



CITY OF HOUSTON

Administrative Procedure

Subject: **Accounts Receivable and Collections Policy**

A.P. No:

4-4 Revised

Effective Date:

June 15, 2011

1. AUTHORITY

- 1.1 Article VI, Section 7a, of the City Charter of the City of Houston.

2. PURPOSE

- 2.1 To assign responsibility for the effective management and oversight of accounts receivable and activities associated with account receivable collection.
- 2.2 To ensure that all billings for services and other billable activities are recorded and tracked for financial reporting purposes including:
- 2.2.1 Distributions of City resources or services to customers in exchange for promises of future payments; and
- 2.2.2 Receipts of payments from customers for resources and services rendered.
- 2.3 To ensure that all billings for services and other billable activities include:
- 2.3.1 Proper authorization to provide and bill for the service;
- 2.3.2 Proper approval for fee charges or rate structures for the billable service or activity;
- 2.3.3 A process to monitor and review the collection status of delinquent accounts;
- 2.3.4 A process to create an allowance for doubtful accounts and to write off from the financial statements uncollectible or waived accounts (Note: This does not remove any legal responsibility to keep track of all outstanding receivables indefinitely nor does it release the debtor's obligation); and
- 2.3.5 A process to calculate and record deferred revenue, if applicable.
- 2.4 To ensure that all City receivable accounts are properly recorded and presented in accordance with generally accepted accounting principles, and reported in accordance with the Governmental Accounting Standards Board (GASB), including the utilization of the modified accrual system for governmental funds.
- 2.5 To establish a system of internal controls which provide reasonable, but not absolute, assurance for:
- 2.5.1 Safeguarding of receivable assets against loss from fraud or theft;
- 2.5.2 Maintaining the reliability of financial records for preparing financial statements; and

Approved:

Quinn D. Parker

Date Approved:

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2.5.3 Segregating duties for those processing billing, cash receipts, and account reconciliation.

2.6 To recommend methods to enhance the collection of all accounts receivables.

2.7 To ensure that all receivables are recorded in the accounting records, supported by detailed records by debtor, aged appropriately, and reported at net amounts that City anticipates it can collect in a reasonable time period.

2.8 To provide adequate disclosure of the City's accounts receivable in its reported financial statements.

3. SCOPE

3.1 This Administrative Procedure applies to all City departments and includes general, special revenue and enterprise funds.

3.2 Component units may use their own separately audited financial statements insofar as information required by this Administrative Procedure is contained therein.

4. DEFINITIONS

Roll Forward – The systematic establishment of a new accounting period balance through use of prior accounting period data.

Write-off – Write off of an account receivable is an accounting action that results in reporting the debt/account receivable as having no value on the department's financial and management reports. An account receivable cannot be written off until the estimated collection amount becomes immaterial (Note: This does not remove the legal responsibility to keep track of all outstanding receivables indefinitely nor does it release the debtor's obligation).

5. POLICY

5.1 The Finance Department (Finance) shall be responsible for directing, managing and providing policy guidance and oversight of the City accounts receivable and collections policy.

5.2 The City accounts receivable and collections policy includes the following:

5.2.1 Collection of monies owed the City is a core responsibility of each department. The department whose billable services or functions result in a fee, charge or other cash recovery comprising an account receivable shall use its best efforts to service such accounts and collect such accounts receivable. Basic servicing activities include: billing the debtor, processing and crediting payments, monitoring the account, documenting servicing action, timely responding to account related inquires, providing regular aggregate reports on receivables and providing receivables collection reports;

5.2.2 All billable services provided by the City where a fee, charge or other cash recovery has been duly authorized shall be billed within thirty (30) calendar days of the date of service unless an alternate schedule has been defined by ordinance or approved by Finance;

- 5.2.3 All amounts billed must be recorded in an accounts receivable sub-ledger. The sub-ledger shall fully identify the person and/or entity responsible for payment. For individuals, the first, last and middle name, if any, shall be provided, for legal entities the entities' complete name. Required information shall also include the complete address of the service recipient, amount billed, service provided, service period, date billed, payments received and payment received date. The sub-ledger shall be able to calculate an outstanding balance;
- 5.2.4 All amounts collected for outstanding receivables must be posted to the sub-ledger used for billings. The sub-ledger must be reconciled to the appropriate general ledger control accounts monthly;
- 5.2.5 Separate general ledger accounts shall be maintained for cash accounts receivable sub-ledger or activity;
- 5.2.6 Unpaid receivable balances shall be reported to the department director and to Finance at least monthly and promptly upon request;
- 5.2.7 All amounts owed to the City must be accounted for on the City financial accounting system. Receivables must also be recorded on a detailed sub-ledger system that captures and maintains all information necessary to collect the outstanding account receivable; and
- 5.2.8 A ledger account reflecting currently non-collectible accounts receivable shall be maintained. Once an account receivable is paid, the account receivable is closed out, all collections actions are legally precluded or, when authorized, the account receivable is sold, the corresponding account receivable entry may be removed from the ledger.

6. PROCEDURES

- 6.1 Department Reporting – On a monthly basis, each department shall report its accounts receivable and collection activities to the Directors of Finance and the Legal Department and include same in the Monthly Financial Operation Report. The report shall include a listing of balances by account receivable type, an aging by account receivable type, an accounts receivable roll forward and total accounting write-offs taken during the quarter.
- 6.2 Department Collections – Acting on a delinquency quickly enhances the probability that the delinquency can be “cured” or the account receivable fully collected. Collection efforts utilized by departments should be undertaken in accordance with applicable federal, state, and local laws. Departments are encouraged to seek assistance from the Office of the City Attorney in accordance with A.P. 6-1, Guidelines for Requesting Work from the City Attorney’s Office.
 - 6.2.1 A department’s collection techniques may include but are not limited to assessment of late charges, penalties and/or administrative fees, license or permit revocation, credit bureau reporting and referral to private collection agencies and litigation. When determining the appropriate collection technique or tool to use, departments shall consider whether the department is required by law to use the account receivable collection tool, the size and age of the account receivable, the type of account receivable, the availability of the account receivable collection tool, whether one tool can be used concurrently with

another tool, the time and resources required to use the collection tool, the feasibility of using each tool, including any legal or contractual constraints and the cost of each tool relative to the size of the account receivable. Use of specific collection techniques for categories of accounts receivable is contingent upon approval of Finance and the Legal Department.

- 6.2.2 All contact with the debtor is to be documented in account files. Automated systems may be used to document contacts with the debtor and other account receivable collection activities.
 - 6.2.3 Notices concerning a delinquent account must include the amount and type of account receivable owed, and, where applicable, advise of authorized interest, fees, penalties and/or late charges.
 - 6.2.4 Within 20 days after the payment due date or at the end of any permissible grace period, or as otherwise mandated by ordinance or approved in writing by Finance, departments shall send a notification of account status showing the account to be past due. Until such time as Finance has excused the issuance of further notices concerning payment status, the account has been submitted to an outside vendor for collection or referred to litigation, subsequent statements of account showing the account to be past due are to be mailed at 30 day intervals.
 - 6.2.5 At least 30 days before submission of delinquent debtor data to a credit bureau, the debtor must be notified in writing of the following: (1) that payment of the claim is overdue; (2) that, not less than 30 days after sending the notice, the City intends to disclose to a credit bureau that the person is responsible for the claim; (3) the specific information to be disclosed to the credit bureau; and (4) of the rights the person has to a complete explanation of the claim and to dispute information about the claim.
 - 6.2.6 Account holders are to be provided with notice of the intent to initiate litigation at least 30 days prior to suit being filed.
 - 6.2.7 Once a claim has been referred to the Legal Department, unless the Legal Department authorizes otherwise, departments shall stop the use of any collection activities and refrain from further contact with the debtor concerning the delinquent account. Departments shall promptly notify the Legal Department of any payments received on a debtor's account after referral of the claim for litigation.
 - 6.2.8 Termination and suspension of collection activities are legal procedures which are separate and distinct from the accounting procedure of write off. Departments shall consult with the Legal Department for requirements which must be met prior to terminating or suspending collection efforts.
- 6.3 In the event the account receivable collection activities of one or more departments are to be consolidated, Finance shall advise the effected departments of the consolidation in writing. To the extent account receivable collection activities are consolidated, the underlying account receivables shall nevertheless remain account receivables owed to the department which shall continue to maintain records, including accounting records, pertaining to the account receivable.
- 6.4 When it appears that no person liable on a claim has the present or prospective ability to pay a significant amount of the claim, or the cost of collecting the claim is likely to be

more than the amount recovered, a request may be made to discontinue collection efforts. Requests for write-offs or requests to discontinue collection efforts shall be subject to Finance approval. Finance approval shall be provided in writing upon the advice and consent of the Legal Department. Write-offs will be handled in accordance with City procedure.

6.5 Use of outside Vendors

6.5.1 Recording of a receivable for purposes of accounting, as well as invoice generation and associated mailings and/or collections, may be done by City staff or by a third party with sufficient capability, experience and skill in billing and collections to perform the service under contract with the City.

6.5.2 Use of third party vendors for billing or outside collection services is contingent upon prior approval of both Finance and the Legal Department, which are responsible for defining the terms and conditions of the City's relationship with the vendor.

6.5.3 Collection activities undertaken by outside collection services on the City's behalf shall be performed in a manner consistent with requirements of local, state, and federal laws as they may relate to account receivable collection practices. Approved collection activities will vary by fee type, but may include phone calls requesting payment, demand letters and invoicing, reporting the delinquent account receivable to credit reporting agencies and legal actions for nonpayment.

6.5.4 Collections activities undertaken by outside collection services as a result of contracts predating this Administrative Procedure shall, to the extent feasible, be performed in a manner consistent with this Administrative Procedure. Continuation or extension of contracts with outside vendors, or amendments to such contracts, are contingent upon prior approval of both Finance and the Legal Department.

6.5.5 All collection vendors under contract with the City must provide the following information as part of their monthly reporting requirements. Collection vendors presently under contract with the City shall be encouraged to provide the following information to the extent not already doing so:

6.5.5.1 A list of all amounts collected by account;

6.5.5.2 A list of open account balances;

6.5.5.3 A report of agings by account;

6.5.5.4 An accounts receivable roll forward by account;

6.5.5.5 Metric reporting (e.g. number of invoices mailed, number of phone calls made, accounts collected in full, accounts partially collected, comparison of actual to budgeted performance, etc.);

6.5.5.6 A list of commissions earned by account;

6.5.5.7 A list of all liens filed during the reporting period and to date;

6.5.5.8 A list of all accounts reported to a credit reporting agency during the reporting period and to date;

6.5.5.9 A list of all suits on account filed during the reporting period and the status of all accounts in litigation;

- 6.5.5.10 A list of all promises to pay received from debtors;
- 6.5.5.11 A list of post-dated and Not Sufficient Fund checks by account; and
- 6.5.5.12 A list of all accounts where the debtor cannot be found at any address.

6.6 Settlements, Payment Plans and Payment Incentives

- 6.6.1 Subject to the following paragraph, no settlement of an account receivable will be approved unless the debtor pays the full amount of the receivable, including any authorized penalties, fees, interest and/or administrative costs, or the debtor agrees in a manner that is documented to pay the full amount of the receivable in installments. The City reserves the right to require references and to seek other information it deems necessary as a condition of any settlement involving installment payments
- 6.6.2 Payment incentive plans, including but not limited to amnesty or waiver of fees, penalties or interest, may be offered only with the prior written approval of the Finance Director or designee in consultation with the Legal Department. All negotiated settlement plans contemplating total payment by a debtor in an amount less than the full amount of the underlying account receivable must be approved in advance by the Legal Department in writing.

7. RESPONSIBILITIES

- 7.1 City departments, in consultation with Finance, are to develop and maintain written procedures consistent with this Administrative Procedure for:
 - 7.1.1 Determining what fees or services are billed;
 - 7.1.2 The process used to bill for the fee or service;
 - 7.1.3 The process for posting the cash receipts for services provided;
 - 7.1.4 The process for reviewing and collecting on delinquent accounts receivable;
 - 7.1.5 The process for the establishment of an allowance for doubtful accounts;
 - 7.1.6 The process for the financial statement write-off of uncollectible accounts;
 - 7.1.7 The process for determining the rate to charge for the fee or service. Typically the rate to charge is based on the calculated cost to provide the service; and
 - 7.1.8 The process used to reconcile the accounts receivable sub ledger to the appropriate general ledger account. All accounts receivable reconciliations to be submitted to Finance at least quarterly.