Effective Management of Accounts Receivable

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Executive Summary

Faced with a 1.6 million dollar writeoff of student accounts receivable in 2003, we embarked upon a campaign of continuous process improvement with the goal of reducing writeoffs, and improving our bottom line. We find that by making incremental improvements to the management of our accounts receivable, we are also able to:

- Expedite cash flow
- Generate additional income
- Reduce our dependency on collection agencies
- Improve customer service and satisfaction
- Retain students, who might otherwise be forced to discontinue their pursuit of education
- Increase staff morale
- Reduce our expenses

We began by identifying a series of benchmarking metrics, or "Dashboard Indicators" that we felt were critical to measuring our performance. While this seems straightforward, there are many things that may be measured, and we soon realized that it was imperative that we select measurement criteria that were readily available, consistent, and meaningful. We then made tracking these key dashboard indicators a priority.

At the same time, we were implementing a series of process improvement initiatives. Each of these was carefully defined, communicated and, when necessary, negotiated with other functional areas of the institution, publicized, and implemented. We routinely monitored our performance using our dashboard indicators, which ensured that we were heading in the right direction, and also that there were no unexpected pitfalls along our path to improvement.

The process improvements were all tied directly to our mission statement (below), and had the support of our senior administration.

> The Office of the Bursar maintains the financial assets of the University with integrity, while providing quality customer service delivered with respect and fairness to all internal and external stakeholders.

The results are astonishing – even to those of us who articulated and shared our vision and passion for the project. Over a four-year period, our annual writeoffs were reduced from $1.6M to only $225,000 in 2006, increasing our bottom line by nearly a half million dollars annually in each of the last three years. Other outcomes were achieved as well, and among the most gratifying are the increased morale of the staff, the improvement in customer service as demonstrated by a decrease in customer complaints, and the recognition we received from our Board of Trustees.

Introduction of the Organization

Miami University is a selective, public institution located in Oxford, Ohio, a small community 35 miles north of Cincinnati. Enrollment is 14,385 undergraduates and 1,341 graduate students on the Oxford campus. Regional campuses are located in Hamilton and Middletown, Ohio, and enroll an additional 4,400 students. Miami offers the bachelor's degree in over 100 areas of study and the master's degree in more than 50 areas, the doctoral degree in nine areas, and on the regional campuses, the associate's degree in 10 areas.

Established in 1809, Miami is a residential university with a focus on teaching undergraduates. A liberal education core complements the more specialized studies of the majors. Miami is one of the eight original "Public Ivys," and it consistently ranks as a best value among publications such as *Kiplinger's*, *The Princeton Review*, and *The Fiske Guide to Colleges*. Recently, the 2007 *U.S. News & World Report's "America's Best Colleges"* ranked Miami University 21st among the top public universities in the nation.

Net operating revenues in 2006 were $333,666,944, and Miami is faced with declining state support. State subsidies declined by 15 percent between 2000 and 2005, and currently represent only 15 percent of Miami's total revenue budget, making it increasingly challenging to provide quality education at a reasonable price to students and their families.

Statement of Problem

Two years after the campus-wide implementation of the SCT Banner enterprise resource planning system, our external auditors became uncomfortable with the rather large, continually aging, amount of student accounts receivable. In our 2002 annual audit, it was recommended that we develop, and implement, a more aggressive writeoff policy.

The policy was written and adopted in fiscal year 2003, resulting in a $1.6 million writeoff of student accounts receivable. Of course, we continued collection efforts on the accounts which were written off, but the impact upon the bottom line of our financial statements that year did not go unnoticed by our Board of Trustees. We were determined to continue on the path of continuous process improvement that we had begun after the successful implementation of the accounts receivable module of the SCT Banner system in 1999-2000, with the goal of reducing outstanding accounts receivable.

Design

We began by identifying subsidiary goals to effective accounts receivable management; such as expediting cash flow, generating additional income, reducing our dependency on collection agencies for the collection of past due accounts (and the associated costs), retaining students who might otherwise be forced to discontinue their educational pursuits due to outstanding financial obligations to the university, and increasing customer service with additional payment methods. Each of these goals was directly tied to our mission (page 2), and received the support of our senior administration.

Demonstrating progress toward goals requires measurement. Our next step was to develop a set of benchmarks, or key "dashboard indicators", which were relevant to our goals. This task required no new resources, since we had the tools and expertise we needed within our office to mine, sort, and present our accounts receivable data. The first challenge was to identify exactly which data and measures were important in evaluating progress toward our goals. The second challenge was to translate the data and measures into a manageable list that could be relatively easily maintained at regular intervals. In our case, it was decided that ten carefully selected and relevant "dashboard indicators" would be appropriate.

Next, we needed to continue to improve upon the processes that were already in place for student billing and the collection of student accounts. We had already begun this initiative in 2000, after the completing the implementation of the SCT Banner accounts receivable module, but we recognized that there was much more room to grow and improve.

Many of the tools we needed were available within Banner itself, such as the processes to flag delinquent accounts, assess late fees and penalties, purge course registrations for those who had not made payment or appropriate payment arrangements, by the due date. Some processes needed a little customization – we prefer to think of it as "refinement" – but every attempt was made to minimize customization, which required IT resources, and use Banner in its pure, delivered form whenever possible – resulting in no additional cost to the institution.

In other cases, we found practical solutions through outsourcing. For instance, in the accounts receivable arena payment plan processing, collection letter writing, electronic billing and payments, and loan collection can all be outsourced in a cost effective manner. In fact, some of our outsourced solutions, such as electronic bill presentment, actually save the university money.

Another important aspect of the design stage was collaboration. Our mission statement kept us focused, and constantly reminded us that any improvements must not compromise our two-pronged mission: protecting the integrity of our financial assets and providing quality customer service. As a member of a newly formed Enrollment Services Team, it was important that all cross functional issues be addressed with the team, and their support of our project and goals was crucial to its success. In addition, the support of senior administration was of utmost importance. We were fortunate to have not only the support of the financial administrators, but also support, appreciation for, and recognition of the importance of what we were doing from the president and his staff.

Implementation

Benchmarking

The benchmarking project actually had begun in academic year 2001-2002, when we began tracking semester statistics on number and dollar amount of bills sent, number of students participating in payment plans, late fees assessed, payments made through different payment channels, financial aid and scholarships awarded and disbursed to students' accounts, and the number and amount of refund checks generated each semester. We found that his information was helpful to us as we worked toward improving customer service and increasing morale among the staff.

While this information was a solid beginning, we were not tracking statistics related to our collection effectiveness. Although data on aged accounts receivable were available to us through Banner and recorded by our general accounting office, we seldom referenced it since our financial statements had been previously prepared using an allowance for doubtful accounts – and there were very few actual writeoffs. So, in 2003, we began paying attention to this information! Although we wrote off $1.6M, we knew that we had billed nearly $290M that same year. Calculating a simple percentage (1-amount billed/amount outstanding) for the fiscal year 2003 yielded a collection effectiveness ratio of 99.3%. That simple ratio put the $1.6M in writeoffs into a much clearer perspective, presented a more positive picture of what we do, and it helped us proceed toward the development of our Top Ten Dashboard Indicators.

By adding the second year's data (2004) to the information from 2003, we were able to identify trends, and see improvement, as well as areas that needed attention. This enabled us to identify what we consider our most important (Top Ten) indicators:

1. Total Annual Tuition and Fees Billed
2. Total Annual Amount Billed (includes room and board, other fees, incidentals)
3. Collection Effectiveness of Tuition and Fees (1-total tuition and fees billed/tuition and fees outstanding)
4. Collection Effectiveness overall (1-total amount billed/total amount outstanding)
5. Total Annual Writeoffs
6. Year over year monthly aging comparison
7. Receipts/payments amount and composition
8. Year over year phone calls completed
9. Late fee and finance charge revenue
10. Customer complaints (to the president)

Continuous Process Improvement

Process improvement initiatives had begun immediately after the implementation of SCT Banner in 2000. Our first priority had been to resume regular billing. This had not been done consistently during the 1999-2000 academic year, and we identified it as the cause of the increase in aged receivables noted by our auditors in 2002. Once regular billing resumed, we were comfortable implementing the Banner-delivered processes of assessing late fees and cancelling classes for non-payment – both very effective collection tools. Subsequently, we increased the amount of the late fee from $50 to $100, and empowered all Bursar's Office staff with the ability to waive late fees at their discretion.

Next, again using Banner-delivered functionality, we implemented the practice of placing holds preventing future registration for those students who had balances of $500 or more. Since this was a new practice at Miami University, it required, and gained, unanimous support from the Enrollment Services Team, and others across campus. It has proven to be a very effective way to encourage students to complete all payment plan agreements and financial aid disbursement requirements within the first sixty days of the semester.

We also began using Banner to effectively manage past-due accounts. We used a Banner process to begin assessing finance charges at our board-approved rate of prime plus 3% (assessed only to those who are not currently enrolled, since the cancellation and hold policy are effective with our student population). In addition, Banner functionality allowed us to routinely flag accounts that required additional collection letter-writing, or placement with an agency for collection.

We delayed the disbursement and refunding of federal financial aid on our regional campuses. After carefully analyzing data of large amounts of outstanding receivables due to financial aid reversals resulting from withdrawals or dropped classes, it was noted by the Enrollment Services Team that this was largely a problem of the non-traditional student population at our regional campuses. The result was a compromise arrangement to delay the disbursement, and subsequent refunding, on the regional campuses only, allowing Oxford students (who are predominantly traditional, full time students and whose enrollments are more likely to be stable) to continue to receive early refunds of financial aid overages. This was another improvement made possible through Banner functionality.

Unfortunately, Banner did not always provide the solutions we were seeking. In several cases, outsourcing offered competitive, cost-effective alternatives that allowed us to achieve our objectives. Some of these solutions actually saved the institution money, while others increased service to students at a nominal rate. Following is a description of our major outsourcing initiatives since 2002.

Payment plans are a convenient way for our families to budget annual tuition expenses over ten months. In addition, we offer a three-payment per semester plan, which assists families who find themselves “short” at the start of a semester. In exchange for the privilege of extending credit to families who wish to pay over time, we require promissory agreements, signed by the tuition payer (who is typically not the student). Outsourcing our payment plan solutions eased not only the administrative burden of payment plan processing and billing, but we also negotiated the responsibility for soliciting, and electronically storing, promissory agreements to our provider. Our payment plan provider does not charge for this service, and in fact we generate additional revenue by the “sharing” in the enrollment fees and any late fees assessed by our provider. By carefully negotiating the payment plan due dates with our provider, we have minimized any negative impact upon cash flow.

Electronic bill presentment and payment options were also outsourced. A single service provider was selected to effectively provide electronic billing, credit card payments with a convenience fee, and electronic check payments. By selecting a single source for all these services, we were able to negotiate better rates, provide better integration, and present a more seamless interface to our customers. Electronic billing saves the university at least $50,000 per year, which more than offsets the additional cost of less than $9,000 required to provide electronic payment processing.

Bad check processing has continually been problematic for those of us in higher education, where we find that NSF checks are likely to be for thousands of dollars, given our costs of tuition. Although our banks will typically present NSF checks more than once, the second presentment often is no more productive than the first. We found a service provider who will convert the check to an ACH transaction (which is honored before checks) and verify account balances before the second presentment, making the check much more likely to clear. Our cost for this service is merely the $30 NSF charge, the statutory limit in the state of Ohio, which our service provider retains for each check they are able to collect on our behalf.

Collection letter writing and telephone calling, a very time consuming and detailed administrative task, was also outsourced. In the eight months prior to placement with a collection agency (as a public institution in the state of Ohio, we are required to use the Ohio Attorney General's Office as our exclusive agency for the collection of past due accounts), we write a series of letters and place two telephone calls. We selected a service provider who will write letters, place outbound calls, and record contacts in an internet-based software system which they share with us. The cost for this service is not much more than the cost of stationery and postage alone. It saves a full time staff position, while increasing the likelihood of collecting on accounts prior to placement with the Attorney General's Office, and the associated expense.

Benefits

All ten of our dashboard indicators demonstrated our improvement. Amounts billed and amounts collected both increased, and our collection effectiveness ratios increased from 99.6% for tuition and fees to 99.96%, and our overall collection effectiveness increased from 99.3% to 99.8% (this includes difficult to collect items such as parking fines, library fines, room damage charges, and financial aid reversals). Our writeoffs decreased from $1.6M in 2003 to only $225,000 in 2006 – representing an average annual contribution to our bottom line of nearly $500,000 annually! Our year over year aging comparisons revealed a steady decline in year-end receivables, and this is especially noteworthy in light of the fact that the total amount billed increased by 38% over that same four-year period. Late fee and finance charge revenue during the four year period was $1,419,552, and that figure is net of the late fees waived by our staff!

Further improvements resulted from efficient payment plan processing, combined with the new practice of placing holds blocking registration for future semesters, which expedited our cash flow, since students no longer had the entire semester to complete payment plan agreements or finalize their financial aid requirements. Also, our collection letter writing service allowed us to work accounts more effectively before sending them to the collection agency – reducing the expense and inconvenience of placing accounts with a third party, while expediting cash flow.

The comparison of payment amounts and channels revealed that the electronic check payment feature is very popular with our families. With its introduction in 2002, we began to see a decline in in-person payment activity, however our lockbox usage remained constant until the introduction of web credit card payments in 2005. Our hope is that electronic payments will soon become the prevalent method of payment, which may allow us to discontinue our lockbox service. In 2006, 21% of our payment activity was electronic, and we hope that electronic bill presentment (introduced in late 2006) will further encourage viewers of bills to also pay online.

The most surprising results were in the area of customer service and employee morale. The initiatives we employed, most of which were to improve our collection effectiveness, also resulted in greater customer satisfaction, demonstrated by an 85% decrease in customer complaints!

The focus on our mission statement gave our employees a renewed sense of purpose, and sharing the progress toward our goals (our 10 Dashboard Indicators as well as other feedback) gave them satisfaction in knowing that their work was needed and appreciated. Delegating authority to make decisions at the lowest possible level (for instance, whether to waive a late fee), eased an administrative burden that had been problematic in the past. In addition, it gave front line employees the fulfillment of knowing that they could help someone, without needing permission. While it is not one of the things that we benchmarked, we are pleasantly surprised by the positive attitudes and commitment to our goals that is demonstrated by our staff.

<u>Retrospect</u>

Promote, market, communicate, publish, educate!

Changes in process need to be clearly communicated with all stakeholders in order to be effective. While we communicated changes to our constituents as we were implementing them, there were instances where stakeholders were not adequately informed about ***why*** we were making the change. We found that the "why" information helps stakeholders gain acceptance of the change.

Celebrate, recognize, reward, praise!

Since the "continuous process improvement" initiative began more than five years ago, we accomplished many milestones along the way. Take the time to celebrate and acknowledge individual contributions at each milestone. It has been nearly five years since we began tracking our 10 Dashboard Indicators, however it was our presentation to our Finance Committee of the Board of Trustees in 2006, and the positive feedback and enthusiasm they shared, which inspired us to share our results with others outside of our own Bursar's Office staff.

Pass it on!

We are now sharing our benchmarking initiative, and our 10 Dashboard Indicators, with bursars in other organizations. It would be ideal if other organizations were tracking similar benchmarks, so that we could effectively compare and contrast results with one another. The key obstacle here is that this is a project that requires time, patience, and commitment for an end result to be obtained. The best advice regarding benchmarking is to get it started……..now. Don't wait until asked. You may be surprised at how good you already are.