

Presented To:	Finance Committee
Presented:	Monday, May 03, 2010
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Type:	Managers' Reports

Request for Decision

Collection Process for Accounts Receivable

Recommendation

THAT Council authorizes staff to amend the Delegations By-Law to allow the Chief Financial Officer to authorize the write off of uncollectible accounts rather than requiring the City Solicitor and the Chief Financial Officer to jointly authorize the write off of uncollectible accounts for accounts that do not exceed \$25,000 (excluding interest).

Background

At its meeting of October 28, 2009 Council requested a report outlining the collection procedures for accounts receivable of the City of Greater Sudbury. The information contained in this report does not apply to the collection of taxes, Provincial Offences or water/wastewater charges all of which are collected on the basis of their own policies and procedures. In 2009, the City processed 6,000 invoices totaling approximately \$14 million through miscellaneous accounts receivable and the outstanding accounts receivable balance at each month end is on average \$2 million.

The City's "Accounts Receivable and Collections" policy and procedure governs the billing and collections of accounts receivable. This report highlights the key collection procedures. A copy of the policy is available upon request.

Collection Procedures

Credit Limits

The City is in very diverse lines of business and as a result the responsibility for setting credit limits is established by the Directors of the operating departments in consultation with Finance. The Directors notify the staff in the applicable programs of those customers who will and who will not be extended credit. There are instances where the City acquires goods and services through contracts or leases and the terms and conditions of the contract dictate how much credit would be extended at any one time. It is the responsibility of the operating departments to ensure that clients are billed in accordance with the payment terms of the contracts. The terms of payment for all City invoices are 30 days.

Signed By

Report Prepared By

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Digitally Signed Apr 22, 10

Recommended by the Department

Lorella Hayes
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Recommended by the C.A.O.

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Collections

The collection of accounts receivable is a shared responsibility between the operating department and accounts receivable. All staff make every effort to collect outstanding accounts receivable as efficiently and effectively as possible.

When goods or services have been provided, the operating department forwards a billing advice to the accounts receivable section that in turn prepares and forwards an invoice to the customer. An account that falls into arrears (over 30 days) is subject to interest charges as established by the User Fees bylaw.

The collection steps are as follows:

- Monthly statements that itemize account activity and any outstanding invoices are sent to keep customers advised of their account balances.
- An aged list of accounts is prepared monthly and reviewed by the Supervisor of Accounts Receivable. The aged accounts receivable listing and information regarding collection efforts is sent to the operating departments in order that they may assist in collecting outstanding accounts.

An aged accounts receivable summary report detailing each outstanding account greater than 90 days and the status of collection efforts at that date is prepared monthly and reviewed by the Coordinator of Accounting and the Manager of Accounting.

- When an account is two months overdue a letter reminding the customer of the unpaid invoice is sent. This letter is a friendly reminder of outstanding amounts due. The accounts receivable bookkeeper attempts to contact all customers, whose account balance has been outstanding for more than 60 days. Any communication and resolution is noted in the customer account.
- If by the end of the third month, the account is still outstanding, a second letter is mailed and this letter is a more serious reminder of the outstanding amount due.

The accounts receivable and operating department staff continues to contact the customer to obtain payment of the account.

- If by the end of the fourth month, accounts receivable and the operating department have not been successful in collecting the account or in contacting the customer, a third letter is sent to the customer. This letter advises the customer that if they do not contact the City or make payment within 15 days, the outstanding invoice balances will be sent to the collection agency or transferred to the tax roll.
- By the time an account is three months overdue, the Supervisor of Accounts Receivable in consultation with the operating department and the Manager of Accounting may determine that no further credit will be extended to the customer until all outstanding accounts are paid. Should the customer also be a supplier to the City, any further payments owed by the City may be held pending payment of outstanding balances.
- If payment has still not been received 15 days after the third letter has been sent, the Supervisor of Accounts Receivable reviews the circumstances of the account and in consultation with the operating department will recommend one of the following courses of action:

- o Transfer the account to property taxes. For example amounts owing for annual trunk water main payments, water turn off and on charges and repairs to frozen water services can be transferred to the tax role.
 - o In consultation with the Legal Department and where possible, process a credit invoice through the City's Account Payable system, to retrieve the funds from accounts owing to a customer.
 - o Negotiate payment terms, if the outstanding balance is less than the small claims court limit (\$25,000).
 - o Send to the collection agency.
 - o Recommend the account for write off if the uncollectible amount is deemed insignificant or the circumstances warrant such action. Presently, the Delegations By-law requires that the Chief Financial Officer and the City Solicitor jointly authorize write offs up to \$25,000 (excluding interest). To improve efficiency, this report recommends that the Delegations By-law be amended to allow for only the Chief Financial Officer to authorized write offs up to \$25,000 (excluding interest). Write offs over \$25,000 (excluding interest) must be authorized by Council.
- Once all collection attempts by the accounts receivable section and the operating departments have been exhausted and if the outstanding balance of the account is greater than \$25,000 (current limit for small claims court action), the account will be turned over to the Legal Department. The Legal Department will take whatever action is appropriate to reinstate the account into good standing.