



AUDITOR GENERAL'S REPORT ACTION REQUIRED

Audit of Water Billing and Collection – Phase I: Overdue Water Account Collections Require Strengthening

Date:	February 17, 2016
To:	Audit Committee
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

The Auditor General's 2015 Audit Work Plan included an audit of the City's water billing and collection processes. This audit is being performed in two phases:

- Phase I focuses on the collection of outstanding receivables for water service.
- Phase II includes a detailed assessment of controls over billing of water usage, adjustments and reversals of accounts. Phase II will also include a review of the processing of payments and refunds.

This report provides results of Phase I. The audit objective was to assess the efficiency and effectiveness of processes and controls in place to collect outstanding water accounts.

This report includes 19 recommendations. The implementation of the recommendations will expedite collection of outstanding accounts, improve existing revenues and cash flows and generate certain incremental revenues through interest and fees.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council request the Director, Revenue Services, to develop a report identifying high risk and high value accounts. The report should be reviewed for long outstanding overdue accounts on a quarterly basis to ensure that appropriate measures for collection are taken.

2. City Council request the Director, Revenue Services, to develop a report to identify missing information in water accounts and ensure accounts are updated.
3. City Council request the Director, Revenue Services, to develop criteria for assignment of long overdue accounts to third-party collection services. Assignments should be tracked and collection agency performance should be monitored.
4. City Council request the Director, Revenue Services, to review and renew third-party collection service contracts on a timely basis.
5. City Council request the Director, Revenue Services, in consultation with the General Manager, Toronto Water, to evaluate options for restricting the supply of water on large overdue accounts where all other available collection measures have been exhausted.
6. City Council request the Director, Revenue Services, to periodically review all accounts with outstanding water account balances that do not have a corresponding property tax roll and ensure missing tax roll information in the water billing system are investigated and resolved.
7. City Council request the Director, Revenue Services, in consultation with the City Solicitor, to review the potential of charging interest on outstanding water account balances that are not eligible for transfer to property taxes. Such a change may require amendment to the City of Toronto Municipal Code.
8. City Council request the Director, Revenue Services, to develop a process for periodic review of overdue accounts with “Do Not Transfer” status to ensure that these accounts are followed-up and their collection efforts are expedited. Specific collection approaches should be developed to improve collections on overdue accounts for each type of account holder or owner.
9. City Council request the Director, Revenue Services, to ensure the Council approved amendment for apportionment and transfer of outstanding condominium water bills to the tax accounts of individual unit owners be implemented.
10. City Council request the Director, Revenue Services, to implement a process to identify water accounts where a bill has not been issued in the appropriate bill cycle and ensure timely investigation and resolution of any problems in processing the water bills.
11. City Council request the Director, Revenue Services, to ensure bills for new accounts and final bills for accounts that are being closed are issued and collected on a timely basis. Benchmarks for expected timelines for issuing bills upon creation or closure of accounts should be developed, with performance against the benchmarks monitored and any significant deficiencies resolved.

12. City Council request the Director, Revenue Services, to develop a formal dispute resolution process and reporting criteria for disputes that remain unresolved for an extended period of time. The process should also include communication to clients for payment of current dues while the disputed amounts are being resolved.
13. City Council request the Director, Revenue Services, to review existing outstanding balances for inactive accounts and develop a strategy to collect these accounts.
14. City Council request the Director, Revenue Services, to review credit balances for inactive accounts and coordinate with the Deputy City Manager and Chief Financial Officer, and the City Solicitor with a view to evaluating whether credit balances in 'Inactive Accounts' can be transferred to revenue.
15. City Council request the Director, Revenue Services, to review practices at other municipalities relating to treatment of small balances for inactive accounts and develop criteria to clean-up such accounts.
16. City Council request the Director, Revenue Services, to establish appropriate financial signing authority limits, such that billing reversals, credits and other account adjustments are reviewed and approved by an appropriate level of management based on the materiality of the adjustment amount.
17. City Council request the Director, Revenue Services, to ensure that reasons for billing reversals, credits and adjustments are appropriately documented, with supporting source documents retained where applicable.
18. City Council request the Director, Revenue Services, in consultation with the General Manager, Toronto Water, to:
 - a. Establish a formal protocol for setting up in the water billing system non-billable City accounts (where water consumption requires tracking but no payments are required from the Divisions), as well as, billable accounts (where payments are required from the Divisions for water service provided); and
 - b. Review existing internal City accounts with overdue balances to determine if these are collectible and billable. The account status should be updated accordingly and outstanding balances should be collected or written-off.
19. City Council request the Director, Revenue Services, to review the recommendations in this report and where applicable implement similar processes for collection of overdue solid waste management accounts.

Financial Impact

The implementation of recommendations in this report will strengthen controls and improve collection of overdue accounts. We estimate that the City will collect approximately \$5 million in one-time revenues and approximately \$800,000 to \$900,000 in incremental revenues on an annually recurring basis by implementing the recommendations.

DECISION HISTORY

The Auditor General's 2015 Audit Work Plan included an audit of the City's water billing and collection processes.

The intent of including audits of revenue sources in the work plan was to systematically review processes and controls of various City revenue streams over a period of time. The review of water billing and collections is part of this series of revenue audits. Previously issued reports on City revenue streams include:

- Improving Controls Over Property Tax Assessments and Payment in Lieu of Taxes (PILTs) – October 3, 2015
(<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.AU4.3>)
- Administration of Municipal Land Transfer Tax, Revenue Services Division – June 16, 2010
(<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2010.AU19.10>)
- Controls Over Parking Tags Needs Strengthening – January 27, 2010
(<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2010.AU15.2>)
- Property Tax Appeals and Refund Processing – February 28, 2007
(<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2007.AU2.6>)

COMMENTS

This report provides results of the first phase of our audit. The results for the Phase II audit of the water billing processes will be issued later in 2016.

The overall processes and controls for collection of outstanding water accounts require strengthening. Key findings and recommendations include:

- Collection efforts on delinquent water accounts need strengthening
- Collection fees and interest are foregone when accounts are not transferred to property tax rolls
- Billing delays and prolonged billing disputes lead to collection issues
- Controls over bill reversals require strengthening

The audit report entitled “Audit of Water Billing and Collection – Phase I: Overdue Water Account Collections Require Strengthening” is attached as Appendix 1. Management's response to each of the recommendations contained in the report is attached as Appendix 2.

CONCLUSION

This report identifies a number of opportunities to improve the management of collection of overdue water accounts, operational efficiencies and customer account management.

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SIGNATURE

Beverly Romeo-Beehler, Auditor General

ATTACHMENTS

- Appendix 1: Audit of Water Billing and Collection – Phase I: Overdue Water Account Collections Require Strengthening
- Appendix 2: Management's Response to the Auditor General's Report – Audit of Water Billing and Collection – Phase I: Overdue Water Account Collections Require Strengthening

AUDITOR GENERAL'S REPORT

Audit of Water Billing and Collection

**Phase I: Overdue Water Account Collections
Require Strengthening**

February 17, 2016

Beverly Romeo-Beehler, CPA, CMA, B.B.A., JD
Auditor General



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EXECUTIVE SUMMARY

The Auditor General's 2015 Audit Work Plan included an audit of the City's water billing and collection processes. The City's Revenue Services Division is responsible for billing and collection of water charges from all property owners and other consumers.

\$1 billion in water billings annually

The City of Toronto bills approximately \$1 billion annually for water usage to its consumers. There are approximately 490,000 active accounts for water service.

\$71 million outstanding on water accounts as at August 31, 2015

The value of the outstanding accounts receivable for water service at August 31, 2015 was \$70.9 million. Approximately \$44.2 million or 62 per cent are current accounts due for collection within 30 days. The remaining \$26.7 million or 38 per cent represents past due accounts.

Purpose and scope of the audit

The purpose of this audit is to assess controls in the City's water billing and collection processes. This audit is being performed in two phases:

- Phase I focuses on the collection of outstanding receivables for water service.
- Phase II includes a detailed assessment of controls over billing of water usage, adjustments and reversals of accounts. Phase II will also include a review of the processing of payments and refunds.

This report provides results of Phase I. The results for the Phase II audit of the water billing processes will be issued later in 2016.

Timely collection of accounts help the City to fund its needs

Water revenue is used to provide quality drinking water and to help meet the state of good repairs backlog relating to water infrastructure development. These repairs are expected to amount to \$5.6 billion over the next 10 years.

It is important that all overdue water accounts are collected on a timely basis.

The audit noted that, out of the \$70.9 million in outstanding accounts receivable as at August 31, 2015, there were:

- \$5.5 million in delinquent accounts receivable that were more than one year past due, \$3 million of which were more than two years past due. Collection efforts on the delinquent accounts were inadequate.
- \$15 million in water bills which remained unpaid for more than 58 days and were not transferred to property tax rolls for collection. While a portion of these accounts were not transferred for legitimate reasons, we estimate that interest and fees in the range of \$1 million to \$1.5 million have been foregone where accounts were not appropriately transferred.
- Over \$4 million was past due for water service provided to condominiums. The Council-approved process to collect on significant arrears owed by condominiums has rarely been implemented.
- \$2 million outstanding in inactive water accounts, that were closed due to ownership or occupancy changes, of which \$1 million is more than one year past due. No overdue notices are sent when an account becomes inactive.
- The City wrote off approximately \$3.3 million between 2011 and 2015.

Overall processes and controls for collection should be strengthened

The overall processes and controls for collection of outstanding water accounts require strengthening. The highlights of our key findings follows:

Collection efforts on delinquent water accounts are inadequate

\$3 million is outstanding where no payments have been made for over two years

The Revenue Services Division does not have a process to prioritize and flag high risk accounts for collection review, investigation and follow-up. As at August 31, 2015, approximately \$3 million was outstanding for two years or more. Some water accounts have overdue balances that range as high as \$300,000.

Measures taken to collect on long overdue accounts are limited

There are a number of water accounts where little to no payment has ever been received. We noted that several accounts have accumulated balances over a long period of time. This has resulted in significant balances being long overdue. The Revenue Services Division's collection measures on these accounts are generally limited to the sending of system generated overdue notices. Recovery efforts, including proactive review, follow-up, and reporting of delinquent accounts need to be strengthened.

Collection fees and interest are foregone when accounts are not transferred to property tax rolls

Past due accounts are not always transferred to the property tax roll in a timely manner

Where a water bill remains unpaid for more than 58 days, the amount due plus an applicable fee can be added to the corresponding property tax account for collection. Once the bill is added to the property tax account, fees and interest charges can be applied.

In the one year period ending August 31, 2015, approximately \$25.7 million in overdue accounts were transferred to property tax rolls for collection. Management advised that \$18.9 million or 73.5 per cent of the overdue amounts that were transferred had been successfully collected. However, as at August 31, 2015, \$15 million in past due accounts were not transferred to the property tax system and remained as outstanding water accounts receivable.

These past due accounts were not transferred for a variety of reasons, such as:

- Missing property tax roll information in the water system
- Manual overrides used to exclude or delay certain overdue accounts from being transferred because:
 - Water accounts are billed to tenants and not property owners
 - Water accounts are related to properties that are exempt from property taxes
 - Billings are under dispute and transfers occur when disputes are finalized
- Water accounts are billed to condominium corporations and not owners of individual units

A portion of these accounts were not transferred for legitimate reasons. However, additional steps could have been taken to enable appropriate transfer of all other overdue accounts to the property tax rolls on a timely basis. For example, at an October 2, 2012 City Council meeting, Council approved an amendment to the City of Toronto Municipal Code to allow the transfer of water and utility arrears of condominium corporations to tax accounts of individual unit owners. The Revenue Services Division has only implemented this Council-approved process for one out of 85 condominium accounts that are in arrears. There was over \$4.9 million in arrears outstanding from condominiums as at December 31, 2015.

An estimated \$1 million in interest and fees have not been charged because past due accounts were not transferred to property tax rolls

We estimate that interest in the range of \$1 million to \$1.5 million and transfer fees of approximately \$100,000 have been foregone where accounts were not appropriately transferred on a timely basis.

Issues preventing timely transfer of overdue accounts to property tax rolls must be addressed so that applicable interest and fees can be applied.

Billing delays and prolonged billing disputes can lead to collection issues

Billing delays and prolonged billing disputes can result in collection issues

Some customers do not pay when they do not receive bills or where a billing dispute arises, even though they continue to consume water.

We noted delays in issuing some water bills. Delays can occur, for example, when there are changes in ownership or occupancy, where there are faulty meters, or where customers do not allow access for inspections. In certain cases, the billing delay for water service exceeded 12 months. The longer the delay, the harder it is to track customers and the more difficult collection becomes. This can lead to higher write-offs.

We also identified accounts where there were significant delays in resolving customer disputes. Some disputes lasted several years. Disputes need to be resolved in a timely manner. In addition, while the disputed portion of the bill is being resolved, the current portion of the bill should either be paid by the consumer or assigned to the tax roll for collection and interest should be applied.

Inadequate controls over bill reversals

Approval limits for credits and bill reversals do not exist

Certain water accounts have credit balances arising from bill adjustments, reversals and overpayments. The \$19 million in accounts with credit balances as at August 31, 2015 represent a liability to the City.

Addressing the causes of billing issues on a timely basis would reduce the need for significant reversals and adjustments.

The reasons for reversals and credits were not always well documented

In addition, we noted that billing staff have the capability to reverse any amount over any period of time. The reasons for bill reversals and credits were not always adequately documented.

While we recognize that there may be legitimate reasons for bill reversals, appropriate approvals and documentary support is a fundamental control. We recommend proper financial authority limits to initiate and/or approve credits and bill reversals.

Phase II of this audit will address the water service billing processes. Results of our Phase II audit will be reported later in 2016.

***Other
improvement
opportunities***

Other additional opportunities to improve the collection process for overdue water accounts include:

- Clean-up of the large number of inactive accounts
- Development and implementation of guidelines for the appropriate billing, collection, recording and reporting process for water accounts related to City divisions.

Conclusion

This report includes 19 recommendations to improve the management of collection of outstanding water bills, operational efficiencies and customer account management.

***Recommendations
in this report are
applicable to the
collection of
overdue solid
waste management
accounts***

Although the collection of solid waste management accounts was not included in the scope for this audit, collections of these utility accounts are also the responsibility of the Revenue Services Division. Therefore, while the recommendations in this report relate to the collection of water accounts, they should be viewed as having relevance for the collection of solid waste management accounts.

The value of the outstanding accounts receivable for solid waste management accounts at August 31, 2015 was \$7.4 million. Approximately \$4.7 million are current accounts due for collection within 30 days. The remaining \$2.7 million represents past due accounts, of which \$700,000 is over one year past due.

BACKGROUND

The City of Toronto bills approximately \$1 billion annually for water usage

The City of Toronto bills approximately \$1 billion annually for water service. There are approximately 490,000 active water accounts.

The majority of utility accounts are collected without the need for additional collection measures. Water accounts that are overdue by more than 58 days are transferred to property tax rolls for collection where property tax account information exists within the water billing system.

However, over \$15 million in accounts receivable over 58 days past due have not been transferred to property tax rolls. A number of these accounts remain unpaid over a longer period of time and in certain instances represents potential write-offs.

The following table provides details of outstanding water accounts receivable balances as at August 31, 2015.

Table 1: Accounts Receivable Aging of Outstanding Water Accounts

Description	Total Amount Outstanding (in millions)	Current Due (in millions)	Past Due (in millions)	Past Due Amounts Not Transferred to Property Tax Rolls For Collection (in millions)		Total Past Due
		0-30 Days	31-60 Days	61 – 365 Days	> 1 Year	
Total	\$70.9	\$44.2	\$11.5	\$9.7	\$5.5	\$26.7
% - Total	100.0%	62.3%	16.2%	13.7%	7.8%	37.7%
Active Accounts	\$68.9	\$43.7	\$11.2	\$9.5	\$4.5	\$25.2
% - Active	97.1%	61.6%	15.8%	13.4%	6.3%	35.5%
Inactive Accounts	\$2.0	\$0.5	\$0.3	\$0.2	\$1.0	\$1.5
% - Inactive*	2.9%	0.7%	0.4%	0.3%	1.5%	2.2%

**Inactive accounts represent water accounts that are closed and have a balance outstanding. These accounts became inactive due to reasons, such as, ownership change, demolition of property, etc.*

City's process for utility bill arrears

The City's process for utility bill arrears include:

- An Overdue Notice to be mailed if a water bill is not paid within 14 days of the due date.
- A Transfer to Tax notice to be issued if a water bill is outstanding 28 days past the due date. The notice advises customers that the overdue amount will be added to the corresponding property tax account if it remains unpaid.
- A notice to advise that the amount plus an applicable fee has been added to the tax account, if a bill still remains unpaid 58 days past the original due date. If a person other than the property owner has been designated as the utility bill recipient, further utility bills will be sent to the property owner.
- Collection fees and interest charges to be applied if the amount remains outstanding on the property owner's tax account.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

***Auditor General
2015 Work Plan***

In accordance with the 2015 Audit Work Plan, the Auditor General's Office initiated an audit of the City's water billing and collection processes.

***Audit Objective
and Scope***

This audit is performed in two phases:

- Phase I focuses on the collection of outstanding receivables for water service.
- Phase II includes a detailed assessment of controls over billing of water usage, adjustments and reversals of accounts. Phase II will also include a review of the processing of payments and refunds.

This report provides results of Phase I. The objective of the first phase of this audit was to assess the efficiency and effectiveness of processes and controls in place to collect outstanding water accounts. The scope of the audit included a review of amounts outstanding for water usage as at August 31, 2015.

***Audit
Methodology***

Our audit methodology included the following:

- Review of policies and procedures, including City bylaws relating to collection of outstanding water accounts
- Review of processes and controls for follow-up of past due accounts and various tools available for collection
- Verification of amounts collected against the amounts billed to consumers
- Analysis of past due accounts data
- Review of information technology controls over collections
- Review of previous audit reports and recommendations
- Interviews with City staff in Revenue Services and Toronto Water Divisions.

***Compliance with
generally accepted
government
auditing standards***

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

Our detailed audit findings indicate a need for improvement in collection processes and controls. Our report contains some examples to demonstrate the nature of what we observed.

A. COLLECTION EFFORTS ON DELINQUENT WATER ACCOUNTS ARE INADEQUATE

A.1. Monitoring of the Collection of High Risk Accounts is Inadequate

\$3 million in water billings have been outstanding for two or more years

As at August 31, 2015, approximately \$3 million was outstanding for two or more years. Some accounts have been outstanding for over 10 years, with a few accounts having balances outstanding since 1999.

In some cases no payments have ever been made

There were also accounts where no payments had ever been made over the life of the account. For example, a commercial account had an outstanding amount of \$106,500. No collections were made since the account was set-up in early 2014.

The Division does not have adequate processes and controls to identify, report and prioritize high risk accounts on an ongoing basis.

A.2. Collection Efforts Are Hampered Because of Missing Information in the Water Billing System

The water billing system is missing key information necessary to make use of all available tools for collections

For some accounts, the water billing system is missing some information necessary to make use of all available tools for collections, such as, property tax roll numbers, property owner's names, and contact information. For example, the water billing system is missing the owner information for one commercial account with an overdue amount of \$39,000 accumulated in the past two and a half years with no collection activity. Water continues to be consumed on this property.

The Revenue Services Division needs to develop exception reports to identify missing or omitted billing information. Follow-up of missing information should be coordinated with other areas within the Revenue Services and Toronto Water Divisions.

A.3. Revenue Services Does Not Proactively Pursue All Measures at its Disposal to Collect Water Arrears

City collection efforts are generally limited to issuing routine system generated notices

All overdue accounts irrespective of the amounts and the period outstanding are generally followed-up using the same process, i.e., issuing routine system-generated overdue notices. The Revenue Services Division does not make outbound calls to reinforce collection efforts on delinquent utility accounts.

Third-party collection services are not adequately utilized and monitored

Third-party collection services were not adequately utilized and monitored. Approximately \$3.5 million in past due accounts could have been transferred to third party collection services for further action. These accounts were not transferred to a collection agency due to inadequate monitoring. Additionally, the contract for services expired in June 2015 and to date has not been renewed.

The City has not exercised its ability to restrict the water supply

Furthermore, the Toronto Municipal Code, Chapter 849, allows the City to turn off or restrict the water supply. The City has not exercised this option and relies on other available collection tools.

In addition to their reliance on system-generated notices, the Revenue Services Division should proactively pursue all measures at its disposal to collect water arrears.

Recommendations:

- 1. City Council request the Director, Revenue Services, to develop a report identifying high risk and high value accounts. The report should be reviewed for long outstanding overdue accounts on a quarterly basis to ensure that appropriate measures for collection are taken.**
- 2. City Council request the Director, Revenue Services, to develop a report to identify missing information in water accounts and ensure accounts are updated.**
- 3. City Council request the Director, Revenue Services, to develop criteria for assignment of long overdue accounts to third-party collection services. Assignments should be tracked and collection agency performance should be monitored.**
- 4. City Council request the Director, Revenue Services, to review and renew third-party collection service contracts on a timely basis.**
- 5. City Council request the Director, Revenue Services, in consultation with the General Manager, Toronto Water, to evaluate options for restricting the supply of water on large overdue accounts where all other available collection measures have been exhausted.**

B. COLLECTION FEES AND INTEREST ARE FOREGONE WHEN OVERDUE AMOUNTS ARE NOT TRANSFERRED TO PROPERTY TAX ROLLS

Overdue amounts should be transferred to the property tax roll

In the event that bills for water service are not paid in the time set out, the outstanding amount should be transferred to the property tax roll. For the one year period ending August 31, 2015, the Revenue Services Division transferred approximately \$25.7 million in overdue accounts to property tax rolls for collection. Management advised that \$18.9 million or 73.5 per cent of the amounts transferred were successfully collected.

\$15 million in past due accounts were not transferred to the property tax system for collection

However, as at August 31, 2015, \$15 million in past due accounts were not transferred to the property tax system and remained as outstanding water accounts receivable. The City cannot leverage additional measures available for collection, such as charging interest on the outstanding amounts and using Bailiff services, if overdue water accounts are not transferred to property tax rolls.

An estimated \$1 million in interest and fees were foregone because past due accounts were not transferred

Interest at 1.25 per cent per month is charged on overdue utility bills after the arrears are transferred to a corresponding property tax roll account. We estimate that interest in the range of \$1 million to \$1.5 million and transfer fees of \$100,000 could have been charged on overdue water accounts that were not appropriately transferred to property tax rolls on a timely basis.

Improvements to ensure that overdue water accounts are appropriately transferred to property tax rolls on a timely basis are detailed in the sections that follow.

B.1. Certain Water Accounts Are Missing Property Tax Roll Information

18,000 accounts do not have property tax roll information in the water billing system

The City has approximately 490,000 active water accounts. Approximately 18,000 accounts are not linked or do not have a corresponding property tax roll in the water billing system.

A portion of these unlinked accounts represent condominium properties. Other accounts such as government, hospitals, education and not-for-profit properties are not linked to a property tax roll, because they are not required to pay property taxes. This notwithstanding, City staff should ensure appropriate action is taken to collect these overdue balances. These types of accounts are discussed further in Sections B.2. and B.3. of this report.

Some water accounts are missing information that is available in the property tax billing and collection system

Still, there are some overdue water accounts where a property tax roll was available in the property tax billing and collection system, but the water billing and collection system was not updated accordingly. For example, one customer, a retail store, has not paid its water bills since June 2009. The account has over \$9,500 outstanding as at August 31, 2015. Another customer account in the amount of over \$10,000 has been in arrears since August 2009. These customer accounts have a related property tax roll but the account numbers have not been updated in the water billing system.

Accounts without corresponding tax roll numbers in the water billing system should be reviewed

Therefore, there is a need for a more focused review to investigate accounts without corresponding tax roll numbers to improve collection of payments on outstanding balances as well as interest and fees owing to the City.

Recommendations:

- 6. City Council request the Director, Revenue Services, to periodically review all accounts with outstanding water account balances that do not have a corresponding property tax roll and ensure missing tax roll information in the water billing system are investigated and resolved.**
- 7. City Council request the Director, Revenue Services, in consultation with the City Solicitor, to review the potential of charging interest on outstanding water account balances that are not eligible for transfer to property taxes. Such a change may require amendment to the City of Toronto Municipal Code.**

B.2. Manual Override Used to Exclude Certain Overdue Accounts from Being Transferred to Property Tax Rolls

Certain overdue accounts are assigned “Do Not Transfer” to property tax roll status

Certain overdue water accounts are not transferred to the corresponding property tax roll for collection because they are assigned ‘Do Not Transfer’ status. This status is assigned in some cases when:

- The property is rented and the account is in the name of the tenant. For example, there is one industrial water account billed to a tenant who has owed approximately \$55,000 since December 2012. Where a tenant does not pay the water account, bills can be transferred to the property owner's property tax roll.
- The account holder is disputing the amount billed. Management advised that where potential water meter or billing issues exist, the account is assigned 'Do Not Transfer' status and the overdue amount is not transferred to property taxes while the dispute is being investigated.
- The water account is related to a property that is tax exempt or government owned. For government owned properties, legislation prohibits one level of government from taxing another level of government. As such the overdue amounts owed by any level of government cannot be transferred to property taxes; however, fees for water service are still due upon billing. For example:
 - \$472,000 was owed to the City for water charges incurred during the period from April 2012 to August 2015, for a property owned by the Province. Our audit commenced August 2015. We have been advised by management that this amount was collected during the course of our audit in December 2015.
 - A tenant of the City owed approximately \$180,000 accumulated over a 10-year period from 2005 to 2015. The customer made limited payments; however, the account continues to grow with the ongoing water consumption.

Specific collection measures should be prescribed where the City cannot rely on its ability to collect through tax rolls

Where accounts are not transferred to the property tax roll, a proactive process to escalate collection measures should be implemented. Separate processes may be needed to address the overdue accounts depending on the different categories of account owners, such as, tenanted properties or government properties.

Recommendation:

- 8. City Council request the Director, Revenue Services, to develop a process for periodic review of overdue accounts with ‘Do Not Transfer’ status to ensure that these accounts are followed-up and their collection efforts are expedited. Specific collection approaches should be developed to improve collections on overdue accounts for each type of account holder or owner.**

B.3. Council-Approved Process to Collect on Significant Arrears Owed By Condominiums Has Rarely Been Implemented

Significant condominium arrears have not been adequately addressed

As at December 31, 2015, \$4.9 million was outstanding for past due water bills of condominium corporations. Our review of 20 accounts relating to multi dwelling unit corporations identified overdue balances totaling \$2.5 million as at August 31, 2015. Certain accounts have amounts outstanding since 2005 and earlier.

Condominium properties are comprised of many individually assessed units, each with an assessed owner. In most cases, water supplied to a condominium property is measured and accounted for by a single bulk water meter that records water consumption for the entire property. While the use of this meter type is beneficial from a billing perspective (i.e., one bill as opposed to many), it poses a challenge when an account remains outstanding.

City Council approved a process to address arrears in 2012

City Council, at its meeting of October 2, 2012, approved an amendment to the City of Toronto Municipal Code allowing for the transfer of water and utility arrears of a condominium corporation to the tax accounts of individual unit owners. More specifically:

“City Council approve an amendment to the City of Toronto Municipal Code to allow for the water fees of a condominium corporation which remain outstanding 58 days after their due date to be transferred to the tax accounts of that corporation’s individual condominium units on a pro-rata basis equal to the proportions, expressed in percentages allocated to the units, in which the owners are to contribute to the common expenses as set out in the declaration of the condominium corporation, and the Treasurer be delegated the authority to exempt units, in whole or in part, from their proportionate share of water arrears where such units are directly supplied with metered water.”

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.GM16.2>

The Council-approved process has rarely been implemented

With the exception of one out of 85 accounts in arrears, Revenue Services has not implemented this Council-approved process to recover outstanding amounts owed by condominium corporations. Had these amounts been assigned to the tax roll of the individual assessed owners of the condominium units, just like other home owners, and if the amounts remained uncollected, interest and fees could be applied.

Recommendation:

- 9. City Council request the Director, Revenue Services, to ensure the Council approved amendment for apportionment and transfer of outstanding condominium water bills to the tax accounts of individual unit owners be implemented.**

C. BILLING DELAYS AND PROLONGED BILLING DISPUTES LEAD TO COLLECTION ISSUES

There are significant delays in issuing water bills for some accounts

Each week, the Revenue Services Division mails between 28,000 – 32,000 bills. In our review of a sample of accounts, we observed significant delays in issuing some water bills. These delays were typically a result of ownership or occupancy changes, where a new account was created or a final bill was required when an account was being closed. The delays in certain cases exceeded 12 months. For example,

- A Provincial Government property water account was set up in December 2012; however, the customer was not billed for 18 months thereafter. A cumulative bill for \$318,000 was sent to the customer in September 2014. The account remained unpaid as at August 31, 2015.
- A commercial property water customer was not billed for a 13-month period from April 2014 to April 2015. A lump sum bill for the 13-month period was then subsequently issued. The customer disputed the high amount of the cumulative water bill. Only two payments totalling to \$1,055 were received over the life of the account. As at August 31, 2015, \$56,000 was outstanding.

There are significant delays in resolving some customer disputes

In our review of a sample of accounts, we also observed significant delays in resolving some customer disputes. For example, a commercial customer disputed billings over an 18-month period and stopped making payments after December 2013. The balance due on this account was \$218,000 as at August 31, 2015.

Customers do not pay accounts where bills are delayed or disputed

Some customers do not pay when they do not receive bills or where a billing dispute arises, even though they continue to consume water. Billing delays can result in potential uncollectible accounts and disputes. Delays in producing the final bill on ownership changes are of particular risk. Forwarding information may not be available for customers who have vacated the property making collection more difficult.

Disputes need to be resolved in a timely manner. In addition, while the disputed portion of the bill is being resolved, the current portion of the bill should either be paid by the consumer or assigned to the tax roll for collection and interest should be applied.

Recommendations:

- 10. City Council request the Director, Revenue Services, to implement a process to identify water accounts where a bill has not been issued in the appropriate bill cycle and ensure timely investigation and resolution of any problems in processing the water bills.**

- 11. City Council request the Director, Revenue Services, to ensure bills for new accounts and final bills for accounts that are being closed are issued and collected on a timely basis. Benchmarks for expected timelines for issuing bills upon creation or closure of accounts should be developed, with performance against the benchmarks monitored and any significant deficiencies resolved.**
- 12. City Council request the Director, Revenue Services, to develop a formal dispute resolution process and reporting criteria for disputes that remain unresolved for an extended period of time. The process should also include communication to clients for payment of current dues while the disputed amounts are being resolved.**

D. OTHER BILLING AND COLLECTIONS ISSUES

D.1. Controls Over Inactive Accounts Need Improvement

Inadequate measures are taken to collect on inactive accounts

An account becomes inactive when there is an ownership or occupancy change. There are 84 inactive accounts in the water billing and collections system with individual receivable balances of over \$500, totaling to approximately \$950,000. These accounts are over one year past due. When an account becomes inactive, overdue notices are no longer issued. Although the \$950,000 owing can be transferred to current owner property tax accounts, to date such transfers have not occurred. The accounts continue to be in arrears and collection of these unpaid amounts is more difficult due to changes in ownership.

Processes for writing off small outstanding account balances should be reviewed

In addition there are approximately 1,500 inactive accounts with balances under \$10. A total of \$5,500 is past due on these accounts. Review of accounting practices in other municipalities indicates that certain municipalities have adopted a policy to clean up accounts by writing off small outstanding amounts and transferring small credit balances to revenues on a periodic basis.

The City also has approximately 34,000 inactive accounts older than two years with credit balances totaling \$7.5 million. Some of these accounts have individual credit balances ranging as high as \$50,000. The 9,600 inactive accounts have individual credit balances under \$10 amounting to \$28,000 past 60 days.

Where a refund is not expected, the Revenue Services Division, in consultation with the Accounting Services and Legal Services Divisions, should review the potential to transfer these amounts to revenues.

Recommendations:

- 13. City Council request the Director, Revenue Services, to review existing outstanding balances for inactive accounts and develop a strategy to collect these accounts.**
- 14. City Council request the Director, Revenue Services, to review credit balances for inactive accounts and coordinate with the Deputy City Manager and Chief Financial Officer and the City Solicitor with a view to evaluating whether credit balances in 'Inactive Accounts' can be transferred to revenue.**
- 15. City Council request the Director, Revenue Services, to review practices at other municipalities relating to treatment of small balances for inactive accounts and develop criteria to clean-up such accounts.**

D.2. Inadequate Controls Over Bill Reversals and Credits

Billing staff can reverse any amount billed over any period of time

Revenue Services billing staff have the capability to reverse any amount billed over any period of time. Financial approval limits for allowing credits and bill reversals do not exist.

Reversals and adjustments to amounts previously billed can be significant

During our audit, we identified instances where previously billed amounts were reversed. The amounts reversed ranged up to hundreds of thousands of dollars. In some cases, adjustments were made to individual accounts that cover multiple water bills over a period of time. For example, for one multi dwelling residential account, \$785,000 relating to 33 bills covering a period of 8 years were reversed all at one time in 2009. This account was rebilled \$174,000. There continues to be a credit balance of \$190,000 on the account as at August 31, 2015. In another instance, we noted bills for a commercial account totaling \$415,000 relating to 17 months were reversed and rebilled \$65,000. These credits resulted from customer disputes and billing errors.

Water accounts with credit balances totaling \$19 million

The large number of bill reversals create significant credit balances. There were water accounts with credit balances totaling \$19 million as at August 31, 2015. These accounts represent a liability for the City.

Reasons for bill reversals and credits must be well documented

There are occasions when reversals and credits are needed, for example, for the correction of estimated bills; however, formal approvals for such adjustments to accounts should be authorized in accordance with defined financial signing authorities. Reasons for bill reversals and credits should be well documented. Where bill reversals and credit adjustments relate to prior period revenues and/or long outstanding past due accounts, they should be treated similarly to a write-off and subject to similar approvals.

A detailed assessment of controls over billing of water usage, adjustments and reversals of accounts will be included in the second phase of our audit. The results of our Phase II review of billing and related processes will be reported later in 2016.

Recommendations:

- 16. City Council request the Director, Revenue Services, to establish appropriate financial signing authority limits, such that billing reversals, credits and other account adjustments are reviewed and approved by an appropriate level of management based on the materiality of the adjustment amount.**
- 17. City Council request the Director, Revenue Services, to ensure that reasons for billing reversals, credits and adjustments are appropriately documented, with supporting source documents retained where applicable.**

D.3. Protocol for Appropriate Handling of Overdue Accounts Billed to City Divisions Should Be Documented and Implemented

Certain significant overdue water accounts are billed to City divisions

City divisions that consume water are set-up as normal water billing accounts. In a number of accounts, we noted water bills are regularly sent; however, the divisions do not pay these bills. For example, one water account had an outstanding receivable of \$378,000 recorded in the water billing system as at August 31, 2015. The full balance has been outstanding for almost 15 years.

There is no protocol for handling billable and non-billable water accounts related to City divisions

There are no clear guidelines relating to the collection of these accounts and extra resources are being spent on billing, follow-up and maintenance of these accounts.

Revenue Services staff advised that Toronto Water enters into arrangements with other divisions to supply water. These arrangements should be coordinated with Revenue Services to clarify processes for billing and payment of water usage.

Recommendations:

- 18. City Council request the Director, Revenue Services, in consultation with the General Manager, Toronto Water, to:**
- a. Establish a formal protocol for setting up in the water billing system non-billable City accounts (where water consumption requires tracking but no payments are required from the Divisions), as well as, billable accounts (where payments are required from the Divisions for water service provided).**
 - b. Review existing internal City accounts with overdue balances to determine if these are collectible and billable. The account status should be updated accordingly and outstanding balances should be collected or written-off.**

D.4. Recommendations Are Relevant for the Collection of Solid Waste Management Accounts

The collection of solid waste management accounts was not included in the scope for this audit. However, these utility accounts follow similar collection processes and guidelines as used in water collections. Therefore, the recommendations made to improve the collection of water accounts will also apply to the collections of solid waste management accounts.

The value of the outstanding accounts receivable for solid waste management accounts as at August 31, 2015 was \$7.4 million. Approximately \$4.7 million or 63.5 per cent are current accounts due for collection within 30 days. The remaining \$2.7 million or 36.5 per cent represents past due accounts. Approximately \$700,000 is over one year past due.

Recommendation:

- 19. City Council request the Director, Revenue Services, to review the recommendations in this report and where applicable implement similar processes for collection of overdue solid waste management accounts.**

CONCLUSION

Report identifies opportunities for improving water collection processes

This report identifies a number of opportunities to improve the management of collection of outstanding water bills, operational efficiencies and improved customer account management.

Implementation of recommendations will improve controls and operational efficiency

The implementation of these recommendations will expedite collection of outstanding accounts, improve existing revenues and cash flows and generate certain incremental revenues through interest and fees.

We estimate that the City will collect approximately \$5 million in one-time revenues and approximately \$800,000 to \$900,000 in incremental revenues on a recurring basis. The revenue will result from expedited collection, improved reporting and timely transfer of outstanding accounts to property taxes, as well as other recommended measures.

Finally, we would like to express our thanks for the co-operation we received from staff of the Revenue Services Division during this audit.

**Management's Response to the Auditor General's Review of
Billing and Collection of Water Accounts – Phase I: Overdue Water Account Collections Require Strengthening**

Rec No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
1.	City Council request the Director, Revenue Services, to develop a report identifying high risk and high value accounts. The report should be reviewed for long outstanding overdue accounts on a quarterly basis to ensure that appropriate measures for collection are taken.	X			Agree. Director of Revenue Services will review existing reports of overdue accounts, and new quarterly reports will be created to identify high risk and high value overdue accounts, by Q4 2016. Reports will be reviewed quarterly by management and coordinated with directed collection efforts.
2.	City Council request the Director, Revenue Services, to develop a report to identify missing information in water accounts and ensure accounts are updated.	X			Agree. Director of Revenue Services will review existing reports for adequacy and to identify missing information by Q3 2016.
3.	City Council request the Director, Revenue Services, to develop criteria for assignment of long overdue accounts to third-party collection services. Assignments should be tracked and collection agency performance should be monitored.	X			Agree. Director, Revenue Services will develop formal processes and criteria to identify accounts overdue by 6 months or more, and to assign such accounts to 3rd party collection services, with implementation by Q4 2016. Assignments will be tracked and collection agency performance monitored for follow-up.
4.	City Council request the Director, Revenue Services, to review and renew third-party collection service contracts on a timely basis.	X			Agree. Director, Revenue Services will identify renewal of third party collection services on annual Purchasing Plans by Q4 2016.
5.	City Council request the Director, Revenue Services, in consultation with the General Manager, Toronto Water, to evaluate options for restricting the supply of water on large overdue accounts where all other available collection measures have been exhausted.	X			Agree. By Q3, 2016 the Director, Revenue Services will consult with Toronto Water to identify processes and criteria to identify accounts with outstanding balances where restricting supply of water may be used as an enforcement/collection measure, while considering liability, legal or life-safety matters.

Rec No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
6.	City Council request the Director, Revenue Services, to periodically review all accounts with outstanding water account balances that do not have a corresponding property tax roll and ensure missing tax roll information in the water billing system are investigated and resolved.	X			Agree. Director, Revenue Services will ensure reports identifying unlinked account are produced and reviewed quarterly, beginning in Q2, 2016.
7.	City Council request the Director, Revenue Services, in consultation with the City Solicitor, to review the potential of charging interest on outstanding water account balances that are not eligible for transfer to property taxes. Such a change may require amendment to the City of Toronto Municipal Code.	X			Agree. The Director, Revenue Services will consult with Legal Services to determine the feasibility and to confirm appropriate legislative authority exists, and the need for any legislative amendments, to be undertaken by the end of Q4 2016.
8.	City Council request the Director, Revenue Services, to develop a process for periodic review of overdue accounts with "Do Not Transfer" status to ensure that these accounts are followed-up and their collection efforts are expedited. Specific collection approaches should be developed to improve collections on overdue accounts for each type of account holder or owner.	X			Agree. By Q2, 2016, the Director, Revenue Services will develop bi-annual reports and processes to review "Do Not Transfer" accounts to ensure collection efforts are expedited, including specific collection approaches for the various types of overdue accounts, in consultation with Toronto Water.
9.	City Council request the Director, Revenue Services, to ensure the Council approved amendment for apportionment and transfer of outstanding condominium water bills to the tax accounts of individual unit owners be implemented.	X			Agree. By Q4 2016, the Director, Revenue Services will fully implement Council-approved collection processes for condominium water bills, beginning with the oldest and/or largest outstanding balance accounts.

Rec No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
10.	City Council request the Director, Revenue Services, to implement a process to identify water accounts where a bill has not been issued in the appropriate bill cycle and ensure timely investigation and resolution of any problems in processing the water bills.	X			Agree. The Director, Revenue Services will review and enhance current processes to identify accounts where billings are delayed by Q2, 2016, including creation of production of specialized reports to ensure that appropriate follow-up/resolution is undertaken.
11.	City Council request the Director, Revenue Services, to ensure bills for new accounts and final bills for accounts that are being closed are issued and collected on a timely basis. Benchmarks for expected timelines for issuing bills upon creation or closure of accounts should be developed, with performance against the benchmarks monitored and any significant deficiencies resolved.	X			Agree. The Director, Revenue Services will develop benchmarks for expected timelines for issuing bills upon creation or closure of accounts, with performance against the benchmarks monitored quarterly to resolve deficiencies, beginning in Q3, 2016.
12.	City Council request the Director, Revenue Services, to develop a formal dispute resolution process and reporting criteria for disputes that remain unresolved for an extended period of time. The process should also include communication to clients for payment of current dues while the disputed amounts are being resolved.	X			Agree. The Director, Revenue Services, in consultation with Toronto Water, will review, formalize and document the dispute resolution process by Q3, 2016.
13.	City Council request the Director, Revenue Services, to review existing outstanding balances for inactive accounts and develop a strategy to collect these accounts.	X			Agree. The Director, Revenue Services will develop strategies, criteria and processes, including bi-annual reports, to review and collect on inactive accounts with outstanding balances by Q4 2016.

Rec No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
14.	City Council request the Director, Revenue Services, to review credit balances for inactive accounts and coordinate with the Deputy City Manager and Chief Financial Officer and the City Solicitor with a view to evaluating whether credit balances in 'Inactive Accounts' can be transferred to revenue.	X			Agree. The Director, Revenue Services will consult with the Chief Financial Officer, Legal Services and Treasurer, commencing in Q3 2016, to determine whether credit balances on inactive accounts can be transferred to revenue, and to implement such processes by Q4 2016.
15.	City Council request the Director, Revenue Services, to review practices at other municipalities relating to treatment of small balances for inactive accounts and develop criteria to clean-up such accounts.	X			Agree. The Director, Revenue Services will consult with other municipalities re: treatment of small balances in Q3, 2016, with revised processes as necessary to be implemented by Q4 2016.
16.	City Council request the Director, Revenue Services, to establish appropriate financial signing authority limits, such that billing reversals, credits and other account adjustments are reviewed and approved by an appropriate level of management based on the materiality of the adjustment amount.	X			Agree. The Director, Revenue Services will review, formalize and document processes to establish financial signing authority limits for billing reversals, credits and other account adjustments by Q3 2016.
17.	City Council request the Director, Revenue Services, to ensure that reasons for billing reversals, credits and adjustments are appropriately documented, with supporting source documents retained where applicable.	X			Agree. The Director, Revenue Services will formalize and document this process, including procedures for retention of documentation where applicable by Q3 2016.

Rec No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
18.	<p>City Council request the Director, Revenue Services, in consultation with the General Manager, Toronto Water, to:</p> <p>a. Establish a formal protocol for setting up in the water billing system non-billable City accounts (where water consumption requires tracking but no payments are required from the Divisions), as well as, billable accounts (where payments are required from the Divisions for water service provided).</p> <p>b. Review existing internal City accounts with overdue balances to determine if these are collectible and billable. The account status should be updated accordingly and outstanding balances should be collected or written-off.</p>	X			<p>Agree. The Director, Revenue Services will undertake:</p> <p>a) Consultations with Toronto Water by Q4 2016 to establish protocols for non-billable and billable City accounts, with new procedures as necessary implemented by end of Q4 2016.</p> <p>b) A review of internal City accounts with overdue balances by Q4 2016, including recommendations for write-off or collection by end of Q4 2016.</p>
19.	<p>City Council request the Director, Revenue Services, to review the recommendations in this report and where applicable implement similar processes for collection of overdue solid waste management accounts.</p>	X			<p>Agree. The Director of Revenue Services will implement process improvements for collection of overdue solid waste accounts by Q4 2016. As utility bills comprise billings for both water and solid waste management services, improvements in collection measures and internal controls will naturally provide for improvements in collection of solid waste amounts.</p>