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ACCOUNTS RECEIVABLE MANAGEMENT PROCESS – STATUS UPDATE

The Audit Committee recommends the adoption of the recommendation contained in the following report dated January 21, 2010, from the Commissioner of Finance.

1. RECOMMENDATION

It is recommended that Regional Council receive this report for information.

2. PURPOSE

This report advises Regional Council of the progress management has made and the responses management has provided to an audit completed on the Region's accounts receivable processes.

3. BACKGROUND

Earlier this year, an audit was undertaken of the Region's accounts receivable process to examine if any exposures existed within accounts receivable, and recommend areas for improvement. A number of recommendations were made and staff were asked to provide an update to the next Audit Committee.

The Audit Identified Specific Management Actions to be Undertaken

KPMG was retained by the Region to undertake the audit on the Region's accounts receivable processes. They concluded that there were no significant high risk accounts within the accounts receivable balances; however, there were a number of suggested improvements.

Based on KPMG's observations, several Management Actions were identified. They include:
- Increased education/communication to operating departments of the Region's collection policy
- Clear definition of the roles of Corporate Finance and operating departments in addressing overdue accounts
- Communication of key terms and conditions of contracts, to facilitate dealing with overdue debtors
- Timely submission and processing of accounts receivable invoice requisitions

- Timely sharing of customer information and collection history between operating departments and Corporate Finance
- Classifying debtors into segments, i.e. public sector and private sector, and imposing tighter restrictions on private sector debtors (e.g. undertaking credit assessments)
- Identifying additional reporting requirements to assist in the collection process

This report presents the progress management has made on the resultant audit findings.

4. ANALYSIS AND OPTIONS

Staff Has Undertaken Several Recommended Actions

A Task Force consisting of representatives from each operating department has been created to review the recommended actions and incorporate them into a revised collection policy.

The following actions have been undertaken:

- A draft Collections Policy has been prepared and will be presented to the Senior Management Team.
- A communication methodology has been developed and initiated with operating departments to increase education/communication of the Regions Collection Policy.
- Collection conversation history is now being entered directly into the ERP system and reporting has now been developed. This facilitates the collection and timely sharing of information between operating departments and support departments.
- The Task Force continues to review operational and support departmental roles in addressing overdue accounts.
- A Contract Details Form is being reviewed by the Task Force. The form has been developed to facilitate communication of key terms and conditions contained in contracts so they may be communicated between operating departments and Finance.
- The Task Force has identified processes to speed up the processing of billing including input of electronic invoice requisitions for upload into the ERP system and more frequent submission of invoice requisitions from departments.
- The revised collection policy includes differentiated procedures for private and public sector debtors, imposing appropriate restrictions and associated risk assessments with these debtors.
- Existing reporting has been summarized and communicated to staff. Additional reporting has been developed in order to support the communication of receivables outstanding to operating systems in real time.

Attachment 1 details the progress made on each recommendation outlined in the KPMG audit.

Accounts Receivable Balance Decreased by 40% Between First and Third Quarters of 2009

As the result of increased collection effects and more frequent billing, receivables have been reduced by approximately 40% ($39M in total) between the first and third quarters of 2009. The reductions are mainly with local municipalities and YRT media fare distributors. Significant improvement can also be noted in the over 90 day receivables with a reduction of approximately $24M in receivables over the same period in time. All ageing categories of more than 30 days outstanding remained constant or significantly reduced as a result of these efforts.

Accounts Receivable increased in the fourth quarter by $28.3M. The increase in receivables is due to the billing of revenues expected from Metrolinx surrounding acquisition costs for transit. These balances are current and are expected to be collected as per the collection policy.

Attachment 2 represents a comparison of corporate accounts receivable balances for the periods ending March 31, 2009, September 30, 2009 and December, 31, 2009

5. FINANCIAL IMPLICATIONS

As stated earlier, the KPMG review of the Region's accounts receivable balances did not reveal any additional exposures. However, implementing recommendations outlined in the audit will improve the collection process.

6. LOCAL MUNICIPAL IMPACT

There is no municipal impact related to this report.

7. CONCLUSION

An external review of accounts receivable management processes has been conducted by Audit Services which resulted in recommendations and action plans to enhance the existing control environment. New policies and processes continue to be developed through a Joint Staff Task Force in order to facilitate this activity.

For more information on this report, please contact Warren Marshall, Director of Financial Services at ext. 1601.

The Senior Management Group has reviewed this report.

#	Observation	Recommended Enhancements	Agreed Management Action	Update on Progress
5.1.1	**Terms within contracts and /or agreements entered into with customers are not communicated throughout the organization** Each operating department oversees the task of creating contracts/agreements directly with their customers. As such, contracts and agreements with differing terms and conditions are entered into by the various operating departments of York Region. The Credit and Collections policy indicates that Corporate Finance has the responsibility to notify operating departments of accounts that are overdue and where service may be cancelled. Without the contract information being communicated to Corporate compliance with terms and conditions is not enforced. Since York Region has a shared service centre arrangement for invoicing and accounts receivable management, the lack of coordinated sharing of critical contract information without compensating controls creates an exposure with processes and policies that are not in accordance with agreed upon contracts.	From an accounts receivable management perspective, a robust and standardized contract administration process should be an integral part of the operating practices of York Region and the operating departments. Included in the process is a requirement of operating departments to communicate key terms and conditions to Corporate Finance to guide accounts receivable staff in alerting operating departments of overdue debtors so that remedial actions can be considered. In addition, consideration should be made to implementing a contract performance management tool that also automatically uploading contract data into back-end financial systems. It appears that PeopleSoft is able to retain simple text information by debtors where certain key terms and conditions can be included to assist the accounts receivable staff in managing the risk exposure of overdue debtors.	Outstanding **Agreed management action:** Agreed, corporate collection policies should be reviewed by operating departments in order to build their requirements into the contract administration process. Corporate collection policy documents are kept in a central online location (Policy Pen) in order that they may be reviewed when updated or when contracting service. Operating departments should also be forwarding contract details to Corporate Finance if any variance exists between such contracts and the corporations collection policy guideline Communication tools must be developed to enhance both corporate accounting and operational understanding of the status of outstanding items. Improvements already made include an accounts receivable listing being distributed to operations on an monthly basis. **Responsibility:** Communication of Current Collection Policy – Financial Services Development of a Contract Terms Document for communication purposes between operating departments and Finance – Financial Services/Operating Departments **Target Date:** Collection Policy Distribution – Q2/09 Contract Terms Document – Q3/09	The current Collection Policy has been reviewed with a Joint Task Force representing all departments and communicated to Regional employees who engage in contract negotiations with customers and stakeholders on an ongoing basis. A contract details report has been developed and is being reviewed. The report is to be used Corporately, and will serve as a communication tool between Finance and operating departments to identify key contract terms relevant in the collection process. A detailed accounts receivable reporting is now available through the Regions ERP system to facilitate review of outstanding items by operating departments. This has been upgraded from the previous manual distribution process. The updated Regional Collection Policy will be complete for Senior Management review before February 28, 2010.

#	Observation	Recommended Enhancements	Agreed Management Action	Update on Progress
5.1.2	**Accounts receivable and collection policies and procedures are not strictly adhered to in order to manage outstanding balances** Although the Collection of Accounts policy dictates that operating departments have access to on-line accounts receivable balances to determine the status of an account, it appears that this practice is not being followed based on interviews conducted. The operation departments are relying solely on the billing/collections department to inform them of issues with delinquent accounts given their role in the process and not referring to customer account balances when goods/services are rendered. Furthermore, as noted in the Collection of Accounts policy, 'interest at the rate of one-and-one-quarter percent per month (15% annually) shall be paid on all accounts of the Regional Corporation that remain unpaid for 30 days after the invoice date'. Per discussions with staff, although the charge is manually noted on past due invoices sent to customers, it is rarely collected on.	To achieve good results, it is recommended that York Region pursues a more horizontal management of knowledge and information with respect to the collection and billing of customer accounts. This includes sharing customer information and history of collections between Corporate Finance and the operating departments in a timely manner, as prescribed in the current Collection of Accounts policy. In addition, highlighting an escalation process can be a useful reference guide for both entities. Also, educating and training the operating departments as to the importance and necessity of timely collection of receivables should be considered. A review of the policy may be required to determine if the interest penalty should remain within the policy or not since it is not being applied and adhered to. In the event the interest penalty remains, adherence to the charge through enforcement must be followed.	**Outstanding** **Agreed management action:** Agreed, an education program for operating departments on credit and collection policies and procedures should be developed. Interest penalties will be discussed with Senior Management. Historically, interest has not been charged due to operational, technical, and political issues. **Responsibility:** Education and Training Program – Operations and Financial Services Assessment of Interest Charges and Policy Effects - Financial Services **Target Date:** Education and Training – Q4/09 Assessment of Interest Charges and Policy Effects – Q4/09	The current Collection Policy has been reviewed with the Joint Task Force and communicated to Regional employees who engage in contract negotiations with customers and stakeholders on an ongoing basis. The updated Collection Policy will be presented to support and operating departments throughout the 2nd quarter. The Joint Task Force is currently assessing the application of interest charges to customers and has provided draft recommendations in the new Collection Policy.

#	Observation	Recommended Enhancements	Agreed Management Action	Update on Progress
5.1.3	**Invoice requisition and billing/collections processes are segmented in two different departments** At present, the operating departments (i.e. YRT) are responsible for creating a physical invoice requisition form. These forms are forwarded to Corporate Finance at York Region, and are used to issue an invoice to the customer. In addition to raising invoices, Corporate Finance is also responsible for the overall collection and application of payments from customers. This includes following up on delinquent accounts by sending follow-up reminders and even engaging collection agencies and the legal department when required. Although responsibility for collection rests within Corporate Finance, assistance from the operating departments is necessary since they have the client relationship and may understand the facts/issues with the invoice. Based on interviews with staff, there does not appear to be consistency in the engagement of operating departments in the event of collection issues since there is no clear understanding of the roles and responsibilities or an escalation process to refer to in the policy.	To provide more effective invoice collection processes, assistance and involvement from the operating departments is necessary. It is recommended that the policies and procedures clearly define the roles and responsibilities of the Corporate Finance and operating department staff in addressing any overdue balances. This includes the development of a structured escalation process. The new policy should be communicated to all staff, with consideration to training requirements if needed.	**Outstanding** **Agreed management action:** Agreed, updated collection policy to be developed. **Responsibility:** Financial Services **Target Date:** Q4/09	The Joint Task Force has developed an escalation process for delinquent accounts. This has been detailed at positional levels in the updated Collection Policy. An escalation process has been documented and will be communicated during Collection Policy update training sessions.

#	Observation	Recommended Enhancements	Agreed Management Action	Update on Progress
5.1.4	**Customers are not assigned a credit limit nor is an assessment of their financial viability performed** Customers, specifically those that will receive frequent goods/services with York Region and the operating departments, are not provided with credit limits by York Region. Furthermore, for customers or service providers that are accepted by York Region, there is no background check conducted on the financial viability of the entity at the inception or on an ongoing basis (i.e.: annually) to determine their creditworthiness. Credit appears to be granted with no supporting information.	It is recommended that credit limits be established with customers or service providers that enter into contracts with York Region and the operating departments. Credit terms can be established based on the credit history, value of the contract, risk-profile, and/or customer segment (i.e.: public vs private). Establishing credit limits will require the development of a credit assessment process to be designed, as well as changes to the current terms and conditions of York Region's contracts. In addition, once credit limits have been set, a monitoring process must be implemented to ensure compliance, as well as provide an opportunity to adjust the credit limits. Furthermore, credit checks on current debtors with contractual agreements with York Region and the operating departments should be considered to mitigate the potential for future losses.	**Outstanding** **Agreed management action:** The region will undertake a credit assessment on customers in limited instances when risk is assessed at greater than the current corporate collection policy allows for. Monitoring and reviewing current credit status for existing customers, along with providing an ongoing credit check program, will not be cost efficient for the Region. Performing these tasks on a global basis is not practical, as the risk associated with customers in default will not justify the cost of performing this function for every regional customer. A documented structured escalation process is a viable option in dealing with specific instances that require operational intervention in the collection process **Responsibility:** Financial Services Deadline: Q1/10	Credit assessments for customers will be based on information from the contract information form and will be performed by Finance when deemed required. A formal credit assessment program will be established through the Joint Task Force, Policy, Risk and Treasury, and Financial Services in the second quarter of 2010.

#	Observation	Recommended Enhancements	Agreed Management Action	Update on Progress
5.1.5	**Collection policies are geared more towards public rather than private sector clients** Currently, the collection policy addresses both private and public sector clients equally. However, the majority of outstanding receivables are owed from municipalities and other government agencies, where the risk of non-payment is reduced. Based on discussions with management, the repayment history for public sector customers is significantly longer then private sector debtors. As such, given the vast differences in risk profiles and expected payment practices between these two debtor segments, the collection policy may not be providing a risk-based approach in guiding the management and collection of accounts receivables.	Consider classifying debtors into segments, such as public sector (governmental entities) and private sector accounts. The public sector accounts can be delegated to a collector with experience and knowledge in government payment processes. Payment terms would likely be longer due to the reduced credit risk. The private sector debtor can be managed with tighter collection processes. This would result in a multi-tiered approach to managing the accounts receivable balance, which is similar to industry processes that provide different credit terms to different customers based on their credit history, risk profile, and other industry-specific criteria.	**Outstanding** **Agreed management action:** Agreed, to be included in updated collection policy **Responsibility:** Financial Services **Target Date:** Q4/09	The Joint Task Force has discussed the application of a multi-tiered approach to accounts receivable management and will be incorporating an approach that segments private and public sector accounts. The Region's updated Collection Policy will reflect the recommended changes. Reporting has been developed and will continue throughout 2010 to facilitate the new management approach.

#	Observation	Recommended Enhancements	Agreed Management Action	Update on Progress

5.1.6	**No policies or procedures in place to outline timely submission of requisition forms to billing**
	
	There is no control process to ensure the timely submission of invoice requisition forms from the operating department. Currently the accounts receivable department within Corporate Finance can only bill a customer once the requisition form is received from the operating departments.
	
	With respect to YRT, prior to January 2009, YRT was submitting their requisition forms to the accounts receivable department for billing once a month. With the additional invoice processing time required at York Region, it would take up to 40 days to issue an invoice to a customer for goods and services provided at the beginning of the previous month. With an additional 30 days for payment due date; approximately 70-80 days would have elapsed from date of receipt of goods/services in certain cases.
	
	[Update: Based on interviews conducted with various staff from YRT and York Region, it was noted that as a result of the Info Place issue, YRT has since begun submitting requisition forms for billing once a week, which has significantly decreased the delay in issuing invoices to customers.]
		Set clear policies and procedures which outline when requisition forms are to be submitted to accounts receivable for billing (i.e. within 3 business days of goods sold or services rendered).
		
		Shortening the time lag between raising requisition forms and issuing invoices to customers will impact the collection process. Monitoring controls should also be implemented to ensure the new invoice requisition policies are being followed.
			Outstanding
			
			Agreed management action:
			
			Agreed, however, Financial Services and YRT have already made significant advances in increasing billing frequency and ensuring collection follow-up. Billing is now done on a weekly basis significantly reducing the billing time by 30 days.
			
			Management will research further process improvements in this area.
			
			Responsibility:
			
			Financial Services
			
			Target Date:
			
			Q4/09
				The Joint Task Force has identified several areas that will benefit from process improvements and automation. Examples include:
				
				• Decentralized invoice requisition uploads directly to the ERP system
				• Billing system interfaces from operational systems to our ERP system
				• Automatic uploads of billing information into the ERP system discussed include:
				  o Pay duty billing
				  o Traffic accident claim billing
				
				Automation in the area of billing processes will allow for more centralized review and collection activities.

#	Observation	Recommended Enhancements	Agreed Management Action	Update on Progress
5.1.7	**Current PeopleSoft system has limited reporting capability** Currently, the PeopleSoft system does not have the ability to fulfill the reporting requirements of its users in Corporate Finance. For example, the system cannot provide an accounts receivable aging analysis by customer by department. As such, the operating departments receive an ageing analysis only once a year given the manual process to aggregate the information. The ability to quickly find and query pertinent information about customers is a vital part of regular accounts receivable operating practices.	Identify the reporting requirements of the accounts receivable department, as well as the operating departments and engage IT in developing the necessary reports.	**Outstanding** **Agreed management action:** Agreed – further reporting is currently being developed to update operating departments on Accounts Receivable status' Management has already developed a reporting package distributed to the CAO and Treasurer on a monthly basis highlighting any potential risks and explaining delays in the collection process. Operating departments will be surveyed to identify existing gaps in reporting and Financial Services will coordinate an effort to correct these gaps **Responsibility:** Financial Services **Target Date:** Q4/09	Existing reports have been identified and made available. Further reporting at a senior management level has been developed and is being distributed on a monthly basis. Management reporting has been developed and made available to all operational departments in order to monitor receivable balance from the ERP system in real time. Collection conversation comments are currently being entered into the ERP system and will be available for viewing. Collections conversation detailed reporting from the ERP system has been developed. Further reporting enhancements are currently being proposed by the Joint Task Force. Reporting needs will be evaluated on a regular basis.

REGION OF YORK ACCOUNTS RECEIVABLE STATUS AS AT December 31, 2009	CURRENT	31-60 DAYS	61-90 DAYS	OVER 90 DAYS	TOTAL
A) GENERAL ACCOUNTS RECEIVABLE					
FEDERAL & PROVINCIAL	162,725	50,006	0	18,066	230,797
MUNICIPAL (Note 1, 2, 3 and 4)	19,588,804	1,784,701	17,764,515	2,202,076	41,340,097
LOCAL BOARDS	88,397	8,003	2,914	-10	99,304
SUNDRY	32,176,540	123,265	61,681	1,706,393	34,067,880
SUB-TOTAL	**52,016,466**	**1,965,976**	**17,829,110**	**3,926,525**	**75,738,077**
B) LONG-TERM CARE					
ACL	4,158	1,955	184	335	6,632
REGIONAL DAY PROGRAMS	9,544	6,661	1,912	4,380	22,497
LONG TERM CARE	365,889	30,867	19,815	259,701	676,272
SUB-TOTAL	**379,591**	**39,483**	**21,911**	**264,416**	705,401
December 2009 CORPORATE TOTAL	**52,396,057**	**2,005,459**	**17,851,021**	**4,190,941**	**76,443,478**
% OF TOTAL - 2009	**68.5%**	**2.6%**	**23.4%**	**5.5%**	**100.00%**

REGION OF YORK ACCOUNTS RECEIVABLE STATUS AS AT September 30, 2009	CURRENT	31-60 DAYS	61-90 DAYS	OVER 90 DAYS	TOTAL
A) GENERAL ACCOUNTS RECEIVABLE					
FEDERAL & PROVINCIAL	25,816	115,753	28,407	98,641	268,617
MUNICIPAL (Note 1, 2, 3 and 4)	26,752,874	138,528	7,663,009	5,121,678	39,676,089
LOCAL BOARDS	367,153	-6,606	0	-10	360,537
SUNDRY	6,100,072	192,704	40,139	1,550,478	7,883,393
SUB-TOTAL	**33,245,915**	**440,379**	**7,731,555**	**6,770,787**	**48,188,636**
B) LONG-TERM CARE					
ACL	2,124	0	0	1,004	3,128
REGIONAL DAY PROGRAMS	11,321	7,166	2,396	4,967	25,850
LONG TERM CARE	358,125	37,495	17,678	292,864	706,162
SUB-TOTAL	**371,570**	**44,661**	**20,074**	**298,835**	735,140
September 2009 CORPORATE TOTAL	**33,617,485**	**485,040**	**7,751,629**	**7,069,622**	**48,923,776**
% OF TOTAL - 2009	**68.7%**	**1.0%**	**15.8%**	**14.5%**	**100.00%**

REGION OF YORK
ACCOUNTS RECEIVABLE STATUS
AS AT March 31, 2009

	CURRENT	31-60 DAYS	61-90 DAYS	OVER 90 DAYS	TOTAL
A) GENERAL ACCOUNTS RECEIVABLE					
FEDERAL & PROVINCIAL	49,043	81,673		1,413	132,129
MUNICIPAL (Note 1, 2, 3 and 4)	20,015,044	28,115,078	86,919	29,949,661	78,166,703
LOCAL BOARDS	40,402	491,009			531,411
SUNDRY	5,717,167	838,026	471,324	1,249,840	8,276,357
SUB-TOTAL	**25,821,656**	**29,525,786**	**558,243**	**31,200,914**	**87,106,600**
B) LONG-TERM CARE					
ACL	-390	0	0	844	454
REGIONAL DAY PROGRAMS	14,504	3,484	1,729	4,949	24,666
LONG TERM CARE	342,417	33,596	26,256	282,054	684,323
SUB-TOTAL	**356,531**	**37,080**	**27,985**	**287,847**	709,443
March 2009 CORPORATE TOTAL	**26,178,187**	**29,562,866**	**586,228**	**31,488,761**	**87,816,043**
% OF TOTAL - 2008	**29.8%**	**33.7%**	**0.7%**	**35.9%**	**100%**