



Guide to Managing Receivables

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Guide to Managing Receivables

1. Date of publication

This guide was published on November 22, 2019.

This guide replaces the Treasury Board *Guideline on Collection of Receivables*, dated October 1, 2009.

2. Application, purpose and scope

This guide applies to the organizations listed in section 6 of the *Policy on Financial Management* and to receivables as defined in the *Directive on Public Money and Receivables*.

The purpose of this guide is to provide departments with information on how to manage receivables.

This guide elaborates on the requirements set out in the *Directive on Public Money and Receivables*.

Section 3 outlines the types of receivables that departments typically manage.

Section 4 covers various aspects of minimizing receivables and credit.

Section 5 covers different aspects of recording receivables.

Section 6 explains how to treat debtors fairly.

Section 7 outlines:

- collection practices
- collection methods
- limitation periods for collecting debts that departments may use to collect debts owed to the Crown
- how departments can share debtor information

Section 8 provides guidance on other key practices in receivables management:

- recording receivables
- reporting receivables

Section 9 provides guidance on making sure that departing employees return assets

Section 10 discusses how the *Low-Value Amounts Regulations* apply to amounts receivable.

3. Types of receivables

This section outlines the types of receivables that departments typically manage. These receivables are normally recognized and administered in their financial management system.

Overpayments and other erroneous payments

- overpayments or erroneous payments of salaries, allowances, supplier accounts, grants, contributions and benefits
- travel card charges that departments pay on behalf of cardholders

Loans, advances and repayable amounts

- amounts due from loans, including accrued interest
- amounts due from defaulted loans as a consequence of a department honouring a loan guarantee
- amounts due from repayable contributions when the conditions that make the contribution repayable have been met or when the amounts are unconditionally repayable
- accountable advances, including unexpended balances that require repayment

Interest, penalties, disputed claims and amounts related to legal proceedings

- amounts due from penalties, fines, court awards and out-of-court agreements
- authorized interest on amounts owed to departments
- administrative charges on specified items
- disputed claims at their estimated value

Other receivables

- amounts due from the *Income Tax Act*, goods and services taxes, and other taxes, levies and duties
- amounts due from the sale of goods, the provision of services or the use of facilities, including any applicable sales tax charged as part of a sale
- gross amounts assigned to third parties for collection (the gross amount, excluding any commissions payable to private-sector collection agencies, which are recorded separately)
- amounts due from other federal government departments (the sections of this guide that deal with the collection of receivables and with low-value amounts do not apply to interdepartmental transactions)

4. Minimizing receivables and credit

According to the *Directive on Public Money and Receivables*, the chief financial officer or the senior departmental managers designated by the deputy head are responsible for:

4.3.1 Ensuring that receivables are minimized, to the extent possible, by requiring payment in advance or at the time that goods and services are provided

4.3.2 Granting credit only when it is an operational requirement

4.1 Why minimize receivables

Transactions that result in receivables are sometimes necessary to achieve program objectives and to meet operational requirements. Receivables need to be minimized because they could involve a risk that they will not be recovered.

4.2 How to minimize receivables

To minimize receivables, departments can:

- review internal controls to ensure that:
 - overpayments or erroneous payments to suppliers and employees are avoided
 - overpayments or erroneous payments of grants, contributions or benefits to recipients are avoided
- ensure that employees who hold a travel card or an acquisition card understand their responsibilities in order to reduce instances of inappropriate use that would require recovery of expenses
- explore other methods of payment or other transactions before issuing accountable advances
- avoid entering into contracts that have terms and conditions that might create receivables (for example, contracts in which the acceptance of credit memos is part of the terms and conditions)
- require payment in advance or immediate payment
- establish a sound departmental credit policy (see subsection 4.4 of this guide)

4.3 When to grant credit

As set out in subsection 4.3.2 of the *Directive on Public Money and Receivables*, departments may grant credit only when it is required for operational purposes. In other words, they may grant credit only when not doing so would:

- prevent them from accomplishing their mandate
- hamper achievement program objectives with regard to:
 - the ease of access to services
 - the type of clientele served
 - the frequency of transactions offered
 - a program strategy that supports desired outcomes

The requirement to grant credit only when required for operational purposes applies mostly to:

- the provision of goods and services
- the use of government facilities
- the rights and privileges conferred by the federal government

4.4 What to include in a departmental credit policy

A department's credit policy should include:

- what may be provided on credit, such as:
 - the types of goods and services provided
 - the facilities available for use
 - the rights and privileges conferred
- an appropriate segregation of duties in the granting of credit
- a process for assessing credit risk (for new customers)
- a minimum threshold value for credit sales
- the acceptable levels of credit risk
- the credit terms (the conditions under which credit is granted and the maximum credit limit)
- when payment is due and the interest rate that applies to late payments
- the minimum information necessary to extend credit
- the point at which, unless precluded by statute, the department may refuse to provide goods, services, use of facilities, and rights and privileges on credit because of unpaid debts to the Crown

5. Recording receivables

According to subsection 4.3.4 of the *Directive on Public Money and Receivables*, the chief financial officer or the senior departmental managers designated by the deputy head are responsible for “ensuring that all receivable transactions and related allowances for doubtful accounts are promptly and accurately recorded in the accounts of the department.”

5.1 Benefits of prompt and accurate records

Prompt and accurate recording of receivables helps:

- enable timely reporting
- make sure that the department's financial information is complete and reliable
- resolve disputes when debtors challenge the validity of receivables
- ensure successful debt collection

- limit or avoid the need for further collection actions
- determine whether a debt is covered by a limitation period (see subsection 7.3 of this guide for information on statutes of limitations for debt collection)

5.2 Contents of a collection file

Each receivable must have a collection file. A properly documented collection file contains:

- any documentary evidence that validates that a debt is owed to the Crown (for example, a loan agreement or a repayment arrangement)
- accurate, complete and up-to-date records of all communications with the debtor, including written demands for payments and notes from telephone conversations
- accurate documentation of any repayment arrangement made with the debtor
- accurate transactional information, such as the original receivable amount, any applicable interest, the balance due, and any payments received from the debtor

5.3 Recording of allowances for doubtful accounts

When it is expected that an account receivable may not be collected in whole or in part, an allowance for doubtful accounts is recorded to ensure an appropriate valuation of the account's net realizable value. The net realizable value is not necessarily the amount legally receivable. For guidance on accounting for transactions that result in receivables and allowances for doubtful accounts, refer to the Accounts Receivable section of the *Financial Information Strategy Accounting Manual*.

5.4 Reinstating accounts

Receivables are recorded in the department's accounts and must not be removed until the department has received full payment or the debt has been remitted, forgiven, written off or waived in accordance with applicable legislative requirements. If a debt is written off and it becomes known in the future that the debtor's financial position has improved and that the debtor is able to pay the debt, the account is reinstated and the debt is collected.

5.5 Adjustment to a department's accounts

Adjustments to a department's accounts receivable are administrative actions and do not require legislative or regulatory authority. Adjustments may occur when receivables are recorded in error or when the legitimacy of a debt cannot be substantiated.

Examples

1. A program expense was erroneously recorded in a department's accounts as an account receivable. The department reviewed the transaction, confirmed that it was

recorded incorrectly, and made an adjustment to the account to record the amount as an expense and remove the receivable.

2. A department erroneously made a payment to an individual. The department must recover the payment, so it must establish an account receivable. Because the debt is substantiated by departmental records, the account receivable should be removed only when the erroneous payment has been fully recovered or when a write-off, remission, forgiveness or waiver has been authorized.

6. Treating debtors fairly

According to the *Directive on Public Money and Receivables*, the chief financial officer or the senior departmental managers designated by the deputy head are responsible for:

4.3.3 Ensuring that debtors are fairly treated and informed of their rights and obligations under applicable acts, regulations, policies and directives

6.1 Considerations for fair treatment of debtors

Treating debtors fairly entails the following:

- communicating openly with debtors
- informing debtors of the status of their account
- applying legislation and policies consistently to all debtors
- informing debtors of their obligations under the applicable legislation and of any administrative review or appeal processes that could provide relief or redress
- explaining to debtors the consequences of non-payment or late payment
- responding to debtors' requests for information
- making sure that information provided to debtors is accurate, understandable and timely
- making timely demands for payment (see subsection 6.2 for more information)
- considering debtors' financial situation and any other special circumstances when collecting debts

6.2 Making timely demands for payments

Making timely demands for payments, in writing, helps ensure successful collection of debts. Demands can take the form of, for example, invoices, bills, statements or other documents.

Demands for payments should include the following elements, as applicable:

- details on current charges
- details on payments received from the debtor
- the total amount due

- clear payment terms (for example, “The total amount owing is due within 30 days after the invoice date.”)
- a notice that interest will be charged on late payments

7. Collecting receivables

According to subsection 4.3.5 of the *Directive on Public Money and Receivables*, the chief financial officer or the senior departmental managers designated by the deputy head are responsible for “taking timely and cost-effective collection actions to pursue receivables”

This section outlines:

- good collection practices
- collection methods
- limitation periods for collecting debts
- guidance on sharing personal information to locate a debtor for debt collection

7.1 Collection practices

This section outlines some practices for collecting receivables. These practices are used in everyday commerce in both public and private sectors.

7.1.1 Consider the debtor’s financial situation

When collecting a debt, departments should consider the debtor’s financial situation, including:

- the legislative and administrative environment
- how the receivables arose (for example, less flexibility is allowed if a debt arose as a result of fraud)
- the debtor’s specific circumstances, such as income and level of indebtedness

Should departments determine that collecting a receivable would result in undue hardship to the debtor, repayment arrangements may be negotiated in consideration of the debtor’s capacity to pay and any other relevant factors.

7.1.2 Make repayment arrangements

Subject to any legislation, regulation or policy that governs a departmental program or service, departments may establish a repayment arrangement or renegotiate an existing repayment arrangement to maximize collection of a debt.

The debtor's specific circumstances and capacity to make meaningful and sustainable repayments may be taken into consideration.

7.1.3 Charge interest on overdue accounts

Departments should charge authorized interest on overdue accounts to ensure that debtors have an incentive to pay their accounts on time. The *Guide to Interest and Administrative Charges* provides information on charging interest.

7.1.4 Remove debts from uncollectible accounts

When a receivable is not settled in full because it is deemed uncollectible or for another reason, departments should take timely action to remove the receivable from their accounts in accordance with the applicable legislative or regulatory requirements.

The *Guide to Interest and Administrative Charges* provides information on waiving interest and administrative charges.

7.2 Collection methods

Departments may use a range of methods to collect debts owed to the Crown. Departmental officers who manage receivables should choose the most appropriate and cost-effective collection method for each circumstance, starting with the most straightforward method and progressing to more complex methods, if necessary. Subsections 7.2.1 to 7.2.8 describe the possible methods in order of least complex to most complex.

7.2.1 Voluntary deduction

A voluntary deduction involves a debtor authorizing the Crown to deduct the amount of a debt from payments that the Crown owes the debtor. No ministerial approvals are required to process a voluntary deduction.

7.2.2 Voluntary assignment

Voluntary assignment involves a debtor authorizing payment of a debt to the Crown using payments owed to the debtor by a third party. Departmental officials should consult their legal services any time a debtor proposes a voluntary assignment.

7.2.3 Set-off

A set-off is the reduction of a claim by deducting the amount of a valid compensating claim. When used, set-offs should be processed in a way that maximizes recoveries.

7.2.3.1 General authority for set-off

A set-off may be enacted by a specific statute or regulation or under the authority of subsection 155(1) of the *Financial Administration Act* (FAA), when program legislation does not override this authority.

7.2.3.2 Initiating set-off

Before initiating a set-off, every possible attempt to advise the debtor should be made and documented. Departments should make every effort to avoid creating undue hardship for the debtor when initiating a set-off against federal government payments.

7.2.3.3 Minister's consent

Pursuant to subsection 155(4) of the FAA, the minister of the paying department (or a person who has the appropriate delegated authority) must consent to the set-off. Both the department responsible for collecting the debt and the department responsible for making the payment must agree to the set-off amount and the recovery rate.

7.2.3.4 Exception to minister's consent

The consent of the minister of the paying department is not required for the recovery of:

- overpayments of salaries, wages, pay and employment-related allowances
- outstanding accountable advances from amounts due or payable to employees

Where applicable, the *Directive on Terms and Conditions of Employment* provides direction on recovering overpayments of salaries, wages, pay, employment-related allowances and emergency salary advances.

7.2.3.5 Crown corporations

Departments may use the general authority for set-off under subsection 155(1) of the FAA to recover a debt due by a non-agent Crown corporation. However, set-off is not possible when the debtor is an agent Crown corporation.

7.2.4 Require security for a debt

Subsection 156(1) of the FAA provides the appropriate minister with the authority to require a debtor to provide security to protect the payment of amounts owed to the Crown. This authority does not oblige a debtor to provide security for every debt. Departments will decide, based on program needs, whether security should be required in order to facilitate the collection of a debt.

Departmental officers should determine when it is appropriate in their collection process to realize a security provided to the Crown (that is, convert a security into cash). However, before they realize a security, they should carry out all reasonable collection and recovery actions, including set-off actions. Any attempt to realize the security should be made under legal advice.

7.2.5 Hire a private-sector collection agency

7.2.5.1 When to use a private-sector collection agency

Consistent with subsection 4.3.5 of the *Directive on Public Money and Receivables*, departments may use private-sector collection agencies to recover debts owed to the Crown when they determine that it is cost-effective and efficient to do so.

When a department hires a private-sector collection agency to collect a debt, the department should cease other collection actions except when it is preparing an account for set-off.

7.2.5.2 Agencies to use

Departments should use collection agencies listed in Public Services and Procurement Canada's national master standing offer.

7.2.5.3 When not to use a private-sector collection agency

Departments should **not** use private-sector collection agencies to collect the following debts:

- debts owed by:
 - other federal government organizations
 - provincial, territorial and foreign governments
 - international organizations, such as the United Nations
- disputed debts under appeal or in litigation
- debts owed by current employees

7.2.5.4 Authority to pay fees or commissions to a private-sector collection agency

As set out in subsection 17.1(2) of the FAA, fees or commissions payable to a collection agency for the successful collection of debts owed to the Crown can be charged to the Consolidated Revenue Fund as special statutory items (refer to authority code A123 in the government-wide chart of accounts).

Expenses for services that are not provided through a national master standing offer for debt collection services, such as expenses for tracing, credit assessment and cheque verification, should be charged to departmental operating votes.

7.2.6 Collect a present-value payment

A department can collect a debt and consider it fully settled by accepting a payment that represents one of the following:

- the present value of an established repayment schedule
- the present value of an amount due at a future date

In calculating the amount of a present-value payment, the department should determine and apply an appropriate discount rate. The discount rate should approximate the cost to the federal government of borrowing, adjusted by the degree of risk associated with the debt. The degree of risk is based on factors such as a low probability of recovery.

The cost to the federal government of borrowing may be estimated using interest rates or other information (for example, yields) related to Government of Canada securities, such as bonds or Treasury bills. Further information can be found on the Bank of Canada's website.

The *Debt Write-Off Regulations, 1994*, provide the authority to write off the balance that remains after a present-value payment has been accepted as full settlement of the debt.

7.2.7 Negotiate a compromise settlement

A compromise settlement involves:

- accepting partial payment as fully satisfying a debt
- releasing the debtor from any obligation to pay the remaining balance (in other words, the debt is extinguished)

Compromise settlements are normally considered in the context of disputes that may lead to legal proceedings. A compromise settlement can be accepted in the following scenarios:

- Recovery through a compromise settlement is expected to be greater than what could be collected through a legal process.
- If the debtor is on the verge of bankruptcy, the settlement exceeds what the department would receive if the debtor were to go bankrupt.

The authority to accept a compromise settlement is held by the Minister of Justice (through departmental legal services), who normally acts on the advice and recommendation of the appropriate minister.

A compromise settlement may be accepted either before or after the start of legal proceedings.

When the Department of Justice Canada (through departmental legal services) proposes a compromise settlement and when the department concerned agrees to the settlement, the difference between the original debt and the amount of the compromise settlement is to be written off pursuant to paragraph 4(3)(b) of the *Debt Write-Off Regulations, 1994*.

7.2.8 Initiate legal proceedings

A department may consider initiating legal proceedings in order to:

- collect a debt
- seek to enforce any judgment made in its favour

All cases that involve legal proceedings are to be referred to departmental legal services.

7.3 Limitation period for debt collection

The period for collecting a debt may be subject to the limitations set out in the *Crown Liability and Proceedings Act*, another federal statute or a provincial statute. Departments should consult departmental legal services to confirm the applicable limitation period.

7.4 Sharing of debtors' personal information

When permitted, departments, agencies and Crown corporations may and should share information and resources in order to locate debtors and collect debts owed to the Crown.

7.4.1 What information can be shared

The *Directive on Public Money and Receivables* states that the chief financial officer or the senior departmental managers designated by the deputy head are responsible for:

4.3.6 Ensuring that upon request by another department or agent Crown corporation, the following information concerning a person that has a debt due to the Crown is provided to it (unless specifically prohibited by departmental or program legislation):

4.3.6.1 The person's last known address and telephone number;

4.3.6.2 The name and address of the person's last known employer; and

4.3.6.3 Any payment coming due to the person; ...

The information that may be shared is limited to what is necessary to comply with the purpose of the request. In other words, when the request concerns:

- locating a person, only the personal information listed in subsections 4.3.6.1 and 4.3.6.2 of the *Directive on Public Money and Receivables* is to be provided
- using a set-off authority, the personal information listed in subsections 4.3.6.1, 4.3.6.2 and 4.3.6.3 may be necessary and is to be provided, where possible

Information must pertain to the debtor

Information may be obtained from any account, return, record, statement, document or report pertaining to the debtor. The information may not be obtained from any account, return, record, statement, document or report pertaining to any other person, such as the debtor's relative or spouse.

Information must not be used for another purpose

Information that is obtained for the purpose of collecting or setting off a debt may not be used for any other purpose. Such information must be protected from disclosure in a way that is consistent with the requirements of the program under which it was collected.

7.4.2 Privacy considerations

Legislative authorities

The following legislative authorities apply when sharing information to locate debtors in order to collect amounts owed to the Crown:

- *Financial Administration Act*
 - paragraph 7(1)(c), which provides the Treasury Board with the authority to set policy on receivables that is applicable to departments
 - subsection 9(3), which addresses the sharing of information to locate debtors and for set-off (requirements

provided under section 4.3.6 of the Directive on Public Money and Receivables)

- Privacy Act
 - paragraph 8(2)(b), which addresses the disclosing of personal information for any purpose according to any act of Parliament or any regulation that authorizes its disclosure
 - paragraph 8(2)(l), which addresses the disclosing of personal information for the purpose of locating an individual to collect a debt owed to the Crown
- Other
 - Other legislation may provide for the confidentiality of certain information. When dealing with such information, departments should consult their legal services team to confirm whether the information-sharing requirement in the Directive on Public Money and Receivables applies.

Policy authorities

Departments must also comply with all other Treasury Board policy instruments pursuant to the *Privacy Act*, including the Policy on Privacy Protection and the Directive on Privacy Practices, and specifically, the requirement to establish contracts or agreements that govern the exchange of personal information.

8. Reporting on receivables

Departments should report to management regularly on receivables.

Regular reporting on receivables supports:

- sound management practices
- departmental controls for accounts receivable

Reports on receivables are used for various purposes, including:

- determining the effectiveness of the department's credit policy and collection function
- identifying overdue accounts
- charging interest

Information to include in reports

Departments should determine what information to include in reports on receivables based on their reporting priorities and needs. Typically, reports include:

- the balance of accounts receivable

- the age of accounts
- the amount collected to date
- the accrued interest
- the credit information or credit risk

Non-financial information can also be included, such as the types of customers or accounts and debtors' contact information.

Performance measurement

Reports on receivables are also a source of information when establishing and monitoring a results-based measurement mechanism to manage receivables. Reports on receivables should therefore include:

- the recovery rate of accounts receivable
- the default rate
- the average number of days for which accounts receivable are outstanding
- the departmental collection costs per dollar of outstanding receivables collected

Public accounts

Accounts receivable are reported annually in the Public Accounts of Canada. Reporting instructions are issued by the Receiver General.

9. Making sure that departing employees return assets

According to the *Directive on Public Money and Receivables*, the chief financial officer is responsible for:

4.4.1 Ensuring, as part of a departure process, that an employee returns all public money owed, including outstanding accountable advances and any public property, before leaving the department

4.4.2 Ensuring, in collaboration with compensation services, that when a departing employee owes public money or has not accounted for public property, that a process is put in place to take recovery action and, if necessary, establish an account receivable

A departure process helps ensure the security and control of:

- departmental data
- network resources
- physical and monetary assets

Such a process is normally supported by documentation, such as reports, forms and checklists, that departing employees and their managers complete. This documentation is reviewed by specific areas of the department to:

- validate the information provided by the departing employee and by the manager
- confirm that assets and other items have been returned to the department

Typically, the following areas of the department take part in the review. Other areas may also be involved, depending on the department's organizational structure.

- human resources
- security services
- materiel management
- information technology (IT)
- financial services

Items to be returned or repaid

Items that must be returned or repaid include:

- cards (for example, identity cards, acquisition cards, travel cards, special access cards)
- keys
- classified and protected information
- equipment (for example, IT equipment, communications equipment)
- other movable assets
- tools
- manuals
- salary-related overpayments
- overdrawn leave
- outstanding accountable advances, such as petty cash funds, change funds, travel advances and emergency salary advances

The responsibility for establishing a departure process may reside with a senior departmental official other than the chief financial officer, depending on the department's organizational structure and assignment of responsibilities.

Although departments have flexibility in determining the roles and responsibilities of stakeholders in the departure process, specific controls under the chief financial officer's responsibility may need to be in place in order to comply with the *Directive on Public Money and Receivables*. Such controls may require, for example, that an officer under the chief financial officer's responsibility be the last to sign off on the documents related to an employee's departure before the final compensation payment is issued to the employee.

Departments should take timely recovery action when departing employees owe money to the Crown.

10. Low-Value Amounts Regulations

Amounts owed to the Crown are subject to the provisions for small amounts set out in section 155.2 of the FAA and in the *Low-Value Amounts Regulations*.

Detailed guidance on applying section 155.2 of the FAA and the *Low-Value Amounts Regulations* is provided in the *Guide to Administering Low-Value Amounts*.

Small amounts deemed nil

Where an amount receivable is deemed nil under the *Low-Value Amounts Regulations*, there is nothing to collect and nothing to write off. According to the regulations, an amount owed to a department is deemed nil when it is \$2.00 or less. Note that subsection 155.2(6) of the FAA provides exceptions for certain amounts. Section 4 of the *Low-Value Amounts Regulations* also exempts certain amounts from the application of the low-value amounts threshold.

11. Accounting for receivables

The Accounts Receivable section of the *Financial Information Strategy Accounting Manual* provides guidance on how to account for receivables.

12. References

Legislation and regulations

- *Crown Liability and Proceedings Act*
- *Debt Write-Off Regulations, 1994*
- *Financial Administration Act*
- *Interest and Administrative Charges Regulations*
- *Low-Value Amounts Regulations*
- *Privacy Act*
- *Receipt and Deposit of Public Money Regulations, 1997*

Related policy and guidance instruments

- *Directive on Public Money and Receivables*
- *Directive on Terms and Conditions of Employment*
- *Financial Information Strategy Accounting Manual*
- *Guide to Administering Low-Value Amounts*
- *Guide to Interest and Administrative Charges*
- *Policy on Financial Management*
- *Policy on Privacy Protection*

13. Enquiries

Members of the public may contact [Treasury Board of Canada Secretariat Public Enquiries](#) if they have questions about this guide.

Individuals from departments should contact their departmental financial policy group if they have questions about this guide.

Individuals from the departmental financial policy group may contact [Financial Management Enquiries](#) for interpretation of this guide.

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