

TORONTO STAFF REPORT

October 7, 2004

To: Audit Committee

From: Auditor General

Subject: Receivables Review – Parks and Recreation Operations, Economic Development, Culture and Tourism Department

Purpose:

To report the results of the Auditor General's independent verification of certain outstanding receivables relating to the Parks and Recreation operations and, where appropriate, to recommend further action to improve controls.

Financial Implications and Impact Statement:

Certain of the receivables in the Parks and Recreation Division of the Economic Development, Culture and Tourism Department are uncollectible. The Auditor General has estimated that an allowance for uncollectible accounts should be in the range of \$1,275,000 in relation to outstanding accounts relating to the Parks and Recreation operations.

An estimated allowance of \$1,000,000 was previously reported to the Audit Committee by the Auditor General in a report dated March 19, 2004, entitled “Economic Development, Culture and Tourism Department – Review of Receivables Relating to Parks and Recreation Operations and the Review of Revenue and Cash Controls Relating to the Parks and Recreation Division, North and South Districts”.

However, this further review and in particular the results of the independent verification of certain accounts has necessitated a further adjustment to the allowance. In our view the allowance should be adjusted by an additional \$275,000 to bring the total allowance required to \$1,275,000.

Recommendation:

It is recommended that the Commissioner, Economic Development, Culture and Tourism, analyze the outstanding receivables accounts in order to determine the appropriateness of the allowance for doubtful receivables estimated by the Auditor General and report back to the first Audit Committee meeting in 2005. The allowance be incorporated in the Department's 2004 actual financial results and be reported to the Chief Financial Officer and Treasurer.

Background:

The Auditor General's Office issued a report dated March 19, 2004, entitled the "Economic Development, Culture and Tourism Department – Review of Receivables Relating to Parks and Recreation Operations and the Review of Revenue and Cash Controls Relating to the Parks and Recreation Division, North and South Districts". The purpose of the review was to ensure that appropriate levels of internal controls existed in relation to the handling of cash and that effective policies and procedures were in place in respect to the management of the City's receivables in the Parks and Recreation Division. The March 2004 report contained a number of audit findings and recommendations concerning the overall management of the accounts receivable function.

Further and as reported in March 2004, the Auditor General determined that "from an audit perspective, a concern relates to the fact that the outstanding receivables may have been collected and not credited to any City Account. While we have no evidence that this has happened, it is always a concern when a large number of receivable balances remain outstanding for a significant period of time. In this context, and to satisfy ourselves that this has not occurred, we have selected a random number of accounts for independent direct verification in order to confirm whether they continue to be outstanding". This is a generally accepted audit step in relation to the verification of receivables.

In addition, the report of March 2004 indicated that the Auditor General would report back to the Audit Committee on the results of this verification process.

As previously reported in March 2004, the total receivable balance, as of the end of March 2004 in the CLASS Permitting and Registration System in relation to registration, membership and permit fees is approximately \$4.486 million of which approximately \$1.816 million has been outstanding for over 120 days. In addition, of the \$1.816 million, approximately \$719,000 has been outstanding for at least 12 months.

The outstanding balance of \$4,486,447 consists of the following accounts:

Type of Accounts	Number of Accounts	Outstanding Balance as at March 31, 2004	Amount Outstanding over 121 days
		\$	\$
Organizations	2,133	3,760,717	1,294,594
Family Accounts	<u>5,344</u>	<u>725,730</u>	<u>522,053</u>
Total	<u>7,477</u>	<u>\$4,486,447</u>	<u>\$1,816,647</u>

The receivables from organizations generally involve permits issued by the Parks and Recreation district offices and recreational facilities for the use of recreation facilities, sports fields and arenas. Family accounts represent outstanding membership and registration fees.

Audit Objectives and Scope

The objective of this review was to determine if the accounts receivable balances of \$4,486,447 as at March 31, 2004 represent enforceable claims for services provided. These receivables are applicable to the recreation facilities only and do not include other receivables administered by the Department. As previously indicated, this report is restricted to comments relating specifically to those receivables selected for independent direct verification.

We judgementally selected 36 separate accounts as of March 31, 2004, and requested direct confirmation by letter from those individuals or organizations who were identified as owing funds to the City. The accounts selected were generally based on the dollar value and the length of time the receivables were outstanding.

Confirmation letters, including second requests were sent to each individual debtor requesting that they confirm directly to the Auditor General's Office the validity or otherwise of the receivable owing. Where specific replies were not received or where responses indicated that the receivables balance was incorrect, additional minimal audit work on these receivables were conducted.

Based on our confirmation results we have further re-evaluated the provision for uncollectable accounts and have provided a "best estimate" as to what the provision should be.

Comments:

The following table shows the aging, dollar amount, and number of accounts comprising the receivable balance of \$4,486,447 as at March 31, 2004:

Aging	Organizations	Family	Total
	\$	\$	\$
Current	721,678	144,805	866,483
31 – 60 days	892,523	29,017	921,540
61 – 90 days	578,923	18,000	596,923
91 – 120 days	272,999	11,855	284,854
121 days and over	<u>1,294,594</u>	<u>522,053</u>	<u>1,816,647</u>
Total	<u>\$3,760,717</u>	<u>\$725,730</u>	<u>\$4,486,447</u>

The 36 customer accounts subjectively selected for confirmation were as follows:

Type of Accounts	Number of Accounts	Outstanding Balance as at March 31, 2004
		\$
Organizations	17	766,416
Family Accounts	<u>19</u>	<u>53,298</u>
Total	<u>36</u>	<u>\$819,714</u>

Organizations

The results of our confirmations were as follows:

Confirmations sent	<u>17</u>
Confirmations not returned – no reply	10
Confirmations returned – balance confirmed correct	3
Confirmations returned – balance in dispute	3
Confirmations related to a City Agency	<u>1</u>
	<u>17</u>

Out of a total of 17 confirmations, only three were returned indicating that the receivable owing to the City was correct. In relation to 12 of the 13 organization accounts for which a confirmed correct reply was not received, various explanations were provided by City staff as to the status of the individual accounts. However, all still remain unpaid. We have conducted no follow-up audit work to investigate the reasons for the non-payment, but have provided these confirmations to City staff for follow-up.

In view of the results of our confirmations, we have assessed the extent of a provision against these accounts to be in the range of \$773,000 calculated as follows:

Aging	Amount \$	Allowance Estimate %	Allowance \$
Over 121 days	1,294,594	50	647,000
91 – 120 days	272,999	25	68,000
61 – 90 days	578,923	10	<u>58,000</u>
Total			<u>\$773,000</u>

Family Accounts

Confirmations sent	<u>19</u>
Confirmations not returned – no reply	17
Confirmations returned – balance incorrect	<u>2</u>
	<u>19</u>

The response to our confirmations in relation to family accounts illustrates the difficulty the Department will have in collecting these accounts. Significant follow-up on all individual family accounts is required if there is to be any possibility of collecting these receivables.

Based on our confirmation results, an allowance for the uncollectibility of these accounts would be in the range of \$502,000 calculated as follows:

Aging	Amount \$	Allowance Estimate %	Allowance \$
Over 121 days	522,053	95	496,000
91 – 120 days	11,855	50	<u>6,000</u>
Total			<u>\$502,000</u>

Conclusions:

Our attempts to independently verify the validity of certain receivable accounts were generally unsuccessful. We have not attempted to verify the validity of these receivables by other means and appreciate that certain of these uncollectible accounts may date back to pre-amalgamation. If this is the case, there is a requirement that they be analyzed in detail and where appropriate, be communicated to the Chief Financial Officer and Treasurer in order that they be written off. In the meantime, we have estimated that there should be an allowance against the collectibility of these accounts somewhere in the range of \$1,275,000 (\$773,000 for organization accounts and \$502,000 for family accounts).

Our estimate of this provision in March 2004 was very roughly estimated to be \$1,000,000. Our revised estimate suggests that the provision should be approximately \$275,000 higher. We have provided this information to Ernst & Young, the City's external auditors, and the Chief Financial Officer and Treasurer for their review and consideration during the finalization of the City's 2004 annual financial statements.

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