City of Culver City, California

# Agenda Item Report

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| Meeting Date: 08/08/2011 | Item Number: C-5 |
| **CITY COUNCIL AGENDA ITEM: (1) Approval of the Write-Off of Existing Uncollectible Accounts Receivable; and (2) Adoption of a Resolution Establishing Procedures Effective July 1, 2011 for (a) the Write-Off of Uncollectible Accounts Receivable and (b) Transfer of Credit Balances to the City's General Fund.** | |
| Contact Person/Dept.: Jeff Muir/Finance | Phone Number: (310) 253-5865 |
| Fiscal Impact: Yes [X] No [] | General Fund: Yes [X] No [] |
| Public Hearing: [] Action Item: [] | Attachments: [X] |
| Commission Action Required: Yes [] No [] | Date: ________________ |
| Public Notification: (E-Mail) Meetings and Agendas – City Council (08/03/11) | |
| Department Approval:<br>Jeff Muir (06/21/11) | City Attorney Approval:<br>Carol Schwab (by H. Baker) (08/03/11) |
| Chief Financial Officer Approval:<br>Jeff Muir (06/21/11) | City Manager Approval:<br>John M. Nachbar (08/03/11) |

## RECOMMENDATION

Staff recommends the City Council:

(1) Approve the write-off of existing uncollectible accounts receivable as set forth in the attached list; and,

(2) Adopt the proposed Resolution establishing procedures effective July 1, 2011 for (a) write-off of uncollectible accounts receivable; and (b) the transfer of credit balances to the City's General Fund.

## BACKGROUND

At the City Council meeting of January 10, 2011, the City Council received and filed the audited financial statements for the Fiscal Year ending June 30, 2010. The Management Letter from the auditors included one recommendation related to reviewing the accounts receivable balance in the General Fund and writing off stale balances. Staff indicated that a review was underway and that a report would be brought back to City Council.

For the past several months, staff has been reviewing the list and been making further collection efforts on various accounts. Accounts may become uncollectible due to a variety of circumstances such as the statute of limitations for a legal proceeding has been exceeded; the debtor has filed bankruptcy; the City is unsuccessful in locating the debtor; the cost of collection exceeds the amount owed, etc. Part of the review has confirmed that Culver City has never created a formal procedure for writing-off bad accounts receivable. It also appears that no accounts have actually been written-off since the inception of the current financial system in 1999. This review has also highlighted the need for a formal collections and write-off policy, including the need for additional mailings and follow-up by City staff before items are turned over to collection. This report will outline the findings of the review, the accounts staff is recommending to be written-off, the collections policy that has been implemented, and a recommendation for a formal policy to allow for the write-off of future uncollectible accounts receivable.

## DISCUSSION

In February 2011, staff began working with a baseline file of the all the accounts receivable from the General Fund that totaled approximately $713,000. A staff member in the Revenue Division of the Finance Department was temporarily reassigned to focus solely on following up with the more recent accounts on the list, and to date approximately $219,000 have been collected, and erroneous accounts in the amount of $68,000 were removed. This leaves a balance of approximately $426,000 from the original list. The aging of this balance is as follows (figures are rounded to nearest thousand):

| Age | Amount |
|---|---:|
| 0 to 180 days | $9,000 |
| 181 days to 1 year | $94,000 |
| 1 to 2 years | $36,000 |
| 2 to 3 years | $64,000 |
| 3 to 4 years | $16,000 |
| 4 or more years | $207,000 |
| **Total** | **$426,000** |

As can be seen, almost half (49%) of the balance is comprised of accounts that are four or more years old. Over 67% of the balance is comprised of accounts that are aged two or more years.

Writing off accounts receivable does not mean that staff will give up attempting to collect the monies owed the City. From an accounting perspective, carrying accounts receivable on the balance sheet is an indication of an asset the City expects to collect. At a certain age, it becomes more unlikely that an account will be collected and, at that point, the City should cease to consider this account as an asset and write it off. This results in a more accurate portrayal of the City’s financial position. Some accounts that are written-off will still be referred to collection. If the City is successful in collecting on any accounts that were written-off, they will be recorded as a revenue to the City in the fiscal year when collected.

Staff is recommending that City Council approve the write-off of the accounts on the attached list, representing accounts two or more years old, in the amount of $287,231.01. The types of receivables represented by this amount are as follows:

| **Type** | **Amount** |
|---|---|
| Fire Inspection | $95,995.77 |
| Damages to City Property | $57,566.10 |
| False Alarm | $73,783.00 |
| All Other | $59,866.14 |
| **Total** | **$287,231.01** |

As mentioned previously, the outstanding receivables represent items reflected as unpaid going back to the implementation of the current financial system in 1999. As a percentage of revenue collected over this time frame, the receivable amount for Fire Inspections represents 4.3% of this amount. For Damages to City Property it represents 12.7%, and for False Alarm fees it represents 11.1%. As a percentage of all accounts receivable billings over this time, this amount represents approximately 2.5%.

Collections Policy

Effective with the new fiscal year, the Finance Department will be instituting increased efforts to achieve a reduction in outstanding receivables. The process going forward will work as follows:

1. Invoices are mailed out. Most are due within thirty days of the date of billing, exceptions being outdoor dining and monthly parking permits which are normally mailed forty-five days prior to the due date.
2. If unpaid by the due date, a past due notice will be mailed within one week.
3. If unpaid two weeks after the past due notice is mailed, all accounts with a phone number will receive a phone call. Accounts without a phone number will be further researched by searching the business license system and the yellow pages.
4. If unpaid four weeks after the past due notice is mailed, a final delinquency notice will be mailed notifying the account that they will be referred to collection if payment is not received within two weeks.
5. If unpaid six weeks after the due date, unless other arrangements have been made or the value of the account does not justify it, accounts will be referred to a collection agency. A notice will be mailed to the customer advising them of this.

Delegation of Authority to Approve Write-Offs

There is no written policy that currently provides authority to write-off uncollectible accounts receivable. Many cities do have such a policy in place. This will be the first time in at least the last twelve years where the City Council will be taking formal action to approve such a write-off. As mentioned previously in this report, there are a variety of reasons why some accounts will remain outstanding. The Chief Financial Officer is recommending new procedures that will provide an orderly way to purge stale accounts receivable items and unclaimed balances from the City's financial records. It is recommended that City staff be given a limited authority to administratively dispose of accounts that appear uncollectible or those that carry a credit balance for a significant period of time.

The attached Resolution would provide the ability for the Chief Financial Officer to recommend uncollected accounts of $1,000 or less for write-off, with the approval of the City Manager. Accounts over $1,000 will still require City Council approval. The write-off of any loans of public funds which are typically disclosed as partof the Comprehensive Annual Financial Report (CAFR), shall be disclosed as part of the CAFR for the period when the write-off occurs. Lastly, any unclaimed credit balances, regardless of dollar amount, may be transferred to the General Fund administratively, after complying with Government Code Section 50050 et seq. (These provisions of the Government Code allow for funds that have been on account in excess of three years to be transferred to the General Fund after providing proper public notice in a newspaper of general circulation.)

Adopting the attached Resolution will further streamline operations and allow for more accurate financial reporting.

## FISCAL IMPACT

At the time these invoices were created (some over ten years ago), the City recognized revenue in the General Fund. In order to write-off the recommended accounts and decrease our reported accounts receivable, General Fund revenue will be reduced by $287,231.01 for Fiscal Year 2010/2011. This will, in essence, correct the over-reporting of revenues from previous years. This amount is the culmination of more than eleven years' worth of billings. While the aggregate figure is high, the average amount if this had been done on an annual basis would have been less than $26,000 per year. Given the amount the City bills each year this is a manageable figure. With the new procedures and policies going into effect, staff hopes to further improve our collections further.

## ATTACHMENTS:

1. Listing of Accounts for Write-Off
2. Proposed Resolution

City of Culver City, California

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**MOTION:**

That the City Council:

1. Approve the attached listing of uncollectible accounts receivable for write-off; and

2. Adopt a Resolution establishing procedures effective July 1, 2011 for (a) the write-off of uncollectible accounts receivable; and (b) the transfer of credit balances to the City's General Fund.