

For Information Only

Accounts Receivable - Mitigating Risk

Presented To: Finance and
Administration
Committee

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Resolution

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Purpose

This report provides information to Council on existing policies and procedures to mitigate risk on accounts receivable as well as provides information regarding items in progress and other tools that could be utilized to further mitigate the risk of loss to the City.

Background

At the May 10th, 2016 in camera meeting, Council requested a report that would provide alternatives to better protect the City against risk of loss as it relates to its accounts receivable.

Existing Accounts Receivable Processes

The City's accounts receivables (AR) are managed by various systems such as PeopleSoft, Class (Leisure programs and facilities), Point Click Care (Pioneer Manor residents) and NorthStar (managed by GSU for water/wastewater fees). In general, City departments work within the guidelines of the Accounts Receivable and Collection Policy. There are receivables managed by operating departments directly and follow other guidelines such:

- water and waste water receivables (managed by GSU in accordance with the operating agreement and their operating guidelines),
- receivables from residents at Pioneer Manor (managed by operating department), and
- grants receivable as these are recorded based on when revenue is earned in accordance with terms and conditions of agreement.

Below is a summary of items in the Accounts Receivable and Collection Policy as they relate to Council's request:

Signed By

Report Prepared By

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- The Directors that extend credit are responsible for determining how much credit they are willing to extend,
- Monthly aged accounts receivable are provided to operating department managers/directors, SMT Members, Finance management and CFO/Treasurer,
- The City's standard payment terms are 30 days, deviations from these terms require the Manager of Accounting's approval,
- Amounts over 30 days are subject to interest charges, any waiving of interest requires the Manager of Accounting's approval,
- Customers receive 3 dunning letters (past due notices). The first dunning letter is sent fifteen days after due date. Fifteen days after the third dunning letter, Finance then has the ability to:
 - Offset amounts owing from payments to be made through Accounts Payable, or
 - Transfer eligible receivables to the tax roll, or
 - Transfer customers to a collection agency, or
 - Transfer to the legal department.

Discussions are held with the operating departments regarding collection of overdue accounts and preferred method to collect delinquent accounts.

Status of CGS Accounts Receivable at June 30, 2016

The following outlines the aged details of the City's accounts receivable (PeopleSoft) at June 30, 2016:

Less than 30 days	\$1,753,915
31 to 60 days	\$29,553
61 to 90 days	\$267,285
91 to 120 days	\$63,422
Over 120 days	\$124,563
Total Accounts Receivable	\$2,238,738

The City collects 75% of its invoices issued before a dunning letter is issued. There are currently 624 customer accounts with balances owing as of June 30, 2016. Five point six percent (5.6%) are 120 days or more overdue. Of the \$124,563 in the over 120 days category, \$89,895 (118 accounts – average balance of \$760) are with collection agencies.

Items in progress

Finance has been working on a variety of improvements relating to accounts receivables. These items would assist by providing:

- Additional information to the operating departments (AR PeopleSoft only) such as date sent to collection agencies, dunning status,
- The ability to track credit limits and notify managers when customers approach or surpass the limit (AR PeopleSoft only),
- A more fulsome Accounts Receivable Policies and Procedures, and
- New policies and procedures such as Customer Database Management and Customer Credit Policy.

There is currently a revised Accounts Receivable and Collection Policy drafted for review. This policy and procedures provides:

- Clarification of roles and responsibilities for Finance staff, operating departments and approvals permitted by position and transaction type,
- A reduction in the number of dunning letters from 3 to 2 to speed up the process for transferring

delinquent accounts to collection agencies or starting legal action,

- For an authorized person to approve billing advices, therefore introducing an element of review before the invoices are produced to ensure accuracy before being sent to the customers,
- Encouragement to departments to proactively reduce the amount of invoicing generated, thereby reducing the credit issued to customers. This involves offering cash, debt, credit card payments as a first means of payment for services,
- The ability for Pre-authorized payment plans, where the City is given authority by the customer to withdraw monies owing directly from their bank account, based on a pre-authorized schedule,
- Encouragement of billing on a more frequent basis for larger amounts (current policy states monthly). This is usually determined at the department level and may differ based on the SMT member's risk tolerance.
- Interest exemptions to specific organizations (i.e. federal government, provincial government, municipalities and related entities).
- A process for the approval of credit invoices and adjustments and the requirement to indicate a reason for the credit or adjustment.
- Guidance on the processing of payments received when the customer does not specify the invoice they are paying. The amount would now be applied to the oldest amount on the customer's account for both interest and principal.
- Improved documentation for internal processes relating to internal collection on accounts:
 - Transfer eligible amounts to property taxes,
 - Off set amounts on Accounts Payable for the same customer,
 - Off set Letters of Credit or other performance guarantees on hand,
 - Review contract to determine if there was a breach of contract,
 - Obtain SMT participation in the collection process and
 - Transfer accounts to the legal department for the preparation of demand letter or legal recourse.
- For Accounts Receivable to receive an updated list of letters of credit and performance guarantees on a quarterly basis to verify letters of credit that may be available to apply to delinquent accounts.
- Additional guidance on repayment arrangements. Repayments must occur the earlier of the next event/season or 12 months and requires Finance and the operating department Manager/Director to sign off on these agreements. If the agreement is to exceed 12 months then the CFO/Treasurer must also approve. Repayment arrangements greater than a specified amount requires the approval of the CFO and affected SMT member. Repayment arrangements require the customer to provide post dated cheques or sign a pre-authorized payment plan for the duration of the repayment period.

In addition, there are two policies in progress:

1. Customer Credit Policy

This policy provides guidance and establishes responsibilities for the establishment of customer credit. This includes:

- Responsibilities and process for providing credit. This includes credit request, application process, approval process and communication with customers,
- An evaluation of credit risk, determination of acceptable credit exposure, the amount of credit we would issue, and
- Monitoring the credit usage.

The stumbling blocks on this policy are twofold:

- a. What is the amount of credit that the City is willing to provide to customers? Are there limits by

operating departments and a corporate limit? And how is this determined, as the service level, and tolerance to risk can vary by SMT Member and type of customers they deal with. Finance is currently testing the functionality available in the system before starting discussions with operating departments.

b. Would the City have a sufficient mechanism to manage the credit usage? Most departments have subsystems that are used to generate the information to bill the customers. These are generally prepared after the service has been provided, and can occur a month after the service has been completed.

PeopleSoft does have the ability to track and maintain credit limits; however it is only as current and accurate as the information that Finance has received. Therefore in PS the customer can show they are within their credit limit, however the department might not have generated a billing advice and provided it to Finance which would push the customer over their credit limit.

The business processes required for these two items are quite complex due to the various businesses the City is engaged in providing. In addition, the City would need to determine how to transition existing clients to the “new” credit policy.

The City has started a pilot project with the hauled liquid waste group as this was a new service being provided in 2015. The City has set up credit limits for these customers as well as notifications to the operating department when approaching their credit limit. This pilot required changes to our PeopleSoft configuration to implement as well as an assessment and reassessment of the credit limits required to manage these accounts. However it does provide some hope that additional functionality can be utilized. Conversations with each operating department on the establishment of credit, monitoring and customer management are required to proceed.

2. Customer Master File Database Policy

Similar to the Vendor Master File Database Policy, we are in the process of developing similar guidelines for customers. This will ensure that we are billing the correct customer for services rendered. If a collection issue occurs, the City has recourse against the correct party for litigation or to be able to offset against amounts owing in Accounts Payable.

With improvements to reporting and utilization of additional functionality in PeopleSoft Finance had to review how Customer information is collected and entered into PeopleSoft. Finance has started the process to update customer information based on work done to date and we are still in the process of determining the fields required before finalizing this policy.

Additional items for consideration:

There are additional options available to the City to mitigate the risk of loss relating to accounts receivable. The City needs to evaluate the impact of the changes to the existing customers and their ability to comply with any new requirements. Accounts Receivable or invoicing for services provides a means for customers to manage their cash flow. A phase in approach or dollar limit threshold and communication strategy would be required with any major changes to the way the City currently does business with its customers.

The following are some additional risk mitigating strategies that can be considered:

- **Request Deposit:** Require new customers to provide a deposit that can be held for a specified time (i.e. 3 or 6 month) equivalent to an estimated amount of revenue that may be generated by this customer. The deposit will be returned or applied to the customer account after proof of timely payments for the 3 or 6 month period). If the customer does not make payments in accordance with payment terms, the deposit will be applied to the account and no further credit issued.

- Request Letter of Credit: Similar to the request for deposit, however the City would receive a letter from the bank, that is not cashed until non payment or breach of contract has occurred. The letter of credit would be applied to customer account at that time.
- Establish required more frequent billings based on dollar thresholds (i.e. at \$5,000 must bill bi-monthly or weekly). Consideration needs to be made to the additional workload created by this additional administration as operating departments are staffed and their sub systems are set to generate monthly billing in most circumstances.
- Obtain credit reports for individuals and corporate customers at an additional cost to the City. The City would need to establish a procedure for the review of the results including the interpretation of the information contained in those reports.

Further discussion would need to be conducted to determine which strategy to pursue as well as developing an implementation plan and communication strategy.

Conclusion:

The City has detailed, rigorous collection procedures. Information regarding these procedures are contained the Account Receivable and Collection Policy and Procedures. The City continues to review and improve the functionality available to it via PeopleSoft and continues to monitor and improve the collection process to better mitigate the risk of loss to the City.