

TOWN OF LITCHFIELD
ACCOUNTS RECEIVABLE WRITE-OFF POLICY

Approved June 27, 2016

Reviewed June 10, 2019

ORIGINAL

1.0 PURPOSE:

This policy provides the Town of Litchfield with a methodology to write off uncollectible accounts receivable also known as bad debt. This policy ensures that uncollectible accounts receivable are not carried on the financial records of the town for an inappropriate period of time and are written off for accounting purposes. This procedure is not applicable to uncollected accounts resulting from delinquent tax bills which are covered by state statute.

2.0 DEFINITIONS:

1. "Accounts Receivable": This includes all non-tax debt owed to the Town of Litchfield by the private sector and by other governments;
2. "Aged Balance of Accounts Receivable": A schedule classifying the balances of all accounts receivables according to the varying lengths of time the accounts are past due;
3. "Collection Agency": An independent contractor who is hired by the town to pursue the collection of uncollected accounts receivables;

3.0 BACKGROUND:

Various Town of Litchfield departments have non-tax accounts receivable resulting from their operations. Some of these receivables may become uncollectible after a period of time or an event. When the Board of Selectmen determines that a receivable is uncollectible, the receivable is written off for accounting purposes, which does not constitute a forgiveness of debt. Some situations which may result in writing-off uncollectible receivables include:

1. Homeless, deceased, incarcerated and unknown address;
2. Accounts receivable submitted to a collection agency are returned to the town as uncollectible;
3. The Town Administrator determines that a financial hardship exists justifying a waiver of the amount due;
4. Litigation losses involving accounts receivable;
5. Receiving notification from the bankruptcy court that a debtor has filed for bankruptcy and that collection of the debt is remote;
6. Advised by Town Counsel that it would not be productive to sue a debtor;

4.0 RESPONSIBILITIES:

It is the responsibility of the Town's Finance Department to track Uncollected Account receivables owed the town and to report this on a monthly basis to the Town Administrator. The Town Administrator is responsible for reporting to the Board of Selectmen uncollected accounts receivable and recommending appropriate actions that the town should take to collect accounts receivable that have aged beyond 90-days. It shall be the responsibility of the Board of Selectmen to annually categorize debt as uncollectible account receivables and to authorize this debt to be written-off the town's accounts.

6.0 COLLECTION PROCEDURES:

1. Departments that generate receivables shall prepare and deliver an invoice to the debtor as soon as practical after the receivable is created. The debtor must be given 30 calendar days from the date of the invoice to return payment.
2. Simple interest per annum in the amount of 10% shall be applied to all bills after thirty (30) calendar days past due. Such interest shall be reflected in the bills issued by the Town.
3. If payment is not received within 30 calendar days from the date of original invoice and payment arrangements have not been made in writing with the department head, the responsible department shall attempt to collect by notifying the debtor in writing that payment is overdue and payable immediately. At this point, the debt has become an overdue receivable.
4. If payment is not received within the next 30 calendar days (60 calendar days from the original invoice), the responsible department shall cease to provide services to the debtor until payment is made in full and the account shall be referred to the Finance Department.
5. The Finance Department shall attempt to collect payment by notifying the debtor in writing that payment is overdue and if no payment is made within 10 calendar days from the date of the letter, the debt shall be turned over to a collection agency or legal counsel and may be reported to the Credit Bureau.

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7.0 POLICY:

The Town Finance Department shall provide the Town Administrator with a monthly report of aged balance of account receivables.

The Town Administrator shall review and sign the monthly aged balance of account receivables report and insure that collections procedures in section 6 are being followed. The Town Administrator may take additional action which may include but are not limited to;

1. Review of potential legal actions involving town counsel and securing authorization for this action from the Board of Selectmen;
2. Pursuit of the debt in small claims court;

The Town Administrator shall, every three months present and review the aged balance of account receivables report to the Board of Selectmen including what actions have been taken for securing the uncollected accounts receivables and if any of the debt should be written off. The Board of Selectmen shall sign the aged balance of account receivables presented by the Town Administrator to document this review;

Any debt approved to be written off by the Board of Selectmen shall be documented on the "Uncollectible Accounts Receivable Disposition Sheet" contained in appendix A of this policy. Write off of uncollected accounts receivable debt shall be done at a minimum annually by the Board of Selectmen.

For accounts up to \$1000.00 sufficient evidence to write-off debt shall include records of telephone calls, copies of correspondence between the town and the debtor or record of a collection agency's inability to collect the debt;

For accounts \$1,000.00 and more, sufficient evidence to write-off debt shall include copies of documents indicating court action (whether small claims or district court), or justification for an absence of court action, or attempts by a collection agency to collect on the debt or evidence of concurring opinion from town counsel indicating that all available and lawful means by which the debt may be collected have been pursued.

All requests for writing off uncollectible accounts receivable shall be reviewed for reasonableness and shall document what means have been used to secure the debt. No debt may be written off without completion of the "Uncollectible Accounts Receivable Disposition Sheet".

A write-off of uncollectible accounts receivable from the Town's accounting records does not constitute forgiveness of the debt. The debt shall be owed to the town in perpetuity;

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The Town shall maintain records of accounts written-off in accordance with Federal and/or State records retention rules and shall be reported in the town's annual report;

8.0 PERIODIC REVIEW:

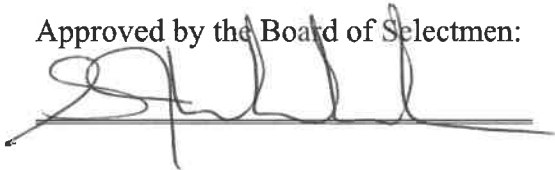
This policy shall be reviewed and amended as appropriate by the Board of Selectmen every two years, however, the Town Administrator / Finance Manager shall review this policy and make recommendations for changes to the Board of Selectmen as needed.

9.0 ADOPTION / EFFECTIVE DATE:

This policy shall become effective upon adoption by the Board of Selectmen and apply to those accounts that were billed on or after the adoption date.

Adopted: June 27, 2016

Approved by the Board of Selectmen:





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Uncollectible Accounts Receivable Disposition Sheet - Appendix A