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CITY TREASURER

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ERIC GARCETTI
MAYOR

October 21, 2013

The Honorable Eric Garcetti, Mayor, City of Los Angeles
Honorable Members of the Budget and Finance Committee
City of Los Angeles
200 N. Spring Street
Los Angeles, California 90012

Attn: Ana Guerrero, Chief of Staff, Mayor's Office
Erika Pulst, Legislative Assistant I

Re: Accounts Receivable Quarterly Report for 4th Quarter Fiscal Year 2012-2013

The Office of Finance (Finance) submits the Fiscal Year 2012-13 4th Quarter Accounts Receivable Quarterly Report (ARQ Report) in accordance with Mayor's Executive Directive #5 and Council File No. 09-0600-S171. The ARQ Report provides an analysis of departments' management of their accounts receivable against the Citywide Guidelines to Maximize Revenue Collection. The information represents accounts receivable for the reporting period ending June 30, 2013. Finance obtained the majority of data by querying the Centralized Accounts Receivable Reporting (CARR) system while a few departments continue to generate reports and submit them due to confidentiality requirements and other logistical reasons.

Attached please find the following document: 4th Quarter Accounts Receivable Report.

Should you have any questions or require additional information, please contact Monique Earl, Revenue Manager, at (213) 978-1781.

Sincerely,

Antoinette Christovale, CPA
Director of Finance/City Treasurer

Attachment

cc: Honorable Ron Galperin, City Controller
Rick Cole, Deputy Mayor of Budget and Innovation
Gerry Miller, Chief Legislative Analyst
Miguel Santana, City Administrative Officer
Fernando Campos, Inspector General, Office of the CAO
Revenue Management Committee
Finance Management Team

Accounts Receivable Quarterly

Fiscal Year 2012-13
4th Quarter Report



OFFICE OF FINANCE

Antoinette Christovale, CPA
Director of Finance/City Treasurer

October 18, 2013



Office of Finance Accounts Receivable Quarterly Data Summary

SUMMARY

This Accounts Receivable Quarterly (ARQ) report provides an overview of the City of Los Angeles (City) current outstanding accounts receivable amounts and status. The ARQ summarizes general non-tax accounts receivable based on data submitted by City departments.¹ This data is not accounting information; it reflects point-in-time aging of accounts receivable as reported by departments. This report specifically represents data as of June 30, 2013, which is the end of the 4th quarter of Fiscal Year (FY) 2012-13. The City's Net Accounts Receivable² totals approximately \$89 million³ of which \$15 million is current and \$74 million is past due. These represent amounts expected to be collected in the future.

Response from Departments

Departments responded timely to Finance's request for accounts receivable data. Finance used the Financial Management System (FMS) Centralized Accounts Receivable Reporting (CARR) system to query figures for the following departments: Building and Safety, Finance, Fire (excluding Emergency Ambulance Services), City Planning and Development (formerly known as Planning), Police Commission, Public Works, and the Zoo. Department of Transportation (Transportation) parking citations data, while interfaced with CARR, remains unvalidated and summary level reporting is still being relied upon. Departments and systems that are not in CARR continue to provide data via Excel spreadsheets. To ensure collaboration and verification of findings and figures, Finance shared figures in this report with departments prior to release.

The table on the following page summarizes departments' responses to Finance's request for this quarter's accounts receivable data. In addition, the table identifies whether departments are applying interest, penalties, referring accounts to collection agencies, and writing off uncollectible accounts.

¹ Departments provide (from host billing systems) and/or review accounts receivable data (derived from FMS CARR) published herein. Quality and accuracy is contingent on departments and the ability of their systems and methodologies to provide required data.

² Net Accounts Receivable take into account allowances for doubtful accounts to reduce inflated outstanding balances and provide more realistic collectability figures. To calculate net receivables, Finance asks departments to provide an uncollectible allowance for all receivables. The uncollectible allowances are reduced from the total accounts receivable amount.

³ Including uncollectible amounts, the City's total accounts receivable is \$520 million.

Responses and Compliance with ED-5

Billing Department	ARQ Response	Applying Interest	Applying Penalties	Referring Accounts to Collections	Referred Accounts to the Board of Review ⁴
Building & Safety	Yes	Yes*	Yes*	Yes	Yes
City Planning & Development ^{5***}	Yes	No	Yes	Yes	Yes
Convention Center	Yes	Yes	No	Yes	Yes
El Pueblo	Yes	**	**	Yes	N/A
Finance ⁶	Yes	Yes*	Yes*	Yes	N/A
Fire	Yes	No	Yes*	Yes	Yes
General Services Department	Yes	No	No	Yes	N/A
Housing & Community Investment ^{***}	Yes	Yes*	Yes*	Yes	Yes
Police Commission ⁷	Yes	No	No	Yes	No
PW Board	Yes	No	No	Yes	Yes
PW Sanitation IWMD	Yes	No	Yes	Yes	Yes
PW Street Services Illegal Signs	Yes	No	No	Yes	Yes
Recreation & Parks ⁸	Yes	**	**	No	N/A
Transportation	Yes	No	Yes*	Yes	Yes
Zoo	Yes	No	No	Yes	N/A

* Not in all cases

** Contractual

*** The City consolidated functions and renamed the Planning and Housing departments to City Planning and Development and Housing and Community Investment, respectively.

Finance is presently working with the Inspector General for Revenue Efficiency and citywide departments to implement penalty and interest application as well as to actively write-off debt that is beyond the statute of limitations and consequently the City can no longer pursue this debt through legal action.

⁴Departments' Board of Review write-off status as of the 4th quarter of FY 2012-13.

⁵ City Planning & Development Department collects prepayments for fees and reduces amounts due from the original balance.

⁶ Finance's billings are all on behalf of other revenue generating departments.

⁷ Police Commission increases fees with each subsequent false alarm violation, but does not assess delinquency penalties.

⁸ Recreation and Parks extends little credit and does not carry significantly aged receivables that have been referred to collections.

Status of Accounts Receivable⁹

As of the end of the 4th Quarter of FY 2012-13, billings as reported by departments constitute approximately \$89 million in net accounts receivable, approximately \$23 million or 21% less than the 3rd Quarter FY 2012-13. Changes in net accounts receivable are related to several factors including new billings, collections, write-offs, and aging relative to the uncollectible allowance. Of the total net accounts receivable, principal is approximately \$62 million or 69%, interest is \$653 thousand or 1%, and penalties are \$27 million or 30%. Note that receivables represent both General Fund and Special Fund revenues.

*Net Accounts Receivable (in thousands of dollars)*¹⁰

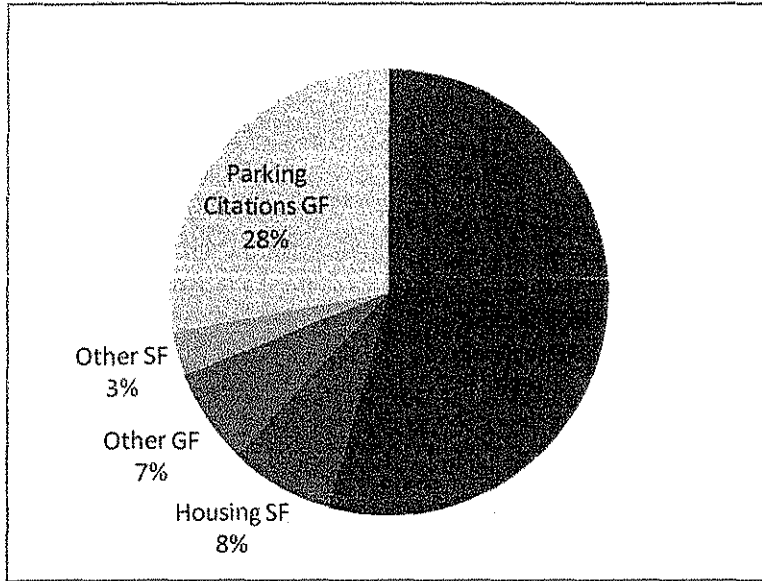
Billing Department	Net Total AR	Principal	Interest	Penalty
Building & Safety	\$6,950	\$3,918	\$437	\$2,595
City Planning & Development*	757	756	0	1
Convention Center	584	546	38	0
El Pueblo	39	36	1	2
Finance	3,481	3,257	3	221
Fire	23,080	20,325	0	2,755
General Services	8	8	0	0
Housing & Community Investment*	11,065	5,711	174	5,179
Police Commission	1,939	1,939	0	0
PW Board	3,309	3,309	0	0
PW Sanitation IWMD	4,085	4,085	0	0
PW Street Services Illegal Signs	681	582	0	99
Recreation & Parks	1	1	0	0
Transportation	33,514	17,478	0	16,036
Zoo	37	37	0	0
Grand Total	\$89,530	\$61,988	\$653	\$26,889

* The City consolidated functions and renamed the Planning and Housing departments to City Planning and Development and Housing and Community Investment, respectively.

⁹ For Finance's reporting purposes, the following types of receivables are excluded to the greatest extent possible and are not considered accounts receivable: (1) Point-of-sale; (2) Leases; (3) Taxes; (4) Grants; (5) Loans; (6) Amounts due from governmental agencies; (7) Inter-departmental transfers; and (8) Non-city amounts. Nevertheless, some of the reported accounts receivable may reflect these types. Amounts include both General and Special Fund revenue sources.

¹⁰ These are rounded net amounts where the uncollectible allowance has been reduced from the total accounts receivable.

The chart below provides a breakdown of total accounts receivable by fund type.¹¹



As of the end of the 4th Quarter FY 2012-13, 89% of outstanding accounts receivable are General Fund versus 11% Special Fund. Of the total outstanding receivables Fire Ambulance billings and Transportation Parking Citations make up 82%.

Aging and referral¹² information for outstanding accounts receivable is summarized below for all City accounts receivable, along with tables that further break out Fire's Emergency Ambulance Billings and Transportation's Parking Citations as the City's two most significant account receivable types.

Citywide A/R Aging (in thousands of dollars)¹³

Days Past Due ¹⁴	Net AR	Principal	Interest	Penalty	Referred
0-Current	\$15,014	\$14,975	\$0	\$39	2%
1-45	11,891	7,939	1	3,951	2%
46-90	7,179	4,791	9	2,378	27%
91-180	13,741	7,955	22	5,764	40%
181-360	16,610	10,794	114	5,702	60%
361-720	11,250	6,526	146	4,578	72%
721-1080	5,415	2,906	195	2,314	60%
1081-1440	3,459	2,095	84	1,280	71%
1441-1800	1,441	1,123	30	288	53%
1801+	3,530	2,883	52	595	45%
Grand Total	\$89,530	\$61,988	\$653	\$26,889	

¹¹ These are total accounts receivable ratios, not net of uncollectible allowance.

¹² The Referred percentage is based on Actual and not Net AR, thus some referral percentages may appear incongruous compared to amounts net of uncollectibles.

¹³ Based on ordinance or business requirements, some account types deviate from the 45-day referral guideline.

¹⁴ The Statute of Limitations varies by account type but typically is three years; though in some cases may be four or more years.

Emergency Ambulance Services (in thousands of dollars)

Days Past Due ¹⁵	Net AR	Principal	Interest	Penalty	Referred
0-Current	\$2,477	\$2,477	0	0	0%
1-45	2,308	2,308	0	0	0%
46-90	1,608	1,608	0	0	0%
91-180	2,869	2,869	0	0	0%
181-360	5,303	5,303	0	0	56%
361-720	1,512	1,512	0	0	74%
721-1080	0	0	0	0	43%
Grand Total	\$16,077	\$16,077	0	0	

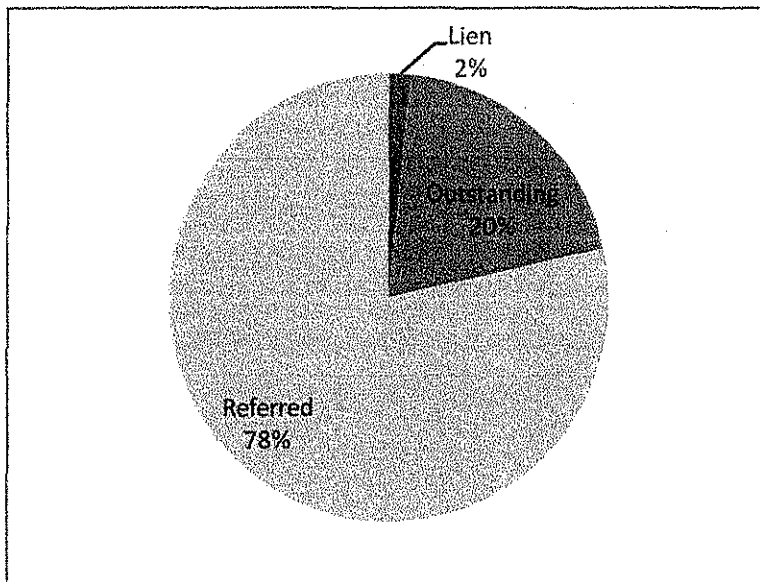
Fire has 270 days to collect on these receivables before referring to collections. As such, receivables at 0-270 days are not delinquent for reporting purposes.

Parking Citations (in thousands of dollars)

Days Past Due ¹⁶	Net AR	Principal	Interest	Penalty	Referred
0-Current	\$4,916	\$4,916	0	\$0	0%
1-45	6,556	3,318	0	3,238	0%
46-90	3,359	1,382	0	1,977	69%
91-180	6,493	2,598	0	3,895	88%
181-360	6,872	2,793	0	4,080	88%
361-720	2,845	1,162	0	1,683	86%
721-1080	892	336	0	556	92%
1081-1440	1,057	449	0	608	95%
Grand Total	\$32,990	\$16,954	0	\$16,036	

Parking citations are collected by the City's citation processing agency and not by collection agencies under contract with Finance. The statute of limitations for parking citations is five years.

Status of Delinquent Accounts Receivable



Of the Total Delinquent Accounts Receivables, 78% are referred to either primary or secondary collections agencies, 2% have been referred to the Los Angeles County Assessor to levy liens, and 20% are awaiting further activity, during which there may be appeals, hearing or write-off processes.

¹⁵ The Statute of Limitations for Emergency Ambulance Billings is four years.

¹⁶ The Statute of Limitations for Parking Citations is five years.

CONCLUSION

While the City's receivables have significant reported outstanding balances, two bill types--Emergency Ambulance Services and Parking Citations, represent the vast majority. Unlike private entities, the City provides many services (or citations) to constituents without evaluating their credit or ability to pay. Consequently, the City carries greater risk of incurring uncollectible debt, as is the case with the Fire Department's Emergency Ambulance Services. While collection improvements of City receivables continue to be made, it is imperative that City departments maintain their accounts receivable in accordance with accounting principles and Citywide Guidelines as mandated by the Mayor's Executive Directive No. 5.

Finance Directives to Departments

In accordance with the Mayor's Executive Directive No. 5 and Citywide Guidelines, City departments are directed to take the following actions:

1. Refer delinquent accounts to collections, generally within 45 days of delinquency, as governed by Section 5.181 of the Los Angeles Administrative Code;
2. Review and implement measures to apply penalties and interest to all delinquent accounts at a level that effectively deters delinquency and encourages voluntary compliance in making timely payments;
3. Recognize CARR as the City's accounts receivable management reporting system against which departmental billing and collection activity is measured and actively manage and regularly reconcile billing system data feeds to CARR, and in the case of Department of Transportation, require that the City's parking citation vendor immediately reconcile and remedy CARR data for usage in reporting;
4. Submit uncollectible accounts for write-off to the Board of Review as directed by Section 5.182 of the Los Angeles Administrative Code and Board of Review protocols and procedures.

Finance will continue to monitor and report on departments' improvements and compliance with these directives via ongoing accounts receivable reporting and departmental reviews.

RECOMMENDATION

Finance recommends that the City Council receive and file this report.