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Council Policy

Write-Off Policy for Uncollectable General Receivables

APPROVED February 3, 2014

Contact Department: Financial Services

Policy Statement

The periodic purging of delinquent, uncollectible general receivables is a fiscally responsible method to ensure an accurate position of the City's expected revenue.

Purpose

The purpose of this policy is to set authorization levels for write-off of general accounts receivable invoices and accumulated interest balances; and to establish standard guidelines for write-off of uncollectible general receivables.

Background

In order to establish a consistent and regular review of uncollectible customer accounts by Council, this policy establishes an annual recommendation be presented to City Council for action.

Procedure:

1. General Accounts Receivable Invoices Write-Off:

Collection procedures will be managed through the use of an Aged Trial Balance produced by the corporate financial system. Invoices will be written off once the approver has been satisfied that all reasonable collection efforts have been exhausted or it has been determined that the cost to the City to collect the debt exceeds the value of the debt.

The Revenue Branch will follow the "Credit and Collection Procedure" to attempt to collect outstanding invoice balances. These procedures include but are not limited to mailing written non-payment reminders, verbal requests, negotiate revised payment terms, cross reference to the AP system, draw on security held, transfer to property taxes, legal action and use of a Collection Agency.

a) CREDIT AND COLLECTION PROCEDURE

Credit Application Process:

Credit accounts may be obtained upon submission of a Credit Application and its subsequent favourable response. The following procedures must be completed:

1. The applicant must complete and sign a Credit Approval Request, granting the City of Kelowna permission to research the credit history.
2. The Accounting Assistant (Collections) will conduct a search after receipt of the completed application. The search will consist of confirming credit history with the applicant's bank, and three credit references.
3. The Revenue Manager will review the search results and, where indicated, grant credit account status with appropriate limits. If the search results are unsatisfactory, credit will be refused.

Process for Unpaid Accounts:

The following steps are taken:

- (a) 30 days – Within thirty days of the invoice date a statement is sent which states that payment must be received on the last day of the month following the invoice date;
- (b) 60 days – Interest is charged from 31 to 60 days and a statement is sent with a Reminder Notice that indicates the invoices which are past due.
- (c) 90 days – Additional interest charges are applied and a statement is sent with a **second** Reminder Notice that reminds the customer that payment on the listed invoice(s) has still not been received and that prompt

payment is required in order to remain in good standing with the City's terms. At this point the customer's ability to charge goods or services will be suspended until payment is received in full. In addition, a landfill account holder, upon written notice, will be denied entry into the Landfill.

- (d) 120 days – Additional interest charges are applied and a statement is sent with a **final** Reminder Notice that indicates to the customers that either immediate payment within 7 business days is required, or develop a mutually agreeable arrangement to discharge the amounts owed; otherwise the City will begin the process to turn the customer account over to a Collection Agency or to the City Solicitor for further action and report the delinquent payment experience to the Credit Reporting Agencies.

Once satisfied that all avenues of collection have been exhausted, authorization to write-off Accounts Receivable is as follows:

- \$0.01 - \$2,000.00 - Revenue Manager
- > \$2,000.00 - City Council Approval

Once approval is obtained, the originating department will be informed and the appropriate journal entries and the invoice(s) will be removed from the Aged Trial Balance.

An Audit Committee report will be prepared annually which will include:

- For information only items under \$2,000.00 that have been written off;
- For Council approval items over \$2,000.00.

Information regarding written off accounts will be retained by the Revenue Branch for 7 years in order to be referred to if future collections situations arise.

Accounts Receivables Write-Off of Finance Charges:

Finance charges are applied monthly to overdue invoices. Interest is accumulated at a rate of 1.5% per month (18% annually) from the invoice due date. Periodically, situations occur that create a rationale to write-off the accrued interest. The Accounts Receivable Write-Off of Finance Charges procedures will be followed when interest charges are written off. Authorization levels dictated by this Policy will be adhered to.

There are many reasons for writing off finance charges. Occasionally payments are misapplied, or there is a timing difference between when payments are received and when they are applied to the account. Credit notes or reversal of charges can be issued after interest has started to accumulate. These situations affect the interest calculation and are beyond the control of the customer. For situations beyond the control of the customer, the Revenue Manager has been given authority to reverse the associated finance charges.

The requirement to write-off finance charges also arises because Accounts Receivable staff cannot collect payment from the customer. As part of a negotiated settlement The Revenue Manager has the authority to:

- Write-off finance charge amounts up to \$2,000; and/or
- Restructure the finance charge to reflect actual City interest revenue losses for the time period in question.

Once satisfied that all avenues of collection have been exhausted, authorization levels to write-off accumulated finance charges is as follows:

- \$0.01 - \$2,000.00 - Revenue Manager
- > \$2,000.00 - City Council Approval

The Revenue Manager has the authority to suspend interest being charged against invoices to government agencies, airport customers and customers whose invoices are in dispute.

2. Guidelines for Write-Off of Uncollectible General Receivables

In order for the City to reflect the value of its receivables and ensure that resources are used efficiently and not devoted to the recovery of uncollectible receivables, the timely identification of losses is an essential element in appropriately measuring the value of the City's assets. Therefore, the write-off process is a critical component.

Departments shall recommend write-off actions when an asset meets one of the write-off criteria described below:

A. Criteria For Write-Off Action:

The City shall consider an asset non-recoverable and recommend write-off actions based on the following:

- Assets that cannot be substantiated by evidence or are legally without merit
- Costs of further recovery actions will exceed estimated recovery amounts
- Inability to locate debtor
- Accounts under \$50.00 and delinquent for six months
- Accounts over two years old that have been billed regularly and subject to a diligent collection effort
- Forgiveness of debt as approved by Council
- Accounts returned by a collection agency as uncollectible, and for which no other collection remedy is possible or prudent
- Debtor has declared bankruptcy under the Bankruptcy and Insolvency Act
- Credit balances under \$50.00 and inactive for six months
- Accounts owed by companies no longer in business and for which collection efforts have failed
- Court Judgments
- Compromise of debt by proper authority
- Accounts of deceased persons
- Other reasons to be considered on a case-by-case basis based on GAAP or applicable standards.

Annually, upon review and approval by the Director, Financial Services the Revenue Manager will prepare a summary report to the Audit Committee for final approval by Council.

This report will include the account holder name, type of general receivable, the amount of the write-off, and the rationale for proposing the write-off. In addition, recommendations will be made as to whether the asset will remain with the Collection Agency for possible future recovery.

B. Guidelines For Due Diligence Documentation:

Departments that regularly have outstanding accounts receivable must keep adequate documentation to ensure that due diligence in collection efforts has been exercised. Due diligence is satisfied when:

Statements or invoices are mailed monthly/quarterly; and
Services are discontinued for delinquent customers; or
Special reminders or collection letters are mailed for all past due accounts
Bankruptcy claims filed by deadline
Collection agency is used for all past due accounts
Judgment awarded by court

C. Denial of Requests

Accounts Receivable Write-Off request may be denied based on the criteria listed below. If the request is denied it will be returned to the department and it will become the responsibility of the requesting department to make the necessary corrective actions.

Criteria for Denial of Requests:

- *Insufficient collection efforts have been made or demonstrated*
- *Accounts Receivable is not booked in the General Ledger*
- *Existence of a Lien and future collection is possible*
- *Knowledge that the debt will be collected in the future*
- *Lack of proper approval*

Amendments

R060/14/02/03 – Approval date.