



**OFFICE OF THE
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MEMORANDUM

May 22, 2024

The Honorable Detroit City Council
ATTN: City Clerk Office
200 Coleman A. Young Municipal
Center Detroit MI 48226

FROM: Nikhil Patel, Deputy CFO / Treasurer, Office of the Chief Financial Officer

**RE: Explanation of accounts receivables write-off process at the City of Detroit,
and answers to key questions regarding EMS delinquent AR write-off request**

This memorandum provides an explanation of and answers to key questions raised by the Legislative Policy Division related to the City of Detroit's uncollectible accounts receivable write-off process.

1. Please provide the section in the City code that it is Council's responsibility to approve the writing off of old receivables. Is there also any ordinance that governs Council's process of writing off old receivables?

City of Detroit – Code of Ordinance: Article IV. – Uniform procedure for accounts receivable

Sec. 17-6-6. Adjustment or cancellation of uncollectible accounts.

- (a) An account, which is determined by the Corporation Counsel to be uncollectible, in whole or in part, may be adjusted or cancelled upon agreement from the Office of the Treasury and approval of the City Council.
- (b) After having determined that an account receivable is uncollectable, the Corporation Counsel shall provide written notification to the Office of the Treasury of this status. Upon receipt of such written notification, the Office of the Treasury shall provide written notification of the same to the originating department and to the Office of Departmental Financial Services.
- (c) Within 20 days after the Corporation Counsel provides written notification that an account receivable is uncollectable, the Office of the Treasury, with approval

of the Chief Financial Officer, shall send a resolution to the City Council with a recommendation that the account be written-off.

- (d) Upon City Council approval of a write-off through adoption of a resolution, the Office of the Chief Financial Officer shall take necessary steps to write-off the uncollectable account receivable. A write-off of any uncollectible account receivable from the City's accounting records does not constitute forgiveness of the debt, which remains payable to the City by the debtor.

(Code 1964, § 21-4-5; Code 1984, § 18-6-6)

2. Explain the relevant general ledger accounts and what we are specifically focusing on for the write-off.

There are two general ledger accounts that are relevant for write-off for delinquent accounts receivable. The first is named Accounts Receivable Miscellaneous (GL Fund 1000 Object 12430); this account is the repository for all miscellaneous A/R that has been generated over time. The second account is named Allowance for Doubtful Accounts Receivable Miscellaneous (GL Fund 1000 Object 125130); this account captures the amount of monies that has been determined to be doubtful for collections.

Among other items, the Accounts Receivable Miscellaneous account (GL Fund 1000 Object 12430) includes the following items that for which Treasury is requesting approval for write-off:

- a. \$100,088,250.45 in uncollectible AccuMed EMS accounts all dated older than 2014 (General Fund 1000 Object 124340 – A/R Misc.) DFD has reviewed EMS Archives and all previous year audit files associated with EMS receivables. The department was unable to uncover any schedule detail on these uncollectible accounts.
- b. \$25,193,476.37 in EMS AccuMed accounts dated between 2014 and 2018. Collections efforts on these accounts were conducted initially through DFD's billing contractor followed by Harris & Harris, the Treasury Department's third-party collections vendor. The collections rate has been minimal and now should be written off.

These amounts have already been also recorded in the Allowance for doubtful A/R Misc. account. (GL Fund 1000 Object 125130). Therefore, the purpose of the requested write-off is primarily to clean up and improve the City of Detroit's accounting and general ledger.

3. What's the advantage of writing off old receivables?

The advantage of writing off old receivables is to maintain efficient accounting records, ensure more productive revenue collection operations, and to maintain more accurate financial statements..

Routinely writing off old, uncollectible receivables avoids audit findings from the City's financial/accounting auditor that then need to be corrected. Reducing the number of audit findings helps demonstrate the City has effective, efficient, and accurate financial and accounting protocol and process in place. This influences the City's credit rating.

The City of Detroit's independent auditor, Plante Moran, issued an audit finding (Finding #: 2023-001) for FY2023 that identified several significant adjustments to the general ledger during the audit process because of certain underlying financial records not being reconciled and closed in a timely manner. Further details on this finding is available in the Plante Moran Independent Auditor's Report issued on December 21, 2023 (provided as supplemental documentation to this memorandum).

4. Do you know the last time Finance requested Council to write-off old receivables?

If you look at the age of some of the receivables on the write-off request list, it has been a very long time since anything has been written off. There are items that go back to the 1990's and early 2000s. Many of these items should have been cleaned up and handled early during the post-bankruptcy period.

5. Should there be a more regular cadence as to when old receivables should come to Council to be written off?

Yes, there should be a more regular cadence as to when old receivables should come to Council.

6. Although most unlikely, what happens if a person who owes an old receivable that has been written off decides to pay up? How is that recorded when the old receivable is no longer on the books?

As suggested, this will be highly unlikely given the uncollectible nature of the relevant account to be written off. If a person who owes an old receivable that has been written it will be recorded as recoveries (General Fund Object 472230).

7. What accounting rule supports when old receivables should be written off?

There are no specific accounting rules that dictate when a receivable should be allowed for or when it should be written off. This should be determined by business

processes given the local context and regulation.

8. What is the best practice, especially for municipal governments, as to how long a receivable should remain on the books, when an allowance for doubtful accounts should be established against any receivables, and after how many years should an old receivable be written off?

Receivables should be allowed when they are no longer deemed to be collectible. The older the receivable, the less collectible. Level of collection effort and collection tools play a part. It's not the same for every type of receivable. Each year the City team performs an analysis of collectability of each receivable type and records an allowance accordingly. At some point, it is no longer worth the cost to pursue severely old receivables, so they need to be written off.

The State of Michigan applies a 6-year period to keep income tax debt on the books. However, income tax falls into a vastly different category of collections than that of municipal accounts receivable items. EMS AR should have a much shorter collection time frame. DFD's existing billing and collections vendor does not deem it to be sufficiently profitable to pursue collections beyond 6 months.

There isn't a one-size-fits-all answer. It depends on the municipality's collection efforts and local regulations. However, some best practices include:

- **Establish Aging Categories:** Group receivables by delinquency period (e.g., 30 days past due, 60 days past due, etc.). This helps prioritize collection efforts on the most overdue accounts.
- **Set a Reasonable Limit:** Determine a maximum timeframe an account remains on the books before considering write-off. This timeframe may be influenced by:
 - Legal limitations for debt collection in your state.
 - Cost-effectiveness of pursuing collection compared to the amount owed.
- **Early Recognition:** Set up an Allowance for Doubtful Account as soon as you identify a risk of non-collection. Analyze aging reports and consider factors like past due history or financial hardship of the debtor.
- **Regular Reviews:** Regularly assess and adjust the ADDA based on collection efforts and economic conditions.

Writing Off Old Receivables: There's no single timeframe for write-off, but consider these factors:

- **Statute of Limitations:** This legal limit restricts the time you can pursue collection through the court system. Once expired, write-off is necessary.
- **Collection Efforts:** If collection attempts have been exhausted and deemed ineffective, write-off is appropriate.

- **Materiality:** For very small amounts, the cost of collection might outweigh the benefit. Consider a write-off threshold based on materiality to your overall budget.

9. When an old receivable is written off, is the associated allowance for doubtful account eliminated? If so, does Council also have to approve the elimination of the allowance for doubtful account?

No, allowance for undoubtful is eliminated with the receivable write off when Council approves the write off.

10. Please provide any OCFO/Finance directives that provide the City's treatment of old receivables, the establishment of an allowance for doubtful account, and the writing off of old receivables.

CFO DIRECTIVE No. 2018-101-021

11. Are there any other old receivables that need writing off that may come to Council within FY 2025?

Treasury would like to also address old, delinquent parking fees that should be written off. Timing for when this can be brought to council is dependent upon the municipal parking department providing the necessary data and deciding on what is uncollectible.

12. Why is the write-off of delinquent personal property not approved through City Council?

All property tax is governed by state statute and has strict guidelines on administration, operations, and collections. The State legislature has rules governing property taxes with the intention to ensure uniformity of administration and process across the State of Michigan.

Personal property tax is governed by state statute MCL - Section 211.56a, the General Property Tax Act (Act 206 1983); it reads as follows below. Accordingly, the process to write-off delinquent personal property is administered through the circuit courts.

MCL – Section 211.56a – Personal property taxes uncollected for 5 years; petition; striking from rolls; judgment; duties of county treasurer. Sec. 56a:

(1) If a tax levied on personal property remains uncollected for more than 5 years after that tax becomes delinquent, the township or city treasurer shall prepare a statement showing all of the following:

- (a) The taxes levied upon personal property that remain unpaid.*
- (b) The names of the persons against whom those taxes were assessed.*

(c) The amount assessed against each person that remains uncollected, together with all fees, penalties, and interest due under this act or under a city charter.

(2) The original copy of the statement prepared pursuant to subsection (1) shall be filed with the circuit court of the county in which the township or city is located together with a petition. Two or more township or city treasurers may file a joint petition under this section.

(3) The petition shall state all of the following:

(a) That the taxes upon personal property as shown in the statement have remained unpaid for more than 5 years after they were returned to the county treasurer as delinquent.

(b) That the taxes have remained delinquent despite the fact that the township or city treasurer or his or her predecessors in office exercised due diligence in an effort to collect the taxes.

(c) The taxes are, to the township or city treasurer's best knowledge and information, uncollectible.

(4) The petition shall request that a date, not less than 30 nor more than 45 days after the date of filing the petition, be set for a hearing on the petition and that the court enter a judgment in favor of the township or city, striking those taxes from the tax rolls of the county and township or city. If a judgment is entered in favor of the township or city, the taxes in the statement shall cease to constitute an asset of the township or city, the county in which the township or city is located, and any school district or other taxing entity in which the personal property was located at the time it was assessed for taxes.

(5) The township or city treasurer shall, not less than 10 days before the date set by the circuit court for the hearing, notify the county treasurer and the clerk or secretary of any school district in which any personal property may have been located at the time it was assessed for taxes that a petition was filed with the circuit court under this section, that the statement required under this section was prepared, and the date set for the hearing on the petition.

(6) Within 15 days after the hearing on the petition, the court shall enter a judgment that as to all items or personal taxes set forth in the statement of uncollected taxes filed with the court for which the township or city treasurer and his or her predecessors in office have exercised due diligence in an effort to collect the taxes upon that personal property, those taxes shall be stricken from the tax rolls of the county and of the township or city and shall cease to constitute an asset of the township or city, the county in which the township or city is located, and any school district in which the personal property was located at the time it was assessed for taxes, and that the debt created by the provisions of this act or by any city charter of the person assessed for those taxes to the township or city shall, from the date of entry of the judgment, assume the status of a debt against which the statute of limitations has run.

(7) A copy of the judgment shall be served upon the county clerk, the clerk of the township or city, and the clerk or secretary of each school district located in the township or city.

(8) In a county in which the county treasurer collects delinquent personal property taxes as provided in section 56, the county treasurer shall undertake and carry out all of the proceedings to strike delinquent personal property taxes from the county tax rolls as provided in this section.

13. Who are the major payers of utility user taxes?

- a. DTE Gas Company
- b. DTE Electric Company
- c. Marathon Ashland Petroleum LLC

- d. Constellation Newenergy, Div LL
- e. BP Canada Energy Marketing Corp
- f. Wolverine Power Marketing Cooperative
- g. Beacon Energy Holdings
- h. FCA US LLC
- i. Note: There are a total of 250-260 payers, with a long-tail of telecommunication network payers