revenue account name)
Total Amount Billed	Enter the total dollar amount of revenue billed for the respective revenue source.
Number of Past Due Receivables	Enter the total number of past due billings for the respective revenue source.
Amount of Past Due Receivables	Enter the dollar amount of past due receivables for the respective revenue source.
Number Collected by Agency	Enter the number of receivables collected by the agency before it was certified to the Attorney General for collections pursuant to ORC Sec 131.02.
Amount Collected by Agency	Enter the dollar amount of receivables collected by the agency before it was certified to the Attorney General for collections pursuant to ORC Sec 131.02.
Number Certified to AG	Enter the number of receivables certified to the Attorney General for collections pursuant to ORC Sec 131.02.
Amount Certified to the AG	Enter the dollar amount of receivables certified to the Attorney General for collections pursuant to ORC Sec 131.02.
Revenue Account Code	Enter the OAKS FIN account code (6) used for this revenue source.
OAKS Department Code	Enter the OAKS Department code used for this revenue source.
OAKS Program Code	Enter the OAKS Program code used for this revenue source.
Fund(s)	Enter the OAKS Fund number(2) used for this revenue source.



Department of  
Developmental Disabilities

John Kasich, Governor  
John L. Martin, Director

August 19, 2016

Jane Doe  
123 Main Street  
Columbus, Ohio 43215

Dear Ms. Doe:

According to our records your account in the amount of \$100.00 was past due on August 18, 2016.

Please mail a payment of One Hundred Dollars (\$100.00) within thirty (30) days from the date of this letter, payable to Treasurer, State of Ohio.

Please mail to:

Ohio Department of Developmental Disabilities  
Accounts Receivable  
30 East Broad Street, 13<sup>th</sup> Floor  
Columbus, OH 43215-3434.

If we have not received your payment by September 19, 2016, you will receive a final notification. At that time, services will be discontinued until your account is brought current.

To ensure proper credit, please return a copy of this letter with your payment.

We appreciate your cooperation in resolving this matter as quickly as possible.

Sincerely,

**Joe Smith**

Financial Manager



30 E. Broad St. 8<sup>th</sup> Floor  
Columbus, OH 43215  
614-466-1909 (Office)

*The State of Ohio is an Equal Opportunity Employer and Provider of Services*



Department of  
Developmental Disabilities

John Kasich, Governor  
John L. Martin, Director

August 19, 2016

Jane Doe  
123 Main Street  
Columbus, Ohio 43215

Dear Ms. Doe:

According to our records your account in the amount of \$100.00 was due on August 18, 2016.

Please mail a payment of One Hundred Dollars (\$100.00) within thirty (30) days from the date of this letter, payable to Treasurer, State of Ohio.

Please mail to:  
Ohio Department of Developmental Disabilities  
Accounts Receivable  
30 East Broad Street, 13<sup>th</sup> Floor  
Columbus, OH 43215-3434.

If we have not received your payment by October 2, 2016, your account will be certified to the Ohio Attorney General. You will be held responsible for any interest or fees incurred for collection purposes.

To ensure proper credit, please return a copy of this letter with your payment.

We appreciate your cooperation in resolving this matter as quickly as possible.

Sincerely,

**Joe Smith**  
Financial Manager



30 E. Broad St. 8<sup>th</sup> Floor  
Columbus, OH 43215  
614-466-1909 (Office)

*The State of Ohio is an Equal Opportunity Employer and Provider of Services*





Department of  
Developmental Disabilities

John Kasich, Governor  
John L. Martin, Director

October 2, 2016

SCS Collections Supervisor  
Collections Enforcement Section  
Ohio Attorney General's Office  
150 E Gay Street 21<sup>st</sup> Floor  
Columbus, OH 43215

RE: Dept of Developmental Disabilities

Dear Sir or Madam:

We are certifying the attached claim to your office for collection. The reason for certification is that Jane Doe was found to have been past due for August 2016.

Because we are obligated by R.C. 131.02 to certify this claim for collection in 45 days if not paid in full, we are hereby certifying this claim. We appreciate your assistance in collecting this obligation.

Attached is a spreadsheet with 1 claim with a total balance of \$100.00.

Once the funds have been collected, please pay the Ohio Department of Developmental Disabilities. You can pay us by check or pay us through OAKS fund 4890, account 443004, Department DMR212000, and program 4400C.

If you have any question, please feel free to contact me at 614-466-1909.

Sincerely,

**Joe Smith**

Financial Manager



30 E. Broad St. 8<sup>th</sup> Floor  
Columbus, OH 43215  
614-466-1909 (Office)

*The State of Ohio is an Equal Opportunity Employer and Provider of Services*

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