City of Albuquerque
MAYOR / CAO OFFICE

Richard J. Berry, Mayor

ADMINISTRATIVE INSTRUCTION NO: 2-2 (2016)

TITLE: Credit, Collections & Accounts Receivable

PRIMARY DEPARTMENT: Department of Finance and Administration

1.0 INTRODUCTION

This Administrative Instruction has been written in accordance with the City Albuquerque’s administrative policies and fiscal rules currently in effect. Any questions can be directed to the Accounting Division of the Department of Finance and Administrative Services.

ACCOUNTS RECEIVABLE CONTACT INFORMATION:

Mail Delivery:
City of Albuquerque
Accounts Receivable Section
PO Box 27780
Albuquerque, NM 87125

Web Address: http://www.cabq.gov/dfa/accounting

General Telephone: 505-768-3437

Fax: 505-768-3476

2.0 PURPOSE

In order to properly authorize credit, recognize, record, collect, and report all monies which are due the City of Albuquerque (“City”), but not received at the time of a transaction, the City has adopted the following policy to govern the recording and management of its Accounts Receivable. Departments that extend credit will be responsible for the administration of those transactions in accordance with this policy and procedure manual. This policy supersedes Administrative Instruction 2-2, dated December 28, 2009. The Accounting Division of the Department of Finance and Administrative Services (“DFAS”) is responsible for this manual.
3.0 GOALS AND RESPONSIBILITIES FOR ACCOUNTS RECEIVABLES

The following goals have been identified for Accounts Receivable:

3.1 Maintain a current and active Customer database to ensure invoices and notices are addressed to the appropriate responsible party.

3.2 Recover Accounts Receivables promptly in order to improve cash flow to pay for current operating expenditures and invest funds where most appropriate;

3.3 Maintain the Aging Report at thirty (30) days level;

3.4 Review and update goals, policies and procedures regularly to ensure that policies reinforce collections efforts;

The Accounts Receivable Section of the Accounting Division is responsible for:

3.5 Monitoring transactions in the billing and accounts receivable module of PeopleSoft;

3.6 Initiating system generated invoices;

3.7 Monitoring for duplicate and inactive customer accounts;

3.8 Inactivating customer accounts as circumstances dictate;

3.9 Supporting the collection of delinquent accounts;

3.10 Providing AR support and training to departments

4.0 DEFINITIONS

4.1 Accounts Receivable – Any amount that is due from a customer for services provided to them or on their behalf.

4.2 Aging Report – A report that identifies all open Accounts Receivable accounts, the number of days outstanding and the dollar amount due.

4.3 Chart of Accounts – Numeric classification of assets, liabilities, revenues and expenditures.

4.4 Current Account – An account that is payable within thirty (30) days from the original invoice date.

4.5 Customer – A debtor to the City and may include, but not be limited to individuals, organizations, or Federal, State and Local Agencies.
4.6 **Default Management** – A process followed by staff to assist in the collection of Past Due Accounts.

4.7 **Dunning Letter** – A Notice of Collection letter used to help manage outstanding invoices and collect on delinquent accounts.

4.8 **Deposits** – Monies received in the form of cash, check, money order, and/or traveler’s checks.

4.9 **Final Reminder Notice** – A notice issued to inform customers that payment is past due and if not received within 10 days, their account will be sent to collections.

4.10 **Fiscal Period** – Accounting period which begins on July 1 and ends June 30 of the following year.

4.11 **Invoice** – A notice issued to the customer specifying the terms, the amount due and the services provided.

4.12 **Money** – Legal tender received and collected, in the form of cash, checks, money orders and/or traveler’s checks.

4.13 **Monthly Reconciliation** – The process of reconciling the subsidiary accounts to the controlling account to ensure that all payments were posted appropriately and timely.

4.14 **Past Due Account** – An account that has not been paid by the due date.

4.15 **Promissory Note** – A written contract signed by a customer who promises to pay a debt owed to City under specific payment terms.

4.16 **Qualified Gross Accounts Receivable** – All receivables that are past due more than 60 days, except 1) leases, contracts or other agreements entered into by the City which specifically enumerated different collection fees, or 2) accounts owed to the City which are not subject to a collection fees because of federal, state or local laws.

4.17 **Receipt** – A document provided to debtor as evidence that payment for an account has been received; a source document used for posting to the general ledger account and for audit trail purposes. Depending on the debtor's request, a receipt can be either mailed or picked up.

4.18 **Recurring Invoices** – The process of recording routine invoices to the general ledger and generating monthly, semiannual or yearly invoices systematically by the PeopleSoft System.
4.19 **Installment Invoices** – The process of recording invoices over a defined period of time to the general ledger and generating invoices over set number of periods automatically by the PeopleSoft System.

4.20 **Write-Off** – A transaction that removes an invoice from the City’s financial accounting records after management has determined that the item is not collectible. All requests to remove an invoice from the accounting records must be submitted in writing and with proper documentation to Financial Services for approval.

4.21 **Year-end Closing** – The process of posting all financial transactions to the general ledger for a 12-month fiscal year. This information is used in the preparation of financial reports.

5.0 **CREDIT POLICY**

5.1 A provision of credit comes about when a department or division chooses to invoice a customer rather than to obtain payment at the time a good or service is provided. Provided that all other provision within this document is met, the decision to extend credit and determine limits rests with the department head that is accountable for the department providing the good or service. However, in absence of the department head establishing credit limits, the Accounting Division will evaluate and determine appropriate terms and credit limits for all accounts. Decisions will be based on factors such as billing types (i.e. monthly parking, permits, etc.), departmental activities and payment history. All limits are subject to revision. Credit limits are put in place to reduce the risk of outstanding receivables and write-offs.

5.2 Credit should not extend for a receivable that is less than $25.00. Smaller, repetitive charges should be accumulated and billed on a quarterly basis or paid in advance.

5.3 The following forms of payment may be used as alternatives to an extension of credit:
   a. Cash
   b. Personal check
   c. Cashier’s check
   d. Money Order
   e. Credit or Debit Card
   f. Check truncation (requires customer’s written approval)
   g. Direct debit (requires customer’s written approval)
   h. Electronic re-presentation (customer must receive prior notice)
   i. Payment in advance

5.4 Minimum documentation for an express contract is required to enforce debtor’s obligation to pay and to record the terms and conditions of such repayment.
5.4.1 Verbal contracts that are not documented are a violation of this policy.

5.4.2 Promissory notes require the name and description of the transaction, due date, terms, including security or collateral, and notarized signatures of the City’s debtor(s) plus job titles and any specific information that would help in identifying or skip tracing a debtor such as date of birth, social security number, and a driver’s license number.

5.4.3 Current Joint Power Agreements shall be in force for all intergovernmental transaction.

5.4.4 The DFAS Accounting Division “Accounts Receivable Form” and the signature block thereon for customer’s signature shall be used, if no other form of contract available.

5.5 Implied or undocumented agreements are not acceptable and are a violation of this policy. An implied contract is a presumed obligation based upon inference rather than a specific, documented agreement. Therefore, such agreements are not acceptable.

5.6 Surety Bonds - Taxpayers may be required to post bonds based on their estimated tax liability, if the terms and conditions are approved by the Legal Department, or if the customer has a history of non-payment or slow payment. Department Directors may also require surety bonds from customers in order to secure open accounts with significant payment risk, such as those maintained for building contractors who obtain numerous building related permits.

5.6.1 Obtain written authority in advance to debit a customer’s account, if payment is not rendered within an agreed upon deadline.

5.6.2 Departments may also require a prepayment, if it has been determined that the customer has been delinquent or is a bad credit risk.

6.0 STRUCTURE OF ACCOUNTS RECEIVABLE SYSTEM


6.2 There are three (3) areas that record its own billings in the PeopleSoft system. Those areas are; Zoo, a division of the Cultural Services Business Unit; Parking, a division of the Municipal Development Business Unit; and the Fire Department Business Unit.
6.3 There are seven (7) business units that process billing for their respective units utilizing a system other than PeopleSoft. They are: Aviation, Finance and Administrative Services (Special Assessments billing), Planning, Solid Waste, Environmental Health, Fire, Police, and Transit.

6.3.1 All external billing and receivable systems other than PeopleSoft shall be approved by the Department of Finance and Administrative Services and shall interface with the City’s PeopleSoft Billing, Accounts Receivable, and/or the General Ledger modules.

6.3.2 External billing and receivable systems other than PeopleSoft that have been approved for use must have consultation and feedback from the Accounting Division and the ERP Division of the Department of Technology & Innovation before final specifications are complete.

6.3.3 If it determined an external billing system is necessary due to specialization of a service or process, the external system will interface with PeopleSoft Accounts Receivables & Billing modules. Items from the external billing systems that are identified as extending credit (generating invoices payable at a later date) will interface with the PeopleSoft Billing module. Items that are identified as “cash & carry” and do not warrant extending credit, will interface with the PeopleSoft Accounts Receivable module.

6.4 The Accounts Receivable section processes the billing for various departments and divisions who do not have access to PeopleSoft Accounts Receivable Billing module. These include but not limited to: Mayor’s Office, City Council, Animal Welfare, Cultural Services, Finance and Administrative Services, Municipal Development, Senior Affairs, Family and Community Services, Human Resources, Planning, Police, Parks and Recreation, and Transit.

6.5 The Accounts Receivable section provides each department with a three-character alpha prefix code. This code will appear on all invoices followed by the 10 numeric digits (13-character total). The Billing module will automatically assign the next number to be used.

6.6 The Accounting Division, in conjunction with the ERP Division, monitors the overall PeopleSoft processes to ensure that billing and collection processes are done timely and accurately by running queries and reports.

7.0 **12 PERCENT ONE-TIME COLLECTION FEE**

7.1 In accordance with this Administrative Instruction, the City is allowed to collect a one-time collection fee of 12 percent on delinquent accounts that fall under the definition of Qualified Gross Accounts Receivable. Accounts that have been selected and approved to send to a third-party collection agency will be charged a 12 percent fee.
8.0 AGING REPORT
8.1 An Aging Report is prepared on a monthly basis. Invoices are classified as either Current or Past Due. Past Due Invoices are further classified as 31-60 days, 61-90 days, 91-120 days or over 120 days past due. Invoices that are over 61 days past due are considered delinquent and are eligible for third-party collection efforts. Past due invoices are researched to verify that a payment was not missed prior to issuing a Final Reminder Notice. Final Reminder Notices are mailed after an invoice is past due 61 days.

8.2 Business Units that generate invoices from a system other than PeopleSoft must provide monthly Aging Reports to the Accounting Division.

8.3 Departments shall be responsible for reconciling their accounts receivable to the PeopleSoft General Ledger on a monthly basis.

9.0 BANKRUPTCY CASES
9.1 The Legal Department will notify DFAS when an individual or a business has declared bankruptcy. The Accounts Receivable staff will research the name and, if necessary, communicate back to the Legal Department the amount that is due from the customer along with any additional information requested. The Account Receivable is earmarked as a bankruptcy.

9.2 If the City is in receipt of a bankruptcy notice naming the City as a creditor, a copy of the notice will be sent immediately to the Legal Department, the Treasury Division, and Accounting Division.

9.2.1 All department level billing and collection efforts must cease. Departments shall not contact a customer in bankruptcy about their bills by phone or mail.

9.2.2 Claims of bankruptcy shall be honored only if supported by a physical copy of the court order naming the City as a debtor.

9.2.3 Taxes due and intentional torts are not dischargeable.

9.2.4 Passive payments received from a bankrupt business shall be deposited, as appropriate, to the Common Fund account.

9.2.5 The City may be compelled to extend credit to a company in reorganization if withholding such credit would endanger the viability of the business.

9.3 If the City is not named by the court as a creditor, continue doing business, but reconsider the degree to which the extension of further credit may be prudent.

9.4 See Section 17.0 for available assistance from the Legal Department.
<table>
<thead>
<tr>
<th>Bill Type</th>
<th>Description</th>
<th>Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAY</td>
<td>Payroll expenditures processed on behalf of other agencies by the City of Albuquerque. Usually for AMAFCA and Mid-Region Council of Governments (MRCOG).</td>
<td>Finance and Administrative Services.</td>
</tr>
<tr>
<td>WHS ADM</td>
<td>Warehouse charges Administrative expenditures and fees billed to external agencies. Usually for Albuquerque Housing Services for various administrative expenditures.</td>
<td>Finance and Administrative Services</td>
</tr>
<tr>
<td>RNT</td>
<td>Rental billing for leases and other contractual rental agreements.</td>
<td>Real Property and Various Departments</td>
</tr>
<tr>
<td>JPA</td>
<td>Intergovernmental agreements for services</td>
<td>Various Departments</td>
</tr>
<tr>
<td>SAD</td>
<td>Title search fees</td>
<td>Finance and Administrative Services</td>
</tr>
<tr>
<td>TRN INS</td>
<td>Academy Training services Insurance Assessments</td>
<td>Fire, Human Resources</td>
</tr>
<tr>
<td>PRM OTC</td>
<td>Permits and Inspections Chiefs Overtime</td>
<td>Fire, Code Enforcement, Police</td>
</tr>
<tr>
<td>RPT PRK</td>
<td>Copies of accident reports Monthly Parking contracts</td>
<td>Police, Municipal Development, Parking Division</td>
</tr>
<tr>
<td>RCM RCQ</td>
<td>Recurring Monthly billings other than Parking fees and rental fees Recurring Quarterly billings other than Parking Fees and rental fees</td>
<td>Various Departments</td>
</tr>
<tr>
<td>RBA RAN</td>
<td>Recurring Bi-Annual billings other than parking fees and rental fees Recurring Annual billings other than parking fees and rental fees</td>
<td>Various Departments</td>
</tr>
<tr>
<td>INM SWD</td>
<td>Monthly installment billings Solid Waste recycled materials, weed and litter services, and trash bag sales to area merchants</td>
<td>Various Departments, Solid Waste Department</td>
</tr>
<tr>
<td>LEN</td>
<td>Demolition and code enforcement expenses billed to property owners</td>
<td>Municipal Development, Planning Division</td>
</tr>
<tr>
<td>OND EVT</td>
<td>Miscellaneous invoices Elevator Inspections</td>
<td>Various Departments, Municipal Development, Planning Division</td>
</tr>
<tr>
<td>BOL ROW</td>
<td>Boiler Inspections Right of Way Annual Fees</td>
<td>Municipal Development, Planning Division</td>
</tr>
<tr>
<td>AMT LOC</td>
<td>Grants related. Fixed Amount billings Grants related. Letter of credit billings</td>
<td>Various Departments</td>
</tr>
<tr>
<td>RFR</td>
<td>Grants related. Request for reimbursement</td>
<td>Various Departments</td>
</tr>
</tbody>
</table>

Chart 1. Bill Types
10.0 ASSESSMENT OF INTEREST AND PENALTIES

10.1 In absence of a written contract fixing an interest rate, the rate of interest shall be 0.0411 percent per day (15% per year simple interest) in the following cases:

10.1.1. For money due by contract.

10.1.2. For money retained by a customer’s agent without the customer’s consent, expressed or implied.

10.1.3. Upon the settlement of matured accounts from the day the balance is ascertained.

10.2 Interest may be charged to current or open accounts beginning thirty (30) days of the invoice date.

10.3 All invoices must include written notice of the date certain when interest or penalties will be charged, if the account is not brought current.

10.4 Interest may not be charged when there is no “prior” notice that interest is accruing.

10.5 Partial payments shall be applied to the oldest interest and penalties first.

10.6 Interest charges shall not be imposed in those instances where the contract states that no interest will accrue regardless of what statutes may allow.

11.0 COLLECTION POLICY FOR ACCOUNTS LESS THAN 90 DAYS PAST DUE

11.1 Purpose: The purpose of section 12.0 is to outline the necessary steps to ensure collection of Accounts Receivable is performed in a timely, fair and cost effective manner for the City. A key assumption is that the longer an account goes unpaid, the more difficult it becomes to collect.

11.2 DFAS Responsibilities: The Overall Collection Policy governs the policy and procedures that staff in the DFAS will follow. The Accounting Division oversees the City’s Accounts Receivable. Accounting Division should effectively manage Accounts Receivable balances and be consistent in the collection processes. In order to do so, Accounting may contract with an outside agency to assist in Default Management as defined by the City.

11.3 Departmental Responsibilities: Each Business Unit should have a written policy and procedures for Collections. The roles and responsibilities of Collections for each department should be clearly defined; however, if a department does not have a Collections Policy and Procedures, then the policies in this manual will govern the department’s policies. All departments are responsible for collecting on amounts invoiced and identifying staff assigned with these duties. This effort
will be coordinated with the Accounting Division and Accounts Receivable section.

11.4 Collection Responsibilities

11.4.1 Procedures

a. The City provides customers fifteen (15) to forty-five (45) days in which to pay an invoice, unless specified by an alternate approved agreement.

b. An Aging Report is available at the beginning of each month to all user departments.

c. The department’s accounts receivable staff is responsible for reviewing the list for accounts that are past due. Departments are responsible for investigating past due items listed in the 31-60 days column of the Aging Report. This translates to invoices being one (1) day to thirty (30) days late.

d. If an invoice has not been paid within 30 days, department staff will contact the customer.

e. Additional procedures under Sections 12.4.2 – 12.4.5 may be followed as necessary.

f. Document all contacts with the customer in the customer’s online (PeopleSoft) file through the use of the Customer Interactions page.

11.4.2 Phone Calls and Payment Arrangements

a. Phone calls can be made in an attempt to collect; however, employees must make certain the customer is not being harassed in any way. Department staff shall place no more than two (2) phone calls to a delinquent account per item (invoice) for which payment is in arrears.

b. Calls must be made during normal business hours.

c. If a customer agrees to pay the debt over a period of three (3) months or less, a Promissory Note will be prepared and must be signed by the debtor (customer). Email communication can also serve as a promissory note or promise to pay. The payment agreement is as follows:

i. 25% of outstanding balance paid immediately

ii. Remaining 75% paid over the three (3) months or less.

iii. All payment arrangements should be accompanied by a Follow-Up letter.

d. Under no circumstances, will staff engage in outside collection efforts by way of personal visits to the customer’s location.

e. In the event that City has sent an item to a Collection Agency, department staff shall not call the debtor about that debt, nor answer any questions from the Customer. Customer must be directed to speak to the collection agency.
11.4.3 Invoice Credit
   a. If it is determined that a credit should be applied against an invoice, the credit request must be supported by proper documentation and authorized by the appropriate supervisor.
   b. For additional information, refer to Sections 15.0, 18.0 and 19.0.

11.4.4 One-time Collection Fee
   a. Per this administrative instruction, the City may add a one-time collection fee of twelve (12%) percent to any qualified gross account receivable balance. Notice of the fee should be noted on final Dunning Letter sent to the customer.

11.4.5 Withholding Service until Debt is Paid
   a. Holding one (1) or more City services until a debt is paid may be permissible.
   b. Decision to withhold services shall be policy based, not made on a case-by-case basis.
   c. The Legal Department shall review any withholdings of service due to non-payment for legal ramifications, before their implementation.
   d. No such withholdings shall occur without written authorization from the Legal Department.

11.4.6 Uniform Treatment
   a. Government has an obligation to apply uniform credit standards.
   b. Exceptions, however, may be justified by an adequately documented credit history.
   c. Remedies such as requiring payments or surety bonds prior to rendering service must have a rational basis and must be equivalent for debtors with similar credit histories.

11.4.7 Dunning Letters
   a. First Dunning Letter will automatically generate from the PeopleSoft Accounts Receivable module when an item (invoice) is 10 days past due. Letters will be mailed by the Accounts Receivable Section.
   b. Second Dunning Letter will automatically generate from the PeopleSoft Accounts Receivable module when an item (invoice) is 25 days past due. Letters will be mailed by the Accounts Receivable Section. Letter should disclose the 12 percent One-Time Collection Fee.
   c. For billings systems other than PeopleSoft, Dunning Letters or Follow-up letters should be mailed for outstanding items.
   d. For billings systems other than PeopleSoft, identify customers whose accounts are 10 days past due, but have not made arrangements to pay. Generate the first Dunning Letter specifying