



State of Arizona Accounting Manual

Topic 20 Current Assets
Section 20 Accounts Receivable and Billing

Issued 12/23/15
Page 1 of 3

INTRODUCTION

Agencies should use AFIS to do their billing and manage their accounts receivable.

AFIS can account for both earned and unearned revenue. A question might arise as to what distinguishes earned and unearned revenue as meant in the context of using AFIS (there are other meanings to these terms in different accounting contexts).

A debt owed to the State arises through imposition or by way of a transaction.

Debts that arise through imposition include such things as taxes and penalties. No goods or services are exchanged. Rather, an obligation arises as a matter of law. Obligations that arise through imposition are always deemed to be earned revenue. The State has a right and obligation to collect. These activities produce, if not paid at the instant they arise, true accounts receivable and generate earned revenue.

When the exchange of goods or services is involved, debts arise by way of transaction.

The exchange of some goods or services is more apparent than are others. For example, when one of the State-owned museums sells some merchandise, it is apparent that an exchange of money for merchandise is taking place. When a board issues a license, it too, though less apparently so, is a sales transaction in which a licensee acquires the privilege to practice a certain profession in exchange for a fee.

When goods or services are actually provided at or before the time of billing, earned revenue is generated. When goods or services are not provided before the time of billing, unearned revenue should be recorded. The State has neither a right nor an obligation to collect unearned income. An example of unearned revenue could involve a licensing board. The board might send out renewal notices in the form of invoices to its licensees. However, if a licensee does not pay the renewal fee, the board does not renew the license. Since no extension of the license is granted, nothing of value is rendered to the former licensee by the State. Since nothing of value is transferred, i.e., no goods or services have been provided, no debt exists. Since no debt exists, there is, in the strictest legal sense, no account receivable. Nonetheless, AFIS supports the issuance of invoices, bills for unearned revenue, and prepares a number of reports that are of considerable value to agencies in managing their operations, particularly as they involve collections. Consequently, for the sake of efficiency, these types of transactions can and should be recorded in AFIS as accounts receivable.

State of Arizona Accounting Manual

Topic 20 Current Assets
Section 20 Accounts Receivable and Billing

Issued 12/23/15
Page 2 of 3

This section of SAAM prescribes those situations under which agencies may, but are not obligated to, use AFIS for billing and recording receivables. It also sets forth minimal levels of internal controls related to receivables and billing.

POLICIES

1. Agencies may, but are not required to, use AFIS to produce invoices that result in accounts receivable.
 - 1.1. To produce invoices using AFIS, the customer to whom the invoice will be sent must first be created in the system.
 - 1.2. An agency can initiate—and the GAO can approve or reject—the creation, modification or deletion of a customer in AFIS.
2. AFIS can be used to bill both earned and unearned income.
3. The following internal controls over accounts receivable and billing shall be implemented and maintained:
 - 3.1. Responsibilities related to:
 - 3.1.1. Billing should be segregated from those related to collection.
 - 3.1.2. Maintaining detailed accounts receivable records should be segregated from those for collection.
 - 3.1.3. Entries in the cash receipts records should be segregated from those for creating or posting adjusting journal entries.
 - 3.2. Access to AFIS and the processes in AFIS should be limited to those persons with a legitimate need and to those processes for which the need exists.
 - 3.3. Processes should be in place to assure that:
 - 3.3.1. Amounts due are billed on a timely basis.
 - 3.3.1.1. While “timely basis” is circumstantial, it can generally be interpreted to mean as soon as practicable after the amount due is known and collectible.
 - 3.3.1.2. In all cases should billing be done within thirty (30) days after the amount due is known and collectible.
 - 3.3.2. Receivables not settled when due are appropriately pursued.
 - 3.3.3. Any discounts, returns or allowances are properly authorized and that the resulting reduction of a receivable does not constitute an extralegal, de facto forgiveness of debt.

State of Arizona Accounting Manual

Topic 20 Current Assets
Section 20 Accounts Receivable and Billing

Issued 12/23/15
Page 3 of 3

- 3.3.4. An aged accounts receivable report is regularly prepared and reviewed by someone without other responsibilities involving billing or receipts and that past due balances are appropriately investigated.
- 3.3.5. Monthly reconciliations are performed between:
 - 3.3.5.1. The detailed accounts receivable and general ledger control totals.
 - 3.3.5.2. Cash receipts and postings to accounts receivable.
 - 3.3.5.3. Receivables to earned and unearned revenues for the period.
- 3.3.6. All credit balances in accounts receivable are to be investigated within thirty (30) days and resolved within sixty (60) days of discovery. A record of the investigation and its resolution should be made and retained for audit.
- 3.3.7. Disputed receivables are routed for resolution to agency personnel other than those involved in the preparation of invoices or statements, the receipt or deposit of cash, or the entry of charges or receipts into any accounting system.
- 3.3.8. No accounts where a debt to the State exists are written off. All delinquencies proposed for write-off are to be forwarded to the Office of the Attorney General, Bankruptcy and Collection Section. See SAAM 2022 for additional information dealing with delinquencies.
- 3.3.9. Invoices are not sent to those entities that have filed for bankruptcy protection from creditors. When an agency is notified that a debtor has filed for bankruptcy, the agency should immediately discontinue collection attempts and forward all related documents to the Office of the Attorney General, Bankruptcy and Collection Section.
- 4. An agency must contact its GAO liaison to initiate the use of the AFIS accounts receivable functionality; AFIS must be configured with the help of the GAO before and agency's invoices and statements can be generated.