



# Accounts Receivable Collections and Write-Off Policy

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## **SECTION 1: INTRODUCTION**

Accounts receivable represents expected income for services performed, goods sold, or other miscellaneous billings (e.g., fines and penalties, third-party property damage, etc.) that the City of Santa Clara (the “City”) has not yet received payment. Accounts receivable internal controls help ensure that invoices are accurately recorded and that customers pay in accordance with the agreed terms. While internal controls and procedures help minimize the risk of fraud, error, and loss, this policy recognizes that certain accounts receivable will be uncollectible.

The City’s Accounts Receivable Collections and Write-Off Policy (the “Policy”) establishes guidelines for the internal control, collection, and write-off of delinquent accounts receivable. The Policy shall comply with the California Government Code and all related rules and regulations.

## **SECTION 2: PURPOSE**

The purpose of the Policy is to ensure that all reasonable diligence is used to collect accounts receivables, reduce outstanding receivables, streamline the collection process and enhance revenue collections, refine measurement of the City’s accounts receivables for financial reporting, and optimize the use of City revenue collection resources.

## **SECTION 3: SCOPE**

This Policy shall apply to all City departments, agencies, special districts, and authorities that are governed by the City. The *City of Santa Clara Municipal Services Division Utility Services Rules and Regulations* shall govern the establishment of credit, rendering and payment of bills, and discontinuance of any City utility service including, but not limited to, electric, water, sewer, and refuse service (“Utility Services”) provided by the City within its corporate limits and to areas outside City limits, as the City may designate. External collection contracts shall remain in effect, as needed.

## **SECTION 4: POLICY**

It is the policy of the City to actively pursue collection of revenue and past-due accounts receivable, regularly review the status of past-due accounts, and write-off amounts reasonably determined to be uncollectible. A write-off of uncollectible accounts receivable from the City’s accounting records does not constitute forgiveness of the debt or gift of public funds.

## **SECTION 5: AUTHORITY**

The Santa Clara City Charter Section 904 provides that the Director of Finance shall collect all taxes, special assessments, utility charges, license fees and other revenues of the City for whose collection the City is responsible. The Director of Finance is responsible for maintaining and updating this Policy.

California Government Code section 16585 authorizes a city to sell or transfer part or all of its accounts receivable to a private debt collector or entities, provided the city notifies the debtor in writing at the address of record that the alleged accounts receivable debt will be turned over for private collection unless the debt is paid, or appealed within a time period, as determined by the city providing the notice.



## Accounts Receivable Collections and Write-Off Policy

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### SECTION 6: BILLING & RECEIVABLES PROCEDURES

Accounts receivable procedures are established by the City's Finance Department ("Finance") and may vary depending on the nature of the receivable. Types of receivables covered by this Policy include, but are not limited to, business license taxes and fees; transient occupancy tax; regulatory and development impact fees; permits; fees for services; goods sold; recovery for damage to City property; citations; and legal judgments. Finance – Accounts Receivable ("Finance A/R") shall be responsible for recording various receivables and/or revenues through automated processes into the General Ledger as incurred. In general, billing procedures are as follows:

- 1) An Accounts Receivable Memo ("A/R Memo") shall be prepared by the department that provides goods or services (the "Originating Department") and sent to Finance A/R. Finance A/R shall create a system-generated invoice within a reasonable time after receipt. An invoice shall be rendered according to the due date specified by the Originating Department or at least 30 calendar days if unspecified, before the first payment is due.
- 2) Invoices for Citations shall follow the following process:
  - Citations shall be sent by the Originating Department to customers with a copy sent to Finance A/R.
  - Finance A/R shall generate an invoice based on the citation information.
  - The invoice shall be sent to customers by Finance A/R along with a copy of the citation.
  - The issuance of citations and the subsequent billing and collection of citations shall be in accordance with (1) Chapter 1.10 (Administrative Penalties – Citations) of the Santa Clara City Code; and (2) Resolution Nos. 16-8302 and 16-8325 or any resolution that may supersede these resolutions.
  - Any person who intends to request a hearing to contest an administrative citation and who claims to be financially unable to make the advance deposit of the fine may file a request for an advance deposit hardship waiver. The Director of Finance may waive the requirement of an advance deposit in accordance with Section 1.10.070 of the Santa Clara City Code, as may be amended from time to time.
- 3) Invoices shall include the date on which the invoice was prepared, payment due date, description of goods or services, and payment instructions.
- 4) Invoice due dates that occur on a weekend or holiday shall be advanced to the following business day.
- 5) Accounts receivable activity will be monitored using an accounts receivable aging report or system query to identify delinquent accounts. Following the end of each month, Finance shall reconcile the aging report or query to the General Ledger. Accounts with outstanding balances past the due date are considered past due.
  - Following the end of each month, Finance A/R shall run a report or query showing all outstanding invoices and the number of days each invoice is past due, respectively.
  - Finance A/R shall review, identify, and mail a monthly statement to all customers with past due accounts that have not been sent to a collection agency or the State Interagency Intercept Program (the "Intercept Program") and do not indicate that



## Accounts Receivable Collections and Write-Off Policy

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payment arrangements have been negotiated with the customer. The statement should include, at a minimum, the following information:

- Amounts charged during the month, if any
  - Payments received during the month, if any
  - Late fees and interest charges, if any
  - Ending Balance
  - Invoice Numbers
- For commercial accounts with past due invoices, in addition to mailing past due statements, Finance A/R may notify the Originating Department regarding the past due account and the Originating Department shall follow-up with the commercial customer to arrange for payment.
  - For non-commercial customers, Finance A/R may attempt, or ask the Originating Department to attempt, to contact the customer to arrange for payment when contact information is available and the balance amount is large enough to make such efforts cost effective.
  - Accounts with invoices greater than 120 days past due are subject to collection procedures described in Section 7 herein.
- 6) Departments are prohibited from providing additional goods or services to customers with delinquent accounts until the account is made current, except as required under applicable law.
  - 7) Late fees and interest charges may begin to accrue on accounts receivables not paid by the invoice due date, subject to the discretion of the Director of Finance. Late fees and interest, if any, shall be consistent with the Municipal Fee Schedule.
  - 8) If the City receives a partial payment, Finance A/R will credit the account for the amount received. Future statements shall reflect any payments received and include the remaining account balance.
  - 9) If payment terms are arranged with the customer, a Payment Plan Agreement shall be prepared and sent by Finance A/R to the customer confirming the agreed upon payment terms. The customer shall sign, date, and return the Payment Plan Agreement to Finance A/R and the payment terms shall be noted on the account within the Financial Management System.
  - 10) All contact with customers should be documented in a conversation log within the Financial Management System.
  - 11) If a customer submits a written dispute of a debt, other than a citation subject to Chapter 1.10 of the Santa Clara City Code, the Originating Department shall evaluate the validity of the dispute and if the Originating Department agrees with the validity of the dispute, the Originating Department shall provide Finance A/R with a written request to cancel the invoice. Upon receipt of a written request to cancel an invoice, Finance A/R will credit the invoice in the Financial Management System. Disputed citations are referred to the Code Officer and shall adhere to the Chapter 1.10 of the Santa Clara City Code. If dismissed, the Code Officer shall contact Finance A/R.



## **Accounts Receivable Collections and Write-Off Policy**

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### **SECTION 7: PAST DUE ACCOUNTS - COLLECTION PROCEDURES**

Finance – A/R staff will work with City departments to ensure the timely handling of past due accounts, including collections, write-offs, and monthly reporting.

- 1) Finance shall expeditiously pursue all past-due and delinquent receivables. Communications with debtors shall follow the provisions of the Fair Debt Collection Practices Act, which prohibits abusive debt collection practices, limits communications with debtors, and prohibits harassment or abuse.
- 2) All contact with customers should be documented.
- 3) Collection procedures on all delinquent accounts will include intensive efforts to recover amounts owed, when cost effective. The effort expended to collect a debt must be in proportion to the amount owed to the City.
- 4) Past due statements shall be sent to customers monthly by Finance A/R beginning the month following the date an account first becomes past due until an account is 1) paid in full; or 2) sent to a collection agency or the Intercept Program (. Statements shall indicate that the account is past due and subject to late fees and interest charges and may be forwarded to a collection agency if immediate payment or payment arrangements are not made.
- 5) Accounts 120 or more days past due shall be sent to a collection agency or the Intercept Program unless payment arrangements between the City and the customer have been agreed upon.
- 6) Amounts owed to the City due to third-party property damage shall be administered in accordance with the City's third-party property damage policy and procedures.

### **SECTION 8: COLLECTION AGENCY / INTERAGENCY INTERCEPT PROGRAM**

- 1) Once an account has been referred to a collection agency or the Intercept Program, City efforts to collect the money should cease. Double collection efforts may be considered harassment of the debtor. Finance and the Originating Department will refer all subsequent customer contacts to the collection agency or the Intercept Program, if applicable.
- 2) When an account is referred to a collection agency or the Intercept Program, Finance A/R will write-off as a "bad debt expense" prior to the fiscal year end in accordance with Section 9 herein. Subsequent collections of amounts previously written-off shall be recorded as miscellaneous revenue.
- 3) Collection agencies will be directed to attempt to collect a delinquent account for three years following submission to the collection agency, unless a different collection period is approved by the Director of Finance, or his/her designee. After three years the collection agency shall delete the account from their records and notify the City of such action.
- 4) Accounts sent to the Intercept Program shall follow the latest rules and regulations of the Intercept Program published by the State of California Franchise Tax Board.



## **Accounts Receivable Collections and Write-Off Policy**

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### **SECTION 9: ACCOUNTS RECEIVABLE WRITE-OFFS**

- 1) Debt should generally be written-off during the fiscal year it is determined by the Finance Department to be uncollectible.
- 2) Review Requirements – Accounts receivable will be reviewed monthly by Finance A/R to identify accounts eligible to be sent to the collection agency or Intercept Program or written-off.
- 3) Accounts Receivable Eligible for Write-Off – Past due accounts are eligible for write-off provided reasonable collection procedures have been followed, consistent with this Policy.
- 4) Accounts determined by the collection agency to be uncollectible and subsequently removed from their records shall follow the formal write-off process described herein.

#### Documentation Requirements

- (i) In general, the greater the recommended write-off amount, the greater the amount of required documentation.

Documentation must be provided for each uncollectible account to support the uncollectible account designation. Documentation must substantiate that collection procedures were followed and due diligence was exercised in collection efforts. Due diligence documentation should include, at a minimum, the following (to the extent applicable):

- a. Memo of explanation justifying each write-off, including debtor name, account balance, due date, description of receivable, criteria under which the account is deemed uncollectible; and background information;
- b. Copies of invoices, collections letters, returned checks, and returned mail (including mail returned and stamped as undeliverable, no known forwarding address, etc.);
- c. Report of calls and/or written correspondence supporting City collection efforts, and whether the account has been referred to a collection agency or the State Interagency Intercept Collection Program.
- d. Documentation regarding collection agency efforts to collect delinquent amounts;
- e. Documents supporting a claims court or other judgment rendered by proper authority or settlement agreement, if applicable;
- f. Bankruptcy claim and any related plan or discharge, if applicable;
- g. Notice of discontinuation of services, if applicable;
- h. Death Certificate, if applicable;
- i. Description of efforts to locate the debtor if debtor cannot be found, if applicable;
- j. Signed statement from business owner that the business is no longer in operation, if applicable; and
- k. General ledger or other accounting detail reports, if any.



## Accounts Receivable Collections and Write-Off Policy

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- (ii) Documentation must support the total amount recommended for write-off.
  - (iii) Records of accounts written-off must be maintained in accordance with Federal and State record retention rules as well as the City's Record Retention Policy.
- 5) Approval Authority for Write-Offs

A formal written request, including documentation consistent with Section 9 (4) of this Policy, shall be prepared by Finance and written approval to write-off accounts deemed uncollectible shall be obtained consistent with the authorization levels below. Subsequent collection of an account previously written off will be treated as miscellaneous revenue in the appropriate fund.

| <b>Authorization Level</b>                                | <b>Write-off Limit</b> |
|---|------------------------|
| Accounting Division Manager/Assistant Director of Finance | \$1 to \$4,999         |
| Director of Finance                                       | \$5,000 to \$9,999     |
| City Manager  | \$10,000 to \$24,999   |
| City Council  | \$25,000 and greater   |