

HEBER PUBLIC UTILITY DISTRICT

REPORT TO BOARD OF DIRECTORS

MEETING DATE: October 17, 2019

FROM: Laura Fischer, General Manager

SUBJECT: Authorize the Write-Off of Uncollectible Accounts Receivable as Presented and Authorize the General Manager to Execute an Agreement with the Credit Bureau of Imperial County

ISSUE:

Shall the Board of Directors authorize the Write-Off of uncollectible accounts receivable as presented and authorize the General Manager to execute an Agreement with the Credit Bureau of Imperial County?

GENERAL MANAGER'S RECOMMENDATION:

It is recommended that the Board of Directors authorize the Write-Off of uncollectible accounts receivable and authorize the General Manager to execute an agreement with the Credit Bureau of Imperial County.

FISCAL IMPACT: NONE

The entry to write-off uncollectable accounts only effects the balance sheet accounts as follows: Debit to Allowance for Doubtful Accounts and a Credit to Accounts Receivable. No expense or loss is reported on the income statement because this write-off is "covered" under the earlier adjusting entries for estimated bad debt expenses.

BACKGROUND:

The HPUD Policy Manual establishes the Rules for Accounts Receivable Doubtful accounts in Policy Number 3506.1 through 2506.5. See Below.

2506 UNCOLLECTIBLE ACCOUNTS RECEIVABLE

2506. It is the intent of the Heber Public Utility District to reflect the accurate value of its accounts receivable, and to provide guidelines for write off of uncollectible accounts receivable. Outstanding accounts receivable should be reviewed on a quarterly basis. Efforts should be made to pursue the timely collection of all accounts receivable. Sound financial management principles include the establishment of an allowance for doubtful accounts.

2506.1 On occasion, certain accounts receivable due and owing HPUD become uncollectible after all reasonable effort is expended to affect collection. There are also situations where accounts are of such a size that more money would be expended to collect than the debt itself. The Finance Manager is in a position to thoroughly evaluate the feasibility of collecting past due accounts and to make a decision as to further effort.

2506.2 Government Finance Officers Association "Best Practices" provides that management of accounts receivable should include periodic write-offs to ensure

that accounts receivable balances are not overstated. The write-off process is a critical component in valuing receivables. In accordance with generally accepted accounting principles, the District has established an **allowance of 5%** for doubtful accounts to reflect those outstanding accounts receivable which are not expected to be collected.

- 2506.3 The timely identification of losses is an essential element in accurately measuring the value of the District's assets. It is the responsibility of the Finance Department to provide the General Manager with a report on an annual basis identifying all outstanding accounts receivable with a value of \$500 or more per transaction determined to be uncollectible, including the basis for this determination and the collection actions taken. A report identifying all outstanding accounts receivable with a value over \$10,000 determined to be uncollectible will be provided to the District Board on an annual basis.
- 2506.4 Efforts should be made to pursue the timely collection of delinquent accounts. When such accounts are deemed uncollectible, they should be written-off from the financial statements.
- 2506.5 The District General Manager is delegated authority to write-off uncollectible accounts receivable with a value not exceeding \$10,000. The write-off of uncollectible accounts receivable with a value exceeding \$10,000 must be approved by the District Board.

On November 21, 2013 the HPUD Board authorized the establishment of a bad debt reserve of %5 of the accounts receivable balance in the amount of \$16,000, which was 5% of the accounts receivable balance at the end of that year. The bad debt reserve is adjusted to meet the 5% of the accounts receivable balance each fiscal year. The bad debt reserve is presented in the balance sheet as Allowance for Doubtful Accounts. For Fiscal Year 2018-19 the %5 bad debt reserve was \$21,089.00. The budgeted bad debt expenditures for FY19-20 is \$12,000.

DISCUSSION:

The Bad Debt that we are requesting to be written off includes debt from deceased customers, 2011-2014 un-collectable, credit balance, and accounts with less than \$5.00 owed. The credit balance represents customer accounts that that a credit with HPUD. We issue checks to these customers to clear their account, but on occasion, the checks are not cashed or we are unable to find their new address and the checks come back. This amount needs to be cleared as well.

Additionally, we are requesting authorization to have the General Manager execute an agreement with the Imperial County Credit Bureau to assist us with collection of bad debt that is not older than three years. We would work in cooperation with the Credit Bureau to collect debt from 2016-2018. HPUD is still trying to collect on debt less than one year old. After expending our efforts to collect on these current year accounts, we will send them to the Credit Bureau for them to collect.

The amount we are requesting to be written-off is \$11,171.42.

The amount we are requesting to be submitted to the Credit Bureau for 2016-18 is \$8,612.46.

See table below.

U.B. BAD DEBT		
Write-off Proposal:		
Deceased Customers:	\$	2,143.35
2011-2014 Un-collectable:	\$	9,653.19
Credit Balance:	\$	(87.57)
Accounts with less than \$5.00	\$	8.45
Total to write-off:	\$	<u>11,717.42</u>
2016-2018 - To Collection Agency:	\$	8,612.46
	\$	<u>8,612.46</u>
TOTAL WRITE OFF AND BAD DEBT TO COLLECTION	\$	20,329.88

CONCLUSION:

According to HPUD adopted Policy 2506 the HPUD should review accounts receivable and write-off any uncollectable amounts to ensure we have an accurate value of our accounts receivable. The requested action to write-off \$11,171.42 in uncollectable accounts receivable meets these policy guidelines for write off of uncollectible accounts receivable. The policy also states that efforts should be made to pursue the timely collection of delinquent accounts. The attached Agreement with the Imperial County Credit Bureau would meet this requirement.

Thus, the staff recommends authorizing the write-off of \$11,171.42 in uncollectable accounts receivable, and authorizing the General Manager to execute an Agreement with the Credit Bureau of Imperial County.

ALTERNATIVES:

- 1) Do not authorize the General Manager to execute the Agreement with Credit Bureau of Imperial County. Direct staff to provide the Board with alternate choices.
- 2) Do not authorize staff to write-off uncollectable accounts receivable, and provide alternative direction to staff.
- 3) Provide alternative direction to staff.

Respectfully Submitted,

Laura Fischer,
General Manager

Attachments: Letter From Graciela Lopez
Account Assignment Agreement – Credit Bureau of Imperial County

Credit Bureau of Imperial County

ACCOUNT ASSIGNMENT AGREEMENT

Heber Public Utility District, hereinafter referred to as "Client", hereby assigns to the Credit Bureau of Imperial County (CBIC) said claims, notes and accounts that are unpaid and due with the exclusive rights to collect them. Client assures CBIC that the assigned accounts are legally due and that the indicated parties, dates, and principal balances are correct. Client also authorizes CBIC to use full power to perform all acts deemed necessary to collect said debt with reasonable, necessary and lawful diligence for a three (3) year period from the date of this assignment according to the laws outlined in the Fair Debt Collections Practices Act. Client may cancel this contract at any time by written notice of cause.

Client agrees to pay to CBIC its regular collection recovery fees rate of 35% of funds collected. If a lawsuit is filed on Client's behalf, the rate is increased to 40% of funds recovered. On any accounts where the consumer has moved and no new forwarding address can be determined without the use of our skip-tracing resources, the fee will also be increased to 35% of funds recovered. Collections on judgments are also performed for a 40% fee. Discover fees are at a rate of 15%. To partially compensate CBIC for work done on accounts where there is no recovery, and to offset costs lost when court costs and fees are advanced by CBIC, any interest earned or accrued after assignment that may be collected, shall be retained by CBIC.

CBIC agrees to acknowledge in writing within ten (10) days the receipt of all accounts assigned by Client. CBIC agrees to remit all monies collected less any collection fees and interest to Client by the twentieth (20th) day of the month following the receipt of any funds. CBIC will only file lawsuits against any consumer upon permission by Client, and Client agrees that all court costs and fees advanced by CBIC and its attorneys are to be deducted from the first monies collected, including any compromised settlements agreed by the Client. Monthly reports are available on all accounts assigned upon Client's request.

CBIC also agrees not to settle any account without Client's prior permission, except in circumstances that would require an immediate decision based upon a predetermined dead line established by an outside third party.

Client agrees to pay recovery fees to CBIC on all accounts assigned, whether the payment is received by CBIC or by Client. Client will inform CBIC of all payments received on accounts assigned and remit the applicable collection fee on the said payment within ten (10) days of receipt by Client.

Client authorizes CBIC to receive and endorse in its name all checks payable or endorsed to Client which come into possession of CBIC by virtue of its acting as the collection agent.



AMERICAN COLLECTORS ASSOCIATION

member

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Client may withdraw or cancel any account assigned to CBIC, further proved that CBIC has not itself or through its attorneys, conducted any collection activity and/or contact with the consumer for at least a six (6) month period prior hereto. If any activity has occurred within the immediately preceding six (6) month period and there is interference from the Client or cancellation of the claim, CBIC is entitled to its recovery fees and costs from the Client.

In the event that litigation is instituted to enforce the terms and provisions of this Account Assignment Agreement, the parties agree that the prevailing party therein will be entitled to reasonable attorney's fees and court costs incurred.

Date: _____

By signing below, I agree to all terms of this Account Assignment Agreement for all claims, notes and accounts that are assigned to CBIC.

Signed for Client:

Signature

Print Name

Title/Owner

Heber Public Utility District
Company Name

Signed for CBIC:

Nora Alicia Bermudez-Perez

Signature

Nora Alicia Bermudez-Perez
Print Name

Credit Bureau of Imperial County

Customer Service Manager
Title

Credit Bureau of Imperial County