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ERIC GARCETTI
MAYOR

December 11, 2015

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
Richard Williams, Legislative Assistant I

Re: Accounts Receivable Summary Report for Fiscal Year End 2014-15

The Office of Finance (Finance) is submitting the citywide Accounts Receivable (AR) Summary Report for the 4th Quarter Fiscal Year 2014-15 in accordance with Mayor's Executive Directive #5 and Council File No. 09-0600-S171. This report represents departments' accounts receivable data for the reporting period ending June 30, 2015.

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

Sincerely,

Ed. Cabrera, Asst. Director

Antoinette Christovale, CPA
Director of Finance/City Treasurer

Attachment

cc: Honorable Ron Galperin, Controller, City of Los Angeles
Matthew Szabo, Deputy Mayor, Budget and Innovation
Revenue Management Committee
Finance Management Team

Accounts Receivable Status

Fiscal Year 2014-15
Year-End Report



OFFICE OF FINANCE

Antoinette Christovale, CPA
Director of Finance

December 9, 2015



Office of Finance Accounts Receivable FY 2014-15 Year-End Status

SUMMARY

This report provides an overview of the status of the City of Los Angeles (City) non-tax accounts receivable (AR) based on figures reported by City departments for Fiscal Year 2014-15 Year-End (FY 14-15). The figures in this report reflect point-in-time aging of accounts receivable as of June 30, 2015, and is not accounting information. The City's net AR¹ as of the close of FY 14-15, totals approximately \$142.6 million², of which, \$14.6 million is current³ and \$128 million is past due⁴.

Net AR take into account allowances for doubtful accounts to reduce inflated outstanding balances and provide more realistic collectability figures. Allowances for doubtful accounts are estimates determined by City departments. Doubtful account allowances represent the percentage of accounts receivable that will not be collected based on past performance and analysis of total outstanding accounts receivable⁵.

Response from Departments

Accounts receivable data was obtained by the Office of Finance (Finance) from the Financial Management System Centralized Accounts Receivable Reporting (CARR) and direct reporting from City departments. From CARR, Finance obtained data for Building and Safety, City Planning, Finance, Fire (excluding Emergency Ambulance Services), Housing and Community Investment (HCIDLA), Police Commission, Public Works, and Zoo. The AR report for the HCIDLA also includes accounts from the new Foreclosure Registry Program. Accounts receivable data pertaining to the Administrative Citation Enforcement (ACE) Program from the Office of the City Attorney is not included in this report. The City Attorney is required to report separately on the status of the pilot ACE program (C.F. 10-0085 and 14-0818).

Departments with accounts receivable systems not interfaced with CARR submit data to Finance via an Excel template. The Department of Transportation (DOT) provides summary

¹ Net AR are amounts that are expected to be collected.

² Includes both General and Special Fund revenues for reporting departments.

³ Current is AR that is 30 days old or less.

⁴ Past due is AR that is 31 days old or more.

⁵ The City's total outstanding accounts receivable, including amounts estimated uncollectible, is \$503.2 million.

level data for parking citations. The accounts receivable figures in this report were shared with departments prior to release to ensure collaboration and verification of data.

For the most part, City departments with applicable accounts receivables⁶ responded timely to Finance's request for accounts receivable information and verification of data. The following table lists those departments that responded. The table also provides the status of departments' compliance with Mayor's Executive Directive No. 5 (Villaraigosa series). This directive instructs departments to utilize key practices outlined in the Citywide Billing and Collection Guidelines for efficient collections and management of accounts receivable that includes adding interest and penalties to past due accounts, referring delinquent accounts to outside collection agencies, and requesting write-off of uncollectible debt.

**List of Billing Departments and
Compliance with Mayor's Executive Directive No. 5**

Billing Departments	Interest to Delinquent Accounts	Penalty to Delinquent Accounts	Delinquent Accounts to Collections	Write-off Uncollectible Debt ⁷
Building & Safety	Yes*	Yes	Yes	Yes
City Planning ⁸	No	Yes	Yes	Yes
Convention Center	**	**	Yes	No
El Pueblo ⁹	**	**	Yes	No
Finance ¹⁰	Yes	Yes	Yes	N/A ¹⁰
Fire	No	Yes*	Yes	Yes
General Services	**	**	Yes	No
HCIDLA	Yes*	Yes*	Yes	Yes
Police Commission ¹¹	No	No	Yes	Yes
PW Board ¹²	No	Yes*	Yes	Yes
PW Sanitation IWMD	No	Yes	Yes	No
PW Street Services Illegal Signs	No	Yes*	Yes	No
Recreation & Parks ⁹	No	No	Yes	No
Transportation	No	Yes*	Yes	Yes
Zoo	No	No	Yes	No

* In some cases, but not all account types.

** Contractual

⁶ For Finance 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.

⁷ Departments' Collection Board of Review write-off status for FY 14-15.

⁸ City Planning collects prepayments for fees and reduces amounts due from the original balance.

⁹ Department extends little credit, generally does not carry significantly aged receivables requiring referral to collections.

¹⁰ Finance's billings are all on behalf of other revenue departments.

¹¹ Police Commission increases fees with each subsequent false alarm violation, but does not assess delinquency penalties.

¹² PW Board accounts may include accounts for PW bureaus.

Composition of the City's Net AR

Of the \$142.6 million reported as net AR for FY 14-15, approximately \$76.6 million or 53.7% was principal, \$2.1 million or 1.5% was interest and \$63.9 million or 44.8% was penalty. The following table shows the composition of net AR for FY 14-15 by City department.

***FY 14-15 Net AR by Department
(In thousands of dollars)***

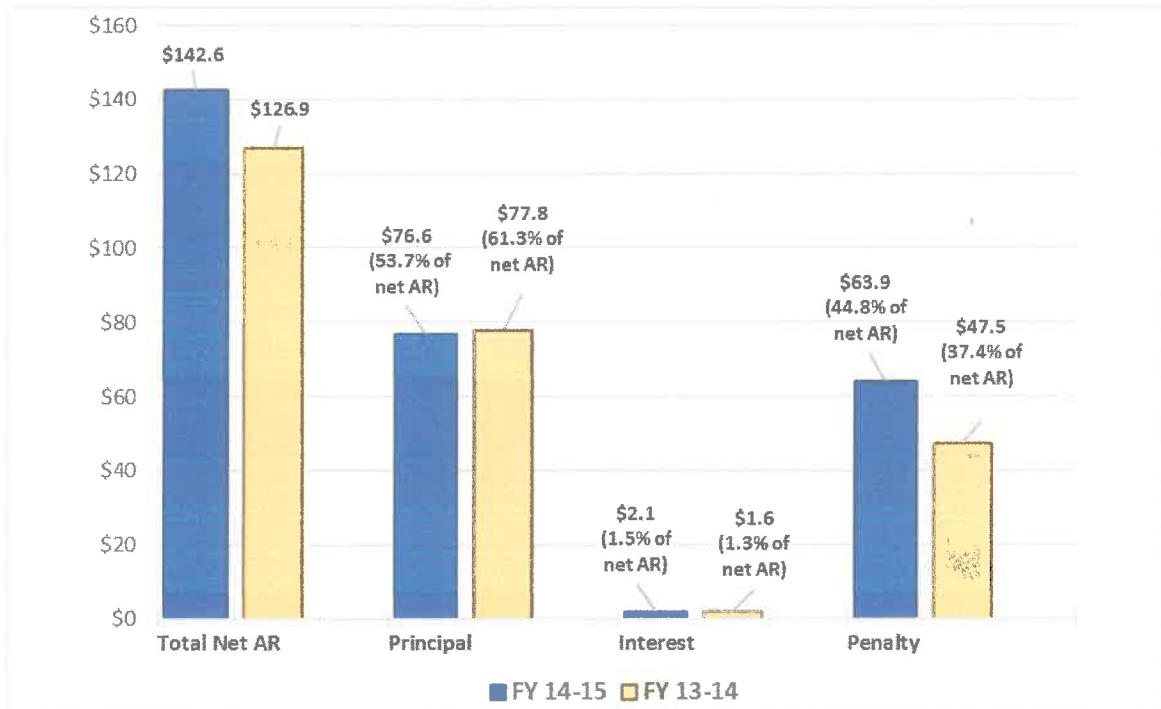
Billing Departments	Net AR	Net Principal	Net Interest	Net Penalty
Building & Safety	8,354	4,543	729	3,082
City Planning	590	589	0	1
Convention Center	1,390	1,335	55	0
El Pueblo	0	0	0	0
Finance	685	467	3	215
Fire	26,591	23,221	0	3,370
General Services	2	2	0	0
HCIDLA – foreclosure	19,685	74	0	19,611
HCIDLA – non foreclosure	35,380	15,527	1,331	18,522
Police Commission	2,632	2,632	0	0
PW Board	3,181	3,165	0	16
PW Sanitation IWMD	4,910	4,702	0	208
PW Street Services Illegal Signs ¹³	1,084	807	0	277
Recreation & Parks	0	0	0	0
Transportation	38,040	19,503	0	18,537
Zoo	48	48	0	0
Grand Total	142,572	76,615	2,118	63,839

In comparison, for FY 2013-14 Year-End, \$126.9 million was reported as net AR, with approximately \$77.8 million or 61.3% as principal, \$1.6 million or 1.3% as interest and \$47.5 million or 37.4% as penalty.

Although there was an overall increase in net AR of nearly \$15.7 million or 12.4% from previous FY 13-14, net principal for FY 14-15 actually decreased by \$1.2 million while net interest increased by about \$.5 million and net penalty increased by \$16.4 million from FY 13-14. Other activities that effect changes in net AR are recent billings and collections, balance adjustments, timeliness of write-offs, and aging relative to the uncollectible allowance. The following chart shows the composition of net AR for FY 14-15 Year-End compared to FY 13-14 Year-End.

¹³ The data does not appear to have been adjusted to reflect approved write-offs.

Net AR Composition
FY 14-15 compared to FY 13-14
(In millions of dollars)



Net AR Aging and Referral of Past Due Accounts

According to Section 5.181 of the Los Angeles Administrative Code (LAAC), an account becomes delinquent if payment is not received within 30 days from issuance of the initial invoice except for instances where a governing ordinance exists that calls out a different time frame for defining a delinquent account. Once an account becomes delinquent, penalties and interest may begin to accrue. Moreover, upon reaching 45 days past due, accounts are to be referred to one of the City's designated collection agencies. The City has contracts with several primary and secondary collection vendors to assist departments in the collection of delinquent accounts, as well as internal staff within Finance. Additional fees are added to delinquent accounts referred to collections to cover the cost of these services.

An exception to the City's standard is EMS billings. Initial collections for EMS billings are handled through an outside vendor contracted with the City. The vendor has up to 270 days to try and collect on EMS accounts before Fire has to refer them to one of the City's designated outside collection agencies. Another exception is parking citations. Billing and collections for parking citations are handled through a citation processing agency. DOT does not refer its delinquent parking citations to the City's outside collection agencies, as all collections are handled through the contracted citation processing agency.

The following three tables are accounts receivable aging schedules and summarizes FY 14-15 net AR aging of accounts receivable for the City (Table 1), Fire EMS billings (Table 2) and DOT parking citations (Table 3). The tables also include the percent of total outstanding AR referred to collections for each aging category.

Table 1
City's Overall Net Accounts Receivable by Age¹⁴ and Percent Referred¹⁵
(In thousands of dollars)

Days Past Due	Net AR	Net Principal	Net Interest	Net Penalty	Referred ¹⁵
0-Current	14,617	14,553	0	64	0%
1-45	15,536	11,722	0	3,814	0%
46-90	7,156	4,340	6	2,810	27%
91-180	17,855	9,605	13	8,237	41%
181-360	35,696	9,493	65	26,138	51%
361-720	20,087	10,490	154	9,443	84%
721-1080	12,923	6,771	454	5,698	82%
1081-1440	9,757	4,429	668	4,660	33%
1441-1800	4,156	1,984	588	1,584	30%
1801+	4,789	3,228	170	1,391	41%
Grand Total	142,572	76,615	2,118	63,839	55%

Table 2
Emergency Ambulance Services Billings by Age¹⁶ and Percent Referred
(In thousands of dollars)

Days Past Due	Net AR	Net Principal	Net Interest	Net Penalty	Referred ¹⁵
0-Current	3,743	3,743	0	0	0%
1-45	3,266	3,266	0	0	0%
46-90	2,004	2,004	0	0	0%
91-180	2,693	2,693	0	0	0%
181-360	2,813	2,813	0	0	71%
361-720	1,705	1,705	0	0	96%
721-1080	653	653	0	0	97%
1081-1440	200	200	0	0	62%
Grand Total	17,077	17,077	0	0	60%

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

¹⁵ Referred percentage is based on Actual and not Net AR, thus some referral percentages may appear incongruous compared to amounts net of uncollectible.

¹⁶ The Statute of Limitations for Emergency Medical Services Billings is four years.

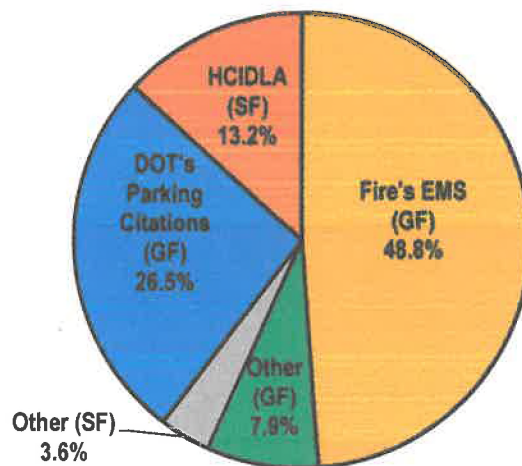
Table 3
Parking Citations by Age¹⁷ and Percent Referred
(In thousands of dollars)

Days Past Due	Net AR	Net Principal	Net Interest	Net Penalty	Referred ¹⁵
0-Current	5,926	5,926	0	0	0%
1-45	6,304	3,171	0	3,133	0%
46-90	3,692	1,465	0	2,227	69%
91-180	6,740	2,606	0	4,134	91%
181-360	7,794	3,020	0	4,774	92%
361-720	6,273	2,544	0	3,729	90%
721-1080	939	400	0	539	88%
1081-1440	0	0	0	0	0%
Grand Total	37,668	19,132	0	18,536	77%

Summary of the City's Total Outstanding AR

In FY 14-15, the City's total outstanding AR totaled \$503 million, of which 83.2% was General Fund (GF) and 16.8% was Special Fund (SF). The City's most significant account types were EMS billings, representing 48.8% of total outstanding AR, and parking citations, representing 26.5% of total outstanding AR. Combined, these two account types represented 75.3% of total outstanding AR.

**City's Total Accounts Receivable
By Fund and Major Account Type¹⁸**

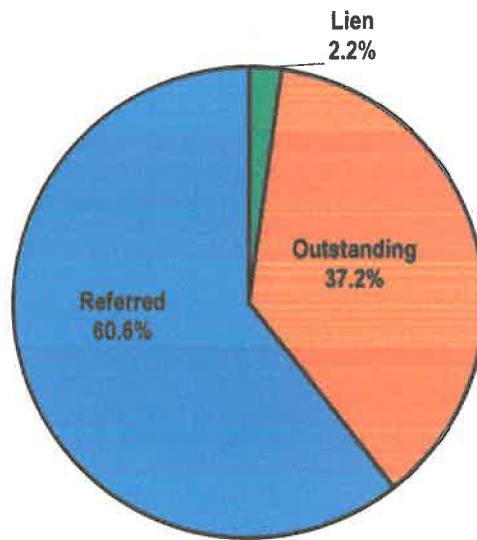


¹⁷ The Statute of Limitations for Parking Citations is five years.

¹⁸ Percentages are based on actual total outstanding accounts receivable, not net of uncollectible allowance.

Moreover, of the City's total outstanding AR, 89.7% was delinquent compared to 88.3% for FY 13-14. The status of delinquent debt for FY 14-15 included 60.6% referred to collections, 2.2% forwarded to the Los Angeles County Assessor to levy liens, and 37.2% pending further actions that may include appeals, hearings, write-off processes or other remedial efforts available to the department. In comparison, for FY 13-14, departments reported the status of delinquent debt as 57.5%, 2.0% and 40.5% respectively.

***City's Total Accounts Receivable FY 14-15
Status of the City's Delinquent Debt¹⁹***



CONCLUSION

While the City maintains considerable past due balances, the vast majority of the amounts result from two major account types — EMS billings and parking citations. These account types inherently carry greater risk of uncollectibility since strategies to minimize risk are often not applicable. Despite this, we do see opportunities to improve collections for these accounts and the numerous other types of receivables that the City has. For instance, many departments still do not apply interest and penalties to delinquent accounts. The imposition of interest and penalties not only encourages timely payments, but permits the City to recoup loss of revenue resulting from late payments. Finance is presently working to establish a citywide standard to address the lack of application and uniformity in the City's imposition of interest and penalty.

¹⁹ Status of delinquent debt is based on actual and not net AR, thus some referral percentages may appear incongruous compared to amounts net of uncollectible.

Although most departments refer delinquent accounts to collections, many eligible accounts are not being referred timely as directed in LAAC Section 5.181. Prompt referral of delinquent accounts will help to improve collections and better utilize City resources. Moreover, while progress has been made to write-off uncollectible debt, many departments are still reporting severely aged debt. Departments should systematically analyze their accounts receivable to improve their precision in calculating allowances for doubtful accounts. Also, they should be more diligent with submitting aged accounts to the Collections Board of Review for write-off consideration on debts that are deemed unlikely to be collected, including accounts that have exceeded statute of limitations, to minimize inflated balances that distort the City's accounts receivable.

To optimize revenue collection, City departments must be proactive to maintain their accounts in accordance with generally accepted accounting principles and the Citywide Guidelines; which includes employing the following practices:

1. Refer delinquent accounts to collections, as directed by Section 5.181 of the LAAC;
2. Review and implement measures to apply penalties and interest to delinquent accounts at a level that deters delinquency and encourages 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;
4. Submit uncollectible accounts for write-off to the Collections Board of Review (CBOR) as directed by LAAC Section 5.182 and the CBOR Procedures and Protocols.

RECOMMENDATION

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