

TTC AUDIT COMMITTEE REPORT NO.

MEETING DATE: MAY 12, 2014

SUBJECT: ACCOUNTS RECEIVABLE CONSIDERED UNCOLLECTIBLE

INFORMATION ITEM

RECOMMENDATION

It is recommended that the Audit Committee receive this report for information

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 2014 TTC Operating Budget beyond what has been provided in the year's expense provision.

BACKGROUND

TTC's Authorization for Expenditures and Other Commitments Policy allows senior staff (as delegated by Chief Executive Officer) to write-off individual uncollectible amounts up to \$50,000.00. Individual amounts over \$50,000.00 require Board 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 senior staff level covering the year 2012 at its meeting on April 25, 2013. In aggregate, the total account write-off for 2012 was \$46,281.95. The total annual receipts for 2012 amounted to \$491 million, yielding a collection rate of 99.99%

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.

The discussion that follows will outline for the information of the Committee those debts that have been written-off within staff authority levels. This report covers the fiscal year 2013.

JUSTIFICATION

Individual accounts under \$50,000

Metropass Discount Plan (MDP) sales totalled \$69 million in 2013. The value of delinquent MDP customer accounts written-off in 2013 amounted to \$43,589 after all attempts at collection both internally and through the TTC's external collection agency were exhausted. (MDP bad debts relate to "NSF" situations wherein the customer's preauthorized payment is not honoured by his or her bank. A customer whose account is in default is immediately suspended, and if the account is not subsequently cleared after notification of default, the customer is terminated from the subscription plan and prevented from rejoining. This account is also forwarded to the TTC's collection agency for collection and this debt is also registered against the customer's credit history and reported to the major credit bureaus by the collection agency).

Other General Commercial Billings exceeded \$53 million in 2013. Two accounts were written off in the past year in the amount of \$280.

Bad debts with respect to "ex-employees" totaled \$4,861. They are typically related to TTC levies for uniforms, employee passes, working fund shortages, health benefits and other miscellaneous charges.

Individual accounts over \$50,000

For the year 2013 there were no accounts over \$50,000 to be written off. However, staff are bringing to this Committee's attention a potential exposure arising from a recent payment default of a substantial amount. The net amount owing is approximately \$89,000 by a fare media reseller, whose principal business was operating a Petrocan gas station. This reseller wrote four cheques totaling over \$144,000, all of which were returned NSF. Staff immediately contacted the owner of this business, who cooperated with staff in returning over \$55,000 in fare media still in its possession. This leaves the TTC with a net exposure of approximately \$89,000. While no further deliveries will be made as the account is terminated, staff are taking the necessary collection steps to remedy this default. The business owner has indicated that his licence to terminate the gas station has been revoked for various unspecified reasons but expects to recoup some money from the franchisor to pay back creditors, including the TTC.

In summary

In aggregate the total account write-off for 2013 is \$48,730.59. The total annual receipts for 2013 amounted to \$486 million, yielding a collection rate of 99.99%

JUSTIFICATION

This report is provided for the information of the Committee.