

TTC AUDIT COMMITTEE REPORT NO.

MEETING DATE: APRIL 19, 2011

SUBJECT: ACCOUNTS RECEIVABLE CONSIDERED UNCOLLECTIBLE

ACTION ITEM

RECOMMENDATION

It is recommended that the Committee receive and forward this report to the next Commission meeting for approval to write off an outstanding account with Infoplace Ticket Centres Ltd. considered uncollectible in the amount of \$28,826.99.

FUNDING

Delinquent accounts are recognized as potential bad debts and expensed annually. Since the debts discussed in this report occurred in prior years, there will be no additional impact on the 2011 TTC Operating Budget beyond what has been provided in this year's expense provision.

BACKGROUND

The TTC's Authorization for Expenditures Policy allows the Chief Financial Officer to write-off individual uncollectible amounts up to \$10,000. The limit for the General Manager - Executive is \$20,000. Individual amounts over \$20,000 require Commission approval.

Staff are required to submit a report annually to the Audit Committee on accounts receivable considered uncollectible. This Committee last received for information a report on uncollectible accounts approved for write-off at the staff level covering the year 2009 at its meeting on April 13, 2010.

DISCUSSION

If staff have been unable to obtain payment in the course of normal collection efforts, small delinquent accounts are referred to an external collection agency, while larger amounts are forwarded to the TTC's Legal Department for further handling. Where appropriate, legal action is taken to collect unpaid accounts. However, in some cases court action is not considered cost effective due to the unlikelihood of recovery. If all reasonable attempts to collect an outstanding amount have been unsuccessful, and it is not cost effective to invest any further resources on collection, the account will be written off.

Individual accounts under \$20,000

The discussion that follows will outline for the information of the Commission those debts that have been written-off within staff authority levels. This report covers the fiscal year 2010.

Metropass Discount Plan (MDP) sales totalled \$60 million in 2010. The value of delinquent MDP customer accounts written-off in 2010 amounted to \$49,484. (MDP bad debts relate to "NSF" situations wherein the customer's preauthorized payment is dishonoured by his or her bank. A customer whose account is in default is immediately suspended, and if the account is not subsequently cleared, the customer is terminated from the subscription plan and prevented from rejoining. This default is also registered against the customer's credit history and reported to the major credit bureaus by the TTC's external collection agency).

Bad debts with respect to "ex-employees" totalled \$11,396. They are typically related to TTC levies for uniforms, employee passes, working fund shortages, health benefits and other miscellaneous charges.

Individual accounts over \$20,000

Infoplace Ticket Centres Ltd was established as a multi-location TTC Fare Media Reseller in November 1991. The account operated satisfactorily for many years, until January 26, 2009 when the company made an assignment in bankruptcy. The account was immediately suspended and deliveries of fare media discontinued. Thirteen cheques were returned by the bank marked "Account Frozen" resulting in an outstanding balance of \$28,826.99.

Last year the Committee was advised that a potential write-off with respect to an outstanding balance owed by Infoplace had been averted as the Trustee Grant Thornton had returned all TTC fare media in its possession. The actual amount returned (\$48,032.80) was in excess of the amount owed (\$28,826.99) and the net amount (\$19,205.81) was refunded to the Trustee. Numerous attempts to confirm closure of this matter were made to the Trustee in the ensuing months but no response was received. Finally, in the Fall of 2010, staff received a letter from the Trustee's legal counsel Borden Ladner Gervais LLP advising that the TTC was not permitted under Ontario law to set-off indebtedness owed to it by Infoplace at the time of bankruptcy against amounts owed by the TTC to the Trustee post-bankruptcy. The letter demanded that the TTC make payment to the Trustee forthwith the amount of \$28,826.99 which had earlier been set-off. After careful review of this matter, staff made the requested payment.

The TTC has issued a protective proof of claim but the assets of the company are insufficient to cover unsecured creditors, including the TTC. With the foregoing in mind, the outstanding receivable balance of \$28,826.99 is considered uncollectible, and is recommended for write-off. This bad debt was recognized as potentially unrecoverable in 2009 and expensed at that time. Accordingly, there will be no further impact on this year's operating budget.

Staff have undertaken a detailed risk analysis of all fare media reseller accounts to identify potential exposures to bad debts. In most instances, accounts with credit terms that order over \$50,000 per month have submitted financial security in the form of a standby irrevocable letter of credit or cash security deposit as collateral security. With very few exceptions (such as governmental agencies) new credit accounts must be secured by a letter of credit, security deposit or payment in advance of delivery.

There are a few customers that have enjoyed a long and satisfactory business relationship with the TTC as fare media resellers but were not asked to post financial security at the time they entered into business with the TTC. Two customers in particular are well known national retail chains. Staff approached their corporate offices recently to obtain appropriate financial security. It was explained that this was a protective preventative measure that did not reflect any concerns we had with their present financial conditions. It was further explained that the TTC, as a public agency accountable to the taxpayer, must necessarily be risk averse. Our largest customer, a reseller with approximately 70 stores selling TTC fare media, categorically refused the request, citing as its reason what it sees as an unnecessary cost to issue and maintain the financial security (our request was for \$3 million). However, this customer is prepared to work with the TTC to expedite faster payment of our invoices, thereby reducing the amount owing at any point in time. Nonetheless, there will still be a potential loss exposure should the customer default on payment. Furthermore, this customer in fact wishes to add more stores as resellers with credit terms. Staff have declined this request but must still deal with the refusal to provide financial security. Staff are mindful of the need to balance this risk against the convenience of TTC riders who depend on this fare media sales channel. The other fare media reseller, also a large retail chain, initially advised that the cost to provide the financial security could outweigh the commission (1%) earned on the fare media sales, but will bring the matter back to their corporate office for further consideration.

In summary

In aggregate, the total account write-off for 2010 (including Infoplace Ticket Centres Ltd) is \$60,880. The total annual billings for 2010 amounted to \$409 million, yielding a collection rate of 99.98%.

JUSTIFICATION

Individual accounts over \$20,000 recommended for write-off are required to be submitted to the Commission, as the limit for staff approval is \$20,000.