SUBJECT: Accounts Receivable Write Off Policy Update (FCS07048) (City Wide)

RECOMMENDATION:

That the revised Accounts Receivable Write Off Policy attached as Appendix ‘A’ to report FCS07048 be approved.

EXECUTIVE SUMMARY:

The Accounts Receivable Write Off Policy has been revised and is attached as Appendix ‘A’ to Report FCS07048. This policy outlines the approval levels for the authorization of writing off accounts receivable invoices and for writing off accumulated interest charges.

BACKGROUND:

On January 24, 2007, Council approved Report CM07-001, Item # 17 - Internal Audit Report 2006-02, Accounts Receivable. In response to a Council request, at this time, the Accounts Receivable Write Off Policy has been amended to include interest write off authorization limits. The Accounts Receivable Write Off Policy was previously approved by City Council on February 2, 2005, Council Report #05-003, Item 4.
ANALYSIS/RATIONALE:

Finance charges are applied monthly to overdue invoices. Interest is accumulated at a rate of prime plus 2% from the invoice due date. Situations occur creating a rationale to write off the accrued interest.

Write off of the interest portion of customer’s accounts is often justified by events that occur after interest has been applied. Occasionally, payments are credited to the wrong account or there is a timing difference between receipt of the payment and the application of the payment to the account. Sometimes customers dispute the charges and the originating departments issue credit notes to reverse all or a portion of the invoice. For these situations, where the interest should not have accrued, Accounts Receivable staff has been given authority to write off interest amounts up to $500.

The requirement to write off interest also arises because Accounts Receivable cannot collect payment from the customer. Accounts Receivable may recommend writing off the interest as part of a negotiated settlement. Higher levels of approvals for these types of discretionary write offs have been established as outlined below.

The policy has been amended to include the authorization levels to write off accumulated finance charges as follows:

- $00.01 - $20.00  Accounts Receivable Staff
- $20.01 - $500.00  (Customer not at fault) Accounts Receivable Supervisor
- $20.01 - $500.00  (Customer at fault) Director of Financial Services
- $500.01 - $1,000.00  General Manager, Finance & Corporate Services or designate
- > $1,000.00  City Council Approval

The Supervisor of Accounts Receivable has the authority to suspend interest being charged against invoices to upper levels of Government and customers whose invoices are in dispute.

ALTERNATIVES FOR CONSIDERATION:

As a result of a policy review, the Accounts Receivable Write off Policy has been revised to include authorization levels to write off finance charges.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

N/A

POLICIES AFFECTING PROPOSAL:
Approving the attached policy, Appendix ‘A’ to Report FCS07048, will result in the revision of the current Accounts Receivable Write Off Policy most recently approved by Council on February 2, 2005.

RELEVANT CONSULTATION:

N/A

CITY STRATEGIC COMMITMENT:

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Community Well-Being is enhanced. ☑ Yes ☐ No
A policy enabling the administration of Accounts Receivable supports staff in performing their jobs.

Environmental Well-Being is enhanced. ☐ Yes ☑ No
The financial policy does not have environmental impacts.

Economic Well-Being is enhanced. ☑ Yes ☐ No
Effective collection of Accounts Receivables reduces cost to the city.

Does the option you are recommending create value across all three bottom lines? ☐ Yes ☑ No
The financial policy does not have environmental impacts.

Do the options you are recommending make Hamilton a City of choice for high performance public servants? ☑ Yes ☐ No
A policy enabling the administration of Accounts Receivable supports staff in performing their jobs.
POLICY

The purpose of this policy is to set authorization levels and standard guidelines to write off uncollectible 1) Accounts Receivable Invoices and 2) Accumulated Interest Balances.

1) Accounts Receivable Invoice 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 corporation to collect the debt exceeds the value of the debt.

The Accounts Receivable Section will follow standard procedures as outlined in the “Accounts Receivable Collection and Write off Procedures” 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, recovery through the tax system, legal action and use of a Collection Agency.

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

- $00.01 - $500.00 Director, Financial Services or designate
- $500.01 - $1,000.00 General Manager, Finance & Corporate Services or designate
- > $1,000.00 City Council Approval

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

A Council Report will be prepared semi-annually to obtain approval for items >$1,000 and summarizing all other AR write offs.

Information regarding written off accounts will be retained by AR for 7 years in order to be referred to if future collection situations arise.
2) Accounts Receivable Write Off of Finance Charges:

Finance charges are applied monthly to overdue invoices. Interest is accumulated at a rate of prime plus 2% from the invoice due date. Periodically situations occur that create a rationale to write off the accrued interest. The Accounts Receivable Interest Write Off Procedure will be followed when finance 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, Accounts Receivable staff has been given higher write off limits in order to provide the customer timely interest corrections. When the interest has been deemed to be uncollectible, or an interest reduction/write off is used as a negotiation tool to help collect account balances, higher levels of write off approvals have been established.

Authorization to write off accumulated finance charges is as follows:

- $00.01 - $20.00  Accounts Receivable Staff
- $20.01 - $500.00  (Customer not at fault) Accounts Receivable Supervisor
- $20.01 - $500.00  (Customer at fault) Director of Financial Services
- $500.01 - $1,000.00  General Manager, Finance & Corporate Services or designate
- > $1,000.00  City Council Approval

A Council report will be prepared as required when staff needs Council Approval of a recommendation to write off an interest amount.

The Supervisor of Accounts Receivable has the authority to suspend interest being charged against invoices of upper levels of Government and customers whose invoices are in dispute.