

Accounts Receivables, Lawsuits, and Lessons Learned

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Accounts Receivables

- Develop an accounts receivable policy that has a clearly defined section dealing with collection of debt.
- Develop reports to help identify projects to be billed.
- Develop reports for weekly / monthly review of AR.
- Develop automated letters to sponsor highlighting outstanding invoices.
- Establish a clear definition of significant debt (2 missed payments ?).
- Ensure monthly follow-ups to outstanding debt.
- Realize the risk associated with start-ups.

Structuring Your Agreements

- Rely on fixed priced contracts with first payment due immediately upon execution.
- Invoice monthly to keep sponsor honest.
- Have sponsor agree to pay for collection costs.
- Release funds to PI in staggered allocations instead of all at once.
- Require funds to be paid in advance if there is any doubt about sponsor's ability to pay.
- Require a larger front-end payment in the event there are large capital outlays in the beginning.

Freezing Accounts

- When an account is frozen due to non-payment by the sponsor, be sure to formally contact (email or memo) the PI that they are to immediately stop work on the project due to non-payment by the sponsor.
- Formally notify the sponsor via dated and signed letter of such action. Indicate in your letter something to the following:

Please accept this letter as notification that work on the project entitled “How to Stop a Sponsored Project” sponsored by your company was stopped on (insert date) due to your failure to pay the attached invoices. Your failure to pay is considered material breach of the contract per provision (insert reference). Should full payment not be received by (give date), this contract will be terminated.

- Review the contract to determine if you are required to deliver a report of activities up to the date of the stop work order. If required, notify PI that the report should be sent to the sponsor within 30 days.

Handling Bad Debt

- Most problems will originate from private sponsorship so give them first priority.
- Never let an outstanding technical report lead to a bad debt.
- Make PI, dept head, fiscal officer, and dean aware of bad debt early.
- Do not allow a bad debt to go beyond one year.
- Enlist PIs into shaming the sponsor to pay.
- Be flexible in collecting debt – secondary payment plans.
- Arbitrate any “he said, she said” disagreements as soon as possible.
- Designate a point person for bad debt management.

Lawsuits

- Account files need to be clearly organized and labeled.
- Anything placed or written in the file is subject to subpoena.
- All correspondence needs to be dated, documented, and signed by the appropriate party.
- Phone conversations should be so noted (date, time, and correspondence).
- Ensure all correspondence is generated according to institutional policy and practice.
- Copy PI (Dean and Dept head) on all sponsored correspondence regarding outstanding invoices.
- Be prepared to back up any correspondence with notes or file documentation.

Lessons Learned

- The Outstanding Invoice Letters must be generated according to policy.
- Be wary of no-cost time extensions where revenue is far short of expenditures.
- Watch for any sponsor that desires to leverage more than a 20% retainage.
- If IP is involved, be sure there is a clear understanding of who owns what.
- Be cautious of any correspondence (written or verbal) that indicates a sponsor may have difficulty in paying. Failure to react may indicate your acceptance of a sponsor's poor financial condition.
- Be extremely cautious of accepting work labeled as prototype development. Contracts should be clear that universities work on a best effort basis.
- Remember that you cannot sue another state entity.