“The Check is in the Mail”
Effective Accounts Receivable Management
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INTRODUCTION

Apart from your efforts to promote and provide expert veterinary services, effective control of debts owed to you will lead to greater success in your practice. A clinic with impressive billings can easily run into economic ruin if payments aren't collected. Your ability to identify a problem account and take corrective steps quickly will certainly be reflected in your annual financial statements. In some jurisdictions throughout North America one must be licensed by the regulatory body in the state or province in order to be able to charge a fee and take collection proceedings.

AVOIDING THE PROBLEM

The simplest means of recovering accounts receivable is to take active steps to avoid the process entirely by keeping debt collection procedures current, but many animal hospitals fail to use the tools available to assist them. A fear of losing a client or a desire to impress a new one often motivates the practitioner to take risks that, in retrospect, were unnecessary. Therefore, it is important to take advantage of the simple and effective procedures for managing your accounts receivable.

DEPOSITS

The simplest means of lessening the negative impact of an account receivable is to require a deposit for the veterinary services you are about to perform. Historically, a deposit was presented to a vendor as an indication of the purchaser's good faith and intention to complete a transaction. The vendor knew that the purchaser was prepared to provide funds in exchange for the vendor's promise to deliver certain goods at a future time.

In legal terms, a deposit is forfeited by the client in the event that a transaction fails as a result of the client's actions; in other words, you are entitled to keep the deposit if the client fails to pay the balance of the account or otherwise fails to maintain the relationship. For instance, if you had indicated that a follow-up examination was necessary and the client failed to keep the appointment and the animal is not presented again, then the deposit may be kept in satisfaction of the fee for the missed appointment. A good practice management technique would be to post prominent signs that fees will be charged for missed appointments.
Obtaining a deposit will not necessarily avoid the accrual of an account receivable; however, it will serve to lessen the sting of an unpaid bill. Most practitioners and office administrators would agree that collecting a portion of the account is better than collecting none of it. The amount of the deposit will vary with the complexity and expense of the procedure to be performed. The best time to obtain the deposit is in the discussions that precede your engagement for a specific procedure.

SECURED TRANSACTIONS

There are several means by which a veterinarian may obtain tangible security for the payment for his or her professional services. Such security can be enforced relatively quickly in the event that the client fails to pay the account on a timely basis. Another reason for obtaining security relates to the scheme of distribution to creditors in bankruptcy. Should the client make an assignment in bankruptcy, preference will be given to secured creditors.

It is interesting to note that most legislation in this area specifically includes animals and the unborn young of animals as being available for a security interest. The creative practitioner in a large-animal practice could potentially claim a security interest in a herd of dairy cattle he or she has treated if the farmer client's account goes into default. Likewise, the farmer could pledge an item of farm equipment to the veterinarian in order to secure the payment of the professional account.

As a secured creditor, the veterinary practice owner has a number of remedies available including the right to take possession of the animal and sell it for the debt incurred. One must be particularly mindful of some of the ethical issues involved; for instance, one must be very careful not to appear to be “holding the animal for ransom.” As well, if the animal is in your possession, you are obliged to care and maintain the animal sometimes incurring greater costs than the original debt for food, exercise, grooming and medical care.

ANIMAL LIENS

In some jurisdictions the veterinary practitioner may be in the position of asserting a lien on the animal itself for the purpose of ensuring payment of a debt. One should become familiar with the legislation in this area to determine the utility of it in a veterinary context. Essentially, this type of legislation permits the assertion of either a “possessory” lien or a “non-possessory” lien; in the latter, it is critically important that the animal owner has provided some written acknowledgement of indebtedness to the practice prior to releasing the animal to the possession of the owner. Generally speaking, this type of legislation permits the practice to proceed with the sale of the animal to pay the debt owed after giving appropriate notice to the owner. Again, there are some significant ethical issues one must consider prior to undertaking the use of this remedy.

Obviously resort to this type of remedy involving the sale or destruction of an animal cannot be taken lightly. All possible alternatives should be exhausted prior to implementing this strategy. The real value of these lien remedies is the negotiating value provided to the practitioner. While these solutions are somewhat viable in a large animal clinic, given the relative low value of companion animals, it is unlikely that the use of these powers will be truly effective. As well,
while the animal is in your possession you are required to care appropriately for the animal which might include the additional costs associated with necessary medications, grooming, nutrition and exercise; as such, the use of an animal lien is not generally an effective accounts receivable management tool.

PROOF OF INDEBTEDNESS

It is sometimes difficult to prove that a debt is actually owed. Effective records management is of primary importance particularly if collection proceedings proceed as far as litigation. An invoice signed by the client is a bare minimum. Depending on the amount of the debt and the client's creditworthiness, you may wish to have the client execute a promissory note, which provides very good evidence of indebtedness. A promissory note does not act as security; however, properly drafted, it shows that the debtor is aware of the debt outstanding.

QUANTUM MERUIT

In collecting your accounts for professional services, you should be aware of a legal principle known as "quantum meruit" (literally, "as much as he deserves"). Sometimes practitioners fail to discuss fully with the client the manner, extent, and cost of treatments before rendering the service. Later, after the treatment has been performed, the client feels that the bill is too high and refuses to pay on the basis that no contract existed because the fundamental terms of the contract for service, such as the fee to be charged, were not agreed upon. Fortunately, the doctrine of quantum meruit applies in these cases. That doctrine holds that, notwithstanding the fact that no contract may have existed, the practitioner is entitled in equity to be paid a fair fee for his or her services. In Marquis Road Veterinary Medical Centre Ltd. v. Goebel (39 Sask. R. 170, 1985) facts similar to the situation described above were presented to the court in Saskatchewan. The provincial court judge presiding found that the veterinarian was entitled to compensation on the basis of quantum meruit and awarded the veterinarian a judgment of $160.

THE COURTS

In the event that one is unsuccessful in pursuing payment through negotiation, then the final step is to proceed to the court which has monetary jurisdiction over the amount of your claim. Through the delivery of pleadings and undertaking the process of discovery (depositions etc.) one can have a trial before the court system with the hope of recovering a judgement and then enforcing the judgement. Generally speaking, one would want to seek and obtain special legal assistance prior to proceeding in the courts.