

## **GENERAL ACCOUNTS RECEIVABLE COLLECTION POLICY**

Finance & Accounting Policy No: F&A 03-15

Supersedes Policy: June 26, 2013, Resolution: 2013.12.16

Approved by Council: June 8, 2016, Resolution:

### **POLICY STATEMENT AND RATIONALE**

The Corporation of the Municipality of Dutton Dunwich recognizes the importance of having a written billing and collection policy for accounts receivable transactions, incorporating good and acceptable business practices and efficiencies and, which is consistent and fair to its customers and to the Municipality.

The policy should assist in:

- ensuring that revenue from all sources is identified, claimed, recorded, collected and reported in a timely and effective manner;
- ensuring that receipts of money are accurately and completely accounted for and adequately controlled to prevent or detect error, fraud or omission;
- ensuring that proper administrative and control processes are established for accelerated transfer accounts, including authorization, review and reconciliation;
- ensuring the municipality is able to minimize, wherever practicable, the creation of accounts receivable;
- ensuring the municipality is in a position to manage accounts receivable effectively, including prompt and vigorous collection to minimize amounts owing to municipality;
- providing consistent and equitable treatment to debtors, and regular communication on amounts owing;
- ensuring interest is charged on overdue accounts receivable; and
- ensuring uncollectible accounts receivable are written off under the proper authority, and only after all reasonable and appropriate collection action has been taken.

### **SCOPE**

The General Accounts Receivable Collection Policy applies to accounts within the geographic boundaries of the Municipality that are not covered by the Tax Collection Policy or the Water and Wastewater Billing and Collection Policy.

Municipality staff assigned to the administration and collection of accounts receivable accounts shall adhere to the policy and procedures detailed below.

Departments are responsible for the effective communication with debtors, third parties and the Treasury Department, ensuring that accounts receivable are adequately reported, collected, extinguished or written off as appropriate.

## DEFINITIONS

In reading and interpreting the General Accounts Receivable Collection Policy, the following definitions apply:

- “Municipality” means The Corporation of the Municipality of Dutton Dunwich.
- “Control Account” means a general ledger account within the accounts of the balance sheet of the municipality.
- “Subsidiary Accounts” means the outstanding accounts within the accounts receivable system as defined by group.

## POLICY, PROCEDURE AND IMPLEMENTATION

### **1.0 General**

- 1.01 The Treasury Department is authorized to collect delinquent non-tax debts on behalf of the Departments within the Municipality that do not specialize in the collection function.
- 1.02 The Treasurer has the authority to assign accounts to a third party for collection, on behalf of the municipality, and, where authorized by legislation, to add the delinquent accounts to property tax accounts.

### **2.0 Recording of Accounts Receivable**

- 2.01 All amounts determined to be due to the municipality must be promptly recorded as an accounts receivable by the Municipality. Each account receivable must be recorded and maintained until payment is received or the recorded amount is written off or extinguished.
- 2.02 An adequate provision for doubtful accounts must be established. When all reasonable efforts fail to collect an account receivable and it has been approved for write off, the related provision for doubtful accounts should be reduced.

### **3.0 Control and Subsidiary Accounts**

- 3.01 The Municipality accounting systems incorporate control accounts, where applicable, to ensure the completeness and accuracy of individual accounts.
- 3.02 The Municipality must maintain subsidiary accounts for individual debtors in a manner that discloses, at a given point in time, the aggregate amount owed by each debtor as well as individual amounts making up the aggregate amount.
- 3.03 Monthly, the subsidiary accounts for each accounts receivable must be reconciled with the control account.

### **4.0 Payments**

- 4.01 Payment may be made in the form of:
- Cash;
  - Cheque;
  - Debit

- 4.02 Cheques that are returned from the bank as non-negotiable are assessed a returned cheque charge pursuant to the Fees by-law, as amended from time to time.
- 4.03 If there are 2 cheques returned from the bank within a one-year time period, no further cheques will be accepted from the customer unless the cheques are certified, until there is an acceptable payment history for a further one-year period.

## **5.0 Statements to Debtors**

- 5.01 Statements must be issued to debtors, on a quarterly basis, providing meaningful and concise information on the status of their debts.

## **6.0 Reporting Requirements**

- 6.01 With each Quarterly Report to Treasurer, the Treasury staff will report the accounts receivable on an aged basis, and by each department, as at the end date of the quarterly period. Explanations of significant variances from the report for the previous quarter must be included with each quarterly report.

## **7.0 Interest on Accounts Receivable**

- 7.01 Interest must be charged on amounts owing to the Municipality of Dutton Dunwich in accordance with the Fees By-law for Financial Services, or as stated in the Agreement signed by both the debtor and the municipality.
- 7.02 Interest shall be calculated on overdue accounts receivable commencing on the first day after the money becomes due. Money is due when:
- an invoice or a written request to the debtor for payment had been issued and not paid within 30 days; or
  - the goods have been delivered in good condition or the services have been performed in accordance with the contract and not paid within 30 days or pursuant to the terms identified in the invoice.
- 7.03 When a debtor pays an account in full within 30 days, the Municipality shall accept payment of that amount as full settlement of the account.
- 7.04 The Municipality will record interest charges owing separately in their accounts receivable records and identify individual amounts owing for each debtor.
- 7.05 The Municipality must advise each debtor of all interest charges to the debtor's account either by separate invoice or through periodic statements of account.
- 7.06 When a debt has been written off, the Municipality must stop recording interest as revenue and an amount owing. If a debt that was written off is reactivated, the municipality must record interest from the date the debt was written off until the debt is paid.
- 7.07 The interest calculated is not to be compounded.
- 7.08 Interest will be adjusted only when interest was charged as a result of the Municipality's error or omission. It shall be at the discretion of the Treasurer to decide whether or not the interest amount should be adjusted in such cases up to

the amount budgeted for write-offs in the annual budget and no more than the purchasing policy limits.

## **8.0 Collection Action**

- 8.01 Departments will be responsible for the initial contact with overdue accounts, at the 30-day point. Sample statements and letters will be provided to Departments for their reference.
- 8.02 Accounts receivable are considered overdue when a debtor does not pay or resolve the debt within 30 days after the Municipality issues an invoice or a written request for payment to the debtor.
- 8.03 All actions taken to collect overdue accounts must be documented.
- 8.04 If there is no response after Departments have made the initial contact at the 30-day point (within a 30 day period – 60 days from date of invoice), accounts will be forwarded to Treasury Staff to take prompt and vigorous action to collect overdue accounts receivable.
- 8.05 Accounts receivable, in most cases, should be at least 30 days overdue (i.e., 60 days after invoice notification), before staff advises debtors that their accounts are overdue and that the accounts may be:
- turned over to a private collection agency;
  - subject to legal action
  - credit privileges will be revoked; and/or
  - service may be suspended.
- 8.06 In circumstances where the municipality owes money to a person, and that same person owes money to the municipality, recovery may be initiated by the Municipality by way of:
- adjustment to payment, if within the department; or
  - set-off, and if it not restricted by legislation unless the account is in a past due position, at which time the municipality will adjust the payment.
- 8.07 Where appropriate the Municipality will add the outstanding amount to the tax roll of the property owner.

## **9.0 Set-offs**

- 9.01 Before set-off action is initiated, staff must ensure that all regular means of collecting the debt have been considered and attempted.
- 9.02 The Treasurer may, in writing, authorize the Treasury staff to retain money by way of set-off, out of any money due or payable to a person by the Municipality or out of a trust fund, if
- that person owes money to the municipality,
  - an overpayment has been made by the municipality to that person,
  - an advance made to that person has not been repaid or accounted for,

and/or

- the funds are not restricted by contractual agreement or by legislation.
- 9.03 After approval by the Treasurer, the account receivable of the debtor may be reduced once processing of the cheque or payroll requisition is completed.
- 9.04 Where the amount due to the Municipality is less than or equal to the amount owing the gross amount to be paid. This policy does not apply to contractual arrangements containing a specific provision not to set-off.
- 9.05 Staff must initiate set-off action to protect the Municipality's interest for any goods or services provided prior to the date of appointment of a receiver or of an assignment in bankruptcy. Any residual amount payable is to be paid to the receiver or trustee in bankruptcy, as appropriate. Staff must consult with its legal counsel if there is any doubt as to the legality of the payment.
- 9.06 Before initiating a trust account set-off, staff must obtain a legal opinion that this action is acceptable, either under statutes governing the trust or under the trust instrument itself.
- 9.07 When a set-off is made, the debtor must be informed in writing of the gross payment, the set-off amount, and the net payment.
- 9.08 With the exception of salary overpayments, staff must provide employees who owe money to the municipality with written notice of the intent to set-off. Notice must be presented to the employee directly to the degree possible.

### **10.0 Third Party Demands and Garnishments**

- 10.01 Treasury Staff must ensure that the following information is retained on file prior to approving a request for a third party demand:
- how and when the debt arose;
  - evidence that the debt can be collected legally;
  - collection action taken to date;
  - the reason for initiating the third party demand;
  - third parties known to do business with, or who employ, the debtor;
  - set-off action instituted or recommended; and
  - a completed (but unsigned) Third Party Demand Notice.
- 10.02 Prior to issuing a request for a third party demand, staff shall:
- ensure accounts receivable collection has been pursued consistent with policy;
  - ensure the debt can be collected legally. Where doubt exists, the Municipality must request that legal counsel obtains a judgment against the debtor; and
  - consider set-off action; and/or
  - consider a defined payment schedule.
- 10.03 Treasury staff must forward unsigned Third Party Demand Notices with documentation to the Treasurer for approval and sign-off.

- 10.04 The debt must include interest in accordance with policy. The third party demand must stipulate that interest is accruing.
- 10.05 Normally, staff should not initiate a demand on a third party until at least 90 days after the debt was incurred. In certain instances, however immediate collection may be warranted. A third party demand must be requested promptly and normal means of collection can be bypassed or shortened at the discretion of Treasurer after thoroughly reviewing the circumstances surrounding the debt.
- 10.06 A third party demand on an employer must not exceed 30 per cent of the net wages or salary per pay period of the employee (debtor) except where the Municipality considers it is unlikely that the remainder of the debt will be collected, or the debtor will remain employed with that employer.
- 10.07 The debtor shall be notified by the Municipality at the same time and in the same manner as a demand is made on a third party.
- 10.08 When a debt to the municipality is paid in full, all demands and set-offs for that debt shall be cancelled. Surplus funds received from the third party or from the debtor shall be returned promptly.
- 10.09 Verbal instructions to the third party by a Municipality staff member are sufficient to cancel a demand notice. Verbal cancellation of a demand notice must be confirmed in writing by the Municipality.
- 10.10 A third party demand expires when the debt is paid in full or, if applicable, at the end of the term set out in the demand notice.
- 10.11 Where there is any doubt about municipality proceedings, legal counsel must be consulted to ensure that garnishment orders are obtained in an appropriate manner.

### **11.0 Private Collection Agencies**

- 11.01 The Municipality will consider the services of private collection agencies to recover debts owed to the municipality after the Municipality's normal collection activities have been exhausted, or when a business case supports this collection option, but no earlier than 90-days overdue unless circumstances warrant such action.
- 11.02 The Municipality must not use private collection agencies for debts due from the following:
- other ministries or agencies, trusts, and other municipalities;
  - municipal employees from whom the Municipality can recover by set-off action;
  - other governments; and
  - participants in a current appeal or a court proceeding.

## **12.0 Write-offs**

12.01 Only those debts for which all reasonable and appropriate collection action has been taken can be submitted for write-off.

12.02 Staff must ensure that uncollectible debts are reviewed at least once a year and identify those debts that should be submitted for write-off.

12.03 All write-off submissions must include the relevant debt information. Submissions for the write-off of debts exceeding \$5,000 must be appropriately categorized, and must include details of the collection action taken, the debtor's financial status (if relevant), and why further collection action is not possible.

The categories for submission are:

- debtors who have died leaving no estate;
- debtors who cannot be located;
- debtors who are indigent;
- debtors residing outside of Canada in locations where there are no apparent means of collection and there is no indication that the debtor has family or business ties that might encourage return to Canada;
- debts where, in the view of the municipality, further expenses to collect are not justified in relation to the amount of the debt and the possibility of collection;
- debts where legal counsel has indicated that the amount involved does not warrant the prospective costs of action to collect;
- debts where liability has not been admitted by the debtor and where the success of proceedings to collect is unlikely;
- debts where the existence of an enforceable debt due the municipality cannot be readily established (e.g., where records have been lost or destroyed and the municipality is unable to prove receipt of services by the debtor); and/or
- debts where a corporation is inoperative and without assets.

12.04 Authorized staff may authorize the write-off of receivables up to \$10,000.

12.05 Staff must maintain adequate records of any amounts that they have written off and report quarterly to the Treasurer and Council on any write-off action taken during the quarter.

12.06 The Treasurer shall submit to Council recommendations for write-offs of debts beyond the \$50,000, for approval.

12.07 Staff are not required to submit the following debts to the Treasurer for write-off:

- bankrupt individuals – when an order of discharge has been granted, the municipality must remove the account on the basis of the order;
- judgment or other court orders – when it is determined that the municipality can collect a lesser amount than the recorded debt, the municipality must adjust the account on the basis of the court's order;

- restrictions imposed by statute – where a statute restricts the amount of a debt, the Municipality must adjust the account on the basis of the recoverable amount.
- 12.08 Debts of a bankrupt corporation must be written off through the normal procedures since, according to the Federal Bankruptcy and Insolvency Act, a corporation may not apply for a discharge unless it has fully satisfied the claims of its creditors.
- 12.09 After consulting with the Treasurer and/or legal counsel, the Municipality may accept a compromise settlement of a debt. A portion of the original debt must be written off as identified under the terms of an agreement.
- 12.10 When authority has been received to write off a debt, the debt must be transferred from the Municipality's accounts to a reference file of "debts written off", where it must remain until paid, or forgiven.
- 12.11 Annually, staff shall submit statements of debts written off during the fiscal year, together with supporting authorizations, to the Treasurer for Audit reporting purposes.