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# RECEIVABLE RECOGNITION AND RECONCILIATION

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## Executive Summary

In certain circumstances, revenue should be recognized only when cash is collected. In other situations it is necessary to record earned revenue/accounts receivable transaction when goods or services have been provided but payment has not yet occurred. Full accounting, recording and reporting of earned revenue/accounts receivable due to the Commonwealth is accomplished through MMARS. It is essential that a single standard for reporting of earned revenue/accounts receivable is adhered to by departments.

It is intended that MMARS will electronically provide the majority of the required data to produce the Statutory Basis Financial Report (SBFR) and the Comprehensive Annual Financial Report in accordance with state finance law and generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB).

## Considerations

MMARS is the official record of the Commonwealth for receivable and customer information. Departments must take special care to ensure that the information that is entered into MMARS for any receivable is accurate and complete.

## Policy

All earned revenue/accounts receivable activity must be recorded in MMARS using Receivable Event (RE) transactions. Earned Revenue/Accounts Receivable is defined as the full, measurable value of the services or goods provided by a department. The transaction must be completed and legally enforceable to the extent that payment is the only unconsummated act. Revenue is earned at the time when goods or services are delivered or performed and billable.

A Department must recognize a debtor's obligation to pay when the goods are delivered or services performed, or when the Commonwealth's claim for future cash is reasonably estimable and/or law or statute authorizes the pursuit of collection. All such revenue will be recorded as earned revenue/accounts receivable if payment is not submitted either prior to the revenue event or simultaneously with the delivery of the goods or completion of the service. For example, when an assessment is issued and the department has a reasonable basis for issuing the assessment, it should be reported as an earned revenue/accounts receivable transaction. Departments are required to report all earned revenue/accounts receivable activity either in detail or summary fashion in MMARS.

### **Detailed Reporting**

Departments are required to utilize MMARS or their approved delegated billing and accounts receivable systems to record all earned revenue/accounts receivable activity at the detailed transaction level. Departments must obtain Comptroller approval to record these detailed transactions in their delegated billing and accounts receivable systems.

### **Summary Reporting**

Departments that have approved delegated billing and accounts receivable systems are required to utilize MMARS to maintain one summary receivable that accurately represents the net value of the earned revenue/accounts receivable by revenue source code, across fiscal years. Departments are required to maintain their approved delegated accounts receivable systems at a sufficient level of detail to verify the accuracy of summary reporting. By the close of each accounting period each department is required to adjust the summary receivable amount. Adjustments that are supported in MMARS are:

- Cash collections, which reduce the summary receivable, using a Cash Receipt (CR) transaction;
- Increases in the receivable amount for new services, claims, etc., for the month or to record errors resulting in increases, which are accomplished by creating a new version of the existing Receivable Event (RE) transaction;
- Decreases in the receivable amount to record errors resulting in decreases or other downward adjustments, which are accomplished by creating a new version of the existing Receivable Event (RE) transaction;
- Uncollectible amounts approved by the Office of the Comptroller (CTR) for write off, using a Write Off (WO) transaction.

Summary receivables should not be adjusted for factors affecting the ability to collect, such as historical collection experience, deferred revenues, disallowances, or write offs at the time the receivable is created. Departments (or CTR for write offs) will reduce the summary receivable during the course of the year for such collection factors by using the appropriate MMARS transaction.

### **Mid-Year Summary Aging Receivable Report**

CTR requires departments to prepare and transmit a mid-year Summary Aging Receivable Report which details the age of all receivables contained in the MMARS summary receivable by revenue source code. This report will be utilized by the CTR Revenue Bureau (REV) and its Financial Reporting Bureau (FRAB) for its semi-annual reporting activity and to ensure that departments are maintaining their internal revenue/receivable recording and accounting systems at the required level of detail.

### **Reconciliation**

All Departments must reconcile their accounts receivable aging reports. Reconciliation must be performed on department audit trail reports or other departmental documents and be conducted in conformance with existing internal control guidelines.

## Earned Revenue/Accounts Receivable Tolerances

Departments are authorized to accept, as payment in full, amounts greater or less than the original RE amount based on tolerances established by CTR. The tolerance threshold is the lesser of the short payment amount or short payment tolerance entered on the Systems Options Table (SOPT), which is one percent or five dollars. Overpayments made to a receivable that are greater than the tolerance threshold must be refunded back to the customer or transferred to another debt that was paid by the same customer within the same department. Departments will not be allowed to set up their own tolerance requirements.

## Electronic signature and Department Head Authorization of MMARS documents

Electronic signatures are limited to MMARS documents. **Electronic signatures can not yet be used for contracts, amendments or underlying supporting documentation.** With the implementation of the MMARS accounting system the Office of the Comptroller is aligning Electronic Security with Department Head Signature Authorization (DHSA) in fiscal year 2005 in order to take advantage of electronic signatures for MMARS processing. Every MMARS action must be confirmed/authorized by the department head or an authorized signatory. Department head authorization can be accomplished in one of two ways:

- **Administrator Security with DHSA.** If the employee (Administrator - system processor) who submits a document to final status is a department head authorized signatory, the data in the MMARS Receivable Recognition Page 4 of 6 system will be sufficient documentation. What appears in MMARS will be the record copy of the document.
  - **Recording Doc Id on all supporting documentation.** Since there is no paper copy required for the MMARS document the department will be required to include the MMARS Document Identification number (Doc ID) on all supporting documentation to “match” the supporting documentation with the electronic record of the MMARS document which will reside on MMARS. Recording the doc id on all supporting documentation can be accomplished by entry of the MMARS doc id on the first page of the supporting documentation, or by entering the doc id on a [MMARS Document Authorization/Records Management Form](#) which will act as the cover sheet to the supporting documentation for records management purposes.
- **Administrator Security without DHSA.** If the employee (Administrator - system processor) who will be submitting a document to final status is not a department head authorized signatory, the Administrator must obtain a live (“wet”) signature from an authorized signatory approving the document **PRIOR** to submitting the document to final status in MMARS.
  - **Review of document and supporting documentation.** Since a department head is required to authorize the official record of a MMARS document, which is what **actually appears in the MMARS system**, departments must ensure that whoever authorizes the document has reviewed the document and related supporting documentation prior to authorization.
  - **Written authorization.** The written authorization may appear on a screen-print of the document as entered and validated, but prior to final submission, or on a [MMARS Document Authorization/Records Management Form](#) prescribed by CTR, to capture the prior authorization for documents.

- o **Filing of authorization with supporting documentation.** Authorization documentation must be kept on file at the department along with the record copy of other supporting documentation related to the MMARS document. See Records Management below.

### **What does electronic signature of a MMARS document mean?**

When a department electronically submits a document to final status in MMARS, the department head is certifying to the Comptroller that the individual, on behalf of the department head, understands that their UAID (universal access identification) is being recorded for any entries made in the MMARS system **and that** that individual certifies under the pains and penalties of perjury that:

- it is their intent to attach an electronic signature approval and date to the MMARS document, **and that**
- they are either an authorized signatory of the department head who is authorized to approve the MMARS document as part of the department Internal Control Plan, **OR**
- that the document they are processing and any supporting documentation have been approved by an authorized signatory of the department head, secretariat and any other required prior approval (including secretariat signoff if required) and a copy of these approvals are available at the department referencing the MMARS document number, **and that**
- any expenditure or other obligation is supported by sufficient available legislatively authorized funds and is in accordance with the department's enabling legislation and funding authority; **and that**
- the MMARS document and any underlying supporting documentation are accurate and complete and comply with all applicable general and special laws, regulations and policies including public record intention and disposal requirements.

### **Records Management**

The department is the record keeper of the official record copy of all receivable information. MMARS is the official record of the receivables entered by the department and will supersede any paper copies of the same information. The department must maintain any supporting or back up documentation related to a receivable entered in MMARS. A department is responsible for retaining and archiving receivable records in accordance with the disposal schedules issued by the Secretary of State Records Conservation Board.

### **Internal Controls**

Under construction.

### **Information Sources**

- Related Procedure – Under construction
- Related Policies:
  - [Department Head Signature Authorization and Electronic Signatures for MMARS Documents](#)
  - [Vendor Customer File And W-9s](#)
  - [Debt Collection](#)
  - [Cash Recognition And Reconciliation](#)
  - [Lockbox Policy](#)

- [Payment Collection Data Security](#)
  - [Invoice Statements](#)
  - [Third Party and Multiple Third Party Billing](#)
- Legal Authority - [M.G.L. c. 7A](#); [M.G.L. c. 29](#); [M.G.L. c. 30, §. 27](#); [M.G.L. c. 10, § 17B](#); [M.G.L. c. 29, § 29D](#); [M.G.L. c. 7A, § 3](#); Massachusetts Constitution [Article LXIII Section 1](#); [815 CMR 9.00: Collection of Debts](#); [M.G.L. c. 7A § 18](#).
- Attachments - [Receivable Decrease Request Form](#)
  - Links – None
  - Contacts – [CTR Solution Desk](#)

## Revisions

November 1, 2006 – Removed language referencing Knowledge Center and updated relevant links to Mass.gov portal site.