



RESEARCH FINANCE POLICY

Contract and Grant Receivable Bad Debt Allowance and Write-off Policy

Responsible Office: Research Finance

Policy Contact: Assistant Director of Research Finance-Accounting

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Current version
effective as of:
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POLICY PURPOSE

To ensure the timely collection of contracts and grants related funds due to Vanderbilt University and to ensure proper accounting for bad debts and write offs for receivable balances deemed to be uncollectible.

This policy provides authoritative guidance to the University in calculating an uncollectible estimate, accounting for the provision of uncollectible accounts, writing off uncollectible balances, and recording subsequent collection of invoices previously written off.

POLICY STATEMENT

The University receives sponsored projects awards from various governmental and private entities. These sponsors generally require an invoice before paying the University for the award with the exception of Letter of Credit (LOC). For all sponsored projects, invoices are produced from the billing system. Once an invoice is produced, a Grants Receivable is recorded, and an aging process begins based on the date of the invoice.

While most sponsors pay invoices reliably, occasionally a sponsor is unable to fund the award they made to the University. Generally Accepted Accounting Principles (GAAP) directs the University to record a reasonable estimate of the amounts that will not be collected and to periodically evaluate and write off any amounts determined to be uncollectible.

THIS POLICY APPLIES TO

This policy applies to all sponsored projects and programs as of January 1, 2022. Affected parties within the University include Principal Investigators (PIs), Department/School Managers and Staff, Department Chairs, Deans, and Research Finance. All University faculty, staff, and students who are responsible for administering federal, state and privately sponsored grants/contracts should be familiar with this allowance and write-off policy.

DEFINITIONS

- **Grants Receivable** — Any amounts billed for a sponsored award by means of an invoice/LOC drawdown. Receivables include billings for expenditures on a reimbursement basis, payment schedule, or a fixed price contract. Invoices are generated via the University's financial system in accordance with the award agreements. Once an invoice has been emailed, mailed, or a LOC drawdown has been completed, the Billing Specialist - Senior Accountant in Research Finance oversees and tracks the invoice to confirm payment. They are responsible for updating receivable comments within the Aging when a payment is past due.
- **Aging report** — A list of outstanding receivables grouped or summed by category in the financial system. Categories are based on the invoice due dates. These categories include: <30(Current), 31-60, 61-90, 91-120, >120 categories, but for conciseness of reporting, they are grouped into the above categories). For this accounting process, aging is determined by the due date of the invoice. Using the Research Finance Aging Report, collections efforts and comments are logged daily by the Research Finance Billing/Collections team. In addition, the Aging report is sent to the Chief Business Officers each month following close.
- **Write-off of Uncollectible Balances** — If after a thorough collection process is followed by the University and it is determined that an invoice is not likely be paid (or to be paid in a reasonable time), the balance is no longer considered collectable. The process of removing this outstanding balance from the accounts receivable balance on the financials is called a write-off.
- **Allowance for Doubtful Accounts** — An estimate based on historical collections and/or other reasonable rationale is used to record an adjustment of the invoiced amounts that will likely become uncollectible during the period. This amount is reflected as a contra-asset, reducing accounts receivable on the Balance Sheet.
- **Immaterial Outstanding Balances** — the University has defined this as any balance outstanding by award less than \$50.00 in aggregate. This threshold only applies to non-federal awards.

POLICY

A. Accounting for the Allowance for Uncollectible Grants Receivable

The GAAP method of recording an allowance requires that an expense be recorded with an offset to an allowance account. This requires that an estimate be calculated and that an evaluation be made to compare the balance in the allowance account with the calculated estimate at the end of every year. An adjusting journal entry must be made to ensure the Allowance for Doubtful Accounts account balance equals the estimate for uncollectible invoices with the offsetting debit recorded to Bad Debt Expense.

B. Estimated Uncollectible Amount

The process of calculating the estimate for uncollectible accounts requires a rational methodology that follows GAAP. The University uses the probability of default method based on aging of receivables. An Aging of receivables report is distributed to the Chief Business Officers (CBO) to determine collectability of outstanding invoices at the end of the fiscal year. Based on the collectability information obtained from Research Finance, the Assistant Director of Research Finance - Accounting will calculate an estimate of the total amount expected to be uncollectible which is the 3% of total receivables. This calculated amount will serve as the basis for the estimate and will be communicated to the Chief Business Officers, as well as the basis for the estimate. The calculated amount must be approved by the Controller before the entry will be submitted to Finance for review at fiscal year-end to adjust the allowance accordingly.

C. Write-off of Uncollectible Grants Invoices

The GAAP method presumes a routine collection process for each receivable balance. While routinely executing the collection procedures, some of the balances will be determined to be uncollectible. The procedure to write off a balance will be an approach that provides a more even flow of expenditures and a stable, more reasonable balance for the allowance account. This method is an important element in reporting more accurate financials that will provide reporting consistency and usefulness during the year and better reflect the net realizable value of assets. Once a balance is determined to be uncollectible, the University will write-off the receivable and remove it from the University's total grants receivable balance. The written-off amounts are no longer reflected on the University financials and are no longer used in calculating the Allowance for Doubtful Accounts.

Note if a balance is assessed as immaterial, Research Finance may use independent discretion to write-off or cost share the balance.

D. Collection Efforts

The Research Finance-Accounting team should use prudent judgment in collection efforts until all avenues of resolution have been exhausted. Throughout the collection process, it may be prudent to delay writing off a receivable balance. If, in the judgment of management, reasonable progress is being made in negotiations for payment with the sponsor, a delay may be granted. A ["Delay of Write-off"](#) form should be completed for review by the designated responsible party in the Research Finance – Accounting on behalf of the department or the CBO. There should be clear justification in delaying write-off or including in the allowance calculation.

E. Subsequent collection of Grants Invoices previously written off

When any amounts previously written off, are collected, an adjusting entry is required to reinstate the account receivable and record the collection for these amounts. The entry made will be opposite the write-off entry to record the receivable balance back on the books. This process will effectively reduce the bad debt expense in the period and increase cash.

ADDITIONAL CONTACTS

Subject	Contact	Office	Phone	Email
Research Finance-Accounting	Research Finance	Research Finance	N/A	Postaward-accounting@vanderbilt.edu
