SUBJECT: Hamilton Street Railway (HSR) Account Write Off Policy and Procedure (FCS09054/PW09047) (City Wide)

RECOMMENDATION:

That Council approve the Hamilton Street Railway (HSR) Account Write Off Policy and Procedure, attached as Appendix ‘A’ to report FCS09054/PW09047.

EXECUTIVE SUMMARY:

The HSR Account Write Off Policy and Procedure defines guidelines for the write off of uncollectible accounts related to the HSR and Accessible Transportation Services (ATS) tickets and passes.
The Policy and Procedure defines:

- scope, responsibilities and procedures under the policy; and
- levels of authority with respect to write off of uncollectible accounts.

The policy requires that:

- all write offs greater than $1,000 must have Council approval;
- a semi-annual report of all write offs will be brought forward to Council; and
- write offs be funded from the Tickets in Public Hands account administered by the HSR

The policy is used in conjunction with, but does not supersede, the approved Accounts Receivable Write Off Policy for amounts that are invoiced through the Corporate Accounts Receivable system.

**BACKGROUND:**

No current write off policy and procedure exists for receivables managed by the HSR. These receivables include the HSR bus tickets and passes, as well as, Accessible Transportation Services and Taxi Scrip.

The need for this policy has been highlighted through our recent experiences with the Info Place bankruptcy. Please refer to Report FCS09055/PW09048 for further information.

**ANALYSIS/RATIONALE:**

Established standard collection procedures identified in Appendix “A” to report FCS09054/PW09047 include, but are not limited to, the following steps:

- Site visit to customer to discuss and collect monies owed.
- Send non payment notices of delinquency escalating in intensity.
- Cease delivery of additional passes and tickets.
- Arrange terms of payment, including extending terms of payment, when approved by the Manager of Transit Fare Administration.
- Cross reference the account with the Accounts Payable records to identify if funds are owed by the City of Hamilton to the Customer. The payment should be netted if at all possible.
- Draw on securities held (i.e. Letters of Credit) to recover amounts owed.
- In the case of bankruptcy, file a claim with the Trustee. This will be done in conjunction with the Corporate Services Department, Financial Services Division, Accounts Receivable Section, which generally receives the notifications and forms for bankruptcies.
Contact the City Legal Services Department to determine available legal recourse.
Forward the account through the Corporate Services Department, Financial Services Division, Accounts Receivable Section, to a collection agency.
Other actions, as applicable, to the situation.

Only after these steps have been exhausted, and the amounts due have been deemed uncollectible, will the HSR staff bring forward amounts to be authorized for write off.

The write off policy sets the following authorization levels:

- $00.01 - $500.00  Director of Transit or designate
- $500.01 - $1,000.00  General Manager, Public Works or designate
- > $1,000.00  City Council Approval

Once the appropriate level of approval is received the amount will be written off.

Written off balances may still be recovered, in the future, if new information is revealed.

**ALTERNATIVES FOR CONSIDERATION:**

None.

**FINANCIAL/STAFFING/LEGAL IMPLICATIONS:**

Each year, the HSR will establish, as a balance sheet item, an Allowance for Doubtful Accounts for amounts invoiced through the Corporate Services Department, Financial Services Division, Accounts Receivable Section, and those managed by Transit Fare Administration. This allowance will be funded from the Tickets in Public Hands Account. This account holds funds from the sale of bus tickets prior to January 1, 2008, with sufficient ongoing reserves to fund all redemptions of tickets issued at that time. Not all tickets sold are redeemed.

Where insufficient balances are available from the Tickets in Public Hands Account to fund the Allowance for Doubtful Accounts, the balance will be funded from the operating budget. When excess funds are available from the Tickets in Public Hands Account, after sufficient allowance for liabilities is determined, the excess will be taken into operating revenues.

There are no staffing or legal implications.
POLICIES AFFECTING PROPOSAL:

The Accounts Receivable Write Off Policy was referenced and mirrored, as closely as possible, while creating a policy reflective of the operating circumstances of the HSR.

RELEVANT CONSULTATION:

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

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
1. **PURPOSE**

This procedure provides authorizations and guidelines for the write off of uncollectible accounts. It identifies the proactive procedures in place to help avoid Bad Debts, the steps taken to collect delinquent accounts, establishes conditions under which accounts deemed as uncollectible may be written off, and refers to authorization levels for write offs.

2. **SCOPE**

This procedure deals only with accounts associated with HSR Fare and Revenue distribution and collection, or the distribution of ATS Taxi Scrip.

HSR uses a network of Third Party Agents (TPA) such as convenience stores, lottery outlets, and institutions to distribute bus tickets and passes to the public. All new TPA applicants are subject to a credit check undertaken by Corporate Accounts Receivable on behalf of HSR. Payment arrangements vary by TPA depending on how large or how established the organization is. Some sales are made as cash only, while others are invoiced monthly through the Corporate Services Accounts Receivable section. Some Accounts Receivable customers provide cash advances or Letters of Credit, while others with substantial sales volumes provide interim payments during the sales month.

Most TPA receive tickets on a COD basis, and a limited number of monthly bus passes on consignment, paying for those sold after the monthly sales period is complete. Sales by TPA are based on a 1% commission, and are typically used as means to generate store traffic and to service existing clients. Any loss by a TPA for whatever reason is its sole responsibility.

Additionally, HSR and its ATS section allow payment by cheque for specific types of fare media, including Senior Annual Bus Pass, Taxi Scrip, and DARTS tickets. Further, in the case of the Senior Annual Bus Pass, some accounts are maintained with individuals who wish to pay monthly by means of automatic account debit.
Finally, HSR maintains program relationships with institutions including, but not limited to, McMaster University, Redeemer University College, Columbia International College, and Hamilton Wentworth District School Board, which are account based and substantial in nature. These institutions are subject to payment terms defined in individually negotiated Agreements.

3. DEFINITIONS

3.1 Accessible Transportation Services (ATS) - The operational section of the Transit Division responsible for services related to persons with disabilities.

3.2 Bad Debt - An account with the City Of Hamilton that is deemed to be uncollectible.

3.3 HSR - The Hamilton Street Railway Company, being the Transit Division of the Public Works Department of the City of Hamilton.

3.4 NSF - A cheque returned by a financial institution for reason of insufficient funds, stopped payment, or closed account.

3.5 Third Party Agent (TPA) - A vendor or other agent contracted by HSR to sell or otherwise distribute HSR bus tickets and/or passes to the general public or specific passenger groups. All TPA that are not internal to the City of Hamilton are signed to a standard contract for services.

3.6 Transit Fare Administration - The operational section of the Transit Division responsible for distribution and collection of fares.

4. RESPONSIBILITY

Application of this procedure is the responsibility of the Manager of Transit Fare Administration & ATS.

5. PROCEDURE

5.1 RISK MITIGATION MEASURES:

HSR will maintain measures to prevent and/or mitigate risk in dealing with TPA and others with whom financial transactions are carried out.

- Monitor accounts on a 30 days basis to determine levels of exposure generated by consignment of passes, and volumes and value of payments made by cheques and outstanding amounts past due.

- Once notification of an NSF Cheque has been received from the bank, the HSR F&A staff will take a copy of the documents and within 2 days, forward the original bank memo and returned cheque to the Supervisor of Transit Fare Administration or designate for immediate follow up (see Section 5.2 Collection Procedures).

- All NSF Cheque returns and re-deposits will be journalized into Balance Sheet Account 12634-006100 which will be reconciled monthly. The reconciled list of all outstanding NSF cheques will be presented to the Manager of Fare Administration for review and follow up monthly to ensure correct collection efforts are being made.

- When an NSF cheque is received, collection procedures as outlined in Section 5.2 will be initiated.
5.2 COLLECTION PROCEDURES:

HSR accounts that do not flow through the corporate AR system are managed by the Transit Fare Administration section of HSR and are monitored by the Corporate Finance & Administration support section attached to Transit. As problem collections are revealed, they are evaluated on an individual basis by the Supervisor of Transit Fare Administration and/or the Manager of Transit Fare Administration and ATS to determine which collection methods are relevant. The following methods may be used to collect outstanding amounts.

- Site visit to customer to discuss and collect monies owed.
- Send non payment notices of delinquency escalating in intensity.
- Cease delivery of additional passes and tickets.
- Arrange terms of payment including extending terms of payment when approved by the Manager of Transit Fare Administration.
- Cross reference the account with the Accounts Payable records to identify if funds are owed by the City of Hamilton to the Customer. The payment should be netted if at all possible.
- Draw on securities held (i.e. Letters of Credit) to recover amounts owed.
- In the case of bankruptcy, file a claim with the Trustee. This will be done in conjunction with Corporate Services Accounts Receivable, which generally receives the notifications and forms for bankruptcies.
- Contact the City Legal Services Department to determine available legal recourse.
- Forward the account through Corporate Accounts Receivable to a collection agency.
- Other actions as applicable to the situation.

All actions taken with respect to problem accounts will be managed and documented by the Supervisor of Fare Administration.

Once all of the above have been exhausted without successful collection, the amount will be deemed to be uncollectible and submitted to the appropriate level of authority, to be written off as a Bad Debt expense.
5.3 **ALLOWANCE FOR DOUBTFUL ACCOUNTS**

HSR will establish an Allowance for Doubtful Accounts each year end, based on an assessment of current outstanding balances and a history of uncollectible amounts. This allowance will include accounts managed by both the Corporate Accounts Receivable section and Transit Fare Administration.

The Allowance for Doubtful Accounts will be funded, if sufficient balance is available, from the Tickets in Public Hands account. Not all tickets sold are redeemed so this account holds funds from the sale of bus tickets prior to January 1, 2008, with sufficient ongoing reserves to fund all redemptions of tickets issued to that time.

If insufficient funds are available from the Tickets in Public Hands account to fund the allowance account, the balance will be funded from the current operating budget. If the Tickets in Public Hands account has excess funds after sufficient allowance has been made for liabilities, the balance will be taken into operating income.

5.4 **WRITE OFF PROCEDURES:**

Some situations which may result in the recommendation to write off uncollectible receivables include:

- The collection agency returns the account as uncollectible, untraceable or advises that no assets remain to pursue further collection efforts.
- Litigation against a debtor is unsuccessful.
- Upon notification from the Trustee in Bankruptcy indicating that no funds are available to cover the claim.
- On advice from Legal Services indicating a claim would not be successful.
- All collection methods are deemed to be exhausted.
- Cost to the Corporation to collect exceeds the value of the debt.

Once it has been determined by the Manager of Transit Fare Administration that all collection methods have been exhausted, the recommendation to write off invoice balances will be forwarded with all documentation to the appropriate level of approval according to the following Council approved authority levels:

- $00.01 - $500.00  Director of Transit or designate
- $500.01 - $1,000.00  General Manager, Public Works or designate
- > $1,000.00  City Council Approval

Once the correct level of approval has been obtained, the Manager of Transit Fare Administration will forward the information to the Business Administrator for HSR who will prepare journal entries to reduce the Allowance account.

At least semi-annually a report will be taken to Council for approval of write-offs > $1,000 and will include a summary of all other write offs during the period.
Information will be retained regarding customers with written off balances. If new developments arise suggesting that a possibility for collection exists, the collection process will be resumed.

6. ASSOCIATED DOCUMENTS
Accounts Receivable Collection & Write Off Policy and Procedures

7. REVISION HISTORY

Revision No.: __________________________

Date of Last Revision: __________________________

Last Approval Date: __________________________

Reason for Change: __________________________

Prepared by: (Print Name) __________________________

Prepared by: (Signature) __________________________

Authorized by: __________________________

Print Name __________________________

Title __________________________

Signature __________________________

Note: The Section Manager is required to Authorize Level 4 Work Instructions. If the Section Manager is the person who prepared the Work Instruction, then his/her Director shall Authorize the Work Instruction.