

## 21.01.04 Extension of Credit

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### Regulation Statement

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This regulation provides guidelines for the extension of credit and referral of delinquent accounts to The Texas A&M University System (system) Office of General Counsel (OGC) or the Attorney General (AG) of Texas.

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### Reason for Regulation

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Establish uniform procedures for system extension of credit and related collection processes.

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### Procedures and Responsibilities

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#### 1. EXTENSION OF CREDIT

- 1.1 System member chief financial officers (CFOs) are delegated the authority to approve the sale of goods and services on credit, provided such extension of credit serves the best interest of the system and the public good of the state of Texas.
- 1.2 The CFO is required to maintain written documentation explaining the circumstances requiring an extension of credit.
- 1.3 Payment for the sale of goods and services on credit is expected within thirty (30) days. Special circumstances requiring the extension of credit for longer than thirty (30) days must be disclosed in the documentation maintained by the CFO.
- 1.4 Factors the CFO should consider in determining if extending credit serves the best interest of the system and the public good of the state of Texas include the:
  - (a) efficiency of conducting business;
  - (b) administrative cost savings and/or the benefits of extending credit that exceed the costs;

- (c) credit requestor's previous payment history and/or financial capacity to repay the debt; and
- (d) consistency of standards applied to all applicants requesting an extension of credit.

## 2. INTERNAL CONTROL

- 2.1 System member procedures to approve requests for extension of credit must ensure the information, record-keeping and control systems used for decision making provide the accuracy and reliability required to protect system member assets. System members should review procedures periodically and update as necessary.
- 2.2 A monthly report of receivable billings and collections is required, including an aging of outstanding accounts receivable balances and a reconciliation of individual account balances to the controlling general ledger balance.
- 2.3 System members should establish reasonable tolerance levels that determine when delinquent accounts should be referred for collection. Factors to consider when establishing tolerance levels should include the:
  - (a) size of the debt;
  - (b) existence of any security or collateral;
  - (c) likelihood of collection through passive means; and
  - (d) cost to the agency in attempting to collect the obligation.

## 3. IDENTITY THEFT PREVENTION PROGRAM

- 3.1 Each system member must periodically conduct a risk assessment to determine whether it has any covered accounts. If a system member has covered accounts, the institution/agency's procedures must include a written identity theft prevention program to detect, prevent and mitigate identity theft related to new and existing covered accounts.
- 3.2 A system member's written identity theft prevention program must include reasonable procedures to:
  - (a) identify relevant red flags for covered accounts at the institution and incorporate those red flags into the program;
  - (b) detect red flags that have been incorporated into the program;
  - (c) respond appropriately to any red flags detected to prevent and mitigate identity theft; and
  - (d) ensure the program is updated periodically to reflect changes in risk factors.

As part of designing an identity theft prevention program, a system member must consider the Federal Trade Commission's guidelines and incorporate in its program those guidelines that are appropriate. The guidelines are found in Appendix A to the FTC's Red Flags Rule.

- 3.3 Each system member's initial written identity theft prevention program must be approved by the chancellor or designee.
- 3.4 System members should assign the responsibility for the program to a senior management position.
- 3.5 System member programs will require training for appropriate personnel to recognize activities that may be the result of identity theft. The training will include:
  - (a) steps to verify the identity of the person opening a covered account;
  - (b) the monitoring of transactions for suspicious activity;
  - (c) verifying the validity of changes of address;
  - (d) procedures for the appropriate response to activity that is suspicious; and
  - (e) any other activity deemed to be a potential risk.
- 3.5 System member procedures and programs should be reviewed and updated periodically to reflect changes in risk factors.

#### 4. DELINQUENT ACCOUNTS

The Texas Administrative Code (TAC) states that no more than two (2) demand letters should be transmitted to debtors. The first demand letter should be sent no more than thirty (30) days after the obligation has become delinquent, and the second demand letter should be sent thirty-sixty (30-60) days after the first demand letter. Documentation of all attempts to collect the debt must be recorded and maintained on file.

When the debt is determined to be delinquent, system members should utilize the state comptroller's warrant hold process to ensure payments are not issued to the individual or entity that is indebted to the state. The warrant hold process is detailed in the State Comptroller's Accounting Policy Statement No. 028, *Reporting and Verification of State Debts and Hold Offset Procedures*.

#### 5. WRITE-OFF OF UNCOLLECTED ACCOUNTS

TAC, Title 1, Part 3, Chapter 59, §59.2 (c) (1) (A) allows system members to utilize the OGC to determine whether delinquent accounts can be written off. TAC §59.2 also gives the OGC the authorization to bring suit against delinquent obligors, subject to the approval of the AG.

When contacting the OGC, the following information must be included:

- (a) system member procedures for collection of receivables;
- (b) documentation that the collection procedures have been followed for the accounts to be written off;
- (c) the date the receivable was recorded;
- (d) description of the collection efforts to date;

- (e) documentation that vendor on hold procedures for the state have been followed; and
- (f) confirmation that a hold will be maintained in the financial accounting system for those receivables written off.

A system member may not contract with, retain, or employ any person other than a full-time employee of the system to collect a delinquent obligation without prior written approval of the AG. Any existing arrangement must receive the written approval of the AG to be renewed or extended.

If a debt is approved for write-off, procedures outlined in the State Comptroller's Accounting Policy Statement No. 027, *Accounting for Uncollectible Accounts*, should be followed to record the entry correctly if the transaction is associated with a State Treasury bank account.

## 6. ANNUAL REPORT REQUIRED BY AG

An annual report of all outstanding delinquent obligations must be prepared by each system member and submitted to the AG within ninety (90) days of the end of each fiscal year. If the system member is not owed any debt, the report should indicate that there is no debt outstanding. At a minimum, the report should include the:

- (a) dollar amount of all delinquent obligations categorized into collectible and uncollectible amounts;
- (b) total number and dollar amount of all individual accounts;
- (c) total number and dollar amount of accounts evidenced by a promissory note, separately identifying the number and dollar amount of those deemed to be in default;
- (d) total number and dollar amount of all individual accounts where the debtor has filed for relief under the United States Bankruptcy Code; and
- (e) total number and dollar amount of all accounts reduced to judgment, including amounts for attorney's fees and court costs.

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## Related Statutes, Policies, or Requirements

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[Tex. Admin. Code, Title 1, Part 3, §§59.2, 59.3](#)

[Comptroller of Public Accounts, Accounting Policy Statement 027, \*Accounting for Uncollectible Accounts\*](#)

[Comptroller of Public Accounts, Accounting Policy Statement 028, \*Reporting of State Debts and Hold Offset Procedures\*](#)

[Federal Trade Commission Red Flags Rule, 16 C.F.R. § 681.2](#)

[Interagency Guidelines on Identity Theft Detection, Prevention, and Mitigation, Appendix A to the Red Flags Rule](#)

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## **Definitions**

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Covered accounts – consumer accounts designed to permit multiple payments or transactions, and any other account for which there is a reasonably foreseeable risk from identity theft.

Delinquent – payment is past due by law or by customary business practice, and all conditions precedent to payment have occurred or been performed. (TAC, Title 1, Part 3, §59.2 (a) (3))

Public good – a good that is non-rival and non-excludable; meaning that the consumption of the good by one individual does not reduce the amount of the good available for consumption by others; and no one can be effectively excluded from using that good.

Red flag – a pattern, practice, or specific activity that indicates the possible existence of identity theft.

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## **Contact Office**

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