UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT
PROCESS ACCOUNTS RECEIVABLE, CREDIT, AND COLLECTIONS

Control practices

The following control objectives provide a basis for strengthening your control environment for the process of processing accounts receivable, credit, and collections. When you select an

C. Accounts receivable transactions are processed efficiently.

Business risks

D. Credit risk is managed to preserve margins and maximize cash flow while supporting business growth.

Business risks

- The company will incur unacceptable credit losses.
- Excessively tight reins on credit allowances will result in lost business.

Control practices

1. Devise a credit policy that appropriately balances risk and profitability.
2. Focus credit policy on the following items: terms of sale (credit period, any cash discounts for early payment); account quality policy (determining how much credit to grant); and collections policy (collections methods, frequency, sample request letters, phone calls).
3. Administer the credit policy to be clear and consistent, cost-effective, respectful of long-term business relationships, and mindful of the need for business development.
4. Apply credit policy consistently.
5. Evaluate credit limits periodically and adjust according to customer financial conditions and payment patterns.
6. Use credit scoring to assign credit ratings that will trigger appropriate credit and collections practices.
7. Assign new customers initial credit limits and terms based on direct customer information and multiple credit histories.
8. Assess overall credit risk periodically by reviewing credit ratings, credit histories, trade references, and personal credit information via online access to credit bureaus.
9. Assign individual, variable credit limits to restrict customers.
10. Require high-risk customers to maintain deposits.
11. Process credit applications, including terms of payment, within hours of receipt.
12. Use a behavioral scoring system to update customer credit ratings by monitoring payment behaviors and account exposure.
13. Maintain a customer database of bad debt and high-risk customers to create better credit profiling and behavioral scoring systems.
14. Accelerate collections and withhold products to minimize the risk of loss from customers with financial difficulties.
15. Design performance measures to evaluate collections efforts.
16. Devise controls that detect customers who take cash discounts but do not pay within the discount period.
17. Secure credit insurance where unusual bad debt losses are anticipated.
18. Compare aged accounts receivable to prior years, industry standards, and competitors.
19. Summarize bad debt losses by customer, size of account, and terms of sale and analyze regularly.

E. Employees and management are given the information they need to control the accounts receivable management process.

Business risks

- Information provided to employees and management about the billing process will conflict with company objectives.
- Employees will not improve the accounts receivable process on a timely basis.
- Employees and management will not be able to accurately determine whether the accounts receivable process is operating as planned.
- Plans to improve the accounts receivable process will be based on incorrect perceptions of process performance.

Control practices

1. Choose relevant performance measures that provide the information needed to control the accounts receivable process.
2. Probe the accounts receivable process to understand how it contributes to customer satisfaction and how the company's overall objectives drive performance measures.

Reliability of financial reporting

A. Accounts receivable, cash receipts, and credit memos are properly authorized.

Business risks

- Revenue will be recorded for goods or services not shipped or provided.
- Invoiced sales will not be recorded; subsequent cash receipts will be misappropriated.
- Cash receipts will not relate to sales.
- Cash receipts will be incorrectly applied to customer accounts.
- Cash receipts will be lost, misappropriated, or diverted.
- Lost, incorrectly recorded, and/or misappropriated cash receipts will not be identified, so corrective action will not be taken, or will not be taken on a timely basis.
- Misappropriated collections will be concealed by invalid entries in the accounts.
- Credit memos will go recorded.
- Adjustments processed, such as credit memos, will not reflect good business practices. Adjustment errors will not be detected.
- Erroneous or fraudulent adjustments will not be detected.
- Collectable accounts will be written off to conceal misappropriations of cash receipts.

Control practices

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B. Billing, accounts receivable, cash receipts, and credit memos are completely and accurately recorded on a timely basis.

Business risks

- Documents will be missing or information will be incorrect.
- Incorrect aging will result in delinquent customer remittances or the write-off of delinquent accounts.
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E. Recorded accounts receivable and sales balances are substantiated.

Business risks

- Unrecorded transactions will remain undetected.
- Errors in processing, summarizing, and recording sales transactions will remain undetected.
- Goods shipped and services rendered will not be recorded or billed.

Control practices

1. Segregate the accounts receivable subsidiary ledger function from the preparation of accounts receivable documentation, maintenance of the control account, and handling of cash receipts.
2. Reconcile the accounts receivable subsidiary ledger to the general ledger periodically.
3. Send customers 5 (s)39.3 48 (s)39.3 (5 o (n)25.9B25.3 6 Td (3.)Tjp (s)39s5)(c)0.5 (s)39s5c56 Td (2.)T

H. Performance measures used to control and improve the accounts receivable process are reliable.

Business risks

- Inaccurate measures will result in erroneous perceptions about process performance