



Allowability of Collection Fees - Relocation

Note to File: Debbie Johnson, Chief Financial Officer, March 14, 2019

Introduction

A question has arisen regarding the allowability of collection fees. In particular, related to efforts to recover relocation benefits when the related employee commitment has not been satisfied.

Technical Guidance

The following sections of the Uniform Guidance are considered relevant:

§200.426 Bad debts - Bad debts (debts which have been determined to be uncollectable), including losses (whether actual or estimated) arising from uncollectable accounts and other claims, are unallowable. Related collection costs, and related legal costs, arising from such debts after they have been determined to be uncollectable are also unallowable.

§200.428 Collections of improper proper payments - The costs incurred by a non-Federal entity to recover improper payments are allowable as either direct or indirect costs, as appropriate. Amounts collected may be used by the non-Federal entity in accordance with cash management standards set forth in §200.305 Payment.

§200.428(c) Relocation costs of employees - When relocation costs incurred incident to the recruitment of new employees have been charged to a Federal award and the employee resigns for reasons within the employee's control within 12 months after hire, the non-Federal entity must refund or credit the Federal Government for its share of the cost.

Assessment

The provision related to collections of bad debts can reasonably interpreted to apply to collection costs incurred for bad debts related to a purchaser who bought a product from the nonprofit on credit, but never paid the bill. For example, if a nonprofit produces a monthly research periodical and sold a page of advertising, the Federal government does not expect to pay for costs incurred to collect an unpaid advertising fee.

AURA's collection costs in question of relocation benefits relate to costs associated with employees working on Federal awards. Collection is required not because AURA made a decision to extend credit to a purchaser, but because an employee did not fulfill his/her work commitment and must, therefore, return a previous payment. The situation is more similar to the guidance found in §200.428, Collections of improper proper payments, which allows for costs in the recovery of payments.

Although AURA maintains the allowability of these costs, engaging a collections agency would be a prudent financial choice, regardless. Collections typically work on a percentage basis and would only be engaged if AURA were to recover money in excess of the amount that it costs to collect. The result is a net financial benefit to AURA.