



STAFF REPORT ACTION REQUIRED

2007 Accounts Receivable Write-off Report

Date:	April 1, 2008
To:	Government Management Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2008\Internal Services\acc\gm08004acc (AFS#6254)

SUMMARY

The purpose of this report is to recommend the write-off of uncollectible accounts receivable balances that total \$1,098,856.46 in accordance with the provisions of the Financial Control By-law, as all collection efforts have been exhausted. The actions being recommended by staff have been reviewed with appropriate Division Heads and Legal Services who concur with the recommendations.

RECOMMENDATIONS

It is recommended by the Treasurer that:

1. City Council approve the write-off of uncollectible accounts of \$1,098,856.46 as detailed in Table 1 in this report; and
2. The appropriate City Officials be authorized and directed to take the necessary action to give effect thereto.

Financial Impact

There are no financial implications as a result of this report as all accounts recommended for write-off have been provided for and expensed in previous years.

The write-offs recommended in this report amount to \$1,098,856.46 and when combined with those individual accounts under \$50,000 approved by the Treasurer in the amount of \$1,258,610.17, the total accounts receivable write offs for 2007 is \$2,357,466.63.

DECISION HISTORY

On an annual basis, Accounting Services presents a report to Council to seek approval for the write-off of amounts in accordance with the provision of the Financial Control By-law. The Financial Control By-law, as amended by Council on December 13, 2007, states:

Write-offs of amounts owing to the City in excess of \$50,000 must be approved by Council except for tax reductions as a result of a successful appeal of assessment or taxes by a taxpayer.

The Treasurer has the authority to write off individual accounts of \$50,000 or less.

ISSUE BACKGROUND

All City divisions are required to review their outstanding receivables on a regular basis and establish appropriate allowances for non-collection on all accounts where collection is considered doubtful. The Accounting Services Division reviews these provisions annually for adequacy and recommends adjustments where appropriate.

For accounting purposes, when the collection of an account is considered doubtful, the amount of the receivable balance recorded on the balance sheet is reduced and the provision is charged to expense. The write-down is recorded in the Allowance for Doubtful Accounts which is a contra (credit) to the Accounts Receivable Account.

Once all collection efforts have been exhausted, and based on recommendations of Senior City staff, Legal Services and/or City contracted Collection Agencies the doubtful account is considered uncollectible and is written off upon approval. The amount is removed from both the Accounts Receivable Account and the Allowance for Doubtful Accounts. Since these are both balance sheet accounts, there is no impact on operating expenses. Allowances are fully in place for the write-offs recommended in this report.

COMMENTS

Accounts may be recommended for write-off for a variety of reasons including bankruptcy, business closure, inability to trace customer and Court judgements. Table 1 lists two accounts that are recommended for write-off.

In 1999, Council adopted the Budget Committee's recommendation that the City's administration costs for its five pre-OMERs pension plans be recovered from those pension plans. The Pension, Payroll and Employee Benefits (PPEB) Division set up receivables accordingly, but suspended billings in 2001 when the Trustees of the Metropolitan Toronto Pension Plan applied to the court to have the by-law mandating the recovery from that Plan struck down. The application was successful and the City's appeal was denied in 2003. The by-law was subsequently repealed, and the advice from City Legal staff is that the court's reasoning appears to be applicable to the other plans as well. Therefore, PPEB is recommending that all outstanding billings to the pension plans be written off.

H.S Food Services Ltd. operated at various golf courses and parks for the period 1996 to 2005. The \$98,856.46 that is recommended for write-off represents the 2005 percentage of sales rent that was required from H.S. Food Service. The City did collect the \$150,000 annual fixed rent for 2005. After attempts to collect the funds were unsuccessful, Legal Services filed a court claim and received a judgment on August 14, 2007 in the City's favour granting an amount of \$122,164.76, which included interest and expenses. Legal Services carried out searches for assets of the company and found that the company closed its business, bank accounts and had sold of all the assets and has no funds to make restitution. Legal Services has concluded that the debt from H. S. Food Service is uncollectible and recommended the write-off the outstanding balance.

Table 1:

PROGRAM	YEAR	CUSTOMER NO.	CUSTOMER NAME	AMOUNT \$
PENSIONS	1999-2000	19990015	METRO PENSION PLAN	362,666.80
			METRO POLICE BENEFIT FUND	269,570.40
			TORONTO CIVIC PENSION FUND	212,352.80
			TORONTO FIRE DEPT. BENEFIT FUND	125,193.40
			YORK EMPLOYEE PENSION PLAN	30,216.60
			Subtotal	1,000,000.00
PARKS	2005	30000074	H.S. FOOD SERVICES INC.	98, 856.46
			TOTAL	<u>\$1,098,856.46</u>

Treasurer's Write-offs

In 2007, the Treasurer approved the write off of individual accounts receivable balances of \$50,000 or less that totalled \$1,258,610.17 (2006 - \$469,895.26, less than \$10,000 each). The 2007 amount is higher primarily because of an extensive clean up of old accounts in Parks, Forestry and Recreation (PFR) and in the Solid Waste Division.

Council may recall the Auditor General's review of PFR's CLASS registration system. The AG reported on the significant amount of old registration accounts outstanding and recommended that they be investigated for collection or write-off. A supervisory staff member has been seconded from PFR's Customer Services Unit to review the outstanding balances for recovery and collection action. PFR has recommended to the Treasurer that approximately \$425,000 in small individual accounts for 2001 and prior years be written off. Many of these accounts are from individuals and are less than \$100 each. For the

majority of larger accounts the customer cannot be located or there is some evidence that the CLASS system was not updated for cancellations or receipt of payment.

As part of the clean up exercise, the Social Development, Finance and Administration Division is reviewing the policies and procedures for revenue, cash, receivable, collection, reconciliation, credit cards, etc, with an objective of developing clear process and procedures that clarify accountability, improve internal control and management responsibility. The review includes Class System permits. The review is expected to be completed in the spring of this year. Accounting Services will provide advisory support to this effort.

With respect to Solid Waste, they have recommended that the Treasurer write off approximately \$370,000 worth of accounts receivable that the City's collection agencies were unsuccessful in collecting. These billings relate to ICI (Industrial, Commercial Institutional) premium garbage and/or green bin collection services offered to small businesses during the period 1999 to 2004. Write-offs for these services will not be repeated because the number of accounts have been reduced significantly since the introduction of the Yellow Bag Program under which small businesses are prepaying for the premium green bin collection services.

Collection Agencies

At the suggestion of the Government Management Committee, the City now uses a two-stage collection agency process. If the first collection agency is unsuccessful the account is referred to a second collection agency. The results for 2007 are as follows:

	Assigned \$	# of accounts	Collected \$
First Assignments	266,847	444	86,361
Second Assignments	51,027	71	8,406
Total	317,874	515	94,767

Overall the recovery rate was 30%.

Other Initiatives

The City continues to enhance its credit practices and accounts receivable collection procedures to reduce bad debts incurred as reported to Council in June 2006. At the request of the Audit Committee, the Accounting Services Division has been conducting an inventory of the City's deposits that it takes for various services. Deposits can be very useful in minimizing uncollected rents and fees. Accounting Services expects to report out to Audit Committee in April of this year.

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SIGNATURE

Cam Weldon
Treasurer