

DEPARTMENT OF PUBLIC WORKS

LIMPOPO

DEBT MANAGEMENT POLICY

1. INTRODUCTION

Accounts receivable are defined as amounts due to the department. They are classified as short-term receivables that are normally, but not necessarily, expected to be collected within a year. The department has debtors originating mainly from salary related issues, which are internal. They are tax debts, salary overpayments and leave without pay. There are also other external debts emanating from third parties and suppliers overpayments.

Effective debt management maximizes revenue or cash flows and minimizes the risk of bad debts/irrecoverable debts. It is therefore vital that all directorates in the department are aware of the importance of debt management and fully co-operate with financial management services for the management of the administrative processes. In this manner it will be possible to provide assistance and advice to other directorates on debt management issues.

Given this extensive scope, sound management of debts is significant to the department achieving its objectives of effective, efficient, economical and transparent use of resources and ensuring that effective and appropriate steps are taken to collect all money due to the department.

2. PURPOSE

- 2.1 To provide guidance on how to manage debts, which if not managed properly will result in loss of money due to the Department
- 2.2 To maximize revenue collection on a controlled risk basis
- 2.3 To ensure that all department's debts are managed fairly, efficiently, effectively and to recover such receivables and minimize the risk of loss.

3. LEGAL MANDATE

- 3.1 **The Public Finance Management Act no.1 of 1999. (section 38(1)(c)(i) and (d):** The accounting officer for a department must take effective and appropriate steps to collect all money due to the department, as well as manage and safeguard the maintenance of assets and liabilities of the department.
- 3.2 **The Treasury Regulations issued in terms of the PFMA. Part 5:11:** The accounting officer of an institution must ensure that there is maintenance of proper accounts and records for all

debtors, including amounts received in part payment; and refer a matter to the State Attorney, where economical, to consider legal demand and possible legal proceedings in a court of law.

4. POLICY STATEMENT

4.1 It is the department's policy:

- 4.1.1 To treat debts/receivables as an important asset of the department that need prudent management
- 4.1.2 To avoid where possible, the creation of receivables or debts
- 4.1.3 To recognize receivables promptly and vigorously pursue their collection
- 4.1.4 To treat debtors fairly and with dignity
- 4.1.5 To maximize recoveries and minimize irrecoverable debts or bad debts.

5 APPLICATION

This policy applies to all employees within the department of Public Works.

6 DEBT CREATION

6.1 Recognition of debts

A file and debtor's diary for each debtor shall be opened in order to record relevant information and calls made to the referred debt.

6.2 Creation of debt in the financial system

Each recognized debt shall be created into the relevant financial system.

7 COLLECTION PROCESS.

The collection process involves six stages

7.1 Letters of notice

A standard notice letter written on a departmental letterhead shall be sent to the debtor to respond within thirty (30) days.

7.1 Phone calls

Calls made to the debtor shall be recorded in the debtor's diary.

7.2 Reminders

Phone calls shall be made to remind the debtors about his/her debt and also to inform him/her about a reminder which has been sent.

7.3 Following-up of debts

Follow –ups shall be made to ensure that debts owing to the department are collected within a reasonable time.

8 Demand letters/Final letters

After reasonable efforts were taken to collect money from the debtor, but still no positive response was received from the debtor in question, a standard letter of demand shall be written to a debtor.

9 Handing over to debt collectors

9.1 Failure to contact the office within 15 days by the debtor the following steps shall be taken:

9.1.1 In case of internal debtors (employees within the department) decisions of stop order payments will be effected on their behalf whereby the amount owed will be deducted from their salaries either once off or in 6 to 12 months installments, depending on the amount. This will be done in consultation with Policy and HRM.

9.1.2 In case of external debts, the debt will be referred to the State Attorneys to consider legal demand and possible legal proceedings in a court of law.

9.2 After writing a final letter of demand, no contact whatsoever will be made with the debtor in question.

9.3 After 15 days of writing such a demand/final letter, the debtors file shall be referred to the State Attorneys through the Accounting officer of the department (for external debts only) and the stop orders are effected to recover the money without fail (for internal debts only).

10 DEBT ADMINISTRATION

10.1 In cases whereby the debtors have responded positively, the debtors' files must be maintained properly and effectively.

10.2 The debtors shall be issued with statements of their accounts which will reflect the original debt, amount paid to date, the total amount due which is either 30, 60 or 90 days old and the outstanding balance.

10.3 Interest shall be charged on amounts owed by external debtors to the department at the interest rate determined by the Minister of Finance in terms of section 80 of the PFMA.

10.4 The statements to debtors shall be issued within 7 days after the end of every month.

11 WRITE-OFF OF DEBTS

11.1 A write-off of monies or assets will occur when it is considered impossible or where the costs of pursuing a debt outweigh the benefits. The department will consider debts less than R120.00 uneconomical to collect through debt collectors (for external debts only), but will still submit such files to the State Attorneys.

11.2 It will also occur when it has not been possible to recover the full amount of moneys owing to the department and partial payment has been received

- 11.3 Write-offs/write downs may only be initiated after a rigorous pursuit of the debt.
- 11.4 In cases where the recovery should cause undue hardship to the debtor or his or her dependants, write off will be considered at the discretion of the HOD.
- 11.5 Debts are not to be written off for current departmental officers (officers still employed by the department) and prompt payment should be pursued for such officers
- 11.6 No authorized officer is permitted to approve their own personal write-offs or write-downs, or approve any in which they have a conflict of interest.
- 11.7 A debt can only be written off when approval has been granted by the accounting officer or any person delegated with such authority.

12 ROLES AND RESPONSIBILITIES

12.1 DIRECTORATES

- 12.1.1 Inform the debtor about the money owing to the department.
- 12.1.2 Inform finance (revenue and systems sub-directorate) about a debt accrued in the department.

12.2 FINANCE DIRECTORATE

- 12.2.1 Write and send a standard notice letter informing the debtor about the debt.
- 12.2.2 Open a debtor's file and diary to record all relevant information and calls made to the debtor.
- 12.2.3 Create the debt in the financial system.
- 12.2.4 Make follow-ups by making phone calls and writing reminders to debtors to ensure that debts owing to the department are collected within a reasonable period.
- 12.2.5 Write a progress report on the status of debts to the Chief Financial Officer.

12.3 DEBTOR

- 12.3.1 Acknowledge the debt by responding to the notice letter within thirty (30) days.
- 12.3.2 Negotiate and sign an agreement on how and when payment will be effected.
- 12.3.3 Pay all outstanding debts to the department as per agreement.

12.4 HEAD OF DEPARTMENT

- 12.4.1 Hand over external bad debts to the State Attorney.
- 12.4.2 Write –off debts that may cause undue hardship to the debtor or his/her dependants.

13 ALLOWANCES

In the event of any allowance due to the employee who owes the Department, the allowances will be used to pay the debt. The employee will only be eligible to receive an allowance once the credit has been paid off. The allowances referred to is only the performance bonus.

14 GENERAL

Employees who owe the department shall only be considered for vehicle subsidy and state guarantee (housing loan) once they have settled their debts. Note that each case will be treated on merit. This policy should be read together with the policy on the acquisition of subsidized vehicles.

15 CONCLUSION

The finance directorate and the department as a whole is confident that the officials responsible for debt management and all employees will find the policy useful in their ongoing efforts to enhance the management of debts within the department.

CHIEF FINANCIAL OFFICER

DATE

HEAD OF DEPARTMENT

DATE