

**REVENUE COLLECTION & WRITE-OFF POLICY**

**1.0 Purpose:**

- 1.1** To establish guidelines for the processes of revenue collection and for the write-off of uncollectible amounts.

**2.0 Scope:**

- 2.1** The City is involved in numerous transactions, which result in revenue being collected by the City. It is essential that the City make every effort possible to collect all amounts that it is owed. However, over the normal course of business, certain amounts due to the City are deemed uncollectible (bad debts). Having a policy for handling these uncollectible amounts will provide the City Council and senior staff with more accurate financial data. Adherence to an appropriate policy will also help the City improve its collection abilities and overall financial position.
- 2.2** This Directive does not cover the collection of Water Service Payments. Please refer to City Code Chapters 39(Real Estate Transfer Tax), 51(Water), and 52(Sewer Use Charges and Rates).
- 2.3** This Directive does not cover the collection of Police Administrative Hearing fines. Please refer to City Code Chapter 11(City Administrative Hearing System)

**3.0 Policy:**

**3.1 POLICY STATEMENT**

1. Ensure revenue from all sources is identified, claimed, recorded, collected and reported in a timely and effective manner;
2. Ensure receipts of money are accurately and completely accounted for and adequately controlled to prevent or detect error, fraud or omission;
3. Ensure the City is in a position to manage accounts receivable effectively, including prompt and vigorous collection to minimize amounts owing to the City;
4. Provide consistent and equitable treatment to debtors, and regular communication on amounts owing;
5. Ensure uncollectible accounts receivable are written off under the proper authority, and only after all reasonable and appropriate collection action has been taken.
6. The Finance Department is authorized to collect delinquent debts on behalf of the Departments within the City that do not specialize in the collection function.
7. The City has the authority to assign accounts to a third party collection agency, including the Illinois Comptroller's Local Debt Recovery Program.
8. As uncollectible amounts are identified, the City will update its financial records accordingly.
9. When all reasonable efforts to collect an account receivable fail, the debt will be considered for write off.

**3.2 GENERAL AR GUIDELINES**

1. Established segregation of duties such as initiation and authorization of transactions, execution of transactions (receipting and disbursement), recording transactions, reconciling, and maintaining custody.
2. Daily processing and timely deposit of receipts. Ideally, all funds should be deposited within 24 hours of receipt.
3. Physical security procedures. This is especially important for funds not deposited day of receipt.
4. Departments are responsible for effective communication with debtors, third parties, and the Finance Department, to ensure accounts receivable are adequately reported, collected, extinguished, or written off, as appropriate.
5. Statements must be issued to debtors on at least a quarterly basis to provide information on the status of the debt.

### **3.3 BILLING & COLLECTION PRACTICES**

1. Invoices should be generated within a timely manner after initial service delivery.
2. Effort should be made to ensure receivables are collected in a timely fashion.
3. Reasonable means of contact should include USPS mail, telephone, and email, with proper documentation of efforts to contact debtor.
4. Maintain ethical behavior and professionalism when communicating with debtors.

### **3.4 METHODS OF PAYMENT**

1. Acceptable methods of payment may vary by department.
2. Follow the City's Identity Theft Policy Administrative Directive 3-4
3. Follow the City's PCI Compliance Policy Administrative Directive 3-13

### **3.5 RETURNED PAYMENTS**

1. Payments, such as checks, ACH, and auto drafts, returned to the City as non-negotiable are assessed a returned payment fee pursuant to the City's fee schedule.
2. Departments are responsible for initial contact notifying Payee of returned payment. Finance Department will provide sample letter if needed.
3. In the event a Department is unable to collect replacement payment, the Finance Department will proceed with Collection Action.
4. If there are at least 2 personal checks returned within a one-year time period, no further personal checks will be accepted from the customer until there is an acceptable payment history for a further one-year period.

### **3.6 COLLECTION ACTION**

1. Accounts Receivable are considered overdue when a debtor does not pay or resolve the debt within 30 days after the invoice was due.
2. The Finance Department will be responsible for generating periodic MR statements, unless a Department specifies they will process their own statements.
3. If there is no response after statements have been issued, or initial contact regarding overdue amounts, the Finance Department will issue an Intent to Collect letter.
4. In most cases, Accounts Receivable should be at least 30 days overdue (i.e. 60 days past due), before City staff advises debtors that their account is overdue and the account may be:
  - Turned over to a private collection agency

- Subject to legal action
  - Credit privileges will be revoked; and/or
  - Service may be suspended.
5. All actions taken to collect overdue accounts must be documented. Documentation is crucial information for turning an account over to a collection agency.

### **3.7 PRIVATE COLLECTION AGENCY and Illinois Comptroller's Local Debt Recovery Program**

1. The City will consider the services of a private collection agency and Illinois Comptroller's Local Debt Recovery Program to recover debts owed to the City after all normal collection activities have been exhausted, but no earlier than 90-days overdue unless circumstances warrant such action.
2. The Finance Department, in partnership with other City departments when applicable, is responsible for maintaining the City's relationship with private collection agency and the Comptroller's Program.
3. The Finance Department will provide guidance to those City departments who maintain their own collection accounts.
4. The City will not use a private collection agency or the Comptroller's Program for debts due from other government agencies, debtors in active bankruptcy or in any other circumstances deemed not applicable.

### **3.8 SET-OFFS**

1. In circumstances where the City owes money to a person, and that same person owes money to the City, recovery may be made by way of a set-off.
2. Before set-off action is initiated, staff must ensure all regular means of collecting the debt have been considered and attempted. This does not include private collection actions.
3. Once the ability to set-off is confirmed, the Finance Department will reduce the debtor's account receivable where the amount due the City is equal to or greater than the amount owed the debtor.
4. When a set-off is made, the debtor must be informed in writing detailing the transaction.

### **3.9 WRITE-OFFS**

1. Only those debts for which all reasonable and appropriate collection action has been taken can be considered for write-off.
2. City staff must ensure that uncollectible debts are reviewed at least once a year and identify those debts that should be considered for write-off.
3. All write-offs must include the relevant debt information. 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.
  - Categories for consideration are:
  - Debtors who have died leaving no estate
  - Debtors who cannot be located
  - Debtors who are indigent
  - Debts where further expenses to collect are not justified in relation to the amount of the debt and 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 the existence of an enforceable debt due the City cannot be readily established (e.g. where records have been lost or destroyed and the City is unable to prove receipt of services by the debtor)
  - Debts where a company is inoperative and without assets
4. Department Heads may approve the write-off of receivables up to \$500. For amounts exceeding \$500, please refer to Administrative Directive 3-7 "City Manager Fee Authority," for appropriate steps. See Exhibit A for write-off form for approval.
  5. Departments must maintain adequate records of any amounts that have been written off, and will provide, at minimum, an annual fiscal year-end report, of any write-off action taken.

### **3.10 BANKRUPTCY & COURT ORDERS**

1. In the event the City is notified of a bankrupt debtor, and an order of discharge has been granted, the City must remove the account based on the court order.
2. In the event of a judgment or other court order, where the City is named as able to collect a lesser amount than the debt on record, the City must adjust the account on the basis of the court order.

### **3.11 SETTLEMENTS**

1. The City may choose to accept a compromise settlement of debt. A portion of the original debt must be written off as identified under the terms of an agreement. Approvals for settlements to follow section 3.9.

### **3.12 UNCOLLECTIBLE AMOUNTS**

1. Not all revenue generated from goods and services sold on "credit" or "account" will be collected. Therefore, balances of open accounts must have a provision for non-collectability to estimate how much of those balances will actually be received.
2. As uncollectible amounts are identified, the City will update its financial records accordingly.
3. The City will follow the allowance method for recognizing bad debts which includes regularly assessing uncollectible amounts and correspondingly adjusting accounts receivable, allowance for doubtful accounts, bad debt expense, and the recovery of bad debts.

## **4.0 Distribution**

Human Resources website, [www.citylf.org](http://www.citylf.org).



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