

# THE CITY OF GREATER SUDBURY POLICIES AND PROCEDURES

## DEPARTMENT:

Finance

## SECTION:

All Sections

## TITLE:

Accounts Receivable and Collections

## APPROVED BY:

CFO/Treasurer

## DATE:

July 8, 2009; Revised April 29, 2010;  
Revised April 1, 2014

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## 1.0 PURPOSE

The purpose of this policy is to establish the responsibilities, internal controls, authorizations and procedures for the accurate and timely preparation of customer invoices for goods and services rendered by the City of Greater Sudbury and the management of the accounts receivable created by these invoices including the authority to write-off uncollectible accounts.

- I. Definitions
- II. "Dunning Letter" means a communication letter issued to a client to collect payment against a past due account stating the details of the outstanding balance i.e. Invoice details and outstanding period.
- III. "Write off" means to remove an account receivable from the City of Greater Sudbury's accounts receivable records.

## 2.0 POLICY

This policy applies to all employees of CGS who are responsible for invoicing citizens for goods or services rendered by the City of Greater Sudbury and for collecting the payment owed to the City on account of these invoices. This policy and procedure does not apply to Taxes receivable, Provincial Offences fines receivable, Pioneer Manor Resident receivables and water and wastewater receivables as they are governed by separate legislation and policies and procedures.

Accounts Receivable is an important asset of the City, and as such, should be safe guarded by appropriate internal controls. This policy and procedure sets out the policy and procedures required to achieve strong internal controls over accounts receivable.

The fundamental rule of sound receivables management is to minimize the time between a sale and the cash collection for that sale. The longer it takes to collect the cash owed for the provision of goods or services, the greater the risk that amounts owed will become uncollectible.

Proper collection procedures begin with invoice preparation. Invoices should be prepared promptly and accurately. Accuracy prevents delays that occur when the customer disputes the invoice and returns it for correction, triggering a chain of events that is time-consuming and often costly.

A successful collection policy requires that all problems be detected and acted on as early as possible. Problems in individual accounts can be detected through a regular analysis of an aged accounts receivable listing. An aged accounts receivable listing divides each customer's account into invoiced amounts that are Current, 31 - 60 days old, 61 - 90 days old, 91 - 120 days old and over 121 days. The longer an account is past due, the more serious the problem. Past due accounts can be identified quickly by reviewing an aged accounts receivable trial balance, and corrective action can be initiated promptly. As an account gets further behind, the balance may increase due to interest charges and the probability of collection decreases.

### **3.0 RESPONSIBILITIES**

#### **3.1 Operating Departments**

Operating departments within the City initiate the sales of goods and services. When goods or services have been provided, the operating department prepares a billing advice and forwards the billing advice to Accounts Receivable. The preparation of billing advices should be timely, accurate and complete.

There are instances where the City acquires goods and services through contracts or leases and payment terms are set out in these agreements. It is the responsibility of the operating department to ensure that billing advices are prepared in accordance with the terms and conditions of the contracts.

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

#### **3.2 Finance Division - Accounting Services – Accounts Receivable**

Accounts Receivable will:

1. Prepare invoices from received billing advices
2. Forward statements of account and overdue correspondence to customers
3. Contact customers to collect accounts
4. Initiate collection procedures for overdue accounts receivable (set out below).
5. Collaborate with the operating department in collection efforts.
6. Prepare and circulate monthly aged accounts receivable trial balances to operating departments and the Senior Management Team Member.
7. Prepare and circulate a monthly aged accounts receivable trial balance for all accounts over due by 60 days and more to the Manager of Accounting and the Chief Financial Officer/ Treasurer.
8. Recommend write offs to the Chief Financial Officer/Treasurer and Manager of Accounting when appropriate.

### **3.3 Legal Department**

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.

## **4.0 SEGREGATION OF DUTIES**

Segregation of Duties (SoD) separates roles and responsibilities to ensure that an individual cannot process a transaction from initiation through to collection without the involvement of others and thereby SoD reduces the risk of fraud.

Segregation of duties is achieved for accounts receivable by the following duties being undertaken by different individuals.

- The billing for goods and services is initiated by the operating departments responsible for delivering the goods and services.
- The invoicing and management of the accounts receivable records is done by one employee in Accounts Receivable, Finance.
- Payments are accepted and posted by a separate individual in Accounts Receivable, Finance.
- Adjustments to customer accounts are recommended by operating departments, processed by a bookkeeper in Finance and authorized by the Supervisor of Accounts Receivable.
- Collections are shared by the operating department and Finance.

## **5.0 PROCEDURES**

- 5.1** The Directors in those City operations where credit is extended are responsible for establishing credit limits in consultation with Finance for regular users and notifying the appropriate facility of those customers who will and who will not be extended credit. When making a determination to extend credit, departments should consider any outstanding receivables owing to the City as well as prior payment history of the proposed customer.
- 5.2** The Accounts Receivable section will send monthly aged accounts receivable listings to the appropriate operating departments, including Senior Management Team member in order that the operating department may assist in monitoring and collecting outstanding accounts.
- 5.3** When a customer has credit privileges or owes the City money, the operating department will forward a billing advice to the accounts receivable section. The accounts receivable section will then prepare and forward an invoice to the customer.

- 5.3.1** Billing Advices should be prepared and forwarded to the accounts receivable section at a minimum on a monthly basis. However, billing advices for large amounts should be forwarded as soon as possible.
- 5.3.2** The City's standard payment terms are 30 days. There are minimal instances where payment terms may be other than 30 days such as negotiated payment arrangements or specific arrangements between the operating department and a customer(s). Payment terms other than 30 days must be approved in writing by the Manager of Accounting and will then be appropriately recorded in the Accounts Receivable software system.
- 5.3.3** Amounts in arrears (over 30 days) will be subject to interest charges, as established by the User Fee By-law. All invoices, statements, letters and agreements will clearly specify this charge.
- 5.3.4** There are few instances where interest may not be charged such as negotiated payment arrangements, or specific arrangements between the operating department and a customer. Accounts where no interest is to be applied must be approved in writing by the Manager of Accounting in Finance.
- 5.4** It is important that uncollectible accounts do not remain neglected for an extended period of time. Decisive action should be taken at each stage of the collection process.
- 5.5** Fringe benefits are invoiced to pensioners once per year and are not due until December 31 annually.
- 5.6** The Supervisor of Accounts Receivable prepares an aged accounts receivable summary report monthly detailing each outstanding account greater than 60 days, and the status of collection efforts at that date. This report is reviewed by the Coordinator of Accounting, the Manager of Accounting and the CFO/Treasurer.
- 5.6.1** The Supervisor of Accounts Receivable will review all accounts over 60 days and make a determination if these customers are owed money through the City's Accounts Payable section. If yes, the Supervisor will make a determination if it is appropriate to put the Accounts Payable vendor on hold so that the City does not make any further payments to the vendor until such time as the accounts receivable have been paid. If an Accounts Payable account has been put on hold it will be noted on the report prepared at 5.6 above and the customer will be notified.

## **6.0 COLLECTION PROCEDURES**

- 6.1** To keep customers advised of their account balances, monthly statements will be mailed to all open accounts by the Finance department. The statement summarizes the amount owed, any activity in the account during the month and any interest owing.
- 6.2** Customers with overdue accounts may be contacted directly at any time throughout the collection process to discuss payment of outstanding accounts.

- 6.3** Within two weeks after the due date, the first Dunning letter is sent out. This letter is a friendly reminder of the "past due" amount. Each month thereafter Dunning letters #2 and #3 are sent and each letter is progressively more firm about payment of the outstanding account.
- 6.3.1** Dunning letter #3 advises the customer that if they do not contact the City or make payment within 15 days, the invoice balances will be sent to our collection agency, transferred to the tax roll, or offset against invoices owed to them by the City. At any point, 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.
- 6.3.2** All accounts outstanding that are less than \$500 will be automatically transferred to the tax roll or sent to collection without further consultation with the operating departments.
- 6.3.3** There are minimal instances where statements and/or dunning letters may not be sent to customers and the withholding of these pieces of correspondence must be approved in writing by the Manager of Accounting.
- 6.4** Collection efforts by any CGS staff person either in an operating department or Finance will be noted in the PeopleSoft AR system as a "conversation", which is attached to the invoice(s) in question.
- 6.5** If payment has still not been received after the 15 days have passed, as stated in dunning letter #3, the Supervisor of Accounts Receivable will be notified. The Supervisor of Accounts Receivable will review the circumstances of each account and will make recommendations on the appropriate course of action. Options for dealing with outstanding accounts include:
- a) Review, if applicable, the contract terms and conditions for actions to be taken relative to the outstanding balance. Nonpayment may constitute a breach of contract.
  - b) Transfer applicable accounts to property taxes. Examples include balances owing for annual trunk water main payments, water turn off and on and repairs to frozen water services.
  - c) After ensuring that the customer in AR and the vendor in AP meet all the criteria required in order to offset a payment owing in Accounts Payable (ie: exact same parties, legal/statutory, no set-off clause in contract), process a credit invoice through the City's Account Payable system, to retrieve the funds from accounts owing to a customer.
  - d) Solicit further assistance from the General Manager of the Operating Department responsible for the account.
  - e) Send to the collection agency.
  - f) Write the account off, if the uncollectible amount is deemed insignificant or the circumstances warrant such action.

## **7.0 USE OF EXTERNAL COLLECTIONS RESOURCES**

When all internal collection efforts fail, there are two courses of action left, collection agencies and legal action.

### **7.1 Collection Agencies**

If the outstanding balance is less than the small claims court limit, currently twenty-five thousand dollars (\$25,000), the account will be transferred to a collection agency.

Collection Agencies are businesses established to collect past-due accounts receivable on behalf of creditors. Creditors are usually anxious to clear invoices referred to collection agencies, rather than risking further damage to their credit ratings. The collection agency's fee is based on a percentage of each account collected. The collection agency's fee is paid by the creditor.

### **7.2 Court or Legal Action**

If the outstanding balance of the overdue account is greater than the small claims court limit of twenty-five thousand dollars (\$25,000), the account will be referred to the City's Legal Department for collection.

The City Solicitor may file suit to collect. This is usually a costly and time-consuming procedure.

Every month the collection agency provides Accounts Receivable with a status report on accounts referred to them.

Periodic requests are made to the Legal department for status reports on any accounts that have been referred to them for collection.

## **8.0 WRITE-OFF AUTHORIZATION**

Once all internal and external collection attempts have been exhausted, an Approval for Write-Off request will be initiated by the Supervisor of Accounts Receivable. The Manager of Accounting is responsible to approve all write offs that are over \$1.00 and up to \$500 (exclusive of interest) and the CFO/Treasurer must approve all write offs (includes principle and interest) over \$500. The PeopleSoft system is configured so that underpayments less than \$1.00 are automatically written off. Council approval is required for write offs greater than \$25,000 (excluding interest).

Where there is only interest remaining on an account these interest balances can be written off or reversed as follows:

- The Accounts Receivable Bookkeeper is authorized to reverse or write off interest up to \$50.
- Interest amounts up to \$500 are approved by the Supervisor of Accounts Receivable.
- Interest amounts over \$500 are recommended by the Supervisor of Accounts Receivable and approved by the Manager of Accounting and the CFO/Treasurer.
- Where the interest on an account was accrued in the current fiscal year, the interest is reversed to the interest revenue account. Where the interest relates to prior fiscal years then the interest is written off to the Allowance for Doubtful Accounts.

**8.1** A monthly report of all accounts receivable write off's and adjustments will be produced each month and reviewed and approved by the Supervisor of Accounts Receivable and Coordinator of Accounting.

## **9.0 OTHER ACCOUNTS RECEIVABLE**

Cheques that are returned by the bank NSF are handled in a different manner. Some cheques, such as Pioneer Manor, Parking, and Tax are sent back to the operating department to be re-input in their accounts receivable system and ultimate collection. If the NSF cheque is for an account that is itemized on the Accounts Receivable listing then it goes back to accounts receivable for input. Cheques that are for payments related to the Class System and are returned NSF are returned to the Class System and re-input to accounts receivable in Class. The collection of other NSF cheques is handled by the bookkeeper responsible for the bank reconciliation. In these cases, the bookkeeper sends a letter requesting payment. If payment is not forth coming, then the account is sent to the collection agency. An NSF service charge is added to the account in accordance with the User Fee By- law.