THE CITY OF NEW YORK

OFFICE OF THE COMPTROLLER

INTERNAL CONTROL AND ACCOUNTABILITY DIRECTIVES

DIRECTIVE #21: REVENUE AND RECEIVABLE MONITORING

INTRODUCTION

The City of New York (City) management makes representations (or assertions) when presenting revenues and receivables in the financial statements. These assertions include that:

1. The revenues and receivables presented have satisfied the revenue recognition criteria, in accordance with generally accepted accounting principles (GAAP) for governments;
2. All transactions that should be presented have been included;
3. The City has rights to the revenues and receivables presented;
4. All revenues and receivables have been presented at the appropriate amounts;
5. Revenues and receivables are properly classified; and
6. Provisions of uncollectible receivables have been properly identified and recorded.

To confirm that these assertions have been satisfied, a system must be in place to ensure the reliability of financial reporting, the efficiency of operations, and compliance with applicable laws and regulations.

This Directive establishes the minimum requirements for the presentation of revenues and receivables in the City's financial statements. It outlines and differentiates the recognition criteria of revenues and receivables derived from exchange transactions (charges for service) and from non-exchange transactions (exchanges in which one party receives value without directly giving equal value).

This Directive also includes guidance for the billing, collection, and control over City revenues and receivables and how to monitor these transactions in the City's Financial Management System (FMS).

This Directive is issued pursuant to the authority of the Office of the Comptroller as provided in Chapter 5, Section 93 of the *New York City Charter*.

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1. GENERAL INFORMATION

1.1. Effective Date

This Directive is effective immediately and supersedes the previous version, issued November 30, 2012.

1.2. Assistance

Questions or comments concerning this Directive should be addressed by email to *Technical and Professional Standards Unit Email*; by telephone at: (212) 669-3675; or by mail to: The Office of the Comptroller, Attention: Technical & Professional Standards Unit, Bureau of Accountancy, David N. Dinkins Municipal Building, One Centre Street, Room 200 South, New York, NY 10007.

1.3. Comptroller's Internal Control and Accountability Directives

An inventory of existing *Comptroller's Internal Control and Accountability Directives* is available on the Comptroller's Website.

2. GOVERNMENTAL FUNDS: REVENUE AND ASSET RECOGNITION

Governmental Funds must use the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized only to the extent that they are susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Revenues are considered available when collectible in the current period or soon enough afterwards to be used to pay liabilities in the current period. For example, revenues from taxes are generally considered available if received within two months after the fiscal year end.

The following sections describe categories of transactions and events and indicate when it is appropriate to recognize the revenue and resulting asset (cash or receivable).

2.1. Exchange Transactions

In an exchange transaction, each party gives and receives equal value. An exchange transaction typically involves charges for services to customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided. Examples of revenues resulting from exchange transactions include water use or garbage collection; licenses and permits, such as dog licenses, liquor licenses, or building permits; operating special assessments, such as street cleaning or special street-lighting; and administrative and processing fees. There are exchange-like transactions, in which the parties to the exchange may be willing to give and receive similar but not quite equal values. For example, a seller may accept service from a third party as partial payment.

Accounting and financial reporting for exchange transactions and exchange-like transactions are identical. Agencies must recognize both revenue and an asset (cash or receivables) when the exchange takes place. If a payment is received prior to the exchange (for example prepaid rent), agencies must set up a corresponding liability for the unearned revenue. Revenues must only be recognized to the extent that they are measurable and available.

2.2 Non-Exchange Transactions: Classes

[*Governmental Accounting Standards Board (GASB) Statement No. 33 – Accounting and Financial Reporting for Non-Exchange Transactions*] states that non-exchange transactions involve a government giving (or receiving) value to another party without directly receiving (or giving) equal value in exchange.

The following sections discuss the four classes of non-exchange transactions.

2.2.1 Derived Tax Revenues

Derived tax revenues result from assessments imposed by governments on exchange transactions. Examples include taxes on personal income, corporate income, and the retail sales of goods and services.

The assets received from derived tax revenue transactions must be recognized in the period when the imposed tax on the exchange transaction occurs or when the resources are received, whichever occurs first.

Revenues must be recognized (net of estimated refunds and estimated uncollectible amounts) in the same period that the assets are recognized, provided the underlying exchange transaction occurred. Revenues received in advance should be reported as unearned revenues (liabilities) until the period of exchange.

Agencies that use systems that do not automatically calculate interest charges or late fees on unpaid balances may recognize revenues, and the related assets, when the cash is remitted.

2.2.2 Imposed Non-Exchange Transactions

Imposed non-exchange revenues result from assessments by governments on non-governmental entities, including individuals, other than assessments on exchange transactions. Examples include property (ad valorem) taxes, fines and penalties, excise taxes (monies owed that are in judgment), and property forfeitures, such as seizures and escheats.

The assets received from imposed non-exchange revenue transactions must be recognized when an enforceable legal claim to the asset arises or when the resources are received, whichever occurs first. For property taxes, when the assets received must be recognized is generally specified in the enabling legislation (lien date).

Revenues from property taxes must be recognized (net of estimated refunds and estimated uncollectible amounts) in the period in which the taxes are levied. As required by *GASB Statement No. 65 – Items Previously Reported as Assets and*

Liabilities, assets received or recognized before the period for which the property taxes are levied or the period when assets are required to be used or when use is first permitted, must be reported as deferred inflows of resources.

For all other imposed non-exchange revenue transactions, revenues must be recognized in the same period that the assets are recognized (net of estimated refunds and uncollectible amounts). Unless the enabling legislation includes time requirements, then revenues must be recognized in the period in which the assets are required to be used or when use is first permitted. Assets received or recognized before the period when the assets are required to be used or when use is first permitted must be reported as deferred inflows of resources.

Agencies that use systems that do not automatically calculate interest charges or late fees on unpaid balances may recognize revenues, and the related assets, when the cash is remitted.

2.2.3 Government-Mandated Non-Exchange Transactions and Voluntary Non-Exchange Transactions

2.2.3.1 Government-mandated non-exchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use the resources for a specific purpose(s). Government-mandated non-exchange transactions include federal or state programs that the City is mandated to perform. The principal characteristics of these transactions are (1) a provider government mandates that a recipient government perform a particular program or facilitate its performance by another government or by a non-governmental agency, and (2) fulfillment of certain requirements is essential for a transaction to occur (other than the provision of cash or other assets in advance).

2.2.3.2 Voluntary non-exchange transactions result from legislative or contractual agreements other than exchanges entered willingly by two or more parties. Examples include certain grants, certain entitlements, and donations by non-governmental entities, including individuals. Frequently the provider establishes purpose restrictions and eligibility requirements. The principal characteristics of these transactions are that they are not imposed on the provider or recipient and fulfillment of eligibility requirements is essential for a transaction to occur (other than the provision of cash or other assets in advance).

See *Section 4* for a further discussion of recording grant revenues in FMS Accounting.

For both government-mandated non-exchange transactions and voluntary non-exchange transactions, recipients should recognize assets (or decreases in liabilities) and revenues (net of estimated refunds and uncollectible amounts) when the following has occurred:

- All applicable eligibility requirements have been met, including time requirements; and
- The recipient has met the provider's requirements by incurring costs in accordance with the provider's program as stipulated in the executed grant agreement.[1]

Resources received before the eligibility requirements are met must be reported as unearned revenues. If only time requirements have not been met, deferred inflows of resources must be reported.

Revenues must only be recognized to the extent that they are measurable and available, discussed earlier in this section.

3. BILLING AGENCY'S RESPONSIBILITY FOR ACCOUNTS RECEIVABLE

The billing agency's[2] Chief Fiscal Officer or their designee has the overall responsibility for the management of the agency's accounts receivable process. Included in this responsibility is establishing a suitable Agency Receivables and Collections Ledger; maintaining a timely and accurate billing and cash collection process; ensuring a disciplined follow-up of all overdue payments; promptly forwarding overdue receivables to internal law and/or collection units as appropriate; and the orderly and timely write-off of all receivables deemed uncollectible.

A record of all receivables, including all new accounts, should be centrally maintained. The billing agency's Chief Fiscal Officer is responsible for centralizing the billing agency's receivables to ensure that all accounts are properly billed for each billing period and that any non-billed accounts are properly documented and resolved. Copies of leases, franchises, etc. should be maintained along with a current name and address of the party to whom the billings are to be sent. If the originating documents do not establish a specific billing cycle, a suitable cycle should be established to coincide with the billing agency's operational practices.

In cash basis scenarios, a clear and distinct separation of duties must exist between the billing agency's accounts receivable and its billing functions. The person(s) initiating the billings and creating the accounts receivable must be independent from the person(s) collecting the cash and clearing the receivables. In larger agencies, the Chief Fiscal Officer should designate a

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[1] For all requirements to be considered met, the grant agreement must be executed or documents/correspondence indicating intent of approval must be received no later than June 30th of the closing fiscal year.

[2] For purposes of this Directive, the billing agency refers to the grantee; the recipient of the grant aid; or the managing agency of a particular project. The managing agency must maintain sufficient communications with the funding agency to ensure the accurate reporting of revenue.

third person, who is not involved with either the billing or cash receipt function, to post the billings, cash collections, and related activities in the billing agency's Receivables and Collections Ledger.

4. GRANT REVENUES

Grant revenue is derived from a contribution or gift of cash or other assets, from another government, organization or individual, which should be used or expended for a specified purpose, activity, or facility. Grant Revenue (funded by federal, state, or private sources) – should be recognized in the Budget Fiscal Year (BFY) where reimbursable expenditures occurred. Receipt of cash is never the basis of recognition for grant revenue.

4.1. Record Maintenance

Grants received by the City from other governments or individuals are frequently accompanied by legal or contractual requirements that govern their use, and often include special accounting and reporting requirements. Agencies must maintain copies of the grant award from each funding source. The grant documents should also include payment and claim procedures, reimbursement or fee-for-service formula, and grant personnel contacts. Agencies must also maintain records of federal grant amounts passed through to subrecipients. This information is necessary for the timely preparation of claims for reimbursement, monthly agency reconciliation reports, and status reports for open FMS Accounting revenue documents. Additionally, agencies must identify and assure compliance with all applicable grant requirements, including the provisions of applicable *U.S. Office of Management and Budget (US OMB)* circulars and *Federal Funding Accountability and Transparency Act (FFATA)* requirements.

4.2. Claims for Reimbursement

Generally, the grant and claim periods are dependent upon the terms of the grant. Claims for reimbursement should be made promptly and, when feasible, no later than 30 days after the close of each period for which reimbursement is sought. Even though a grant may be for a one-year period, grant regulations and/or other laws may permit reimbursement upon filing monthly or quarterly expenditure reports in advance of expenditures. Copies of the claims for reimbursement and supporting documentation must be on file at the agency and readily available upon request by the Comptroller's Office Bureau of Accountancy Revenue Monitoring Unit (Comptroller's Office RMU) or the Citywide Grants (CWG) Task Force of the Mayor's Office of Management and Budget (OMB).

Once expenditures are incurred and the grantor has been billed, agencies should create the Billed Receivable (RE) document in FMS Accounting. An RE document is used to recognize revenue in FMS Accounting and to indicate that a claim has been filed with the grantor. RE documents should always bear the same date as the underlying claims and expenditures associated with the claims. Upon the creation of the RE document, agencies must attach pertinent supporting documentation to justify the claim for reimbursement. This supporting documentation could be in the form of the actual billing invoice, correspondence with the grantor concerning claimed amount, or high-level listing of expenditures and related FMS documents associated with the claim, etc. For additional guidance on processing an RE document in FMS Accounting, please refer to the *FISA FMS Portal Website* (if required, Username: FMS, Password: FMS); from the FMS Home page, go to: FMS Training > Training Books > Revenue Accounting.

Please Note: When submitting a claim for reimbursement to the grantor, agencies are encouraged to include the RE document identification number entered in FMS Accounting and invoice, claim number, written correspondence with grantor, etc.,. Including this information ensures that as funding is received via wire transfer or any other payment mechanism the amount is credited to each agency in a timely manner.

Agencies must include a Billing Period Ending Date on the RE entered into FMS Accounting. Agencies must follow the procedures outlined in the FISA Citywide FMS Training Manual – Revenue Accounting available at *FISA FMS Portal Website*.

Similarly, once revenue is earned, but not billed to the grantor, agencies should create the Unbilled Receivable (URE) document in FMS Accounting. A URE document is typically used during period 13 of the fiscal year-end process to recognize revenue during the fiscal year it was earned regardless of when money is actually received. Upon the creation of the URE document, agencies must attach pertinent supporting documentation to the URE documents to justify the estimated amount. This supporting documentation could be in the form of internal correspondence indicating the amount to be billed, an invoice, listing of expenditures, budget and object code charging expenditures, and the associated FMS documents, etc. Once the grantor has been billed, if a URE document was booked for the revenue, that URE document must be referenced on the subsequent RE document in order to close out the URE document in the receivables chain.

For additional guidance on processing a URE document in FMS, refer to the Revenue Accounting Manual available on the *FISA FMS Portal Website*.

4.3. Recording Collections and Closing Open Receivables in FMS Accounting

The billing agencies are responsible for the recording of revenue and other collections into FMS Accounting.

Billing agencies without sufficient staff to approve the Cash Receipt (CRE) document must enter the CRE into FMS Accounting, attach all supporting documentation to the CRE and contact the Comptroller's Office *RMU* to request approval of the CRE. Once the Comptroller's Office RMU verifies the credit on the daily bank report, the Comptroller's Office RMU will approve the entry into FMS Accounting. Collection areas within an agency at locations without FMS Accounting access must forward CRE documents or proof of deposits to a processing area within their agency for entry and approval subject to Agency Fiscal Officer instructions; or send the CRE documents electronically to the Comptroller's Office *RMU*.

Agencies with high volume may set-up an electronic interface with approval from the Comptroller's Office Bureau of Accountancy and FISA/OPA. Alternatively, to simplify data entry, agencies should use the "edit with grid" function available within each revenue document to facilitate the key punching of multiple accounting lines. Visually, this feature allows the agency to see the document in a format similar to Excel. See *Appendix A* for additional guidance on this feature.

The billing agency should ensure ongoing communications between the claims and collections units to identify open receivables to be closed because of funding received. If a revenue receivable/accrual document (URE, RE) is modified, the billing agency should ensure the following:

- Document Name: Indicate what the entry is intended to accomplish.
- Document Description: Name, phone number, and email address of agency contact in case of questions.
- Extended Description (Header): Provide details concerning the reason for the entry/adjustment.
- Accounting Line Description: Should contain the grant information, e.g. grant name, contract number, etc.
- Supporting documentation to justify the modification or original entry, **must** be attached. Comptroller's Office will not approve documents without adequate supporting documentation.

Security for CRE entry is at a high level. The billing agency fiscal officers and security personnel should ensure separation of duties within the cash collection, reconciliation, and entry functions. Critical to tracking and having the CRE accepted into FMS Accounting, the billing agency should pay special attention to the following:

- Deposit Date must be the actual date stamped on the deposit slip;
- The Accounting Period should always be left blank. It will be inferred (by default) from the Deposit Date if the month is still open. The billing agency must enter into FMS Accounting all CRE's within three (3) business days of deposit;
- The Description field on the document header should contain the name, telephone number, and email address of the billing agency contact if there are questions about the deposit or entry; and
- Supporting documentation (e.g. deposit slip, bank statement, information regarding the source of the deposit, etc.) must be attached to the CRE document.

There are times when funds are received by the City and the billing agency is not able to immediately classify the monies to the respective program or grant due to lack of information. In these cases, the billing agency would record the receipt of cash using a CRE and account for it under an agency holding code. A holding code is used to *temporarily* record unidentifiable cash. Billing agencies are strongly encouraged to conduct a thorough review periodically to identify and properly allocate revenue to the appropriate revenue source for the corresponding program. To assist with this effort, billing agencies should generate the Aged Open CRE Documents Report from InfoAdvantage (CWA-AGOCRE-001). All CREs accounted for with an agency holding code, must be identified and reallocated before each fiscal year end. To ensure that the billing agency is on track with meeting this deadline, every month the Comptroller's Office RMU will contact each billing agency to inquire about the status of items remaining in the agency holding code. Billing agencies can contact the Comptroller's Office RMU for additional guidance and assistance while investigating items.

4.4 Monitoring Open FMS Accounting Documents

The billing agency must record in FMS Accounting all revenue accruals, grant receivables, and cash advances by processing documents entitled Billed Receivable (RE), Unbilled Receivable (URE), and Cash Receipts (CRE).

Based on the document date entered on these documents, FMS InfoAdvantage generates the following Aged Open Reports:

- Aged Open Unbilled Revenue Report by Accounting Period (CWA-AGOURE-001),
- Aged Open Billed Receivables by Accounting Period and As of Date (CWA-AGORCV-001), and
- Aged Open Cash Receipt Documents (CWA-AGOCRE-001).

These reports identify aged open revenue accruals, receivables, and cash advances by comparing the document date to the date the report is run.

When reviewing these reports, the billing agency must be able to explain the reasons for each reported receivable aged more than 60 days and upon request, explain the steps being taken to rectify the situation. Specifically, if there are outstanding unbilled receivables, the billing agency must be able to explain when billing is expected to occur. For outstanding revenue receivables, the billing agency must identify what steps have been taken to affect collection on these aged receivables. For outstanding cash advances, the billing agency must supply an explanation for carrying this liability, (when will the City "earn" this money). This agency review process must be summarized in either a monthly or quarterly status report and forwarded to the Comptroller's Office *RMU* and OMB *CWG*. This report should include a listing of the delinquent receivables, an explanation for the delayed settlement, and the corrective action(s) taken. For ease of monitoring and reporting, refer to *Appendix D*, which provides simplified instructions for generating the three reports. Once in Excel format, the billing agency can manipulate the reports to summarize the open items by document or revenue budget structure to provide a status at the aggregate level. For assistance summarizing the data, OMB CWG will conduct a quarterly status review and provide billing agencies with an easy to use mechanism for providing updates on all open items.

In addition, agencies should carefully review the open documents listing to ensure that related documents that are part of the revenue chain have been adequately closed. For instance, a URE document created during the fiscal year-end close and then an RE created in the subsequent fiscal year without referencing the already created URE document may appear on the open documents listing. This example causes a misrepresentation of the City's anticipated receipt of funds, which could be misleading. Therefore, billing agencies must always remember to reference FMS documents previously created to avoid situations that may cause misrepresentation of funds.

4.5 Monthly Reconciliation

The billing agencies must reconcile internal grant revenue records (book, ledgers, etc.) to the respective monthly FMS Accounting Reports. A suggested format for the monthly reconciliation of accrual basis revenues is provided in the Fiscal Year-End Closing Instructions, which is available for download from the *Comptroller's Website*. The billing agency should keep a copy of the monthly reconciliation on file, so it is available upon request by the Comptroller's Office RMU or OMB within 30 days of the end of the month being reconciled. The reconciliation should note differences and transactions making up the differences. For assistance identifying the differences, contact the Comptroller's Office RMU for assistance adjusting transactions, if necessary.

4.6 Specific Monitoring Instructions for Capital Revenue

Once expenditures have occurred against a capital project using grant funding and the claim for reimbursement has been submitted, billing agencies are required to create a Billed Receivable (RE) in FMS Accounting to recognize the revenue. Like General Fund revenues, if the funds have been spent and not yet billed, then agencies are required to enter an Unbilled Receivable (URE) in FMS Accounting at the fiscal year end. For the Capital Fund, the Reporting Category links the expenditure to the revenue for a particular grant. At all times during the year, agencies must ensure that there is consistency between both the Reporting Category and Revenue Source used on both the RE or URE document and the Cash Receipt (CRE) used to realize the monies.

If the billing agency needs to track revenue by Capital Project ID, the billing agency must enter the Project ID and the Occurrence (RPT_CD) associated with the revenue when it enters a RE, URE, or CRE. This will provide better reporting on the expenditures and revenues associated with a particular grant. As part of the year-end closing process, the Comptroller's Office RMU will distribute the Capital Fund Expenditures and Revenue (CFEXRV-001) report to agencies for review. This report should be reviewed by each agency routinely throughout the year. Agencies should determine what is collectible and book receivable documents, as appropriate, in FMS Accounting for expenditures listed in the report with no matching revenue. Further information on the year-end closing process for Capital Fund revenue can be found in the Fiscal Year-End Closing Instructions.

4.7 Federal Single Audit

The Federal Single Audit, herein referred to as "Single Audit", is based on federal guidelines established in OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* also known as the "Super Circular." This guidance supersedes and streamlines requirements contained in previously issued OMB Circulars including the A-133, by consolidating the requirements into one uniform guidance. The Single Audit comprises the audit of a non-federal entity's activities and programs which expend federal awards during a fiscal year. The New York City Single Audit examines the financial records, internal controls, and compliance with federal laws and regulations for all programs in which the City expended federal funds or, as in the case of grants received from Federal Emergency Management Agency (FEMA), if the grant agreement for prior year expenditures is obligated during the reporting year.

The billing agency must ensure that the Assistance Listing Number (ALN)[3], Pass-Through Grantor indication, and grant expiration date is recorded accurately in FMS Accounting for each Revenue Source. The ALN number is equivalent to the federal agency and the federal agency suffix on the Revenue Source (RSRC) table in FMS Accounting. Any changes to the ALN should be reported immediately to the Comptroller's Office RMU to update the table. Every Revenue Source for federal aid in FMS Accounting should have only one associated ALN.

When an agency receives federal grant amounts via a Pass-Through Grantor, the agency must keep records of all the contract identification numbers assigned by the Pass-Through Grantor. Agencies that pass federal grant amounts to subrecipients must maintain records of the transactions. Only the total liquidated amount passed through during the fiscal year being audited to subrecipients by ALN, where the City acts as the Pass-Through Grantor, should be reported. Further information on federal aid, catalog numbers, and grant requirements can be obtained on the *US Government System*. Refer to the Comptroller's Office Annual Closing Instructions booklet for further details and instructions regarding an agency's year-end requirement as it relates to the Single Audit process.

4.8 Disallowance Procedures

Throughout the year, a billing agency may be informed by the grantor (federal, state, or other) that an amount originally granted, will be disallowed. This decision is usually made by the grantor because of an audit or some other in-depth review of the spending and amount received for the grant program. These disallowances either occur due to overpayment during a particular time period or spending not in accordance with the grant agreement.

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[3] Formerly known as the Catalog of Federal Domestic Assistance (CFDA), the Assistance Listing Number is a list of all federal financial assistance and non-financial assistance programs.

Billing agencies should report all instances of disallowance to their OMB Taskforce, OMB Accounting Services, OMB CWG, and the Comptroller's Office RMU. This includes federal amounts withheld from future reimbursements because of a disallowance or remediation for incorrect reimbursement.

After an agency discusses a disallowance issue with the grantor, a list of the following items should be shared with OMB so that the proper accounting treatment for the disallowance can be determined:

- Final letter stating disallowed dollar amount.
- Terms of payment.
- Name of the program(s) and applicable revenue source(s).
- Audit period (e.g. January 1, 2006 through December 31, 2011).
- Grantor type (e.g. federal, state, or other).
- Method of payment (i.e. is the agency's current reimbursement used to reconcile, is it in the form of check/EFT, decrease upcoming year's award, etc.).
- The FMS Accounting documents (RE, URE, CRE) related to the disallowance.

OMB Accounting Services will communicate with the Comptroller's Office to determine the appropriate accounting treatment so that the Comptroller's Office RMU can process the transactions in FMS Accounting. Once the FMS Accounting transactions are complete, OMB will inform the billing agency about the resolution.

5. NON-GRANT REVENUES

Non-grant revenues may result from exchange or non-exchange transactions. See *Section 2* for a discussion of the different classes of revenues and the reporting requirements associated with each. Revenues such as rentals, fines, inspection fees, renewal of privileges or licenses, franchises, recurring permits, forfeitures, and all real property, income based and other tax revenue receivables which are billed (or could be billed based upon contract language) are included. For General Fund only, revenues identified as cash basis in FMS Accounting are both recognized and realized when a CRE is processed in FMS Accounting.

Some specific examples of non-grant revenue are:

- Water and Sewer Charges
- Parking and other City Ordinance Violations
- Charges for Leasing City Property[4]
- Charges for Inspection of Equipment, Materials, Appliances, Premises, etc.

[4] Lease agreements for leased City property where the City is the recipient of lease income, should be forwarded to the *Comptroller's Office Lease Unit*.

- Renewal of Privileges, Licenses, etc.
- Property Tax Assessments
- Property Damage Claims. See *Section 6* for the rules to follow when collection attempts have failed.

5.1. Records Maintenance

The timely and accurate maintenance of agency accounting records is crucial for ensuring the billing and recording of all non-grant accounts receivable and the eventual collection and recognition of this cash basis revenue.

5.1.1 Invoicing

The billing agency must maintain a centralized billing control function which is segregated from its accounts receivable activities. Agency billing practices must ensure that billings are made in all instances where they are feasible or required and that the invoices are prepared and forwarded to the appropriate parties on a current basis.

Each invoice should contain the following information, as appropriate:

- Invoice number with unique agency identification
- Invoice date
- Payment due date
- Customer account number
- Payer name and address/other reference identification
- Amount billed
- Period covered by invoice

To assist payment identification, the payer's copy of the invoice should include a remittance advice that can be easily returned with the customer payment. In addition, all invoices are to be sequentially numbered for easy recording and recognition by the agency. It is suggested that the billing month and year be combined within the invoice number to facilitate a monthly aged analysis of the accounts receivable. For example, an invoice with a number beginning with 0322 would indicate a billing made in March 2022.

Billing agency acceptance and or use of electronic invoicing is acceptable if internal controls are in place to prevent misuse. For example, the billing agency must assure, at a minimum, that they have control over the completeness and accuracy of the invoice data, the timeliness of processing, prevention or detection of possible corruption of data during transmission, and prevention of duplicate processing.

Copies of all invoices must be provided to the billing agency's accounts receivable department either in hard copy or electronically and must be maintained in a file of invoices pending collection.

5.1.2 Accounts Receivable Controls

Billing agencies are responsible for the proper controls over their accounts receivable. Receivables accounted for in FMS Accounting must follow the FMS Procedures Manual for Revenue Accounting. Receivables that have been referred to another City agency or outside law offices for collection continue to remain the responsibility of the referring agency and should be included as receivables for all reports required by this Directive, as appropriate. An agency’s Receivables and Collection Ledger should be established to record both the individual accounts receivable and any subsequent cash receipts, or other adjustments applied against these open receivable balances. Depending upon the magnitude of the billings, automation of the ledger should be considered.

The following minimum billing information should be recorded in the billing agency’s receivables and collections ledger, as appropriate:

- Invoice number
- Invoice date
- Customer account number
- Amount billed
- Payment due date

The receivables and collections ledger should also contain the following information on collected revenues, as appropriate:

- Amount received
- Date received
- Remaining outstanding balances due
- Date of any receivable write-off or adjustment

5.1.3 Collections Controls

Separation of duties in the revenue area, especially for billing agencies handling cash, is mandatory. The person collecting over-the-counter revenue must not be the same person physically making the deposit, nor shall either person be responsible for preparing or approving the monthly reconciliation’s pursuant to this Directive or entering or approving the entry of the deposit into FMS Accounting. The size and/or the physical location of an agency collecting areas may require modification of the internal control requirements for which the agency’s senior management must review periodically and document the determinations; most City agencies have sufficient staff to accomplish the collecting, entering, and reconciliation of the revenues. These agencies must enter the cash receipts (CRE) document into FMS

Accounting as soon as reasonably possible, but no more than three (3) business days after the deposit. Reconciliation procedures as outlined in *Comptroller's Directive # 11 – Cash Accountability and Control* should be followed.

5.1.4 Monthly Aging of Outstanding Accounts Receivable

Billing agencies must maintain their records to facilitate the preparation of monthly aged receivables reports. The format of these reports will be left to the discretion of the billing agency but must include, at a minimum, aggregate statistics on a monthly basis of total amounts outstanding for periods: (a) up to one year, grouped by amounts outstanding for 0–30 days, >30–60 days, >60–90 days, and over 90 days–1 year; (b) > 1 year–2 years; (c) >2 years–3 years; (d) > 3 years–5 years; and (e) over 5 years.

A copy of this report should be available upon request by the Comptroller's Office RMU or OMB.

Receivables that have been transferred by referring agencies to other City agencies or outside legal collection firms for collection should be included in all quarterly reports of the transferring agency, not the collection agency.

5.2 Reconciliation of Agency Records

All billing agency cash accounts must be reconciled monthly. Billing agencies should also reconcile internal cash basis revenue records (ledgers, books, other) to monthly FMS Accounting reports. *Appendix B* suggests a format for the quarterly reconciliation of accrual and cash basis revenues. A copy of this reconciliation should be available upon request by the Comptroller's Office RMU or OMB.

6. WRITE-OFF POLICY

Accounts receivable within the City differ greatly from agency to agency for both accrual and cash basis revenue. In some cases, certain laws preclude the City from writing off accounts deemed to be uncollectible for several years. Except for those instances where statutory requirements serve to delay the write-off of bad debts, billing agencies are required to establish and adhere to sound write-off policies appropriate to their individual operations.

Billing agencies must make every reasonable effort to collect all debts due the City with effective, vigorous, and well-documented procedures. If a billing agency determines that internal collection methods are not appropriate (which may occur at any time during the collection process depending on the accounts receivable), overdue accounts should be transmitted promptly to an outside collection agency. In a similar fashion, claims that warrant legal review and assertion of the claim by a law office, the activities of that law office (either the Law Department or an authorized outside collection law firm) will determine whether the claim is recoverable. The billing agency must maintain follow-up tracking records for all accounts referred for collection.

Write-offs should occur if the cost of collection no longer makes it practical or when there is no longer a realistic chance that a receivable or claim will be paid. Generally, this means that each debt is subject to procedures commensurate with the size of the debt, and that these procedures are exhausted for the debt type and amount. For example, for debts less than $500, two dunning letters, or a dunning letter and a referral to a collection agency will be sufficient, and debts this small should not be referred to the Law Department. On the other hand, debts larger than $10,000 and not collected by internal dunning methods or an outside collection agency should be referred to the Law Department or other approved law office unless the debtor is deceased, out of the country, cannot be located, or the debt has been discharged in bankruptcy.

As a general rule, accounts receivable should not be outstanding for more than three years, except for those instances where statutory requirements serve to delay the write-off of bad debts or due to the nature of the grant, collection has historically been delayed. All accounts receivable outstanding for more than three years must be reviewed with OMB Accounting Services at least once each year until resolved. Only receivables created by grant programs approved by OMB and the Comptroller's Office Bureau of Accountancy may remain open for more than three years; all others will be written down by the Comptroller's Office Bureau of Accountancy, absent verifiable justification provided by the agency.

OMB must approve the write-off of non-grant receivables. Whenever accounts receivable are written off pursuant to this policy, the billing agency must send a completed write-off certification to the Comptroller's Office *RMU* (see *Appendix C*) for final authorization regarding all write-off requests.

Write-offs pertaining to grant receivables, will require both Comptroller's Office RMU and OMB approval. The billing agency should appropriately write down the corresponding FMS document(s) (URE and/or RE). The billing agency should use the Description/Extended Description fields at the Header to explain the reason for the adjustment and attach supporting documentation to justify the agency's decision. This supporting documentation should be in the form of correspondence with grantor, internal memorandum documenting discussions with grantor, a log showing the agency's repeated efforts to collect, or other proof that the funds are uncollectible.

Under the City's GAAP budget rules, adjustments made to prior closed fiscal years affect the current fiscal year, with reductions to previous receivables potentially opening a gap unless offset by reductions to previously accrued expenses or increases to the current year's expected revenues (through recognition of unapplied cash advances or funding swaps). As such, in addition to providing the required supporting documentation, agencies should consult with their OMB Task Force representative to ensure that necessary offsets are concurrently reviewed and submitted for processing in FMS.

Write-offs pertaining to capital grant receivables must undergo a formal review and assessment process by the Comptroller's Office Capital Unit, in coordination with the Mayor's Office of Management and Budget with Bond Counsel. This assessment is required to change the funding source of the associated project to City tax levy funding. Prior to the submission of a reduced URE/RE document, the agency must first contact their OMB Task Force representative.

All billing agency records pertaining to write-offs must be maintained for a period of at least seven years and may be subject to subsequent audit by the Comptroller's Office.

If billing agencies need assistance regarding unusual circumstances, including any historical accumulation of bad debts not written off, contact the Comptroller's Office *RMU*.

7. RETURNED CHECKS (INFORMALLY REFERRED TO AS 'NG' (NO GOOD) CHECKS)

When a check deposited by an agency into the City's Central Treasury bank account (FMS Accounting Bank Code 29) is returned by the bank for uncollected funds, stopped payment, insufficient funds, missing signature, or account closed, an NSF check memo is sent by the bank to the agency and to the Comptroller's Office Bank Reconciliation Division. The Bank Reconciliation Division records the no good (NG) check in FMS Accounting by creating a CRE document using Event Type "ARNG". The CRE for these types of transactions can be identified by the Document Identification Number used. See example below:

CRE	XXX	B29NGXXXXXX
Doc Code	Department	Bank 29 No Good Check (MM/DD/YY)

Agencies should check FMS Accounting often to monitor their NG check accounts by going to Document Catalog using the wild card with above Document I.D., or go to Revenue Inquiry table (BQ93LV1) to search by Department, the NG Revenue Source code 00845 for posted transactions. If a Department is not set up with this Revenue Source in FMS Accounting, then the following revenue structure should be used: 015-0501-00845 to locate the CRE number. If a Department has a problem determining which CRE corresponds to its agency, then it should contact the Comptroller's Office RMU for assistance.

When reviewing a CRE prepared by the Bank Reconciliation Division for an NG check, the accounting line description shows the maker, deposit date, total amount, return date, and check number of the original check. This information should be used to locate the original CRE document to reduce it by the returned check amount and to adjust the NG check CRE by the same amount. These two entries (CRE and NG check CRE) should be done simultaneously to avoid creating a reconciling item because of a timing difference.

When an agency deposits a check into its own revenue collection account or Citywide Payment Services and Standards (CPSS) account and it is returned by the bank, it is the agency's responsibility to monitor and record the returned checks and account for the reduction in the revenue structure posted in the original CRE. Questions related to the processing of the proper transactions for this instance should be directed to the Citywide *Payment Receivables Repository (CPRR) Support Group*.

If the returned check is for a grant and has agency accounts receivable implications, the Billed Receivable (RE) should be modified accordingly. Agencies must add a returned check charge to the miscellaneous revenue receivable account and attempt re-collection.

An internal examination must be performed by each agency periodically to determine that returned checks are posted to the customer's account and that the account and fees are collected. For repeat offenders, agencies should analyze whether allowing payment by check is feasible or if the costs associated with these NG checks outweigh the convenience of accepting checks from particular vendors/customers. For additional information on NG checks refer to the *Comptroller's Directive #11 – Cash Accountability and Control*.

Back to the Beginning of the Directive