SUBJECT: Hamilton Street Railway (HSR) Vendor Account Write Offs
(FCS09055/PW09048) (City Wide)

RECOMMENDATION:

That the General Manager, Public Works, be authorized to write off uncollectible accounts relating to vendors of the Hamilton Street Railway (HSR) bus passes and tickets in the amount of $84,086.33, to be funded from Account #23106-006100, Tickets in Public Hands.

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Roberto Rossini
General Manager
Finance & Corporate Services

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Gerry Davis, CMA
General Manager
Public Works
EXECUTIVE SUMMARY:

In accordance with Council Policy, Transit and Financial Services Divisions are requesting approval to write off several vendor accounts that have been deemed to be uncollectible. Upon approval, the Transit and Financial Services Divisions will remove the accounts from the Aged Trial Balance and prepare the necessary accounting entries.

These amounts are being funded from the Transit “Tickets in Public Hands” account, which has sufficient reserves to accommodate these write offs, and will not affect the current year’s operating budget.

BACKGROUND:

The Transit Division employs a third party network of some two hundred (200) retailers and others to distribute HSR bus tickets and passes to the public. These vendors are generally managed, on the basis of payment on receipt for tickets, and consignment of passes with monthly reconciliation and payment. A small number of vendors are on an Accounts Receivable basis with the City, and generally make payment based on monthly invoices. In the five (5) year period ending December 2007, the Transit Division had distributed $105,000,000 in fare media through its internal and third party network resources.

Periodically, vendors write NSF cheques and/or close their business without notice, leaving outstanding accounts with the City. There are seven (7) vendor accounts that have been deemed uncollectible.

The Accounts Receivable Section, Financial Services Division, of the Corporate Services Department administers the HSR accounts that are invoiced monthly. These accounts are subject to collection efforts as outlined in the Accounts Receivable Write-Off Policy, approved by Council on February 9, 2005, Council Report #05-003. HSR administers receivables created as a result of returned cheques received from their cash on delivery (COD) customers. Once approved by Council, these accounts will be subject to collection efforts as outlined in report FCS09054/PW09047 “Hamilton Street Railway (HSR) Account Write Off Policy and Procedure”.

ANALYSIS/RATIONALE:

There are seven (7) vendor accounts that have been deemed uncollectible, as bankruptcy or business closure inhibits our ability to collect and efforts to do so have been exhausted.

Two (2) of these are or were vendors with Accounts Receivable arrangements with the City.

One doubtful Accounts Receivable account, Anna’s Lottery Hut, is uncollectible due to an irreconcilable account balance. This business changed hands in September 2007,
and, at that time, final invoices were prepared and the account brought to $0. In September 2008, an error made in 2001 was uncovered; it was determined that a payment made by another customer was misapplied to Anna’s Lottery Hut account. When corrected this brought the account balance to $39,824.75 owing to the City. Recent collection efforts with the previous owners have been unsuccessful. Since selling the business, the previous owner of Anna’s Lottery Hut destroyed the dated financial records that would be required to make reconciliation possible. They state that the account was always in good standing and do not believe it possible for an outstanding balance to presently exist. An explanation for the balance cannot be substantiated and could possibly relate to misapplied payments or credits for returned passes not being posted to the account.

A second doubtful Accounts Receivable account, Southland 7-11, is due to an irreconcilable account balance in the amount of $23,771.58. This customer has historically paid in advance and always had a credit balance on its account, so the problem went undetected for some years. Of the irreconcilable amount, $11,844.00 relates to transactions previous to 1999 for which records are no longer available for investigation. The remainder relates prior to 2006 when payments were based on receipt of tickets and/or reconciliation of passes, not necessarily matching monthly City invoice amounts, causing discrepancies and timing differences each month. The accumulated discrepancy was not uncovered until an extensive reconciliation with the customer was undertaken in 2008. The accumulation of the outstanding account occurred over a period of several years and the issue is complicated by the age and the complexity of discrepancies that make it impossible to substantiate any underpayment. Rigorous analysis was completed on the account and the determination was made that there was not enough information available to designate the discrepancy to specific ticket deliveries or pass reconciliations. Payments have been entirely reconciled for the past three (3) years and none of the shortfall is related to this period. Apart from the old discrepancies, the customer account is clean and being managed responsibly.

Five (5) of the seven (7) vendors at issue held regular contracts with HSR that required payment on receipt for tickets, and consignment of passes with payment monthly.

Each of these five (5) vendors wrote one or more NSF cheques and subsequently closed its business without notice between 2004 and 2007. All collection efforts have failed. These vendors with uncollectible accounts are as noted in the following Table:

<table>
<thead>
<tr>
<th>Vendor</th>
<th>Outstanding Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>R. Cassiani</td>
<td>$ 2,831.72</td>
</tr>
<tr>
<td>Joslena Retail Corp.</td>
<td>$ 5,890.29</td>
</tr>
<tr>
<td>J. Jo</td>
<td>$ 5,312.54</td>
</tr>
<tr>
<td>Lloyd’s Variety</td>
<td>$ 1,058.54</td>
</tr>
<tr>
<td>Milk Boy</td>
<td>$ 5,396.91</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$20,490.00</strong></td>
</tr>
</tbody>
</table>

The total of all outstanding accounts recommended for write off at this time is $84,086.33. Staff recommends that these account write offs be funded from the surplus
difference between the amount of tickets sold and the amount of tickets actually
redeemed by Transit, otherwise known as the Tickets in Public Hands account.

Committee and Council should be aware that there are two (2) other significant problem
accounts which are under active collection activities at this time.

As previously reported to Council by way of a verbal update, Info Place announced
bankruptcy on January 23, 2009. At the time of bankruptcy, Info Place owed the City of
Hamilton $161,461.63 for bus tickets and passes delivered to its business locations for
the months of October to December 2008 and January 2009. Immediately after the
bankruptcy was announced, ticket agents attended Info Place business locations and
collected all unsold tickets and passes to minimize losses. A bankruptcy claim has been
made against Info Place assets. Based on discussions with the Trustees in Bankruptcy,
we expect to receive some funds which may be used to reduce the eventual write off.

Further, V/Z Investments, which operated various lottery kiosks, including several in the
City Centre, had closed its businesses in 2007, leaving a delinquent account with the
City of $100,000.00 arising from a series of NSF cheques. This account is under active
collection and will be the subject of a further report from staff once collection efforts are
concluded.

**ALTERNATIVES FOR CONSIDERATION:**

Accounts that are written off will be removed from the active listing. If future information
is received that would aid in the collection of these written off amounts, active collection
would be resumed.

**FINANCIAL/STAFFING/LEGAL IMPLICATIONS:**

These receivables will be funded from the Tickets in Public Hands account. This
account reflects a surplus of sales against the redemption of tickets issued to December
31, 2007; the surplus in the account is currently $964,705.00. Transit maintains a
separate and distinct “Outstanding HSR Tickets” account for tickets sold after January 1,
2008. Transit ticket and pass sales for the five (5) year period ending December 31,
2007 were $105,000,000. The outstanding receivable balance to be written off
represents 0.08% of the total ticket/pass revenues.

As the recommended source of funding is from the Tickets in Public Hands account, the
write off of the receivables will have no effect on the 2009 actual expenditures total. The
balance in the Tickets in Public Hands account after the recommended write off will be
$880,619.00.

**POLICIES AFFECTING PROPOSAL:**

Accounts Receivable and Transit Collection and Write Off Policies.
RELEVANT CONSULTATION:

Corporate Services Department, Financial Services Division, Accounts Receivable Section, and the Hamilton Street Railway.

CITY STRATEGIC COMMITMENT:

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Community Well-Being is enhanced. □ Yes ☐ No

Environmental Well-Being is enhanced. □ Yes ☐ No

Economic Well-Being is enhanced. □ Yes ☐ No

Does the option you are recommending create value across all three bottom lines? □ Yes ☐ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants? □ Yes ☐ No