



STAFF REPORT ACTION REQUIRED

2008 Accounts Receivable Write-off Report

Date:	May 20, 2009
To:	Government Management Committee
From:	Acting Treasurer
Wards:	All
Reference Number:	P:\2009\Internal Services\acc\gm09006acc (AFS# 8699)

SUMMARY

The purpose of this report is to recommend the write-off of uncollectible accounts receivable balances that total \$314,879.33 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 Acting Treasurer that:

1. City Council approve the write-off of uncollectible accounts of \$314,879.33 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 \$314,879.33 and when combined with those individual accounts under \$50,000 approved by the Treasurer in the amount of \$823,439.06 the total accounts receivable write offs for 2008 is \$1,138,318.39.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

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 Bylaw, as amended by Council on December 13, 2007, states that: "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 outstanding amounts owing to the City as uncollectible, if the amount is not more than \$50,000 and is not an amount raised as taxation or deemed to be taxes, except for items added to the tax bills for collection purposes only and not as a result of a tax or assessment appeal".

Following is the link to the Chapter 71 of the Toronto Municipal Code, Financial Control:

http://www.toronto.ca/legdocs/municode/1184_071.pdf

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 management 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 Account. 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 accounts that are recommended for write-off.

Table 1: Accounts Recommended for Write-Off

PROGRAM	YEAR	CUSTOMER NO.	CUSTOMER NAME	AMOUNT \$
FACILITIES & REAL ESTATE	2002-2007	10000525	CARIBBEAN CULTURAL COMMITTEE	66,136.43
ACCOUNTING SERVICES	2000	19990001	PBSC COMPUTER TRAINING	248,742.90
			TOTAL	<u>\$314,879.33</u>

Caribbean Cultural Committee

Commencing October 1, 1995, the Caribbean Cultural Committee leased 9,566 square feet of office space from the City of Toronto at 138 Hamilton Street for \$1 per annum plus applicable property taxes. Their lease was terminated by the City of Toronto on July 1, 2007 due to 54 months of accumulated arrears. Given that the property is owned by the City, property taxes were paid annually by the City and then billed to the Committee based on the terms of the lease agreement. Beginning early in 2006, the Committee fell behind on its lease payments. Legal action was taken to recover the funds, a court judgement was obtained and a collection agency was engaged to pursue collection. However, the collection agency was advised that the Caribbean Cultural Committee had become insolvent. As such, the Caribbean Cultural Committee had no funds to pay the arrears.

PBSC Training Corporation

In 2000, a duplicate payment was made to PBSC Training Corporation as a result of an error made in the bank reconciliation process. The error was not discovered until PBSC was acquired by Nexient who was not aware of the overpayment. Legal Services was consulted and the limitation period to make a legal claim for this payment has expired. Procedures in place today greatly reduce the likelihood of duplicate payments, and provide for timely follow up of any errors.

Treasurer's Write-offs

In 2008, the Treasurer approved the write off of individual accounts receivable balances of \$50,000 or less that totalled \$823,439.06 (2007 - \$1,258,610.17). The 2008 amount is made up primarily of Parks, Forestry and Recreation (PFR), Transportation Services (accident claims), and various corporate accounts.

PFR initiated a project in October 2007 to review and clean up all outstanding receivable balances since amalgamation. As part of that review, PFR recommended to the Treasurer that \$238,726.94 of outstanding receivable balances pertaining to 887 accounts for 2002 and prior years be written off. These accounts are largely comprised of balances greater than \$100 but less than \$1,000, with the exception of eight (8) accounts where the balance is between \$1,000 to \$5,000. All of the accounts being recommended for write-off are over six years old and the two year statutes of limitation period with respect to

collection has past. As such, it was not cost effective to use collection agencies on these accounts. PFR Customer Service representatives made several attempts to contact the customers and pursue collection. Accounts were frozen in the CLASS System with an alert text instructing staff to collect the outstanding amount if any customer contacted the City. On a go forward basis, PFR has introduced measures to reduce the accounts receivables, which include installing point-of-sale machines enabling customers to pay at once, follow up of declined credit cards immediately after peak registration, regular review of outstanding balances and collection efforts through collection agencies.

Transportation Services has recommended that the Treasurer write off approximately \$142,801 worth of accounts receivable. The Division invoices third parties for repairs made to the Transportation infrastructure - poles, guide rails, traffic signals etc. - in the range of \$1.1 - \$1.4 million annually. This is as a result of motor vehicle accidents for which reports are obtained from Toronto Police Services to support the invoicing for the damages. Any motor vehicle accident file over \$1,000 is forwarded to Legal Services for collection action which may include litigation or small claims court action. Legal may recommend settlement based on the information available. Amounts under \$1,000 are sent to the two collection agencies. If amounts are deemed uncollectible by the collection agency, then a write off request is initiated and the required approvals are obtained.

As part of an extensive clean up exercise, Accounting Services recommended to the Treasurer that approximately \$213,104.38 be written off. The customer accounts that were written off did not have any supporting documentation to pursue further collections. As the majority of these items are old, having occurred between 2000 and 2004, collection would not be successful. Accounting Services has implemented the current Accounts Receivable Policy and Procedures in order to ensure that proper steps are taken on a timely basis to collect outstanding receivables.

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 2008 are as follows:

	Assigned \$	# of accounts	Collected \$
First Assignments	441,564	659	95,253
Second Assignments	62,661	97	702
Total	504,255	756	95,955

Overall the recovery rate was 20%.

The City continues to enhance its credit practices and accounts receivable collection procedures to reduce bad debts incurred.

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SIGNATURE

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