GL4.04

REPORT FOR ACTION

2018 Accounts Receivable Write-off Report

Date: April 5, 2019
To: General Government and Licensing Committee
From: Controller
Wards: All

SUMMARY

This report provides information on account receivable amounts written off as uncollectible in 2018 under delegated authority provided to the Controller.

RECOMMENDATIONS

The Controller recommends that:

1. The General Government and Licensing Committee receive this report for information.

FINANCIAL IMPACT

There are no financial implications as a result of this report.

Amounts totalling $1,469,210 (0.2% of total billable revenues for 2018, excluding grants and billable revenues for Court Services, Parking Tags, Tax and Utilities) were written off by the Controller in 2018 in accordance with the City's Financial Control By-law, after completion of appropriate collection efforts. These amounts (detailed in the Comments section of this report) have been provided for in the City's Allowance for Doubtful Accounts and expensed in previous years; as such, there was no impact to 2018 operating expenditures.

In addition, the City Solicitor also recommended that the Controller write-off utility charges of $249,440 (0.0% of total utility billable revenues for 2018). The recommended utility write-offs have been provided for in the City's Allowance for Doubtful Accounts and expensed in previous years; as such, there was no impact to 2018 operating expenditures.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial impact statement.

DECISION HISTORY

The Controller 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".

Furthermore, the City's Financial Control By-law, Chapter 71, Toronto Municipal Code, 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".

A further amendment to the Financial Control By-law of June 24, 2008 authorizes the Controller to write-off amounts up to $500,000 where the City Solicitor has attempted to recover the amount owing and concluded that the amount is uncollectible.

Following is the link to Chapter 71, Toronto Municipal Code, Financial Control:
http://www.toronto.ca/legdocs/municode/1184_071.pdf

On an annual basis, the Controller reports to Committee and Council on accounts receivable amounts written off as uncollectible under delegated authority, and if required, to seek approval for the write-off of uncollectible amounts in accordance with the provisions of the Financial Control By-law (Toronto Municipal Code, Chapter 71).

Following is the link to the 2017 Accounts Receivable Write-off Report received by Government Management Committee at its meeting held on April 30, 2018 (re: GM 27.3)
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.GM27.3

ISSUE BACKGROUND

Accounts receivable invoicing, revenue recognition and collections are decentralized within the City. As part of their collection efforts, all City Divisions are required to review their outstanding receivables on a regular basis and establish appropriate allowances for all accounts where collection is considered doubtful. In collaboration with the Accounting Services Division (ASD), these provisions are reviewed annually for adequacy.

Divisions are required to send invoices under $1,000 to two collection agencies. If the first collection agency is unsuccessful within six (6) months, the amount is sent to the second collection agency for another six (6) months. As a general practice, amounts over $1,000 are forwarded to Legal Services for collection action which may include litigation or small claims court action. Legal Services may recommend settlement based on the information available. Once all collection efforts have been exhausted and senior management staff, Legal Services and/or the City's contracted collection agencies have deemed the amount(s) to be uncollectible, a write-off request is initiated and the required approvals are obtained from the appropriate Division, Director of Accounting Services and the Controller.

This report does not include Council authorized settlements on specific matters delegated to the City Solicitor.

COMMENTS

Table 1 outlines the total write-offs by Division generating the initial accounts receivable.

Table 1
Amounts Approved for Write-off by the Controller in 2018 with reference to Chapter 71, Toronto Municipal Code, Financial Control

Division	Note 1	Note 2	Total
Real Estate Services	$110,727	$384,621	$495,348
Toronto Building	$16,800	$400,487	$417,287
Transportation	$155,109	$71,636	$226,745
Parks, Forestry & Recreation (PFR)	$107,222		$107,222
Long Term Care Homes & Services	$99,638		$99,638
Toronto Water	$83,659		$83,659
Other Divisions	$39,311		$39,311
TOTAL written off			$1,469,210

Write-offs under the column titled Note 1 include individual amounts less than $50,000 written off by the Controller under delegated authority and amounts under Note 2 include amounts between $50,000 and $500,000 written off by the Controller as recommended by the City Solicitor.

Real Estate Services

Real Estate Services recommended that the Controller approve write-offs in the amount of $495,348, as follows:

A former tenant occupied three City locations at York, East York, and Etobicoke Civic Centres for the operation of cafeterias. In 2010, a leasing error was discovered, leases were terminated and the City repossessed all three locations. The locations were immediately leased out to new tenants. In 2012, Legal Services issued a statement of claim to the former tenant. The tenant had not paid invoices according to the lease agreement. After extensive legal discoveries, mediation and examination of the tenant's assets Legal Services recommended the file be written off minus a settlement of $15,000. Legal Services determined based on its findings that the former tenant did not have sufficient assets to satisfy a potential judgement and going to trial would not be a practicable economic decision for the City.	$252,814
Lease adjustments approved by Council in 2003 were erroneously missed by Real Estate. The City retroactively adjusted the customer account to reflect the approved decision. In consultation with Legal Services, various amounts outstanding were recommended for write-off as they are protected by statute limitations.	$131,806 and $29,439
The write-off represents the balance of realty taxes owing by a not for profit organization for the period between taxability of their City lease to the effective date of a Municipal Capital Facility Agreement. The amount was determined to be uncollectible as it would cause undue financial hardship to the organization.	$47,677
Outstanding rent amounts for various properties.	$33,612

Amounts written off for Real Estate Services represent 0.8% of billable revenues of $61M.

Toronto Building

Toronto Building recommended that the Controller approve write-offs in the amount of $417,287, as follows:

Legal Services commenced legal action for numerous outstanding third party sign tax billings resulting in default judgement against the customer in March, 2017. Based on an examination in aid of execution of the customer, Legal Services determined that the company had no assets to fulfill the judgement given to the City and recommended write-off of the amount. Correction action has been taken regarding third party sign tax receivables.	$400,487
The amount represents an outstanding Toronto Building urgent hazardous accounts receivable dating back to 2009 for remedial action resulting from unsafe or emergency orders issued. While conducting a review of the Remedial Action Policy and Procedure the outstanding balance was identified. Toronto Building requested an opinion from Legal Services regarding placing the amount on the tax roll of the current owner. Legal Services recommended that Toronto Building not pursue to recover the amount outstanding as a new owner had taken possession of the property in 2010. Toronto Building has implemented new procedures to prevent recurrence.	$16,800

Amounts written off for Toronto Building represent 3.8% of billable revenues of $11M.

Transportation Services

Transportation recommended that the Controller approve write-offs of $226,745 as follows:

A business was invoiced for an amount to recover costs associated with the relocation of the traffic signal at Bay and Adelaide to facilitate construction. The representative of the company disputed the invoice on the basis that the billing was not timely as related work was performed over nine years ago. Legal Services advised that the statute of limitation for the period of collection on the account had expired.	$71,636
This amount is the total of various invoices, ranging between $279 and $30,593, for Motor Vehicle Accidents balances and late payment fees deemed uncollectible by Legal Services or the collection agencies.	$121,557
This amount is the total for various invoices for Street Allowance Rental balances and late payment fees deemed uncollectible by Legal Services or the collection agencies.	$11,117
This amount represents various invoices for Utility Cuts balances and late payment fees deemed uncollectible by Legal Services or the collection agencies.	$4,362
This amount represents various invoices and late payment fees deemed uncollectible by Legal Services or the collection agencies.	$18,073

Amounts written off for Transportation represent 0.5% of billable revenues of $58M.

Parks, Forestry & Recreation

Parks, Forestry & Recreation recommended that the Controller approve write-offs of $107,222, as follows:

Parks, Forestry and Recreation (PFR) partnered with a business to operate food trucks in certain City parks. The agreement required the business to pay the City a licensing fee in the amount of $36,160 of which only $20,190 was received. Legal Services was requested to commence a small claims court action to recover the balance of $15,970. The matter was settled by the parties for $11,000 and the City Solicitor is recommending the remaining balance be written off.	$4,970
As at December 31, 2018, the number of outstanding receivables over 120 days, for program registrations and facility permits, in the CLASS system was 553 accounts totaling $224,893, 248 totalling $102,252 have been with collection agencies for over six (6) months.	$102,252

Amounts written off for Parks, Forestry and Recreation represent 0.2% of billable revenues of $67M.

Long-Term Care Homes & Services

Long Term Care Homes & Services (LTCHS) recommended that the Controller approve write-offs in the amount of $99,638 in accommodation fees which could not be collected under Ontario Regulation 79/10 and prior legislation that prohibits LTCHS from discharging a resident based on the resident's financial situation, including the non-payment of accommodation fees.

All accounts referred for write-off by LTCHS are accounts of deceased or discharged residents, with the majority outstanding from deceased residents. When a debtor resident passes away, Legal Services conducts estate searches in order to collect amounts outstanding, and may recommend write-off when the estate is determined to be insolvent. Amounts must be written off before being submitted to the Ministry of Health and Long Term Care which provides a 50% subsidy for basic accommodation fees. The subsidy portion expected to be recovered is re-established as an outstanding receivable until funds are received.

Amounts written off for Long-Term Care Homes & Services represent 0.2% of billable revenues of $56M.

Toronto Water

Toronto Water recommended that the Controller approve write-offs of $83,659, for various invoices, including late payment charges, to recover the costs incurred to repair damages to sanitary sewer lines.

Amounts written off for Toronto Water represent 0.2% of billable revenues of $55M.

Other Divisions

Divisions recommended that the Controller approve write-offs in the amount of $39,311 for various amounts deemed uncollectible by the respective Divisions and either Legal Services or collection agencies.

Utility Charges

In 2018, the Controller approved the write-off of a utility receivable balance following recommendation by the City Solicitor. Table 2 lists the Utility Charge recommended for write-off.

Table 2
Utility Amounts Approved for Write-off by the Controller in 2018 with reference to Chapter 71, Toronto Municipal Code, Financial Control.

Division	Utility Account	Utility Service Address	Total
Revenue Services	681634-1226841	38 Joe Shuster Way	$249,440

The City Solicitor recommended that the Controller write-off utility charges of $249,440 for the property located at 38 Joe Shuster Way, following the insolvency of the property owner in 2016. Legal Services has determined there is no effective mechanism to collect the outstanding amount.

Improvements to Accounts Receivable

Through the Financial Accounting System Transformation (FAST) project, which reviewed accounting for revenue streams and accounts receivable as part of its work, ASD has identified a number of improvement opportunities. This work incorporated the Auditor General's findings related to accounts receivable and collection efforts. Recommendations coming out of FAST, which includes validation of opportunities against best practices through the work of external advisors, will put controls in place to address or prevent billing errors, ensure timely invoicing to improve collection, develop new means to collect outstanding amounts and coordinate collection efforts.

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SIGNATURE

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