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Auditor General
of British Columbia



**Collection of Overdue
Accounts Receivable**

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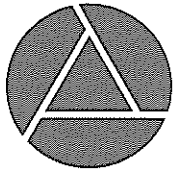
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The Honourable Gretchen Brewin
Speaker of the Legislative Assembly
Province of British Columbia
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Madam:

I have the honour to transmit herewith to the Legislative Assembly of British Columbia my 1998/99 Report 3: Collection of Overdue Accounts Receivable.

George L. Morfitt, FCA
Auditor General

Victoria, British Columbia
October 1998

copy: Mr. E. George MacMinn, Q.C.
Clerk of the Legislative Assembly

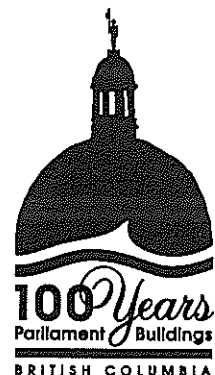
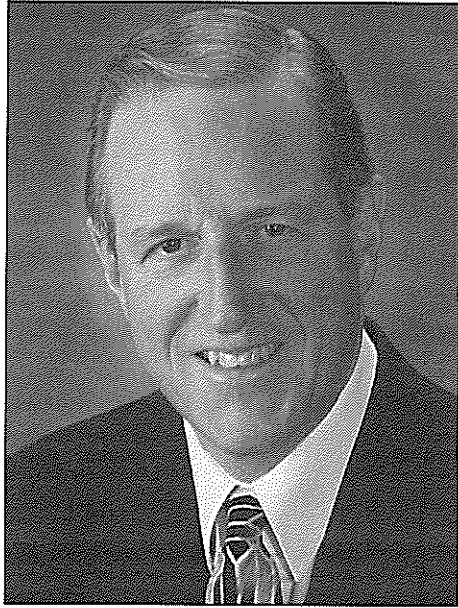


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auditor general's comments

auditor general's comments



This is my third report to the Legislative Assembly for the 1998/99 year. It contains the results of my Office's audit of the government's collection of overdue accounts receivable.

Between March 31, 1995 and March 31, 1997 accounts receivable—amounts due for over 90 days—increased from \$234 million to \$455 million and, at September 30, 1997, totaled almost \$500 million. This represents a significant cost for the government, both in terms of cash flow and potential loss of integrity for some of the government's programs. The purpose of this audit was to assess whether the collection of overdue receivables is being pursued properly.

In looking at why the overdue receivables have climbed so high, I find that it is due to a combination of factors. First, government policies provide limited incentives to program managers to encourage collection of debts and, in some cases, encourage choices that are not the most cost-effective. Perhaps because of this, collection efforts are usually under-resourced. Second, new policies regarding Medical Services Plan premiums and Income Assistance benefits resulted in new receivables being placed on the books, which ministries lack the administrative machinery to manage.

Having said that, I want to recognize that the receivables of government are vastly different from those of a business. Government cannot choose its debtors in the way private sector businesses often can and, although government should actively pursue overdue accounts, it must recognize the context of some of these debts. For example, some debts are owed by extremely poor persons and excessive collection efforts would be counter-productive. Conversely, delinquent taxpayers who have the means to pay must be vigorously pursued in order to encourage future voluntary compliance in a self-assessing tax environment. Also, fines levied for regulatory

infractions must be vigorously collected if they are to be an effective punishment or deterrent.

I urge the government to address the issues raised in this report and to pursue collection of debts in a fair, equitable and cost-effective manner. This report identifies a number of issues that warrant attention. At the heart of the matter is a need for a broad, government-wide approach to collecting overdue debts. I believe that if the government acts on my recommendations it can achieve two useful outcomes: collection of a greater percentage of the money owed to it, and increased effectiveness of programs—like welfare, tax administration and traffic safety initiatives—that require public recognition as being administered fairly and consistently.



George L. Morfitt, FCA

Auditor General

Victoria, British Columbia

November 1998





cross-government overview

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Cross-government Overview

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cross-government overview

Introduction

The Nature of the Problem

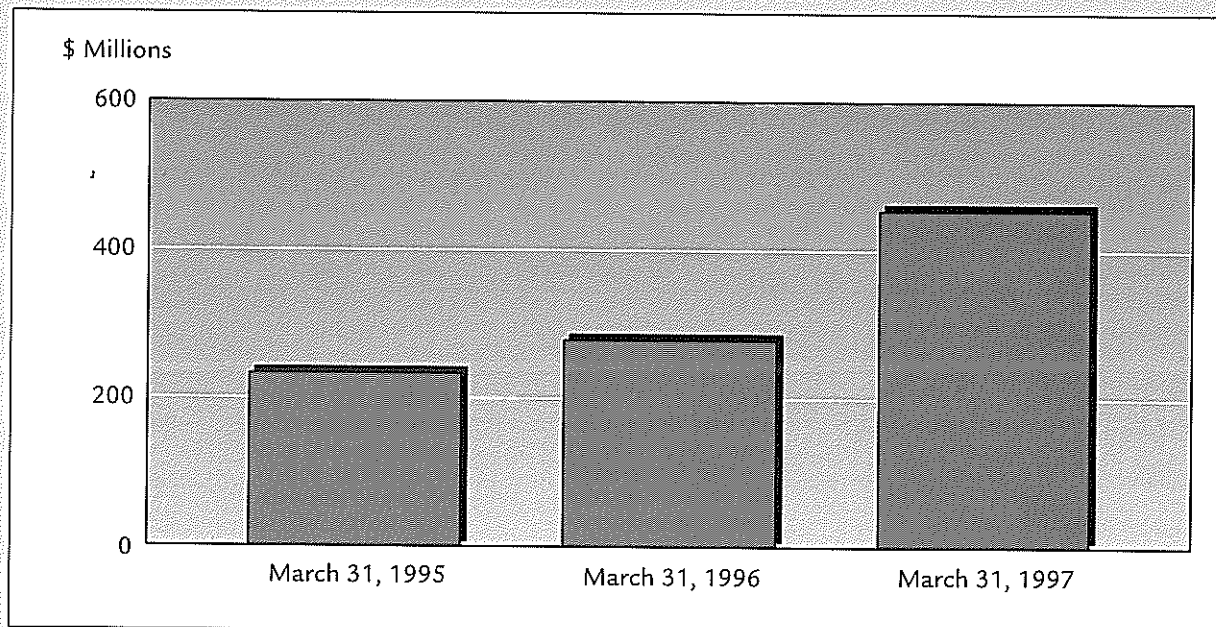
The major portion of money owed to government is paid in a timely manner and never becomes "overdue." However, between March 31, 1995 and March 31, 1997, seriously overdue accounts receivable—amounts due for over 90 days—owed to various ministries of the provincial government increased from \$234 million to \$455 million (Exhibit 1.1).

Several ministries had seriously overdue receivables in excess of \$15 million on March 31, 1997 (Exhibit 1.2). These included:

- Ministry of Attorney General (motor vehicle-related court fines);
- Ministry of Education, Skills and Training (student loans);
- Ministry of Finance and Corporate Relations (taxes);
- Ministry of Health (MSP premiums and ambulance service charges);

Exhibit 1.1

Seriously Overdue Accounts Receivable (All Ministries)



Source: Ministry of Finance and Corporate Relations (Office of the Comptroller General)

- Ministry of Human Resources (income assistance repayments and security deposits due from landlords); and
- Ministry of Transportation and Highways (motor vehicle-related fines).

Government is faced with increasing demands for funds to provide for education, health care, law enforcement, transportation, and other programs, but it must also contend with limited resources and strong opposition to higher user fees or taxes. It is therefore important that all money owed to the government be collected effectively and efficiently.

As a general rule, overdue accounts are more likely to be collected if efforts to collect are made soon after the debt becomes overdue and if the debtor believes that the creditor will be persistent in its efforts to collect. The British Columbia government's Financial Management Operating Policy recognizes this and requires ministries to take "prompt and vigorous action to collect outstanding accounts receivable."

The Government Collection Environment

Businesses can avoid overdue accounts by screening potential debtors during the credit-granting process. Unlike business debts, however, many of the debts owed to government arise under circumstances that preclude screening. For example, the police do not issue speeding tickets only to those they think will pay them, and student loans are approved on the basis of need rather than ability to repay.

Exhibit 1.2

Overdue Accounts Receivable at March 31, 1997 (\$ Thousands)

Ministry	30 – 60 days	60 – 90 days	90 plus days
Attorney General	99	96	22,796
Education, Skills and Training	N/A	N/A	85,840
Finance and Corporate Relations	7,401	7,463	59,300
Health	4,849	1,414	17,996
Human Resources	4,178	2,763	42,742
Transportation and Highways	2,876	1,925	95,310

Source: Ministry of Finance and Corporate Relations (Office of the Comptroller General)

Also, government is expected to collect its accounts receivable in a manner that is fair and equitable (consistently treating taxpayers and other debtors, in similar circumstances, in the same manner). This limits the extent to which government is willing to negotiate compromise arrangements whereby a debtor pays only a portion of the amount owed.

There may also be social or economic reasons that outweigh the need for vigorous collection of some government debts—for example, debts owed by extremely poor persons. Conversely, overdue taxes must be vigorously pursued in order to encourage future voluntary compliance in a self-assessing tax environment, and fines levied must be vigorously collected if they are to be an effective punishment or deterrent.

Thus, collection efforts in government cannot be validly benchmarked against private sector performance. In the absence of benchmarks, we made our assessment of performance based on the context of each of the programs we examined.

Purpose and Scope of the Audit

The purpose of our audit was to assess the effectiveness and efficiency of the programs government has established to collect overdue accounts receivable.

Our audit considered:

- completeness (how successful government is at collecting overdue accounts),
- timeliness (how quickly those accounts are collected),
- fairness (what assurance there is that debtors are treated fairly and consistently),
- efficiency (the relationship between money collected and the cost of collecting that money), and
- accountability (performance information provided to the Legislative Assembly).

We did not audit government's management of accounts receivable in general. Also, the collection of stumpage by the Ministry of Forests was not part of this audit because that area was reviewed as part of our audit of the ministry's credit management system and reported in our *Report on the 1996/97 Public Accounts*.

Our examination reviewed the results of the fiscal years 1994/95 to 1996/97. It was performed in accordance with value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Overall Conclusion

We found that some programs (i.e. Revenue Division and Loan Administration Branch, both in the Ministry of Finance and Corporate Relations) were performing better than others (i.e. the Motor Vehicle Branch, Ministry of Health, and Ministry of Human Resources).

Overall, government collection processes are fragmented, inconsistent, and some are poorly resourced. Some ministries have only recently become involved in collection, and they lack the expertise and resources to do the job properly. Many of the debts owed to government are difficult to collect, but we believe the results could be improved by setting a clear direction for collection, looking for opportunities to improve effectiveness of collection, introducing resources and incentives for managers to collect debts, and making judicious use of private sector collection agencies. Finally, we found that the Legislative Assembly receives little or no information about the collection of overdue accounts receivable.

Key Findings

Overall

Management processes for debt collection activities need improvement. We found few examples where broad objectives had been translated into specific measurable goals and performance targets and benchmarks. Performance measurement is minimal and good data scarce.

It is not possible to provide a single assessment of the effectiveness and efficiency of government's collection programs. The programs we reviewed were very different from each other, and we had few benchmarks against which to compare performance. We acknowledge the difficulties facing the less successful programs. The programs in the ministries of Health and Human Resources are relatively new, and are not yet fully developed. However, we believe that performance by them can and should be improved. We are particularly concerned about the past performance of the Motor Vehicle Branch's collection of fines. However, recent operational changes, including transfer of responsibility to the Insurance Corporation of British Columbia (ICBC), look promising.

In general—and particularly with respect to the less successful programs—we believe there is a lack of recognition of the importance of these programs and a lack of priority given to them. We found the incentives in government for collection to be minimal at best, negative at worst. For example, if a ministry is owed \$100, and spends \$10 collecting it, the costs are charged to the ministry, but the receipts go to General Revenue. To make matters worse, until recently, ministries were not held accountable for bad debt losses. Thus, there has been no incentive at the ministry level to go after overdue debts, beyond a general concern to preserve the integrity of a program. A more appropriate approach might be to place collection activities on a commission basis, allowing collection units within government to resource themselves out of what they collect and turning the “profits” over to the general fund. This, in combination with a system of monitoring and benchmarking performance, should, we believe, help improve cash flow to government.

We found that interest was charged and collected on some overdue receivables (taxes and student loans) but not on other debts (income assistance overpayments, ambulance service charges and some MSP premiums).

We also found that government is, in some cases, unwilling to share information within and among its own organizations. We found examples where people owing money to one part of government were benefitting from another. This included public servants, whom, it seems, government is unwilling to pursue. There are reasons for this, mainly to do with privacy. However, we feel government should review the situation to see if it has been over-sensitive in this regard.

Government’s lack of success in collecting receivables could be having negative effects beyond the financial impact on programs. The huge volume of unpaid motor vehicle fines could threaten the credibility of the law enforcement process, and low collection rates in benefit programs could induce people to apply for loans and benefits in the belief that they will never have to repay the money (student loans, for example).

Finally, we are concerned at the lack of information getting to the Legislative Assembly about overdue debts. The amounts are large and, in this era of scarce resources, this can only have a negative impact on government programs. We believe the Legislative Assembly should receive information

about government's goals with respect to collection, and get assurance that these goals are being pursued and reached.

The following section of the report summarizes only the key findings for each of the areas we looked at. More detail about each area is available in later sections of the report.

Revenue Division, Ministry of Finance and Corporate Relations

The largest revenue source for the British Columbia government is taxes. Revenue Division of the Ministry of Finance and Corporate Relations collects taxes (other than income taxes, which are collected by the federal government on behalf of the Province) for government. In 1996/97, this amounted to \$6.5 billion.

- In each of the three years of the period we reviewed, the division collected between 53 and 60% of the taxes that were overdue in that period (Exhibit 1.3). Also, over the three-year period covered by our audit, the division collected an amount equal to almost 92% of the amount of taxes that became overdue during that period. However, without a benchmark for what constitutes adequate performance, we cannot conclude whether these results represent a level of performance that is acceptable to the ministry or to the government.
- We are also concerned about the level of overdue taxes that remain outstanding. While the division records indicate that most taxes are eventually paid or collected, it is still carrying a balance of over \$80 million made up of taxes, penalties and interest. Included in this amount are between \$30 and \$36 million, the collection of which is estimated to be doubtful but the amounts cannot be written off because they involve unfinalized bankruptcies or are subject to appeal or litigation.
- We were unable to determine how quickly the division collects overdue taxes, because the ministry's information systems do not record this information.
- The division does not have sufficient performance measurement information available to be able to determine properly the extent to which its objectives are being met. Better management information and better information systems are required.

- Managers of the division's collection programs monitor to ensure that delinquent taxpayers are treated fairly and consistently. However, the division does not have measurable criteria that describe what constitutes fairness, and it has no formal process for measuring and reporting the fairness of its programs for collecting overdue taxes.
- The ministry does not account for and report specifically on the costs of collecting overdue taxes. We estimated that the ministry's cost, in 1996/97, to collect overdue taxes was less than \$4 million, or less than three cents for each dollar collected. The ministry has not determined, however, whether it has the right level of resources devoted to the collection of overdue taxes to optimize its return on cost.
- Better access by tax collectors to information, particularly information currently held by other government organizations but not accessible because of legislative restrictions, could also assist in the collection of overdue taxes.
- Unlike several other government debt collection programs, the tax collection programs in Revenue Division do not currently use the services of private sector collection agencies. As a result, the division may be missing an opportunity to collect some additional taxes.
- Insufficient information is provided to the Legislative Assembly to enable it to assess the effectiveness and efficiency of the division's tax collection programs.

Exhibit 1.3

Accounts Receivable Summary (at March 31), Revenue Division

	1995	1996	1997
Taxes under collection at beginning of year	\$70,549,000	\$87,891,000	\$82,809,000
Tax delinquencies during year	\$127,666,000	\$122,412,000	\$158,484,000
Collections	\$106,194,000	\$121,653,000	\$143,161,000
Write-offs	\$3,158,000	\$4,064,000	\$10,635,000
Recovery rate	53.6%	57.8%	59.3%
Taxes under collection at yearend	\$87,891,000	\$82,809,000	\$86,080,000

Source: Ministry of Finance and Corporate Relations (Revenue Division)

Loan Administration Branch,
Ministry of Finance and Corporate Relations

The Loan Administration Branch collects defaulted loans on behalf of provincial ministries. At March 31, 1997, the branch had a portfolio of delinquent loans totalling \$115 million, \$99 million of which were student loans (Exhibit 1.4). The branch is responsible for collecting student loans after borrowers have defaulted and the banks have assigned the defaulted loans to the government under the terms of guarantees provided by the government.

Its primary portfolios are:

- British Columbia Student Loans, managed for the Ministry of Advanced Education, Training and Technology;
- British Columbia Second Mortgages, managed for the Ministry of Finance and Corporate Relations; and
- Grant Overawards, managed for the Ministry of Advanced Education, Training and Technology.

We found that the branch is improving its results over time. However, without a reliable standard of comparison, we cannot conclude whether the results are acceptable.

Exhibit 1.4

Accounts Receivable Summary (at March 31), Loan Administration Branch

	1995	1996	1997
Under Collection (at beginning of year)	\$92,907,000	\$106,723,000	\$121,021,000
New Accounts Referred	\$29,894,000	\$42,227,000	\$14,214,000
Total Collections	\$8,813,000	\$11,778,000	\$13,021,000
Total Losses *	\$7,265,000	\$16,151,000	\$7,109,000
Recovery Rate	7.2%	7.9%	9.6%
Under Collection (at yearend)	\$106,723,000	\$121,021,000	\$115,105,000

* In addition to debts written off as uncollectable, some obligations to pay debts can be discharged as a result of legal process. (Discharge from personal bankruptcy is the most frequent reason.)

Source: Ministry of Finance and Corporate Relations (Loan Administration Branch)

- The branch has no data on how long it takes to collect its receivables. However, at January 31, 1997, the median age of student loans in the branch's portfolio—the only portion for which data are available—was 38 months from the time they were assigned to the branch for collection.
- The branch has adequate controls in place to ensure that debtors are treated reasonably consistently and that processes for collection are appropriate. However, the wording in the Financial Administration Act precludes the branch from using third-party demands to collect debts owed by provincial government employees as it uses with other debtors.
- We estimated the branch's cost, in 1996/97, to collect these overdue accounts was \$3.15 million, or slightly more than 24 cents for each dollar collected.
- Insufficient information is provided to the Legislative Assembly to enable it to assess the effectiveness and efficiency of the branch's collection programs.

Ministry of Health

At March 31, 1997, the ministry was owed approximately \$30 million for Medical Services Plan premiums and \$8 million for ambulance service charges. Of those amounts, \$12 and \$6 million, respectively, had been owed for more than 90 days.

- The ministry believes, but is unable to confirm, that the overdue MSP premiums are significantly overstated as a result of direct billings being sent to persons who have left the province or are enrolled in group plans.
- Prior to May 1996, if a person did not pay the MSP premiums, he or she would be without medical care insurance. Persons not paying premiums were dropped from the program after three months' failure to pay premiums.
- Since May 1996, all residents of British Columbia, unless they formally opt out of the plan, are covered by MSP at all times. If premiums are not paid, they simply accumulate and represent a debt owed to government.

In 1996/97, against MSP and ambulance service charge revenues of \$872 million, the ministry had more than \$43 million in new overdue accounts. During the same period, it recorded over \$20 million in recoveries of, and credit adjustments to,

overdue MSP premiums and ambulance service charges. It also wrote off almost \$2 million as uncollectable.

We concluded that the ministry's processes for recording overdue MSP premiums are deficient and its processes for collecting overdue MSP premiums should be improved.

- The ministry had only short notice of the government policy change in May 1996, and was not prepared for the increase in overdue premiums that resulted from it.
- The ministry's efforts to recover overdue premiums have been hampered by inadequate legal tools, poor information and computer systems, and insufficient staff. However, the ministry's performance may improve as a result of amendments to the Medicare Protection Act and an agreement to have the Loan Administration Branch collect overdue MSP premiums. As well, the ministry has taken the initial steps to develop an improved MSP registration and billing system.
- Risk of loss of MSP premiums is relatively limited. The greatest risk is that someone owing MSP premiums will emigrate from the province. If that happens, there is no incentive to pay arrears once the person is eligible for coverage in the new place of residence. Risk of loss of ambulance service charges, particularly those owed by persons from outside the province, is considerably higher.

The ministry's efforts to collect overdue ambulance service charges are affected by the same resource limitations, plus the additional difficulties associated with collecting money from debtors outside the province.

- The ministry's processes for collecting overdue ambulance service charges—including the use of private sector collection agencies—are somewhat better developed than the processes for collecting overdue MSP premiums.
- The level of write-offs of uncollectable ambulance service charges appears high. However, although collection of overdue ambulance service charges has been taking place for some time, the ministry has not established specific collection goals. We were unable, therefore, to determine whether current results are acceptable to the ministry or the government.

The Ministry of Health does not have adequate information about how long it takes to collect accounts receivable.

It appears that the cost of collecting overdue accounts receivable is low relative to recoveries and adjustments.

However, in view of the ministry's apparent inability to keep up with the increased volume of work since May 1996, we cannot conclude that the ministry's collection program is operating efficiently.

Finally, we found that the ministry has not provided accountability information to the Legislative Assembly in a timely manner. The most recent annual report for the Ministry of Health is almost three years old.

Motor Vehicle Branch/Insurance Corporation of British Columbia

At March 31, 1997, government was owed over \$136 million in fines for various minor offences (Exhibit 1.5). Motor vehicle-related offences accounted for the majority of those unpaid fines. Although the Province began issuing violation tickets levying fines for motor vehicle-related offences in 1990, active collection of unpaid motor vehicle fines did not begin until 1994 when a collection unit was created in the Motor Vehicle Branch of the Ministry of Transportation and Highways.

- Prior to 1994, accounts receivable were growing at the rate of \$1 million a month, partly because the main tool available to the branch was its authority to refuse to renew the driver's licences of those owing outstanding fines. This

Exhibit 1.5

Accounts Receivable Summary (at March 31), Motor Vehicle Branch

	1995	1996	1997
Fines (Motor Vehicle Branch)	\$104,466,000	\$111,077,000	\$105,840,000
Fines (other ministries)	3,511,000	4,022,000	4,318,000
Weigh scales	346,000	355,000	315,000
Returned cheques	687,000	782,000	811,000
Court Services fines	23,541,000	22,008,000	22,661,000
Criminal Code fines	1,688,000	2,062,000	2,599,000
Total Receivables	134,239,000	140,306,000	136,544,000
Less: Allowance for doubtful accounts	46,486,000	49,323,000	52,139,000
Net Accounts Receivable	\$87,753,000	\$90,983,000	\$84,405,000

Sources: Insurance Corporation of British Columbia and Ministry of Attorney General

had the effect of providing offenders with as long as five years to pay outstanding fines (with no interest).

We concluded that the collection of overdue fines has been seriously inadequate, to the point that the credibility of the fines system could be threatened. The merger of the Motor Vehicle Branch with ICBC is encouraging. However, we are concerned that, unless additional resources are provided, the corporation will be unable to reduce what appears to be an unreasonably high level of overdue fines.

- Almost 90% of all receivables (approximately \$122 million) are 90 or more days overdue, and over 50% are more than two years old.
- The average age of receivables is 30 months, with approximately \$30 million (or 22% of all accounts) more than five years old.
- There are 5,700 debtors owing more than \$2,000 each.
- There are 15 debtors owing between \$10,000 and \$14,000 each.
- Since April 1995, slightly more than \$89 million in unpaid fines have been referred to a private sector collection agency. At March 31, 1997, approximately \$31 million had been collected, at a cost of \$7.3 million in commissions.
- In 1996/97, the branch collected \$36.1 million. The collection agency collected an additional \$17.4 million.

Collection of overdue fines has been low because the program has insufficient resources.

- The program has been hampered by lack of staff and poor information systems.
- Debtors must be notified of the consequences of non-payment before accounts are referred for collection. Currently, there are over 300,000 accounts that have not been referred to the collection agency because the branch lacks the necessary resources to deal with enquiries and complaints that result from sending letters to debtors.
- The branch estimates that 25,000 notification letters should be sent each week in order to collect the current level of accounts. However, only 6,000 letters were being sent.

Until recently, the branch had not established clear and measurable targets with respect to collection. Added to this has been a lack of sufficient performance measurement information available to enable staff to properly determine

the extent to which objectives are being met. The branch has also not linked the relationship between objectives and the resources required to achieve its objectives. Cost-benefit analyses, to assess goals and resource alternatives, have not been used.

The accuracy, reliability and timeliness of information provided by the branch's accounts receivable system is questionable. Essential management reports are incomplete, cannot be produced, or are infrequently prepared.

- An accurate aging of receivables is not produced.
- There is no breakdown of payments by age.
- Some management reports are either discontinued or run infrequently due to the system's inability to purge obsolete information.
- The accounts receivable system incorrectly records certain write-offs as payments.
- The Court Services Branch, which also collects fines resulting from disputed motor vehicle violation tickets, is not linked with the branch's accounts receivable system. This results in timing problems, leading to increased queries and pressure on staff.

The primary source of accountability information is the annual report of the ministries responsible for the Motor Vehicle Branch (since 1990, these ministries have included Solicitor General, Attorney General, and Transportation and Highways).

- Recent reports for these ministries have included little, if any, accountability and performance-related information regarding collections.

On November 18, 1996, through changes to the Insurance Corporation Act and Insurance (Motor Vehicle) Act, certain functions, including the collection unit, were transferred from the Ministry of Transportation and Highways to ICBC. The merger of the Motor Vehicle Branch and ICBC may provide an opportunity to improve performance.

- One organization, for the first time, has control of all aspects of British Columbia's motor vehicle system. In addition to refusing to issue a driver's licence, ICBC can also refuse to insure vehicles owned by someone with unpaid fines. The absence of insurance is much easier to detect than the absence of a driver's licence.

Ministry of Human Resources

At March 31, 1997, almost \$124 million was owed to the Ministry of Human Resources by current and past recipients of income assistance benefits, and by landlords provided with security deposits on behalf of income assistance recipients.

We concluded that the collection of security deposits and income assistance benefits is seriously inadequate. Of the almost \$124 million outstanding at March 31, 1997, approximately \$101 million is considered unlikely to be collected.

Receivables related to security deposits, before the allowance for doubtful accounts, was approximately \$34.3 million at March 31, 1997 (Exhibit 1.6).

The ministry estimates that approximately 65% of all terminated and continued tenancy receivables will not likely be recovered. Security deposits may not be recovered for a variety of reasons, including defaults on the part of the tenant or defaults on the part of the landlord.

Receivables related to income assistance overpayments, before the allowance for doubtful accounts, were approximately \$89.5 million at March 31, 1997 (Exhibit 1.7).

The allowance for doubtful accounts has been set at 90%. Approximately half of all receivables are from persons who are still on assistance. Some recovery from these debtors is likely, because of the ministry's ability to deduct payments from debtors' income assistance cheques. However, recoveries are, for the most part, limited to \$10/month.

For persons no longer on assistance, the ministry is faced with the dilemma of attempting to collect while recognizing that an aggressive approach may result in forcing the debtor back on income assistance.

- During 1996/97, the ministry recovered \$6.1 million. The majority of this, \$5.8 million, was collected from persons still on income assistance. Only \$345,158 was collected from persons no longer on assistance.
- In 1996, as a pilot project, the ministry began referring accounts that had been closed before September 1996, to private collection agencies. From September 1996 until March 1997, a total of 14,074 accounts, representing \$11.9 million, were referred for collection. The ministry has paid \$186,232 to recover \$345,158.

Exhibit 1.6

Security Deposits Receivable (at March 31), Ministry of Human Resources

	1995	1996	1997
Continued tenancies*	\$17,540,447	\$24,360,741	\$27,575,326
Terminated tenancies	2,212,811	6,983,064	6,806,774
Total Receivables	19,753,258	31,343,805	34,382,100
Less: Allowance for doubtful accounts	138,194	1,208,000	20,200,000
Net Accounts Receivable	\$19,615,064	\$30,135,805	\$14,182,100

* Security deposits related to *continued tenancies* represent money that may eventually be repayable to the ministry. Before August 1997, the ministry provided landlords with security deposits on behalf of income assistance recipients. When the tenancy ended, the landlord was required to return the deposit, subtracting any amount retained as a result of damage or the tenant leaving without providing notice. However, until a tenancy has terminated, the landlord is not required to return the deposit. Collection action is taken only on *terminated tenancies*, where the security deposit has not been returned or accounted for.

Source: Ministry of Human Resources (Financial Services Branch)

Exhibit 1.7

Income Assistance Overpayments Receivable (at March 31),
Ministry of Human Resources

Accounts Receivable Balances (at March 31)	1995	1996	1997
Open files (<i>currently on assistance</i>)	N/A	N/A	\$46,622,563
Closed files (<i>after September 14, 1996</i>)	N/A	N/A	15,625,510
Closed files (<i>before September 14, 1996</i>)	N/A	N/A	27,220,005
Total Receivables	N/A	N/A	89,468,078
Less: Allowance for doubtful accounts	N/A	N/A	81,123,014
Net Accounts Receivable	N/A	N/A	\$8,345,064

Although income assistance overpayments have existed for a number of years, it was not until 1996/97 that the ministry formally recognized its receivables and presented them in the Public Accounts.

Source: Ministry of Human Resources (Financial Services Branch)

- While these results would appear to be dismal, they are much better than the collection results of those files closed after September 1996. No collection activity has been undertaken on those. Approximately 16,000 files closed after September 1996, representing over \$15.6 million, has been held pending the results of the collection agencies pilot project.

The ministry has not established clear and measurable targets with respect to collection. For this reason the ministry has been unable to link its objectives for collection of receivables and the resources required to achieve those objectives.

Annual reports for the 1994/95 and 1995/96 fiscal years for the Ministry of Social Services (the predecessor of the Ministry of Human Resources) provide some information about the ministry's efforts to recover security deposits and income assistance overpayments. The annual report for the 1996/97 fiscal year was not available at the time of our examination.



summary of recommendations

We believe government should take the following steps:

- *Clearly define its objectives for the collection of overdue accounts. In doing so, government should evaluate the impact of the collection of overdue accounts. For example, vigorous collection of overdue accounts can be seen as a factor in the enforcement of traffic safety initiatives. This may mean pursuing marginally economic (or even uneconomic) collection activities for the sake of establishing and maintaining an enforcement presence.*
- *Determine who will be responsible and accountable for the collection of overdue accounts. Choices include making each ministry responsible for the collection of its own overdue accounts, or establishing one or more specialized groups to collect overdue accounts on behalf of other ministries. We believe, given the uneven results we observed, that government should assess the benefits and risks of consolidating its collection activities.*
- *Implement incentives to encourage effective and efficient collection of overdue accounts. Government should amend the financial management policies that currently provide insufficient incentives (and sometimes create disincentives) for ministries to collect money owed to them. In particular, the government should consider how debt collection activities are funded. We believe that it should establish a program (or programs) on a self-funding, commission basis; encourage a competitive, performance-based culture; and cease treating collection activities as a cost centre. It should also use several private sector agencies, both to enhance performance and to establish benchmarks.*
- *Identify appropriate performance measures and establish data-gathering processes required to monitor performance. Establish benchmarks describing performance expectations and goals. Define internal and external reporting requirements.*
- *Determine and allocate the resources required to do a proper job. Decisions should be based on comprehensive cost-benefit analyses, including consideration of non-financial objectives.*

- *Monitor actual performance, compare this with benchmarks, and evaluate variances. Review objectives, goals, performance measures, data-gathering processes, resources, and program management.*
- *Provide timely information to the Legislative Assembly on performance goals and actual results, including appropriate contextual information.*

We discuss each of these steps in more detail on pages 26 to 33.

Step 1: Defining Objectives

We believe that government should determine what results it wants to achieve from its collection programs. Because different objectives may be competing, it should determine the extent to which one objective may be traded off in order to achieve another. This may result in the establishment of a hierarchy of objectives. For example, if one of the objectives of the program to collect unpaid motor vehicle fines is to ensure that fines are an effective deterrent, government should balance its objectives between minimizing the cost of collection and pursuing offenders vigorously beyond the point of economic return. Government will need to evaluate the effectiveness of deterrence, to determine the weight that the objective of deterrence will be given relative to an objective of cost minimization.

Currently, the primary strategic direction for government collection programs is contained in government's Financial Management Operating Policy. The policy requires ministries to take "prompt and vigorous action to collect outstanding accounts receivable." The policy is intended to "provide a standard collection process for government" and to "minimize the opportunity cost of uncollected accounts receivable."

Several of the organizations we reviewed have developed more detailed program objectives. For example, Revenue Division, Ministry of Finance and Corporate Relations, in addition to maximizing the collection of accounts receivable, includes fairness, consistency and the promotion of voluntary compliance as part of its objectives for the collection of taxes. The objectives of the Loan Administration Branch include: providing professional and cost-effective collection, loan

administration and financial management services; promoting financial responsibility in corporate and individual debtors; and enhancing public awareness that the Province is committed to managing loan assets and collecting overdue receivables.

The primary objective of all collection programs is to collect accounts, and to do so in a manner that is effective and efficient. However, there is some ambiguity with respect to these concepts. For example, effectiveness can be interpreted to be "maximum recovery" or "matching marginal recovery to marginal cost," while efficiency emphasizes "maximizing the recovery:cost ratio." Also, "maximizing voluntary compliance" is a measure of effectiveness not directly related to recoveries or costs. Government should clarify, as part of defining its strategic objectives and developing performance measures related to those objectives, what "effectiveness" means.

Step 2: Allocating Responsibility

After determining what it hopes to accomplish from its collection programs, government should decide how it wishes to organize the programs. It should also assign responsibility and accountability for program results.

At present, a number of collection programs in several ministries are doing essentially the same type of work in essentially the same way. However, there are differences among these programs. For instance, responsibility for the collection of overdue taxes lies with Revenue Division of the Ministry of Finance and Corporate Relations. The division's collection programs have been developed and refined over many years and are both effective and efficient in comparison to other collection programs in government. The Loan Administration Branch, in another division of the Ministry of Finance and Corporate Relations, is responsible for collecting a variety of debts on behalf of other ministries. Its collection program has developed and improved over its 10-year existence. Several other ministries (Health, Human Resources and, until recently, Transportation and Highways) also have collection programs which require improvement. Government should consider whether some or all of these activities should be consolidated into a central service agency, or whether it wants to continue with separate collection activities.

Some of the arguments for and against consolidation are identified below:

Pro	Con
<ul style="list-style-type: none"> ▪ Consistency of philosophy, policy, practice, and management control ▪ Efficient development and use of specialized software ▪ Ability to manage staff to match priorities ▪ Professional development and specialization of staff ▪ Opportunity for career development and progression within collection program 	<ul style="list-style-type: none"> ▪ Loss of identification and synergy between primary service or regulatory program and collection program ▪ Loss of specialized program-specific knowledge ▪ Systems integration/access issues ▪ Transition issues (human resources, systems)

Although we have not conducted a formal analysis, we believe that the advantages to be gained by consolidating at least some of the existing collection programs probably outweigh the disadvantages. We recommend that if the government approaches consolidation it should be on an incremental basis, moving responsibility for collecting various debts owed to government to a central agency gradually, building on successes and proceeding toward further integration only when there is sufficient evidence and experience to support a conclusion that further integration is appropriate.

The process described below outlines the basic steps for consolidation:

- Identify an appropriate central agency, and then establish the management basis to put the agency on a competitive footing with private sector collection agencies. The agency should be self-funding, with commissions based on results, and free of unnecessary bureaucratic controls and impediments (see step 3).
- Identify ministries, or programs within ministries, that require collection services. Government should provide support first to those ministries or programs that do not currently have adequate collection programs.
- Provide appropriate information systems access. Identify and address any technology and data management issues.

- Determine the point at which transfer of responsibility for collection would occur and the point at which responsibility would be returned to the originating ministry. Develop transfer protocols.
- Implement, monitor, evaluate and revise as required.

Step 3: Incentives

Until recently, uncollectable debts were written off without being charged against a voted appropriation. That meant that a ministry did not have to absorb the cost if some of its accounts receivable could not be collected. It also meant that a ministry was not able to spend the money if it did collect its overdue accounts, because receipts go into the general revenues of government. Thus, there has been limited incentive to collect overdue accounts. In fact, in a time of diminishing resources, there was some incentive to ignore overdue accounts, particularly if collection was incidental to a ministry's objectives. However, there has been a recent change in how uncollectable debts are handled. In the budget letter advising ministries of their budgets for 1997/98, Treasury Board directed that ministries were expected to make provision in their budgets for bad debt write-offs. This means that there will now be more incentive to collect overdue accounts, either directly or using the services of an agency. The next step, that of placing collection units on a self-funding basis, has not been taken.

Funding Collection of Overdue Accounts Receivable

The Loan Administration Branch (LAB) in the Ministry of Finance and Corporate Relations operates on a cost recovery basis, which means that other ministries for whom it collects must pay, from their budgets, for services provided. The amount that ministries pay is based on the costs that the branch incurs, not what the branch recovers. However, if a ministry employs a private sector collection agency, the agency is paid only if it is successful in recovering money or provides some other valuable service. Also, the collection agency's commission is deducted from money recovered, and the net amount is returned to the ministry for deposit to the general revenues of government. The ministry's budget is untouched if it uses a collection agency, because the cost of collection agency commissions, in 1997/98, is charged to a vote set up specifically for this purpose for certain ministries. This places the LAB at a competitive disadvantage, and creates an incentive for ministries to use what could be a higher-cost

private sector service. We believe that distortions like this should be removed.

We also believe that government should review the method of funding the Loan Administration Branch (or any other consolidated collection agency), as well as the method for accounting for commissions paid to collection agencies, to ensure that decisions about how (or by whom) collection of overdue accounts are managed reflect the best interests of government as a whole—not just the best interests of one ministry. One option would be to fund the consolidated collection agency by way of budget appropriation, as a central service provider, with no cost to the client ministry. Another option would be to fund the consolidated collection agency on the basis of its results, by allowing it to retain a percentage of recoveries, with bonuses and penalties based on achievement of other objectives.

Use of Private Sector Collection Agencies

We believe that judicious use of private sector collection agencies is a necessary part of a collection strategy. Government should have criteria in place to judge when turning over receivables is cost-effective. Government should also make use of several competitive agencies in order to ensure cost-effectiveness and to set benchmarks for performance.

Collection of Debts Outside the Province

A portion of the debts owed to the government are owed by debtors who do not reside in British Columbia and who have no assets in the province. This limits the ability of the government to collect these debts. We believe the government should develop appropriate inter-provincial arrangements to support collection of debts owed by out-of-province debtors.

Step 4: Establishing Performance Measures

To assess how well a collection program is meeting its objectives, the program must set out its objectives in terms that can be measured, and develop methods of gathering reliable data about its performance relative to those measures.

We believe the nature of collection programs—with relatively easily-identified revenues and costs—is particularly amenable to goal-setting, performance measurement, and quantitative analysis of effectiveness and cost-effectiveness. As well, in view of the important role that collection programs play in ensuring the integrity of the programs they support—tax administration, student financial aid, traffic safety—it is

important that there be reliable ways of measuring the impact of the non-financial aspects of collection programs. Financial performance can be measured directly, but non-financial performance may require surrogate measures. For example, data about recoveries and program costs can be directly measured in dollars. However, it is more difficult to determine how to measure concepts like "fairness." In our audit, we found that none of the programs we reviewed had identified objective measures of fairness.

It is essential that there be a logical connection between what is measured and the results, or activities, that are desired. Ill-chosen performance measures can encourage dysfunctional practices. For example, tracking the aging of accounts receivable is useful, but it can result in misplaced emphasis on attempting to collect older debts at the expense of attending to more recent ones. Alternatively, it may encourage writing off debts prematurely in order to reduce the amount of older accounts in a portfolio. A better measure of success would be the percentage of accounts that are collected within 30, 60, 90, 120 or 180 days. This measure might also serve as an indicator of voluntary compliance.

After identifying a comprehensive set of performance measures (including confirmation that data are available, or can be acquired, for these measures), government should establish specific goals and benchmarks for each program. Goals identify what government hopes to achieve; benchmarks reflect either what has been achieved in the past or the minimum level of performance that will be considered acceptable.

We found that most of the collection programs we reviewed monitor recoveries and aging of accounts receivable (though none of the programs have the capability of tracking how long it takes to collect accounts). However, most programs have not established specific goals or expectations with respect to results. The Loan Administration Branch is the exception. It has revenue targets for both individual staff members and the branch as a whole.

Government should also define both internal and external reporting requirements. Performance information about the results and costs of programs to collect overdue accounts is of interest to a variety of stakeholders, and the level of detail that different stakeholders require will vary. Generally speaking, program managers will require more detail than senior ministry executives who, in turn, may require more detail than persons outside the ministry. Members of the Legislative Assembly need sufficient information to enable them to assess the

effectiveness and cost-effectiveness of programs relative to their stated objectives.

Almost all of the programs we reviewed had significant information system deficiencies. We believe that government should commit the necessary resources to ensure that it has sufficient performance information available if it is to properly manage its collection activities.

Step 5: Allocating Resources

Next required is an iterative process of assessing and linking risks, results and resources. The process includes: risk analysis, identifying internal and external factors that can affect the ability to meet objectives; allocation of resources believed to be sufficient to meet performance expectations; design and implementation of specific program processes; gathering of cost-benefit data about actual performance; comparison of actual performance to expectations; and identification of reasons for differences between actual performance and expectations. The process is repeated on a regular basis and, as experience is gained, objectives, goals, expectations, resources and processes can all be adjusted to changes in, or a better understanding of, the program environment.

Information as a Resource

Information about debtors is a key resource needed to collect debts. Government has a great deal of information about all persons, both individuals and corporations, in the province. One of the recurring concerns we heard during our review was that information held by provincial government organizations and potentially useful in the collection of debts owed to government was not being shared. We are aware that there is currently much debate around the issues of privacy and balancing the rights of individuals and the interests of society. We are also aware of the requirement that government comply with the provisions of the Freedom of Information and Protection of Privacy Act. However, we believe that sharing of information held by government, for the purposes of collecting a debt owed to government, is not inconsistent with this legislation.

Step 6: Monitoring Results

Government should gather data about the performance of its collection programs, compare performance with expectations, and determine what, if any, program changes

are required. This might involve “fine tuning” or it might involve significant changes.

Periodic reviews ensure that the programs are both effective and cost-effective. Similar programs can be compared and alternatives can be identified and considered. We recommend that government’s strategy for the collection of overdue receivables be reviewed on a regular basis, say, every five years. There will be variances between goals and actual performance from year to year. However, over a five-year period, it should be clear whether a particular strategy (including objectives, goals and resources) is working.

Step 7: Providing Accountability Information

Collection programs are a small element of government’s responsibilities. However, their existence and effectiveness is important to virtually every person in the province because of the vital role they play in ensuring that there is fairness to all citizens. Effective collection programs provide assurance to those who pay their taxes, MSP premiums, student loans, and fines that they are not placing themselves at a disadvantage. People want assurance that those who attempt to evade their responsibilities will be pursued. The cost-effectiveness of these programs is also of interest, although it is likely of more interest to those responsible for making decisions related to the management of collection programs. Also worthy of note is the fact that the vast majority of persons required to make payments to government do so before their accounts become overdue.

We believe that, as part of the accountability information it provides about its programs, government should provide sufficient information to Members of the Legislative Assembly to enable them to assess the effectiveness and efficiency of government’s collection programs, including the extent to which the programs’ objectives have been achieved and the cost of doing so. The primary sources of accountability information are the annual reports of various ministries and Crown corporations. All organizations with collection programs should include certain basic collection management performance information in their annual reports. This type of information is often best presented in the form of ratios, with trend analysis for a fiscal period or comparisons between fiscal periods over several years.



response of the ministry of finance and corporate relations

The ministry would like to thank the Office of the Auditor General (OAG) for its review of the accounts receivable function in several key programs of government and for the opportunity to comment.

We agree with many of the findings and share the overall objective that the government should try to collect all debts owed. Before dealing with specific OAG recommendations, it is important to put the amounts outstanding in context.

Annual budgeted revenue in recent years has been in the range of \$20 billion. The \$455 million in receivables, which have accumulated over more than one year, represents about 2.3% of one year's revenue for the government.

Looking at some of the specific programs covered in this report also adds perspective:

Program*	Fiscal 1997 Revenue or Expenditure	All Accumulated Accounts Receivables > 90 days At March 31, 1997	Net Change in Receivables level – fiscal 97 versus fiscal 96	Net Change as % of Annual Rev/exp
Taxation Revenue	\$6,608,000,000	\$59,299,517	\$3,271,000	0.05%
Income Assistance**	\$1,459,245,000	\$42,741,650	\$21,819,680	1.50%
Motor Vehicle Fines And Penalties	\$67,732,400	\$118,106,502	<\$5,237,000>	-7.73%
Medical Services Premiums (MSP) & Ambulance Billings	\$872,000,000	\$17,995,779	\$7,844,000	0.90%

* The Loan Administration Branch (LAB) has not been included in this table as it does not have a normal stream of revenue or expenditure so is not comparable.

**Shows program expenditures and accumulated overpayments recoverable rather than revenue as this is not a revenue generating program

There is considerable difference when the year end balance of accounts receivable at March 31, 1997 is expressed as a percentage of revenue or related expenditure for fiscal 1997. The receivable amounts should be viewed in the context of the underlying revenues or expenses.

It should also be recognized that the government is not a typical credit-granting institution. To illustrate:

- *Credit is not granted based on credit-worthiness (eg. speeding tickets)*
- *Amounts may be due from people with very limited ability to pay (eg. persons on income assistance or people with student loans who have not been able to find employment)*
- *Some debtors believe that certain fees they are billed, such as Ambulance fees, should be paid from general taxation revenue, so are disinclined to pay these charges.*

Comments pertaining to auditees

In compiling this report, the OAG focused on the five organizations in government that have the larger accounts receivable portfolios. Each of these five auditees has made comments that are incorporated into the overall report. The Ministry of Finance and Corporate Relations (MFCR), however, would like to offer some additional comments regarding the accounts receivable activities within these organizations.

As part of our review of the OAG's recommendations, we contacted a number of other jurisdictions in Western Canada to compare their experience with ours in British Columbia. While some comparative statistics are available, several of our programs are unique so there are no easy comparisons. MFCR's supplementary comments by auditee are as follows:

Revenue Division and Loan Administration Branch, Ministry of Finance and Corporate Relations

Exhibit 1.3 and 1.4 of the OAG require explanation so that readers are not misinformed concerning recovery rates for these two programs. The recovery rates for the Revenue Division have improved from 53.6% in 1995 to 59.3% in 1997, whereas the rates for the LAB have improved from 7.2% in 1995 to 9.6% in 1997. These numbers should not be construed as a comparative rating of effectiveness.

Within the Revenue Division tax delinquencies for sales tax payments are generally recorded within 30 days of a tax payment not being received from a taxpayer or collector. Typically, this class of debtor operates a business or owns property. The debts receive quick follow up action when the chance for recovery is greatest.

For the Revenue Division, the OAG makes reference to the lack of measurable criteria to determine what constitutes fairness in dealing with debtors and to the fact that information held by other departments of government could assist with the collection of overdue taxes. These two

points apply to all accounts receivable departments in government, not just the Revenue Division.

The LAB by contrast is involved with debts that are significantly in arrears before the branch ever gets involved. For example, Student Loans don't come to LAB until they are already six months in arrears and the financial institution has given up on collecting. This class of debtor is often recently out of school, and either unemployed or under-employed, and not earning sufficient money to make repayments.

Second Mortgages also are being returned to LAB by the financial institutions after they have given up their collection efforts, generally at 90 to 120 days in arrears.

It is important therefore to note that for these two organizations, the accounts receivable portfolios are entirely different, so the recovery rates are not comparable.

There is no reliable standard of comparison for the activities of the LAB, as it appears to be the only office of its kind currently operating in Canada. Up to the early 1990's the province of Ontario had a central collection bureau, but it was dramatically reduced in size as a result of downsizing. Its current activities are no longer comparable. Hence, external comparisons are not available.

In terms of debts owed by provincial government employees, MFCR has proposed implementing set-off by payroll deduction to eliminate the advantage employees have compared to other debtors to government. However, we must be careful to work within Freedom of Information and Protection of Privacy Act rules.

Ministry of Health

The opportunity for establishing benchmarks against outside organizations is limited. The province of Alberta is the only other province that charges MSP and BC is the only province with a provincially operated ambulance system.

As the OAG report notes, in May, 1996 Provincial policy changed and all residents were considered to be covered, whether they paid premiums or not. Alberta has a similar policy, though they have had it in place for much longer. They also have a much larger collections group working on their accounts and make use of three or four collection agencies. Therefore, the following Alberta and BC statistics are noteworthy:

	ALBERTA	BC
▪ Medical premiums Receivable (March 31, 1998)	\$147 million	\$55 million
▪ Fiscal 97/98 write-offs	26 million	2.6 million

- Alberta has about 15 staff dedicated to medical premium collections, compared to approximately 5 in BC.
- BC write-offs include uncollectable accounts from all Ministry of Health programs, not just medical premiums.

While we agree there is room for improvement in the administration of BC's MSP collections the Alberta experience provides an interesting comparison.

With regard to ambulance service collections we noted that the accounts receivable turnover rate is improving (3.4 times in fiscal 96 versus 4.9 times in fiscal 98). The number of days outstanding for accounts receivable has also dropped (107 days in fiscal 96 versus 75 days in fiscal 98).

Motor Vehicle Branch/Insurance Corporation of British Columbia

The current portfolio of accounts receivable has accumulated over the past 10 years. The MFCR believes that recent changes to consolidate some operations of the Motor Vehicle Branch with the Insurance Corporation of B.C., and strengthen legislative sanctions, will help to further reduce the accounts receivable levels. Improvements in the past few months are encouraging and further systems enhancements should help to improve results even more.

Older accounts receivable are harder to collect and some of the fines portfolio is more than five years old. The MFCR is confident that every effort will be made by ICBC to maximize collections and continue to reduce the accounts receivable levels in the months to come.

Ministry of Human Resources

There is considerable difficulty in collecting accounts receivable from clients of this ministry. Generally, these clients have the least ability to pay of all the accounts receivable clients that government has.

All provinces face similar challenges in collecting repayments from low income people. For instance, in the provinces of Alberta and Saskatchewan the recovery rate is similar to B.C. at about 10% of outstanding debt. Overpayment of less than \$1,000 are not pursued for collection in Alberta as this is not considered cost effective. In B.C. all overpayments are subject to collection.

The Ministry recognizes its responsibility to collect overpayments and is working with the MFCR to strengthen its collection efforts in such a way as to ensure both accountability and fairness.

The Ministry has made policy changes to enhance its recoveries of security deposits. Formerly, security deposits for ministry clients were issued directly to and recovered from landlords. In an effort to increase client accountability and eliminate the cost to the ministry for security

deposits forfeited to pay for landlord claims for failure to give proper notice or for damage to rental property, the ministry made new security deposits repayable by the client effective August 1, 1997.

The MFCR notes that there are a range of policies in effect for security deposits for income assistance recipients across the country. The MFCR will work with the ministry to review alternative models, with a view to implementing changes which will reduce the value of security deposits receivable, while at the same time ensuring clients retain access to adequate housing.

The MFCR will also work with the Ministry to review its repayment levels for open cases. For the most part, recovery of overpayments from current BC Benefits recipients is limited to \$10 per month. This amount is deducted from the support component of the client's monthly BC Benefits cheque. Some other province's have higher deduction rates, thereby facilitating a faster recovery of overpayments from current clients. Any change to policy will need to balance the support needs of the client with the need to recover funds.

Response to recommendations

Step 1 [Government should] Clearly define its objectives for the collection of overdue accounts.

A clear definition of objectives is a vital element of good program delivery. The OAG has acknowledged the strategic direction included in FMOP and the detailed objectives that the Revenue Division and the Loan Administration Branch have developed.

Appropriate detailed objectives will vary by program. The MFCR will review the possibility of augmenting the current government-wide policy with additional directions that would have broad application. This will include adding clarity to what "effectiveness" means in relation to revenue collection programs.

Step 2: [Government should] Determine who will be responsible and accountable for the collection of overdue accounts.

This issue has been reviewed before. As a result of the last review, responsibility for the collection of Mining Tax was transferred to the Revenue Division of the Ministry of Finance, which has responsibility for all other taxation revenues.

A recommendation was also made that the Loan Administration Branch consult with other non-taxation revenue programs to see what assistance it could give. As a result, discussions are underway for LAB to provide collection assistance for court fines and assistance is being provided on the collection of medical services plan premiums.

Further, the portfolio of outstanding motor vehicle fines was recently made the responsibility of ICBC. Preliminary indications are that this

move will help to start reducing the levels of accounts receivable in this program.

In 1996, the MFCR contracted with a management consulting firm to perform a review to determine whether merging Revenue Division Collections and the Loan Administration Branch would be a viable option. As a result of the review, the ministry concluded that it would not proceed with merging the two groups for the following reasons:

- The fundamental difference in the nature of the debts of the two groups results in very different collection techniques;*
- The two organizational structures would be difficult to combine;*
- The incompatible information systems of the two groups could make integration complex; and*
- The degree of integration of processes and systems within the Revenue Division would make amalgamation difficult.*

There are both pros and cons to consolidating collections into one organization. At this time, a full consolidation is not likely but consideration will be given to incremental consolidation where resources permit and a positive business case can be made. Other revenue programs of government will be reviewed to determine the most logical organization to have responsibility and accountability for collections.

Step 3: [Government should] Implement incentives to encourage effective and efficient collection of overdue accounts.

We agree that in some cases the incentives to give adequate attention to accounts receivable management are not present. Several factors have led to this, including how votes are structured, the wording of the Financial Administration Act, and an historic bias toward gross reporting of revenues and expenditures by both the Office of the Comptroller General and the Office of the Auditor General.

If there are continuing downsizing pressures on the administrative resources of ministries, it becomes all the more urgent to get the incentives right. We agree that for incentive purposes, netting of collections against expenditures makes sense — providing a methodology can be developed to ensure collection costs are maintained at a reasonable level and are properly disclosed.

The approach to funding the activities of the LAB will be reviewed. As the OAG report notes, the funding approach has been a disincentive for ministries to make greater use of LAB's services.

Several receivable programs in government have had experience with the use of collection agencies. This has been done for comparative purposes and we agree that the practice of using more than one collection agency should continue. In conjunction with the use of collection agencies, criteria need to be developed to determine when collections

should be done internally versus externally. There should also be very clear guidelines on the collection methods that can be used.

In some cases, large amounts are owed to the government by non-residents of BC. Where the size of the accounts receivable portfolio warrants, we agree that arrangements should be made for inter-jurisdictional co-operation. However, until we get our own programs strengthened it is difficult to take on the debts of other jurisdictions, since co-operation would have to flow both ways.

Step 4: [Government should] Identify appropriate performance measures and establish data-gathering processes required to monitor performance. Establish benchmarks describing performance expectations and goals. Define internal and external reporting requirements.

The OAG acknowledges that implementation of this recommendation requires that adequate resources exist.

We agree that establishing performance measures is desirable and, as noted by the OAG report, the LAB has established revenue targets for individual staff members and the branch overall. Establishing current and/or base levels of activities, benchmarks, incremental goals and objectives will be pursued in other government accounts receivable programs with the resources available. Financial systems will need to be developed to accumulate and track data that is not currently gathered.

The correct combination of incentives and resources should be able to permit progress.

Step 5: [Government should] Determine and allocate the resources required to do a proper job.

OAG has outlined a large number of activities that require significant staff resources. These activities will have to compete with other demands and be assessed in terms of the overall cost/benefit.

We agree with the OAG that information currently held by government is also a resource that can be used to help collect accounts receivable. Various program heads in government are responsible for security and control on information in their custody. The Freedom of Information and Protection of Privacy Act provides that a program head may share information that will help collect a debt owed to the Crown, but does not state that the information must be shared. Hence, program heads have some discretion. The MFCA would like to see the use of government held information maximized in support of collection of government receivables. However, as the OAG acknowledges, there are other views that must be considered to prevent abuse.

We will continue to pursue expanded use of information currently held by government to support collection of its accounts receivable.

Step 6: [Government should] Monitor actual performance, compare this with benchmarks, and evaluate variances. Review objectives, goals, performance measures, data-gathering processes, resources, and program management.

The success of this step partly depends on the elements from Step 4 being in place. We agree that it makes sense to assess whether programs are effective from both a performance and a cost perspective. When one program appears to be more effective than another is, successful techniques can be shared as ministries have done to some degree in the past. The experience of the LAB in setting goals and monitoring results can be shared with other ministries.

Some collection strategy changes have been implemented in recent years with good success and others are currently underway. These changes, and others to be made in the future, will be monitored and assessed for effectiveness.

Step 7: [Government should] Provide timely information to the Legislative Assembly on performance goals and actual results, including appropriate contextual information.

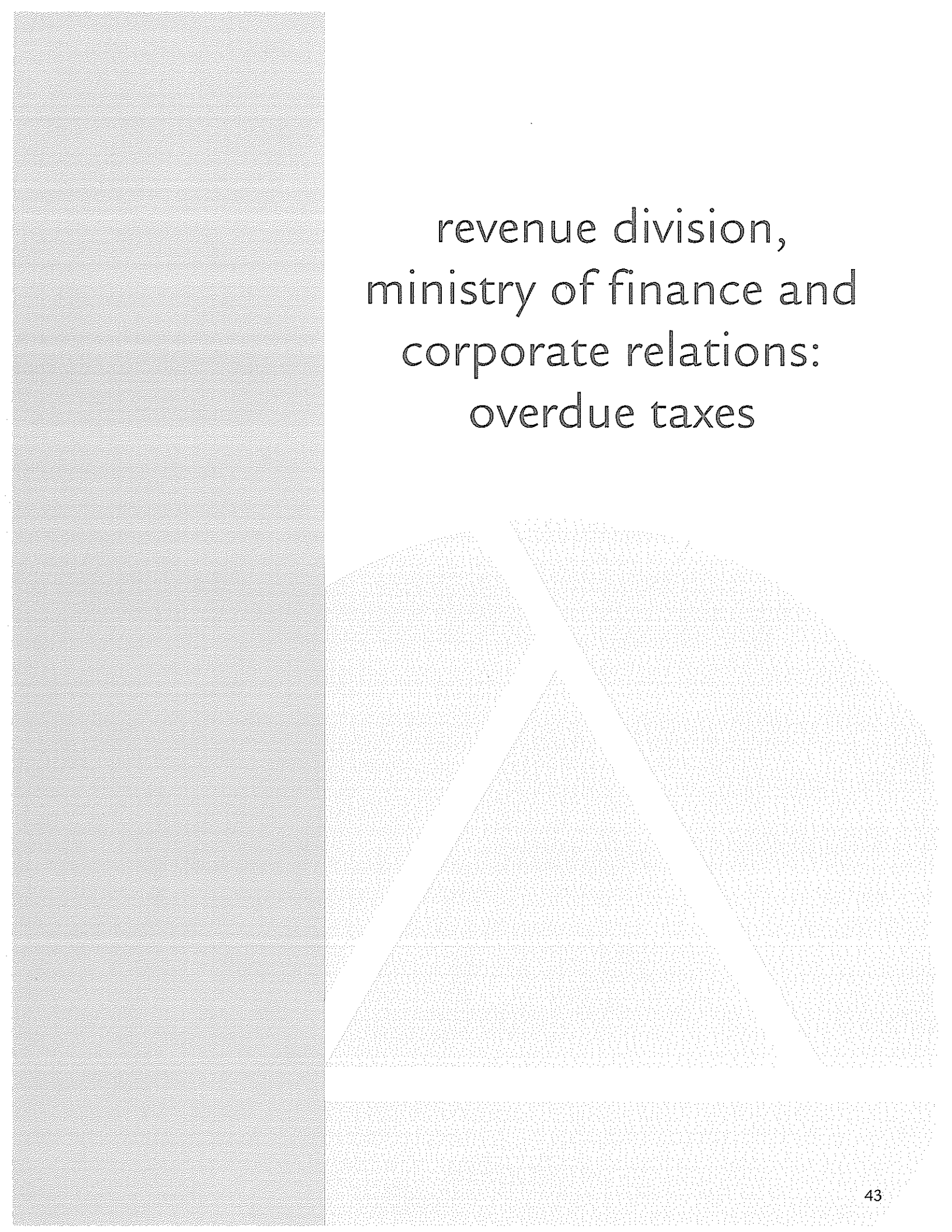
We agree that one aspect of performance goals is that all citizens with debts to the government are treated in a fair and consistent manner. However, fairness must also consider that individuals have different financial resources and ability to pay.

We also agree that ministries should incorporate information into their annual reports to the Legislative Assembly about their revenue programs and how these have operated. Hence, the MFCR will develop a template of basic information on revenue and accounts receivable programs that we believe should be incorporated into ministry annual reports.

Conclusion

We would like to thank the OAG for the research they have done to prepare this report. The report should help to serve as a catalyst for improvements to the overall management of the accounts receivable function in government.





revenue division,
ministry of finance and
corporate relations:
overdue taxes

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highlights

An audit of the collection of overdue taxes

Introduction

The largest revenue source for the British Columbia government is taxes. For the fiscal year ended March 31, 1997, the tax revenues of the government (including personal and corporate income, sales, property, and several other taxes) amounted to \$13.2 billion. The federal government collected \$6.6 billion of that amount on behalf of the Province in the form of income taxes. The provincial government collected the remaining \$6.6 billion directly from taxpayers.

Most taxes collected by the provincial government are reported and remitted to the government by businesses that are responsible for collecting taxes from consumers—sales tax, for example. Some taxes are collected directly from taxpayers—property transfer tax, for example. Most taxpayers comply with taxing statutes voluntarily, and most are honest. A small percentage, however, are neglectful or evasive. For this reason, government must have an effective and efficient program for collecting overdue taxes. Not only does the government get more revenue, but it also prevents taxpayers who do not pay their taxes from having an advantage over those who do. For individuals, such advantage is simply unfair; for businesses, it represents a competitive edge. Furthermore, equitable treatment among taxpayers is fundamental to voluntary tax compliance. If a perception develops that you can get away with not paying your taxes, the system of voluntary compliance will break down.

Audit Purpose and Scope

The purpose of our audit was to assess the effectiveness and efficiency of the government's programs for collecting overdue taxes.

In particular, our audit considered:

- completeness (how successful the ministry is at collecting overdue taxes);
- timeliness (how quickly overdue taxes are collected);

- fairness (what assurance there is that taxpayers are treated fairly and consistently);
- efficiency (the relationship between overdue taxes collected and the costs of collecting those taxes); and
- accountability (performance information provided to the Legislative Assembly).

The scope of our audit included: consumer taxes (Social Service, Hotel, Tobacco), rural property taxes, school taxes and other taxes (Property Transfer, Corporation Capital and several others) collected by the Ministry of Finance and Corporate Relations. Personal and corporate income taxes were not included in this audit because those taxes (including the overdue component) are collected by the federal government.

Our examination reviewed the results of the fiscal years 1994/95 to 1996/97. We performed our work in accordance with value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Overall Conclusion

We concluded that the Ministry of Finance and Corporate Relations is achieving reasonably good results, given the resources it has assigned to its programs for collecting overdue taxes, although we are concerned about the high level of taxes remaining outstanding and therefore at risk. Although the ministry monitors and reports on a variety of performance measures, without a benchmark for what constitutes adequate performance we cannot conclude whether these results represent a level of performance that is acceptable to the ministry or to the government.

We also concluded that the ministry is hampered by its current information systems, which do not provide sufficient management information to fully evaluate program performance. Existing information systems were developed, with the primary concern being to ensure accuracy of basic program information rather than to provide performance information. Resource limits have constrained development of systems capable of providing better management information.

Key Findings

Completeness

In each of the three years over the three-year period we reviewed, the ministry collected between 53 and 60% of the taxes that were overdue during that time. Over that same time, although the ministry collected an amount equal to almost 92 % of the amount of taxes that became overdue during that period, the amount of taxes under collection at yearend increased by more than \$15 million (from \$70.5 million to \$86 million). Exhibit 2.1 summarizes collections, write-offs, and taxes under collection at yearend.

Timeliness

We were unable to determine how quickly the ministry collects overdue taxes, because the ministry's information systems do not record this information. The ministry does have information about the aging of accounts receivable, although staff have concerns, related to information system deficiencies, about the accuracy of the aging information. Exhibit 2.2 shows the aged distribution of overdue taxes at yearend.

Exhibit 2.1

Collection of Overdue Taxes

	1994/95	1995/96	1996/97
Taxes under collection at beginning of year	\$70,549,000	\$87,891,000	\$82,809,000
Tax delinquencies during year	\$127,666,000	\$122,412,000	\$158,484,000
Collections	\$106,194,000	\$121,653,000	\$143,161,000
Write-offs	\$3,158,000	\$4,064,000	\$10,635,000
Collection rate *	53.6 %	57.8 %	59.3 %
Taxes under collection at yearend **	\$87,891,000	\$82,809,000	\$86,080,000

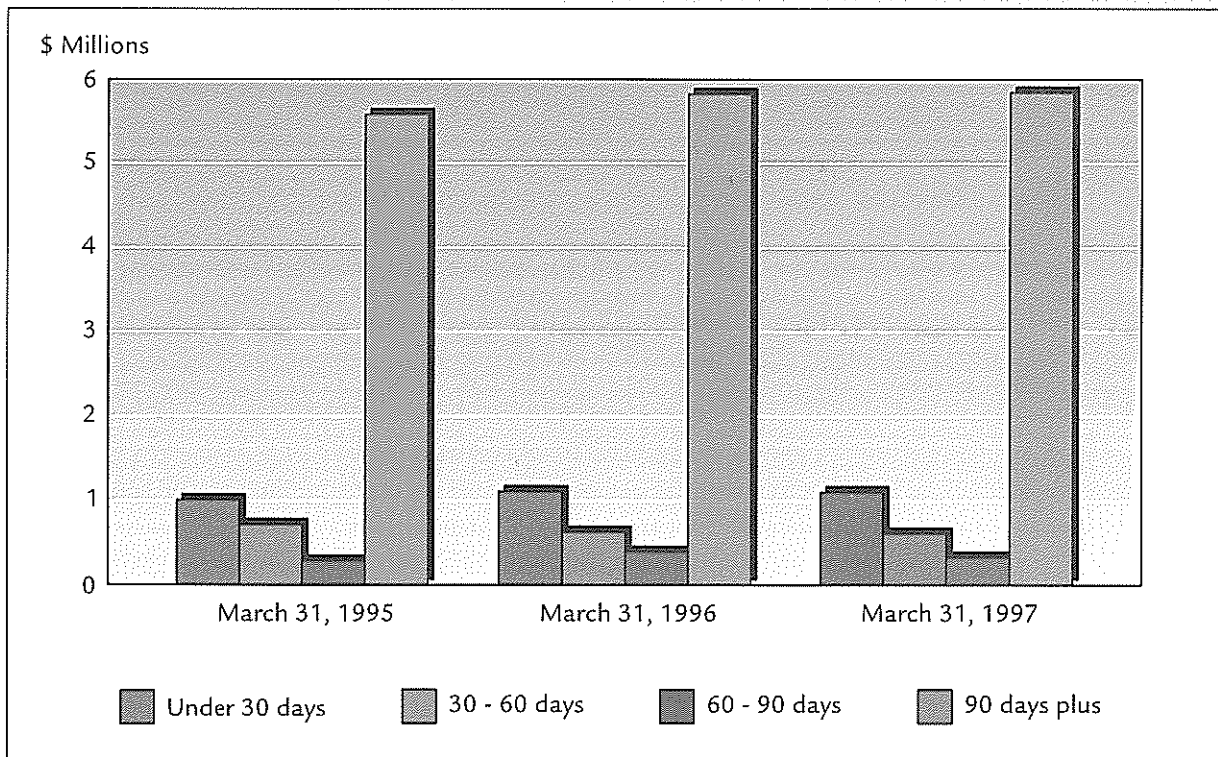
* Collection rate has been determined by dividing the number of dollars collected during the year by the sum of the taxes under collection at the beginning of the year plus the taxes that became overdue (delinquent) during the year.

** Taxes under collection at yearend include between \$30 and \$40 million whose collection is estimated to be doubtful but the amount cannot be written off because they involve unfinalized bankruptcies, or are subject to appeal or litigation.

Source: Ministry of Finance and Corporate Relations (Revenue Division)

Exhibit 2.2

Aging of Taxes Under Collection



Source: Ministry of Finance and Corporate Relations (Office of the Comptroller General)

Fairness

We found that managers and supervisors monitor to ensure that delinquent taxpayers are treated fairly and consistently. However, the ministry has no formal process for measuring and reporting the fairness of its programs for collecting overdue taxes, nor does it have measurable criteria that describe what constitutes fairness.

Efficiency

The ministry has information about the amount of taxes that are collected after they become overdue. Although it accounts for and reports the total cost of its programs, it does not account and report specifically on the cost of collecting overdue taxes.

We estimated that the ministry's cost, in 1996/97, to collect overdue taxes was less than \$4 million, or less than three cents for each dollar collected.

Management, Goal Setting, and Monitoring

The ministry has established objectives that include fairness and consistency of administration, voluntary compliance, and effective enforcement in the absence of compliance. However, because it has not defined, in measurable terms, specific goals and targets, it cannot properly measure the extent to which it is achieving its objectives.

Adding to the problem is the lack of good performance measurement information. Obtaining better information requires better information systems than currently exist.

The ministry has estimated that additional resources would produce cost-effective results in terms of additional collections. However, it has not determined the optimal level of resources required to meet its objectives for collection of overdue taxes, nor has it used cost-benefit analyses to assess alternatives.

Collection Processes

The ministry's collection processes are generally good. However, to manage the ministry's programs for collecting overdue taxes more effectively, ministry managers and executives need better performance information than is currently available. When the existing tax administration information systems were developed, the primary concern was how to ensure accuracy of basic program information, not how to acquire performance management information.

Better access by tax collectors to information, particularly information currently held by other government organizations but not accessible because of legislative restrictions, could also assist in collection of overdue taxes.

Unlike several other government debt collection programs, the programs for collecting overdue taxes in Revenue Division do not currently use the services of private sector collection agencies. As a result, the ministry may be missing an opportunity to collect some additional taxes.

Accountability

Insufficient information is provided to the Legislative Assembly to enable it to assess the effectiveness and efficiency of the ministry's programs for collecting overdue taxes.

summary of recommendations

- 1 *The ministry should determine appropriate performance measures and set clear, measurable goals for its programs for collecting overdue taxes. It should also monitor performance relative to these goals.*
- 2 *The ministry should use cost-benefit analyses to determine the appropriate level of resources to apply to the collection of overdue taxes.*
- 3 *The ministry should ensure it has adequate information systems that support effective and efficient tax administration processes by satisfying both operational and management information requirements.*
- 4 *The ministry should work with other parts of government to ensure collectors have complete access to all sources of information that can help them to collect overdue taxes. This may require a government-wide direction to share information.*
- 5 *The ministry should evaluate the potential benefits and costs associated with the use of private sector collection agencies, to supplement its current programs for collecting overdue taxes.*
- 6 *The ministry should include, as part of the accountability information it provides to the Legislative Assembly about tax administration, year-to-year comparisons of:*
 - *number and dollar value of taxpayer defaults during the year,*
 - *recoveries and write-offs,*
 - *timeliness of collection,*
 - *costs of programs for collecting overdue taxes,*
 - *forfeitures and redemptions of previously forfeited property, and*
 - *balance of overdue accounts at yearend.*



detailed report

Revenue Division: the Tax Collector

Revenue Division of the Ministry of Finance and Corporate Relations collects taxes for the government, administers the Province's major tax legislation, ensures tax legislation is applied fairly and consistently, promotes voluntary compliance, and enforces tax legislation in the absence of voluntary compliance.

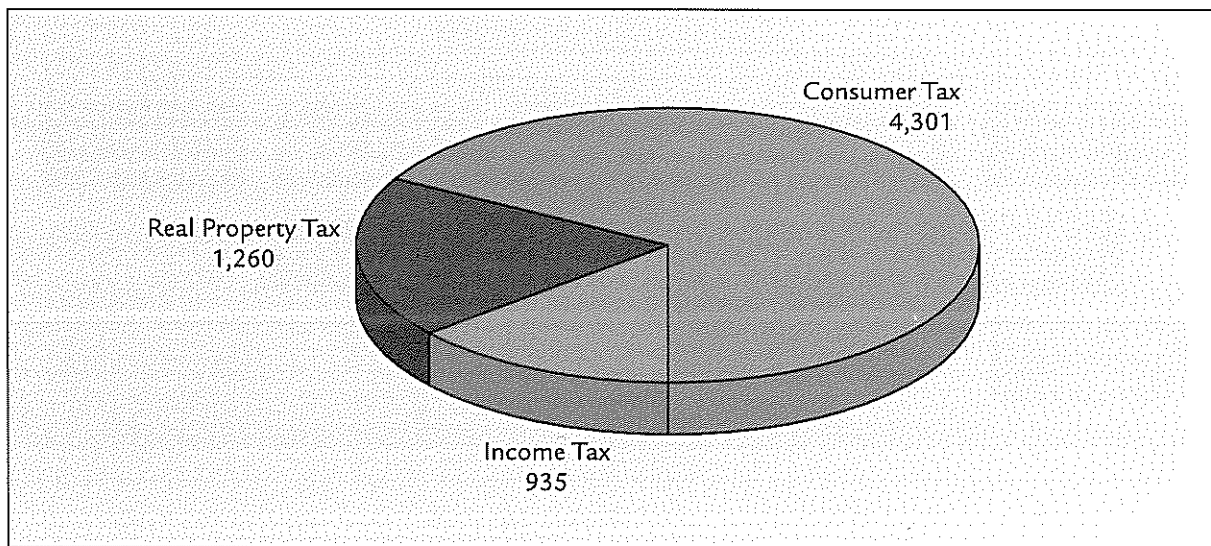
In 1996/97, Revenue Division had about 400 employees and a budget of approximately \$32 million, and it collected \$6.5 billion revenue on behalf of the government (Exhibit 2.3).

The division is organized into five branches:

- Consumer Tax Branch (responsible for Social Service, Hotel Room, Tobacco, Motor Fuel, and Horse Racing taxes);
- Income Tax Branch (responsible for Corporation Capital, Property Transfer, Insurance Premium, Logging, and Mining taxes);
- Real Property Tax Branch (responsible for Taxation (Rural Area) and School taxes, including collection of overdue taxes);

Exhibit 2.3

Tax Collected by Revenue Division in 1996/97 (\$ Millions)



Source: Ministry of Finance and Corporate Relations (Revenue Division)

- Revenue Information Systems Branch; and
- Revenue Administration Branch.

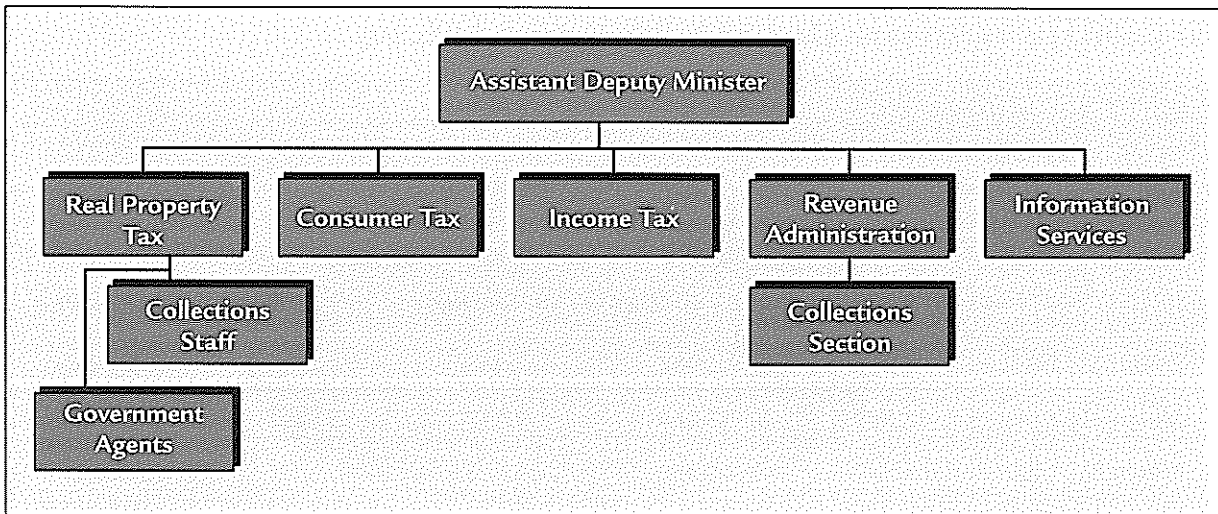
While all parts of Revenue Division share the objective of ensuring that the government collects all the taxes to which it is entitled, two groups focus primarily on the collection of overdue taxes: one in the Real Property Tax Branch and one in the Revenue Administration Branch.

The Revenue Administration Branch provides payment processing, assessing and information reporting support for the Consumer Tax, Real Property Tax, and Income Tax branches, as well as a program to recover overdue consumer and income taxes. The Consumer Tax Branch and Income Tax Branch handle taxpayer identification, registration, education, assessment, audit, and technical and legal compliance related to the tax statutes for which they are responsible.

The Real Property Tax Branch is responsible for administering the Taxation (Rural Area) Act, collecting property and school taxes on rural properties outside incorporated areas, and ensuring that school taxes collected by municipalities under the School Act are remitted to the Province.

Exhibit 2.4

Organization of Revenue Division



Completeness and Timeliness of Collection

The criteria for effectiveness with respect to the collection of overdue taxes are straightforward: more is better than less, sooner is better than later. The longer most tax debt goes uncollected—some real property tax is an exception—the less likely it is to ever be collected.

We looked for information about the results of the ministry's programs for collecting overdue taxes. We expected that the ministry would keep track of the amount of taxes identified as overdue and the percentage of these taxes that were eventually collected. We also expected the ministry to monitor how long it takes to collect overdue taxes. For example, we expected the ministry to know that of every dollar identified as overdue, an average of x cents would eventually be collected, y cents of which would be collected within 90 days, z cents within 180 days, and the remainder would take more than 180 days.

We found that the ministry does not have information about how long it takes to collect taxes. It does have information about the aging of accounts, but this data describes status as at a particular date rather than over a period of time. Additionally, staff have concerns about the accuracy of some of the information as a result of consumer tax information system deficiencies that confuse new debt and old debt.

Exhibit 2.5

Aging of Taxes Under Collection (\$ Thousands)

	Total	Under 30 Days	30–60 Days	60–90 Days	90 Days Plus
March 31, 1997	86,079	11,916	7,401	7,462	59,299
March 31, 1996	82,809	11,364	6,130	3,610	61,703
March 31, 1995	87,891	14,451	6,428	5,387	61,623

Source: Ministry of Finance and Corporate Relations (Revenue Administration Branch, Revenue Division)

Consumer and Other Taxes: Completeness

Over the three-year period we reviewed, the ministry collected an amount equal to over 90% of the amount of the consumer and other (non-property) taxes that became overdue during that period. The results for the three most recent years are shown in Exhibits 2.6, 2.7 and 2.8.

Exhibit 2.6

Revenues, Collections, and Write-Offs for 1996/97 (\$ Thousands)

Tax Category	Total Revenue	Collections	Write-offs	Under Collection (as at March 31)
Consumer Taxes	4,301,397	77,074	*9,859	54,520
Income Taxes	621,244	**29,737	201	14,401
Property Transfer	313,262	8,771	80	3,227

"Revenue" is the total amount of money received and receivable by the government from the various taxes included in each category.

"Collections" represents money received for overdue taxes due, at least in part, to the efforts of the Collection section. "Write-offs" are taxes that were uncollectable or discharged. The amounts that are "Under Collection" are the overdue taxes that were being pursued by Collection section staff at fiscal yearend.

* Increase in write-off due to change in policy on when accounts should be written off.

** Increase in income tax collections due to introduction of automated assessment capability.

Source: Ministry of Finance and Corporate Relations (Revenue Administration Branch, Revenue Division)

Exhibit 2.7

Revenues, Collections, and Write-offs for 1995/96 (\$ Thousands)

Tax Category	Total Revenue	Collections	Write-offs	Under Collection (as at March 31)
Consumer Taxes	4,188,643	74,291	3,439	57,845
Income Taxes	679,013	11,483	16	9,223
Property Transfer	270,675	11,752	59	2,385

Source: Ministry of Finance and Corporate Relations (Revenue Administration Branch, Revenue Division)

Consumer and Other Taxes: Timeliness

Most consumer tax debts are referred automatically, by the various tax administration information systems, for collection action one month after a debt is assessed.

About 80% of the effort of the Collection Section of the Revenue Administration Branch is devoted to collecting overdue consumer taxes, mostly Social Service tax. Most consumer tax is collected from consumers by retail suppliers of goods and services: the consumer pays the retailer and the retailer forwards the tax to the ministry. Tobacco tax is an exception: the wholesaler pays to the Province, as security, an amount equal to the taxes that will be collected from the purchasers, and adds this amount to the amount invoiced to the retailer.

Overdue consumer taxes are initially identified as a debt that is owed to the government in a number of different ways. The largest source of tax debt is Social Service tax that has been collected by businesses but not paid to the ministry as required. Businesses that must collect and remit consumer taxes (Social Service and Hotel Room taxes) are required to provide information about the amount of tax collected in the previous period (most, but not all, report monthly), along with payment of the tax collected, by the middle of the month following the period in which the tax was collected.

If a business does not report as required, the ministry attempts to contact the business and, if attempts to secure information or payment are unsuccessful, an estimate is made

Exhibit 2.8

Revenues, Collections, and Write-offs for 1994/95 (\$ Thousands)

Tax Category	Total Revenue	Collections	Write-offs	Under Collection (as at March 31)
Consumer Taxes	4,096,286	61,707	2,347	62,915
Income Taxes	608,919	10,329	56	5,634
Property Transfer	336,703	8,212	112	7,021

Source: Ministry of Finance and Corporate Relations (Revenue Administration Branch, Revenue Division)

of the taxes due and that amount is billed to the business. By the time the bill is sent to the business, approximately six weeks have passed since the date on which the merchant was supposed to provide information and payment. The process for dealing with consumer tax delinquencies means that there can be about a two month delay before collection action starts on a delinquent account. However, it would be difficult to initiate collection of delinquent accounts more quickly without creating a great deal more work (making and reversing estimates) and causing taxpayers to feel they were being harassed. Sometimes there is a simple explanation for a business failing to remit the required information and payment, and when he or she is contacted, the matter can be cleared up quickly and the collection file closed.

Failure to report and remit tax due is just one of a number of ways that a consumer tax debt can be created. Businesses may also be assessed tax as a result of an audit, or other persons may be assessed taxes as a result of failure to pay tax properly on a private transaction—for instance, the purchase of tobacco, a boat or an aircraft. The time between when it is determined that taxes are owed and when the debt is referred for collection can vary from one day to several months.

The remaining 20% of the effort of the Collection Section is devoted to collecting a variety of overdue taxes, including Corporation Capital, Insurance Premium, and Property Transfer taxes. The major differences between these tax debts and consumer tax debts, in terms of collection process, is that Corporation Capital and Insurance Premium taxes are normally assessed annually rather than monthly, and the amount of these taxes has been ascertained before the Collection Section becomes involved. Property Transfer taxes relate to a single transaction, and the amount of these taxes has been ascertained before the Collection Section becomes involved.

Real Property Tax: Completeness

Over the three-year period we reviewed, the ministry collected an amount equal to almost 97% of the amount of the rural property and school taxes that became overdue during that period. The results for the three most recent years' recoveries recorded by the Real Property Tax Branch for overdue and delinquent property taxes are shown in Exhibit 2.9.

Exhibit 2.9

Taxation (Rural Area) Revenues, Collections and Write-offs (\$ Thousands)

Year	Total Revenue	Collections	Write-offs	Under Collection (as at March 31)
1996/97	292,993	27,579	495	13,932
1995/96	291,895	24,127	550	13,355
1994/95	284,664	25,946	643	12,321

"Revenue" is the total amount of money received by the government from taxes paid under the Taxation (Rural Area) Act, including School taxes, net of Home Owner Grants. "Collections" represents money received for overdue and delinquent taxes owed from the current and prior years and attributable, at least in part, to the collection and forfeiture processes. "Write-offs" are taxes that were uncollectable or discharged. The amounts that are "Under Collection" are the delinquent taxes that remain unpaid from prior years at fiscal yearend.

Source: Ministry of Finance and Corporate Relations (Revenue Administration Branch, Revenue Division)

Real Property Tax: Timeliness

Real property taxes are collected directly from property owners and pose relatively low risk of loss because most real property taxes are secured by a statutory lien that has priority over other charges against the property. The process for collecting most real property taxes is prescribed in the Taxation (Rural Area) Act. The ministry must follow the process set out in the Act. Rural property taxes are due on July 2, and are subject to late payment penalties of 5% on each of July 3 and November 1 and interest after December 31. Notices that taxes are overdue are sent to taxpayers in September and January, and the annual tax notice also lists taxes in arrears. Collection of most overdue property taxes (plus penalties and interest) is accomplished simply by the passage of time and the threat of forfeiture—a statutorily prescribed process that results in a property subject to tax arrears being transferred to the Crown after a period of six years' failure to pay taxes.

Although most overdue tax is collected by way of the forfeiture process, some real property taxes (related to mobile homes, and leases and illegal occupation of Crown land) cannot be collected this way because the unpaid taxes do not create a lien against property that can be forfeited. Such taxes are collected through the same methods used to collect overdue consumer taxes, by Real Property Tax Branch staff and Government Agents throughout the province.

School Tax: Completeness

Most school taxes are collected by the 151 municipal corporations in the province. The government holds each municipality accountable for the collection of all school taxes levied by the municipality, and writes off delinquent taxes only in limited circumstances involving land owned by a government organization and leased to a non-government person or organization that is liable to pay taxes. In such cases, the municipality is unable to exercise its powers to put the property up for tax sale in order to recover taxes owing. The results for the three most recent years are shown in Exhibit 2.10. Revenue is net of Home Owner Grants.

School Tax: Timeliness

Each municipality is required to make an initial payment of the school taxes to be raised in that municipality on or before the fifth business day after the municipal tax due date. The amount paid is expected to equal 75% of the total school taxes to be raised in the municipality, less certain permitted deductions. On or before the 15th business day after the municipal tax due date, each municipality is required to pay the balance of the taxes collected up to and including the tax due date, less the permitted deductions.

In the months of August, September, October and November, the municipalities are required to remit taxes collected in prior months. On the fifth business day after the calendar yearend, each municipality must elect either to pay to the provincial government the balance of all school taxes assessed, whether or not the taxes have been collected, or to continue to pay, on a monthly basis, all school taxes collected

Exhibit 2.10

School Tax Revenues and Write-offs (\$ Thousands)

Year	Total Revenue	Write-offs	Under Collection (as at March 31)
1996/97	967,093	78	nil
1995/96	956,427	120	nil
1994/95	923,128	287	nil

Source: Ministry of Finance and Corporate Relations (Revenue Administration Branch, Revenue Division)

in the prior month. If the municipality chooses the first option, it is entitled to retain all penalties and interest it collects related to school taxes collected after that date. If the municipality chooses the second option, it must pay all penalties and interest collected to the provincial government.

Fairness

The introduction to the Collection Section policy and procedures manual refers to the expectation that staff will “carry out their tax collection assignments in a manner which is professional, compatible with current tax legislation, fair, equitable and effective.” The Real Property Tax Payment Enforcement Manual also sets out acceptable standards of conduct for those involved in the collection of overdue and delinquent taxes.

“Fair and equitable” is interpreted by Revenue Division employees to mean treating all taxpayers equally under the law, and in a professionally assertive (but courteous) and consistent manner. Each contact with a taxpayer is unique, and what is appropriate in each circumstance depends on a variety of factors.

Compliance with collection policy in general, and notably appropriate behaviour, is monitored both formally and informally by supervisors and managers to ensure adherence with policies and procedures. The manager of the Collection Section receives all written complaints. Supervisors review a sample of files and discuss specific files with collectors. Supervisors also monitor telephone contacts with taxpayers. Because contact with taxpayers is often by telephone and the work area is small, it is impossible for the manager and supervisors not to overhear conversations between collectors and taxpayers. Deviations from what is acceptable are identified and dealt with on an individual basis.

The collection activities and results of Government Agents can be monitored and reviewed by collection staff in the Real Property Tax Branch. However, the branch has limited control over the activities of individual agents because the agents are located throughout the province.

However, the ministry has no formal process for measuring and reporting the fairness of its programs for collecting overdue taxes, nor does it have measurable criteria that describe what constitutes fairness.

One measure, with respect to the perceived fairness of the collection of overdue taxes, is the number of complaints that are received as a result of collection activities. There are occasional complaints to Revenue Division management and Members of the Legislative Assembly from taxpayers, and the Ombudsman also receives complaints from taxpayers alleging that they have not been treated fairly and equitably. The ministry does not keep statistics on the number of complaints received or their disposition. A summary listing the number of enquiries and complaints to the Ombudsman indicates that only a small number in each of the last three years were attributed to the taxation area of the Ministry of Finance and Corporate Relations. Most of those turned out to be unsubstantiated.

Efficiency of Collection

Efficiency, or cost-effectiveness, of collection is measured as the cost incurred per dollar collected.

We looked for information about the efficiency of the ministry's programs for collecting overdue taxes. We expected the ministry to keep track of the amount of overdue taxes collected and the cost of collecting these taxes. We found that the ministry has information about the amount of taxes that are collected after they become overdue. However, although it accounts for and reports the total cost of its programs, it does not account and report specifically on the cost of collecting overdue taxes.

We recognize that identifying which revenues have resulted from collection activity, rather than in the normal course of business, must be somewhat arbitrary. We also recognize that the allocation of certain costs (such as those for information systems) might have to be estimated.

In the past, there has been no rigorous attempt to identify the costs attributable to collection of overdue taxes. However, in 1996/97, a budget of \$1.9 million was allocated to the Collection Section of the Revenue Administration Branch for salaries and office expenses (there was no budget for building occupancy costs, data processing or information systems). This budget was based on the equivalent of 35 full-time staff. Actual expenditure for that year (for salaries and office expenses) was \$1.8 million.

The Real Property Taxation Branch has a budget of approximately \$1.5 million and the equivalent of 28 full-time staff. The branch has four employees working at least part-time on collection, plus staff in 47 Government Agent offices

who work part-time on collection of real property taxes, plus systems and other costs.

As noted above, all parts of Revenue Division share the objective of ensuring that the government collects all the taxes to which it is entitled. However, the equivalent of approximately 40 full-time staff in Revenue Division devote all or most of their time to the collection of overdue taxes. Using an estimate of \$100,000 per year for the maximum full cost of a person working on the collection of overdue accounts, we estimate that the costs of Revenue Division's programs for collecting overdue taxes is less than \$4 million annually (before adding in the cost of the Government Agents' contribution).

In 1996/97, the ministry collected \$144.6 million in overdue taxes, which means that it spent less than three cents for each dollar collected.

Management, Goal Setting, and Monitoring

Compared to many other government programs, the objectives and goals of a program for collecting overdue taxes appear to be clear and non-conflicting. However, there are a number of different objectives that a tax enforcement program can have. For example, objectives might include "maximum collection" or "minimum cost-of-collection ratio," "matching marginal cost to marginal return," or "maximizing voluntary compliance" (in which case, costs might exceed recoveries). For any of these objectives, specific short-term goals could be established and expressed, for example, in terms of percentage achievement.

We expected that the ministry would identify goals and performance expectations for the enforcement components of its tax programs—in particular, for the collection of overdue taxes. We looked for evidence that the ministry has established performance measures and performance goals for this, and allocated resources on a basis that is logically connected to achieving these goals.

The 1995 Business Plan for the Revenue Administration Branch describes "recovery: dollars collected vs. dollars collectable" as the best overall measure of success for the Collection Section of the branch. "Fairness" and "minimum cost" are also included as goals. The business plan acknowledges that there is a certain degree of incompatibility between individual goals and that targets, representing realistic levels of achievement, are dependent on the level of resources available. However, the plan does not set out any specific targets.

The Collection Section of the Revenue Administration Branch has a formal statement of goals and objectives for 1997/98, including development of "specific and measurable standards for collector performance." However, at the time of our audit, the ministry did not have clear and measurable operational goals with respect to tax collection.

We found that monthly reports describing activities, status and results of the collection of overdue taxes are produced for use by managers and executive of Revenue Division.

We believe the ministry should have performance measures that provide a succinct assessment of the effectiveness and cost-effectiveness of programs for collecting overdue taxes. At a minimum, these measures should include information about recoveries (amount and timing), losses and program costs. This type of information is often best presented in the form of ratios, with trend analysis for a fiscal period or comparisons between fiscal periods over several years. Contextual information should be provided, as well as information about results.

Recommendation 1:

The ministry should determine appropriate performance measures and set clear, measurable goals for its programs for collecting overdue taxes. It should also monitor performance relative to these goals.

Because the ministry has not defined appropriate performance measures, nor set performance goals, it is unable to determine what resources are required to meet specific goals or to assess the relationship between goal and resource alternatives. Also, the ministry has not used cost-benefit analyses to determine the level of resources required to achieve its objectives for collection of overdue taxes.

Analyses done by the manager of the Collection Section for 1995/96 and 1996/97 indicated that each consumer tax collector recovered more than \$1.3 million. These analyses were conservative and recognized the probability that some overdue accounts would have been paid eventually without collection staff intervention. The analyses also estimated increased revenue of approximately \$350,000 if an additional person were hired. Unlike the addition of an auditor whose presence can be predicted to generate approximately \$500,000 in additional audit assessments annually, the addition of another tax collector does not increase the amount of overdue taxes under collection. It does, however, improve the chances of collecting existing overdue taxes or collecting taxes sooner.

Recommendation 2:

The ministry should use cost-benefit analyses to determine the appropriate level of resources to apply to the collection of overdue taxes.

Collection Processes

The ministry's collection processes are generally good.

The approaches used to collect overdue taxes differ, based on the information that is available about the tax owed, the taxpayer, the taxpayer's assets, perceived risk of loss, and statutory requirements. The common thread is that if a taxpayer does not voluntarily pay the taxes owed, action is taken to enforce payment.

Consumer and Other Taxes

Collection of overdue consumer taxes is a complex process for a number of reasons:

- the amount of the debt is determined, in most cases, from information provided by the taxpayer, and some taxpayers are unwilling to provide this information;
- in addition to collecting taxes due, the tax collector must be concerned about maintaining an appropriate business relationship between the taxpayer and the ministry;
- in some businesses (liquor sales, for example) debts can escalate very quickly; and
- the collection of, or failure to collect, any one debt can affect future voluntary compliance by other taxpayers.

Tax collectors have a variety of tools available to assist them in enforcing payment of overdue taxes. Once a debt is registered on the tax information system, Social Service taxes owed form a lien and charge against all business property owned by a merchant—a lien that has priority over other liens and charges. This is useful if the merchant attempts to sell business assets, because prospective purchasers generally will not purchase the assets if the seller owes taxes and the assets are subject to a lien. Tax collectors can make demands to third parties (like banks) that owe money to a taxpayer, requiring that the money owed be paid to the ministry rather than the taxpayer, or they can have a bailiff seize and sell personal property (such as motor vehicles) belonging to the taxpayer. Notices of lien can be registered in Land Title offices and the Personal Property Security Registry. These registrations provide notice of the debt to anyone dealing with the taxpayer,

and provide a secured position of the government in the event of a bankruptcy.

The major difference between consumer tax debts and debts for other taxes, including Corporation Capital, Insurance Premium, and Property Transfer taxes, is that the amount of these latter debts has been ascertained before the Collection Section becomes involved.

Collection of taxes is supported by automated processes. Small balance dunning letters are sent out monthly for Corporation Capital tax debts under \$100, the Property Transfer Tax system sends a letter and four statements, and the consumer tax system sends a letter for debts under \$100 requesting payment and warning that failure to respond may result in more aggressive collection efforts.

As with consumer tax debts, tax collectors have a variety of tools available to assist them in enforcing payment of overdue taxes. One of the most powerful tools is the ability of the collectors to exert lien claims against the assets of a taxpayer. In some cases, overdue taxes form a lien and charge against property owned by the taxpayer without the necessity of registration; in other cases, the lien must be registered in a public registry before it is effective.

Real Property Tax

Real property taxes are collected directly from property owners and, because most are secured by a statutory lien which has priority over other charges against the property, these taxes pose a relatively low risk of loss.

The process and timing of the collection is prescribed by statute. Rural property taxes are due on July 2 and are subject to late payment penalties of 5% on each of July 3 and November 1.

Collection of most overdue property taxes (plus penalties and interest) is accomplished simply by waiting for the property owner to respond to the threat of having the property forfeit to the Crown. The forfeiture process is administered mostly by a series of automated letters, including notice of taxes overdue, calculation and application of penalties, notices of delinquent status, and forfeiture notices. In recent years, fewer than 100 properties have forfeited each year. Many of those forfeited are redeemed—by paying the full amount of tax, interest and penalties owed—within the year following forfeiture. In practice, properties can also be redeemed within the subsequent two

years by payment of tax, interest and penalties owed, plus an administrative fee.

Although most overdue tax is collected by way of the forfeiture process, some real property taxes (related to mobile homes, and leases and illegal occupation of Crown land) cannot be collected using forfeiture process because the unpaid taxes do not create a lien against property that can be forfeited. These taxes present greater risk of loss than those secured by a lien against real property of the taxpayer and it is, therefore, important that these taxes be collected in a timely fashion using more aggressive collection processes than are required for taxes that can be collected by way of forfeiture. These taxes are collected, through the same methods used to collect overdue consumer taxes, by Real Property Tax Branch staff and Government Agents throughout the province. Most of the collection work outside the Victoria area is currently done by Government Agents.

School Tax

School taxes are collected both directly by the provincial government in rural areas and by municipal corporations, acting as agents for the provincial government, within municipalities. School taxes for rural properties are collected as part of the collection of real property taxes (described above).

Most school taxes are collected by the 151 municipal corporations in the province. The process and timing of the collection is prescribed by statute. By May 10th each year, the ministry advises each municipality of the amount of school taxes to be raised in that municipality, the taxable values of real property in the municipality, and the tax rates to be applied to each type of property. The municipality sends property tax notices to all taxpayers, requiring payment of taxes on or before the municipal tax due date.

The Surveyor of Taxes, an employee of Revenue Division, is responsible for ensuring that school taxes collected by municipalities are paid to the provincial government. A municipality has an incentive to under-report taxes collected to the provincial government so that it can retain the funds in its bank account for a period of time and earn interest. Because the amounts involved are large, there is potential to earn significant interest. The Surveyor of Taxes knows how much each municipality is expected to collect, and monitors installments to identify apparent reporting anomalies. For instance, if most municipalities report collection of 90% of taxes by the tax due date and some report a lesser percentage, the Surveyor of Taxes may request an explanation for the

anomalies or inspect the records of a municipality to determine why the level of collection is low. Several such inspections have resulted in interest charges being assessed against municipalities for taxes collected but not properly reported.

In addition to monitoring collection of taxes by the tax due date, the Surveyor of Taxes monitors grants made to municipalities in lieu of taxes by federal and provincial government organizations that are not required to pay school taxes. Since payment of grants is discretionary, the provincial government relies on municipalities to report the amounts that have been received as grants in lieu of taxes. Although the amount of such grants can be estimated, historically such estimates have not been very accurate. In recent years, the Surveyor of Taxes has developed a list of potential grantors and compares, against the names on that list, information received from municipalities identifying grants received in lieu of taxes. There have been several instances identified in which municipalities have not paid grants received.

Information Systems

To manage the ministry's programs for collecting overdue taxes more effectively, ministry managers and executives need better performance information than is currently available. For example, in addition to information about revenues, information about timing of collections and the cost of collection would be useful. When the existing tax administration information systems were developed, the primary concern was how to ensure accuracy of basic program information, not how to acquire performance management information. Consequently, certain information that would be useful for monitoring and evaluating performance is not available.

Better information systems, in addition to providing performance management information, could support more automated and semi-automated collection activities, including production and transmission of correspondence and legal documents, database searches, documentation and maintenance of records, and assignment and reassignment of accounts. The result would be increased effectiveness and efficiency of staff resources.

Tax administration information systems are large and complex. They are also expensive to develop, operate and maintain. Most of the major information systems currently in use at Revenue Division were developed approximately 20 years ago. Although some of the systems are adequate, several—the consumer tax and land tax information systems in

particular—are not. Significant limitations and deficiencies inherent in these systems are well known and well documented.

Within the last two years, in the face of a significant risk of complete system failure in year 2000, the government has made a commitment to provide funding to replace the consumer tax information system. The ministry is currently developing a new system, known as CTB21. It will be designed to provide opportunities to manage all aspects of consumer tax administration more efficiently—from initial registration of taxpayers, to data management, audit and collection support, performance monitoring, and reporting.

The last tax administration system developed in Revenue Division was the system built in 1992 to handle the new Corporation Capital tax. Although it is a much better system than the current consumer tax system in some respects, it has not delivered all that was promised, particularly in the area of management information, because funding limitations required reductions in the scope of the project.

Recommendation 3:

The ministry should ensure that it has adequate information systems that support effective and efficient tax administration processes by satisfying both operational and management information needs.

Access to Information

Information is essential to the collection of overdue taxes—particularly information about the location of taxpayers and their assets. Ministry staff require it in order to contact taxpayers, to make demands on third parties for taxpayers' assets held by them, or to instruct bailiffs properly. The more information tax collectors have, the greater chance they have of recovering overdue taxes.

Tax collectors have access to most government databases. However, the custodians of some databases deny or limit access, generally citing concerns related to the Freedom of Information and Protection of Privacy Act and other legislation such as the Medicare Protection and the BC Benefits (Income Assistance) Acts.

Recommendation 4:

The ministry should work with other parts of government to ensure collectors have complete access to all sources of information that can help them to collect overdue taxes. This may require a government-wide direction to share information.

Use of Collection Agencies

Ministry staff are well motivated, making the best of the resources they have available and always looking for ways to be more effective. They are quite successful at recovering overdue taxes. However, they are not the only resource available.

Unlike several other government debt collection programs, the programs for collecting overdue taxes in Revenue Division do not currently use private sector collection agencies. The ministry has estimated that it could collect additional revenue if it had additional resources. We believe the use of collection agencies would be an effective way to supplement current program resources. Employing collection agencies does involve some risk, because information about taxpayers would have to be provided to the collection agencies. However, we believe this risk is limited and could be managed. The potential gain would be additional recoveries for the government. At the very least, use of collection agencies could provide independent confirmation that taxes are uncollectable. At the time of our examination, the ministry was reviewing the possibility of using a collection agency.

Recommendation 5:

The ministry should evaluate the potential benefits and costs associated with the use of private sector collection agencies, to supplement its current programs for collecting overdue taxes.

Reporting to the Legislative Assembly

The government collects approximately one-third of its annual revenues from provincially administered taxes. The ministry states that it does so in a manner that ensures tax legislation is applied fairly and consistently, promotes voluntary compliance, and enforces tax legislation in the absence of voluntary compliance. To enable Members of the Legislative Assembly to assess whether this is so, they must be provided with sufficient timely information.

The primary source of accountability information about the collection of taxes is the annual report of the Ministry of Finance and Corporate Relations. The most recent annual report available at the time of our audit covered the period from April 1, 1995, to March 31, 1996. The report provided some information about the results of collection of overdue taxes for that period. Specifically, the report stated that Revenue Division:

“Increased total collections of debt accounts by 15.9 per cent to \$119.5 million and reduced total accounts receivable by 5.8 per cent or \$5.1 million.”

We believe that, as part of the accountability information the ministry provides about tax administration, reporting on the results of programs for collecting overdue taxes would be useful to MLA’s. If the ministry reported along the lines of the program performance measures discussed above, it would be able to provide a succinct assessment of the effectiveness and efficiency of its programs for collecting overdue taxes. At a minimum, these measures should include information about revenues (value and timing), collections, losses and program costs. This type of information is often best presented in the form of ratios, with comparisons over several years.

Recommendation 6:

The ministry should include, as part of the accountability information it provides to the Legislative Assembly about tax administration, year-to-year comparisons of:

- *number and dollar value of taxpayer defaults during the year,*
- *recoveries and write-offs,*
- *timeliness of collection,*
- *costs of programs for collecting overdue taxes,*
- *forfeitures and redemptions of previously forfeited property, and*
- *balance of overdue accounts at yearend.*



response of revenue division, ministry of finance and corporate relations

The Revenue Division of the Ministry of Finance and Corporate Relations is pleased with the Office of the Auditor General's (OAG's) overall opinion that it is achieving reasonably good results with the resources we have assigned to our programs for collecting overdue taxes, given the restricted capabilities of our current information systems. With reference to the OAG's concern about the high level of taxes remaining outstanding and therefore at risk: between 35 and 45 percent of the taxes outstanding at each of the three year ends were classified as doubtful accounts, but could not be written off until all possibility of collection was exhausted. The doubtful accounts included unfinalized bankruptcies and amounts in litigation, among others. As well, as evident in Exhibit 2.1, the collection rate increased in each of the three years from 53.6 percent in 1994/95 to 59.3 percent in 1996/97, and the amount outstanding at year end 1996/97 was lower by \$1.8 million than the amount outstanding at year end 1994/95.

With respect to the individual recommendations made by the Office of the Auditor General, the recommendations and the division's response, including action taken to date, follow:

- 1. The ministry should determine appropriate performance measures and set clear, measurable goals for its programs for collecting overdue taxes. It should also monitor performance relative to these goals.***

The division is currently updating and rewriting its 1995 business plan. The new plan includes specific goals for program areas, including strategies, outputs and quantifiable performance measures.

Within the Collections section, specific, objective collector performance measures were set in 1997, and individual and group performance is monitored against them.

The new business plan of the Real Property Tax Branch business plan has two key objectives designed to reduce the number of delinquent accounts and the number of rural forfeitures over the next two years. The recommendations in the audit report will be helpful in developing specific performance measures in addition to the outcomes already documented in the plan.

To some extent, the management information deficiencies of the division's information systems limit the measurement techniques available to the division. The CTB21 information system project currently underway will provide the division with an enhanced ability to measure performance in

the consumer tax portion of the programs for the collection of overdue taxes.

- 2. The ministry should use cost-benefit analyses to determine the appropriate level of resources to apply to the collection of overdue taxes.***

Some cost-benefit calculations have been made in each of the past three years, but the division concurs that more detailed analyses would be beneficial. However, the analyses will be constrained by the limited amount of management information available from the division's current information systems. As well, if the results of analyses suggest that additional resources should be applied to the collection of overdue tax programs, the ministry must still work within the context of government-wide resource constraints.

- 3. The ministry should ensure it has adequate information systems that support effective and efficient tax administration processes by satisfying both operational and management information requirements.***

The division identified the need for improved information systems several years ago. A project to replace the Consumer Tax information system (CTB21) has been underway for two years.

The Real Property Tax information system has recently been upgraded for Year 2000 readiness. A key objective in the new branch business plan is to develop a performance-based management information system by 1999 for Real Property Tax Collections as well as other branch areas. The School Tax Accounting and Reconciliation System is currently being re-designed to be Year 2000 ready as well as have the capacity for improved management reporting and information. The re-designed system is scheduled to be in place for the 1999 tax year.

There are currently no resources to upgrade the Income Tax information systems for other than Year 2000 readiness.

- 4. The ministry should work with other parts of government to ensure collectors have complete access to all sources of information that can help them to collect overdue taxes. This may require a government-wide direction to share information.***

Collectors currently use all information sources that are available, cost-effective and not restricted by legislation. Discussions have been held with other collection groups within government to share knowledge and investigate the possibility of obtaining other information sources. The division will continue to investigate and seek access to other sources of information, and would welcome a government-wide direction to share information.

5. *The ministry should evaluate the potential benefits and costs associated with the use of private sector collection agencies to supplement its current programs for collecting overdue taxes.*

The division agrees that the benefits and costs associated with using private sector collection agencies should be evaluated. A preliminary investigation was started prior to the OAG review. This will be continued, and the results evaluated.

6. *The ministry should include, as part of the accountability information it provides to the Legislative Assembly about tax administration, year-to-year comparisons of:*

- *number and dollar value of taxpayer defaults during the year,*
- *recoveries and write-offs,*
- *timeliness of collection,*
- *costs of programs for collecting overdue taxes,*
- *forfeitures and redemptions of previously forfeited property, and*
- *balance of overdue accounts at year end.*

The division agrees that additional information should be provided to the Legislative Assembly. A review will be undertaken to determine what information can be provided, given the management information limitations of the current information systems, as well as the best method for providing the information.

The division appreciated the opportunity to have its programs for the collection of overdue taxes reviewed by the Office of the Auditor General (OAG). It is always useful to have an objective, informed outside party scrutinize one's programs and offer suggestions for improvement. We would like to thank the staff of the OAG for the detailed and informative comments, the professionalism with which they conducted the review, and their willingness to listen to and incorporate our comments.



loan administration
branch,
ministry of finance
and corporate relations:
defaulted student loans

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Defaulted Student Loans

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highlights

An audit of the collection of overdue accounts receivable

Introduction

The mandate of the Loan Administration Branch is to provide the government with professional and cost-effective collection and loan administration services that will help it maximize the revenue collected from overdue receivables, and safeguard loan assets.

The branch collects defaulted loans on behalf of provincial ministries. At March 31, 1997, the entire loan and guarantee portfolio under administration by the branch had an approximate value of \$429 million. Of that, \$115 million was overdue or delinquent, including \$99 million of defaulted student loans.

Its three primary collection portfolios are:

- defaulted British Columbia student loans, managed for the Ministry of Advanced Education, Training and Technology;
- British Columbia second mortgages, managed for the Ministry of Finance and Corporate Relations; and
- grant overawards, managed for the Ministry of Advanced Education, Training and Technology.

Audit Purpose and Scope

The purpose of this audit was to assess the effectiveness and efficiency of the government's collection programs for collecting delinquent receivables administered by the branch.

In particular, our audit considered:

- completeness (how successful the branch is at collecting overdue accounts);
- timeliness (how quickly overdue accounts are collected);
- fairness (what assurance there is that debtors are treated fairly and consistently);
- efficiency (the relationship between revenues and the costs of collecting those debts); and
- accountability (performance information provided to the Legislative Assembly).

Our examination reviewed the results of the fiscal years 1994/95 to 1996/97. It was performed in accordance with value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Overall Conclusion

Reaching a conclusion on the branch's performance is difficult. There are no suitable benchmarks against which to compare results. By the time an overdue student loan is referred to the branch, it has already been in arrears for at least six months while a bank has tried unsuccessfully to recover it. The students may have had difficulty finding employment, and the original loans have been granted for reasons other than ability to repay. Therefore, the costs and recovery rates cannot be directly measured against a standard commercial loan operation, which would grant credit on the ability to pay and seek collateral for higher risk loans. Given these circumstances, we believe the branch has performed reasonably well.

Although collection is quite slow and costs look slightly higher than the standard commissions charged by private sector agencies, the results of the branch have been improving consistently in recent years. Costs of collection have been falling and recovery rates increasing.

It is difficult to compare directly the costs of the branch to the costs of collection agencies. The branch incurs necessary administrative and management costs that are not reflected in the apparent cost of collection by collection agencies, but also receives services from other government organizations that are not fully reflected in its cost structure.

Key Findings Completeness

Over the three-year period we reviewed, the branch collected an amount equal to 18% of the total portfolio. Over this same period the total annual recovery rate for the branch improved slightly with no increase in resources (Exhibit 3.1). Lacking standard benchmarks, however, we are unable to determine if this performance is acceptable in the circumstances.

Timeliness

The branch does not have information about how long it takes to collect receivables. However, it does track the age of the student loans since the branch started collection processes. In early 1997, the median age of accounts was 38 months.

One factor in the collection of student loans is that the branch may need to wait for graduates to obtain the type of employment that enables them to make payments on the loan outstanding. Therefore, it is difficult to assess whether the speed of collection is reasonable in the circumstances.

Fairness

We found the branch has processes in place to monitor activities of collectors and agencies, and that it has set clear expectations regarding treatment of debtors.

Because of the wording of the third-party demand provisions of the Financial Administration Act, the branch is unable to apply the same legal remedies to the collection of overdue receivables owed by provincial government employees as those who are not. Also, because officials in the Ministry of Finance and Corporate Relations are unwilling to provide the branch with personal information about provincial government employees, the branch is unable to direct third-party demands to banks and credit unions in order to recover money owed by employees.

Exhibit 3.1

Performance of Loan Administration Branch

	1994/95	1995/96	1996/97
Under collection (at beginning of year)	\$92,907,000	\$106,723,000	\$121,021,000
New accounts referred	\$29,894,000	\$42,227,000	\$14,214,000
Total collections	\$8,813,000	\$11,778,000	\$13,021,000
Total losses*	\$7,265,000	\$16,151,000	\$7,109,000
Recovery rate	7.2%	7.9%	9.6%
Under collection (at yearend)	\$106,723,000	\$121,021,000	\$115,105,000

* In addition to debts written off as uncollectable, some obligations to pay debts can be discharged as a result of legal process. (Discharge from personal bankruptcy is the most frequent reason.)

Source: Ministry of Finance and Corporate Relations (Loan Administration Branch)

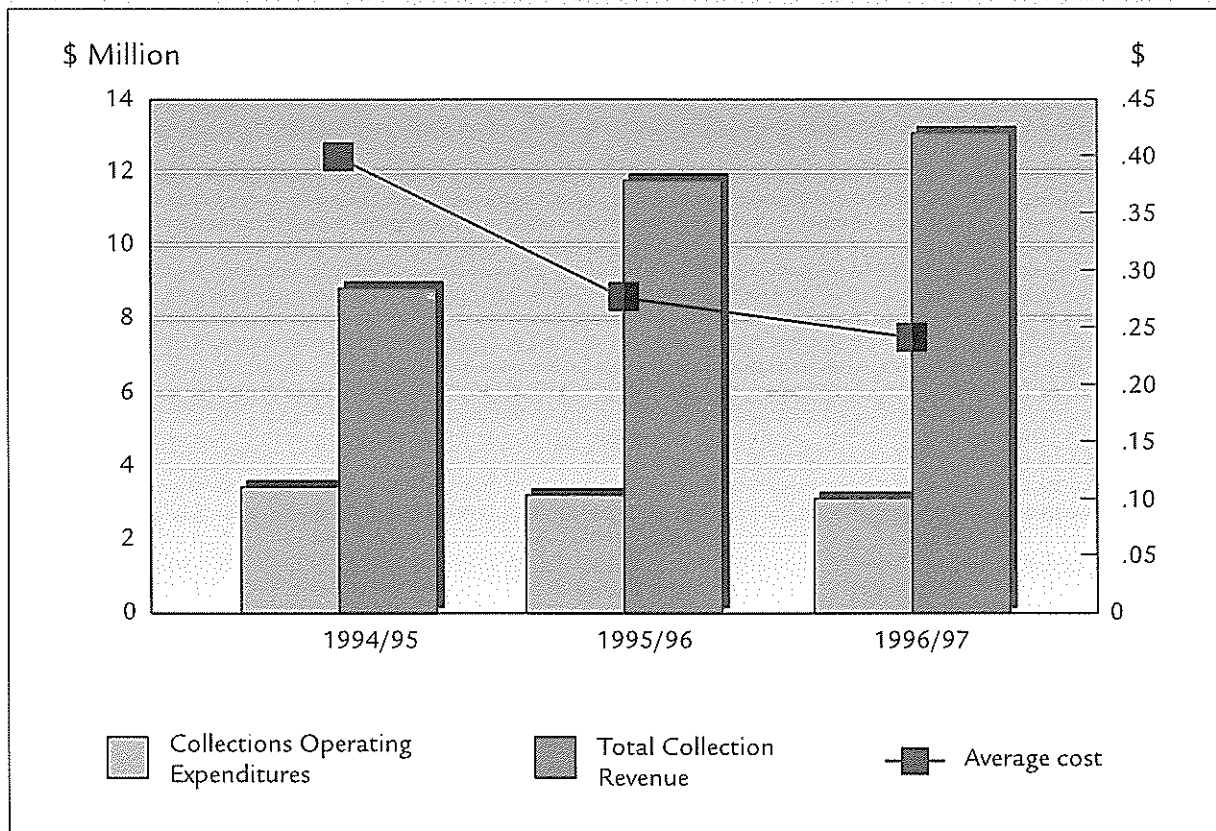
Efficiency of Collection

The cost to the branch of collecting each dollar of receivables in 1996/97 was approximately 24 cents (Exhibit 3.2). Lacking a standard for comparison, we cannot conclude whether this was reasonable, nor can we compare this to costs of other government collection programs, because the debts collected by each program have significantly different characteristics.

The branch incurs administrative and management costs (e.g., for tendering, contract management, monitoring, recording and reporting) when it sends debtor files to collection agencies. These costs are unknown, as they are not tracked separately. We are, therefore, unable to compare the 24 cents it costs the branch to collect each dollar collected with the 20 cents per dollar collected that private collection agencies charge.

Exhibit 3.2

Cost of Collections per Dollar Collected



Source: Ministry of Finance and Corporate Relations (Loan Administration Branch)

Management, Goal Setting and Monitoring

The branch has set out in its three-year business plan, 1997/1998 to 1999/2000, strategic objectives that support its mission. These objectives address the issues of completeness, timeliness, efficiency and fairness of collection.

Collection Processes

The government has useful information for the collection of overdue receivables that is not shared among ministries. While the Freedom of Information and Protection of Privacy Act must be adhered to, information should be made available in a reasonable manner when permissible.

Funding the Loan Administration Branch

The branch operates on a cost-recovery basis, which means that other ministries for whom it collects must pay, from their budgets, for services provided. However, if a ministry employs a private sector collection agency, the collection agency's commission is deducted from money recovered. This creates an incentive for ministries to use what could be a higher-cost private sector service.

Reporting to the Legislative Assembly

Neither the Ministry of Finance and Corporate Relations annual report nor the Public Accounts provides sufficient information to assist Members of the Legislative Assembly in their assessment of the effectiveness and efficiency of the branch.



summary of recommendations

- 1 *The branch should be provided with the necessary legal tools and information to collect money owed to the government by provincial government employees.*
- 2 *The ministry should establish specific measurable goals for the branch, along with performance benchmarks and targets for cost-effectiveness of collection.*
- 3 *The ministry should ensure collectors have complete access to all sources of information that can help them to collect overdue loans. This may require a government-wide direction to share information.*
- 4 *The government should review the method of funding the Loan Administration Branch, as well as the method for accounting for commissions paid to collection agencies, to ensure that decisions about how (or by whom) collection of overdue accounts are managed reflect the best interests of government as a whole, not just the best interests of one ministry.*
- 5 *The ministry should include, as part of the accountability information it provides to the Legislative Assembly about the branch's activities, year-to-year comparisons of:*
 - *new debt referred for collection during the year,*
 - *recoveries and write-offs,*
 - *timeliness of collection,*
 - *costs of collection programs, and*
 - *balance of overdue accounts at yearend.*



detailed report

Loan Administration Branch

The Loan Administration Branch provides collection and loan administration services to government, with the aim of maximizing revenue from the collection of overdue receivables and safeguarding loan assets.

The branch was created in August 1989. It assumed responsibility for several programs at that time, including delinquent accounts under the British Columbia Student Loan Program, commercial accounts left over by the privatization of the Business Finance Division of the British Columbia Enterprise Corporation, and delinquent second mortgages and other accounts remaining after the privatization of the Home Mortgage Branch of the Ministry of Social Services and Housing. It was also charged with implementing and developing the Mortgage Assistance Program (MAP) (which replaced the old second mortgage program) and, in 1990, took over administration of the loan and loan guarantee portfolios held by the Ministry of Regional and Economic Development and Ministry of Agriculture and Fisheries.

Recognized for its collection expertise, the branch is frequently asked to provide advice to ministries on collection matters (e.g., evaluating Requests for Proposals for collection services, using third-party demands, preparing Small Claims Court actions). As well, the Office of the Comptroller General frequently consults with the branch when considering issues related to collection.

As of March 31, 1997, the branch's loan and guarantee portfolio comprised 34,808 accounts, with a value of \$429 million. Of that, \$115 million was overdue or delinquent, \$99 million of which represented defaulted student loans.

For 1997/98, the branch's operating budget was \$4.7 million, 75% of which represents collection costs. The remainder of the budget funds the branch's other business function, retail and commercial loan administration.

The branch collects defaulted loans on behalf of provincial ministries. There are three primary portfolios:

- defaulted British Columbia student loans, administered on behalf of the Ministry of Advanced Education, Training and Technology, with a value on March 31, 1997, of \$98,848,809;

- defaulted British Columbia second mortgages, administered on behalf of the Ministry of Finance and Corporate Relations, with a value on March 31, 1997, of \$5,688,920; and
- grant overawards, administered on behalf of the Ministry of Advanced Education, Training and Technology, with a value on March 31, 1997, of \$7,066,369.

Other portfolios, all of which are considered to be overdue, include:

- *Business Start Up and Student Venture Loan programs, administered on behalf of the Ministry of Small Business.* The Business Start Up program was designed to encourage small business development by providing provincial guarantees for loans of up to \$15,000 from financial institutions. The Student Venture Loan program related to the Province's guarantee of loans from financial institutions to encourage students to develop business ventures. It had a value on March 31, 1997, of \$1,585,118.
- *British Columbia Securities Commission judgements, collected for the BC Securities Commission.* These are fines and costs levied by the BCSC against individuals and companies using the Vancouver Stock Exchange. The fines are registered as judgements in the Supreme Court. On March 31, 1997, these had a value of \$1,064,111.
- *British Columbia Home program, administered on behalf of the Ministry of Finance and Corporate Relations.* This program was designed to alleviate high interest rates on home mortgages. It had a value on March 31, 1997, of \$193,804.

The branch is also occasionally asked to assist in the collection of a small number of accounts under the Mortgage Assistance Program, defaulted Crown land leases and agreements for sale, judgements transferred from the Ministry of Attorney General, and defaulted payments for Homeowner Grants and Prospector Grants.

Completeness and Timeliness of Collection

Delinquent accounts are more likely to be collected if efforts to collect are made soon after the debt becomes delinquent, and if the debtor perceives that the creditor will be persistent in its efforts to collect the debt. The British Columbia government's Financial Management Operating Policy recognizes this and requires ministries to take "prompt and vigorous action to collect outstanding accounts receivable."

Completeness

Over the three-year period we reviewed, the branch collected an amount equal to 18% of the total portfolio. The recovery rates for the three most recent years are shown in Exhibit 3.1. We found that, overall, performance had slightly improved from 1994/95 to 1996/97, with no increase in resources. However, we do not have standard benchmarks to determine if this performance is acceptable.

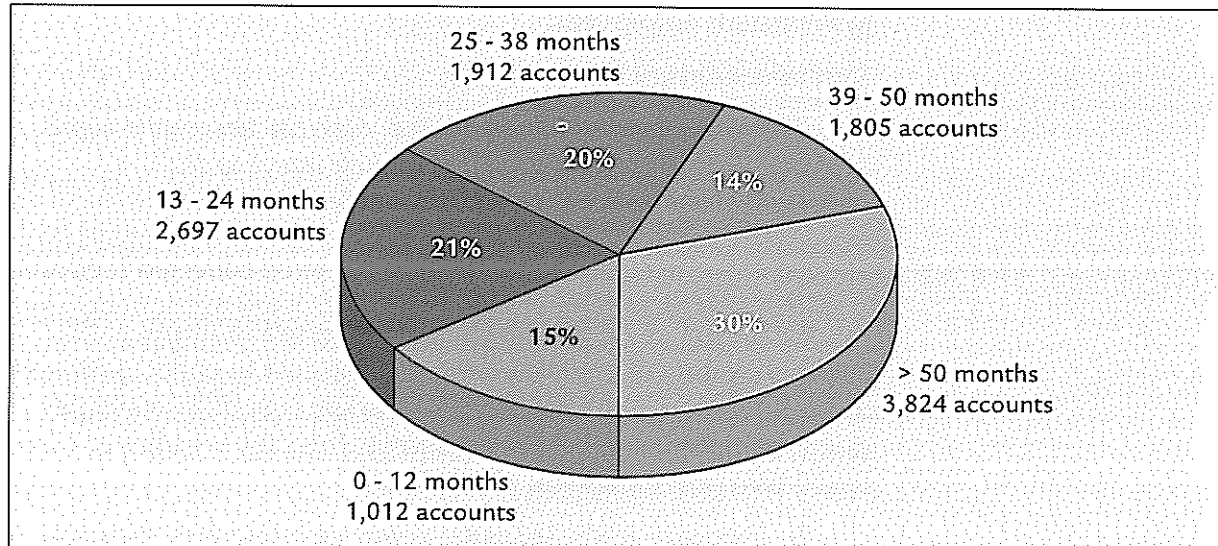
During the period under review, the Province continued to lose a significant portion of receivables due to loans written off. The large increase in losses in 1995/96 related to an extensive evaluation of the quality of the defaulted BC Second Mortgages. Almost \$12 million of a \$20 million portfolio of the BC Second Mortgages was written off.

Timeliness

One factor that may account for the branch's improved collection performance is its determining that, on average, two- to three-year-old student loan debts are most likely to be collectable. It appears to take this amount of time for graduates to get the type of employment that enables them to make payments on their outstanding loans. As of January 31, 1997, approximately 56% of the student loan portfolio was between 0 and 38 months old since the time the debts were entered into the branch's collection system (Exhibit 3.3).

Exhibit 3.3

Age of Overdue Student Loans Under Collection at January 31, 1997



Source: Ministry of Finance and Corporate Relations (Loan Administration Branch)

Fairness

The Debt Collection Act details what collection actions are acceptable and unacceptable. We found a high consistency of interpretation and application of policy and procedure. This is partially a result of the culture and management of the branch.

Supervisors and managers ensure that policies and procedures are adhered to by monitoring compliance with collection policy and the Debt Collection Act, both formally and informally. Supervisors review a sample of files and discuss specific files with collectors. Deviations from what is acceptable are identified and dealt with on an individual basis.

Each contact with debtors is unique, and what is appropriate in each circumstance depends on a variety of factors that the collector must take into account.

Occasionally, branch management, Members of the Legislative Assembly and the Ombudsman receive complaints alleging that debtors have not been treated fairly and equitably. Most complaints, upon follow-up, are determined to be unsubstantiated.

We are concerned that debtors who are provincial government employees appear to be treated differently from debtors who are employed elsewhere. The branch is unable to use the third-party demand provisions of the Financial Administration Act to collect monies owed by provincial government employees. Also, because officials in the Ministry of Finance and Corporate Relations are unwilling to provide the branch with personal information about government employees, the branch is unable to direct third-party demands to banks and credit unions in order to recover money owed by government employees.

Recommendation 1:

The branch should be provided with the necessary legal tools and information to collect money owed to the government by provincial government employees.

Efficiency of Collection

Efficiency of collection can be expressed in terms of the cost per dollar collected. In 1996/97, the cost to collect just over \$13 million was \$3.15 million, an average cost of 24 cents per dollar collected. As Exhibit 3.2 shows, this cost was lower than in the two previous fiscal years.

In February 1995, Treasury Board gave blanket approval to the branch to use collection agencies for accounts with low

collection potential. The branch contracts with two collection agencies, each for a two-year term. The agencies receive a 20% commission on all collections they make. Current contracts expire in April 1999.

The 20% commission charged by collection agencies would not be the sole cost of collection should the branch send all collections to these agencies. The branch would be required to perform administrative work necessary when dealing with collection agencies. The branch also monitors the collection agencies for reasonable treatment of debtors (e.g., adherence to the Debt Collection Act).

Currently, the branch uses collection agencies when it is more cost-effective to do so than using internal resources.

A summary of collection agency performance for the past two fiscal years is shown in Exhibit 3.4. The low recovery rate for accounts placed with the agencies reflects the branch's efforts to collect the accounts with higher probability of collection before referring them to an agency. Hence, the accounts placed with the collection agencies have a lower probability of collection.

The branch also feels that using collection agencies enables it to maintain an ideal account:collector ratio, while being freed up to offer cost-effective collection services to more government ministries.

Over the past three years, the number of Collection Officers in the branch has decreased from 23 to 20. In the same period, the average number of student loans accounts per collector has increased from 678 to 900. The branch's management has set 800 to 900 accounts per officer as an optimum number.

Exhibit 3.4

Performance of Collection Agencies

	1995/96	1996/97
Number of Accounts Assigned	1,503	887
Dollar Value of Accounts Assigned	\$7,907,599	\$4,775,998
Collections	\$263,612	\$516,751
Recovery Rate	3.3%	4.2%

Source: Ministry of Finance and Corporate Relations (Loan Administration Branch)

We found that, even though staff resources have declined, the branch's collection performance is improving. For example, collection on defaulted student loans as a percent of accumulated defaults increased from 5.4% in 1991/92 to 9.0% in 1996/97 (Exhibit 3.5). Average monthly revenue collected for defaulted student loans per officer also improved during the same period, from \$28,846 in 1991/92 to \$49,403 in 1996/97 (Exhibit 3.6).

Management, Goal Setting and Monitoring

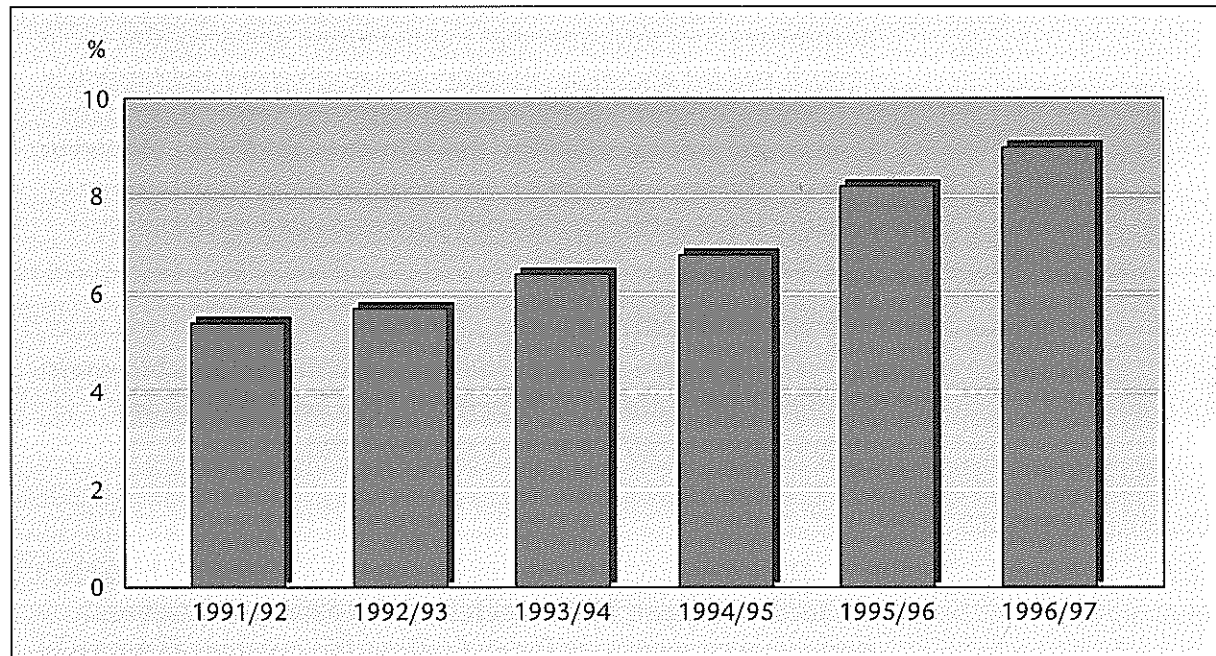
Goal Setting

We found that the branch, in its three-year business plan, 1997/1998 to 1999/2000, has set out strategic objectives that support its mission. These objectives are as follows:

- to provide professional and cost-effective collection, loan administration, and financial management services to government ministries, Crown corporations and agencies;
- to promote excellence in the financial management and control of the branch's portfolio responsibilities through timely transaction processing, financial reconciliation, and management information reporting;
- to subscribe to a model of enterprise accounting, using accurate and relevant management information to allocate resources in a way that maximizes efficiencies and effectiveness in the branch's operations;
- to sponsor development and/or change to legislation, policies and procedures in a way that advances proficient collection and loan administration;
- to promote financial responsibility in corporate and individual debtors and enhance public awareness that the Province is committed to managing loan assets and collecting overdue receivables;
- to pursue the expansion of information-sharing within the provincial government and with the federal and other provincial governments to assist collecting overdue receivables;
- through performance monitoring, to ensure that a professional level of service is maintained by collection agency contractors, including compliance with the Province's Debt Collection Act; and
- to initiate disaster planning in the branch.

Exhibit 3.5

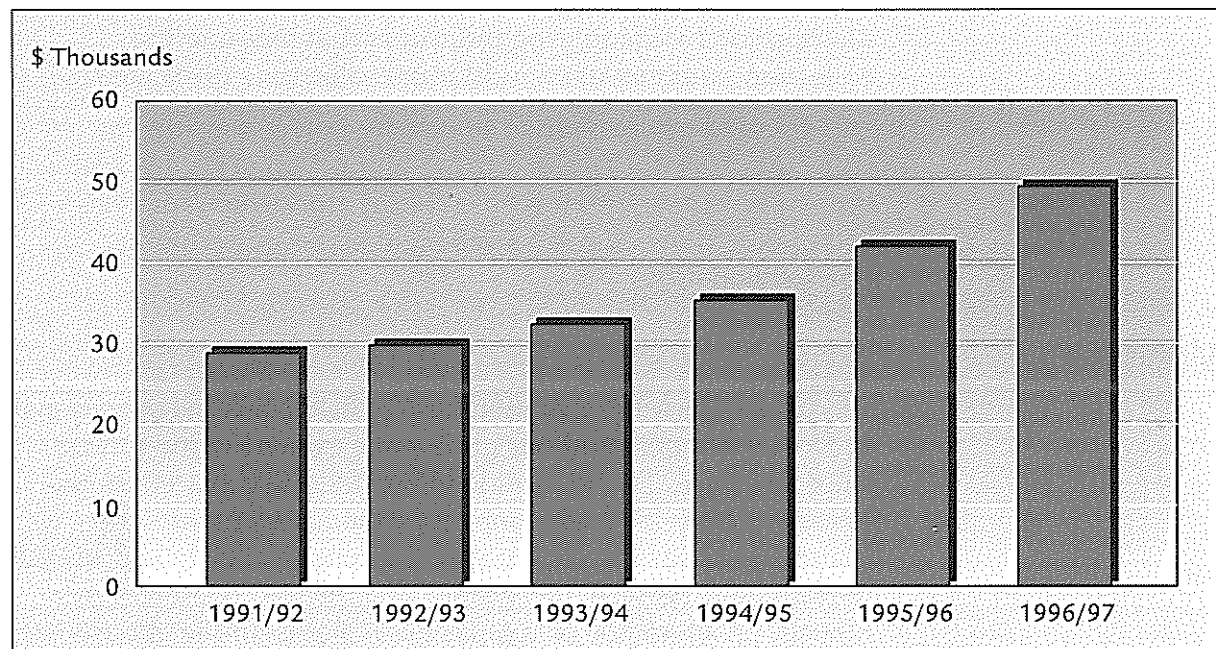
Collection of Student Loans as a Percentage of Accumulated Defaults



Source: Ministry of Finance and Corporate Relations (Loan Administration Branch)

Exhibit 3.6

Average Monthly Student Loans Collections per Collector



Source: Ministry of Finance and Corporate Relations (Loan Administration Branch)

We found that the branch has also developed more specific, short-term goals related to each of its strategic objectives. For example, in accomplishing their objective of providing professional and cost-effective collection, loan administration, and financial management services, the branch has set a goal to develop and implement the branch's collection programs for collecting overdue Medical Services Plan premiums on behalf of the Ministry of Health. However, most of the branch's objectives have not been translated into specific measurable goals with performance benchmarks and targets.

Recommendation 2:

The ministry should establish specific measurable goals for the branch, along with performance benchmarks and targets for cost-effectiveness of collection.

Revenue Targets

Revenue targets have been established for each branch Collection Officer. The branch has also established several performance measures for evaluating the revenue earnings of the collection program. The primary indicator of performance is monthly revenue statistics by collector. However, the branch recognizes that using a measure of total dollars collected as the main measure of individual collector work is not the only, or best, way to evaluate performance.

To address this, the branch has adopted the strategic objective of supporting performance evaluation and work distribution by identifying indicators that measure the collection potential of an individual collector's portfolio.

Because of the method of distribution of accounts to collectors, it is difficult to balance all portfolios for age and type of accounts within each collector's portfolio. Analysis is ongoing to develop an equitable method of evaluating portfolio quality.

Monitoring

The Loan Administration System (LAS) became operational in November 1991 and has undergone extensive fine-tuning since that time. The student loan portfolio was placed on the system in May 1992. We found that the LAS supports the branch's business well. Reports are accurate, timely and useful to recipients. As well, the system permits the creation of new reports, on an ad hoc or regular basis. For example, reports are available according to loans in arrears, last date of contact with

a debtor, guarantee status, transactions posted, refunds generated, and quarterly balances. These reports aid staff in monitoring the status of loans and guarantees.

As a generic loan administration and collection system, the LAS has the flexibility to manage a variety of loans, mortgage or guarantee portfolios. This flexibility helps the branch in carrying out its mandate of managing debt collection for various existing and new government loan portfolios. The branch also supports the use of the LAS in other financial areas of government. Recently it assisted in implementing a portion of the system in the Investments Branch of the Ministry of Finance and Corporate Relations to manage the ministry's mortgage-underwriting program; and it is currently participating in a major enhancement of the system to support the Revenue Branch's management of the Property Tax Deferment Program.

Collection Processes

General Collection Policy

The branch is firm in its efforts to maximize the collection of money owed to the Province, but it provides flexibility, as needed, in structuring repayment terms based on a debtor's ability to pay. Collection Officers use the telephone as the primary tool in the collection process. Letters to confirm arrangements or warn of pending actions are also sent out.

In its first contact with a debtor, the branch emphasizes payment in full of all debts. Where debtors justify their inability to repay in full immediately, the Collection Officer negotiates arrangements that will see repayment of the debt in the shortest period possible. Repayment terms may be deferred if a debtor is unable to make payments due to financial or medical circumstances. Collection action is escalated to enforce repayment if a debtor does not comply with repayment terms, or is uncooperative or unwilling to provide requested information. The cost-effectiveness of a collection action is considered before any action is initiated.

Student Loans

British Columbia student loans (the majority of loans being collected by the branch) are already six months in arrears when they arrive at the branch, because the banks have up to that time to submit information to the Province on delinquent loans. The Province pays the bank and enters the defaulted loan into the branch's collection system at that time.

The next step is to locate the debtor and exchange information. Much collection effort is expended in locating and contacting debtors. Once contact is made with the debtor, it must be maintained. We found that the collectors were doing this.

Information Sharing

One of the initial stages in the collection of debts owed to the Province is to locate the debtor. All branch collectors have access to most government databases, such as those at BC Online, Land Titles, the Personal Property Registry, public registries, BC Assessment, credit bureaus, Motor Vehicle Branch, the Insurance Corporation of British Columbia, and some maintained by the Office of the Comptroller General. Some databases, however, are not accessible, specifically those at Medical Services Plan and the Ministry of Human Resources.

Address information is a basic need for a collector. Thus, since most residents of British Columbia require coverage under the Medical Services Plan, that database would be a very useful resource for the branch in locating debtors. Nevertheless, the Ministry of Health does not allow access to this. The ministry is concerned with the protection of confidentiality of its clients, and believes the Health Protection Act limits its ability to provide the Loan Administration Branch with information.

Debtors who are receiving social assistance are contacted by the branch every six months to update information, and they are not aggressively pursued. However, the Ministry of Human Resources does not provide information to the branch, as it believes it is prohibited from doing so by legislation.

We believe there is clearly a need for better cooperation across government if improved collection of overdue accounts receivable is to be achieved. While the Freedom of Information and Protection of Privacy Act must be adhered to, specific information permissible to share across government should be made available in a reasonable manner.

Recommendation 3:

The ministry should ensure collectors have complete access to all sources of information that can help them to collect overdue loans. This may require a government-wide direction to share information.

Funding the Loan Administration Branch

The branch operates on a cost-recovery basis, which means that other ministries for whom it collects must pay from their budgets for services provided. The amount is based on the costs that the branch incurs, not what the branch recovers. However, if a ministry employs a private sector collection agency, the collection agency is paid only if it is successful in recovering money or provides some other valuable service. Also, the collection agency's commission is deducted from money recovered, and the net amount is returned to the ministry for deposit to the general revenues of government. The ministry's budget is untouched if it uses a collection agency, because the cost of collection agency commissions in 1997/98 is charged to a vote set up specifically for this purpose for certain ministries. This places the Loan Administration Branch at a competitive disadvantage, and creates an incentive for ministries to use what could be a higher-cost private sector service. We believe distortions like this should be removed.

Recommendation 4:

The government should review the method of funding the Loan Administration Branch, as well as the method for accounting for commissions paid to collection agencies, to ensure that decisions about how (or by whom) collection of overdue accounts are managed reflect the best interests of government as a whole, not just the best interests of one ministry.

Reporting to the Legislative Assembly

The Ministry of Finance and Corporate Relations annual report shows the total amount collected from defaulted student loans, the average amount collected per collector per month, and the total dollar amount of student loans in default. Neither the ministry's annual report nor the Public Accounts report contains information about the value of accounts written off or extinguished, the revenues and costs associated with the collection of overdue accounts, or the costs associated with using collection agencies for the collection of some defaulted loans.

We believe this information would assist Members of the Legislative Assembly in assessing the effectiveness and efficiency of the branch.

Recommendation 5:

The ministry should include, as part of the accountability information it provides to the Legislative Assembly about the branch's activities, year-to-year comparisons of:

- *new debt referred for collection during the year,*
- *recoveries and write-offs,*
- *timeliness of collection,*
- *costs of collection programs,*
- *balance of overdue accounts at yearend.*



response of loan administration branch, ministry of finance and corporate relations

1. *The branch should be provided with the necessary legal tools and information to collect money owed to the government by provincial government employees.*

The barriers imposed on the Loan Administration Branch (LAB) with respect to using the Financial Administration Act (FAA) Third Party Demands (sec. 83) and/or Set-Off of Amounts Owed (sec 38) to collect overdue provincial debt from provincial employees, are under review. The ministry's efforts will be directed towards ensuring that provincial employees do not have an unfair advantage compared to others.

2. *The ministry should establish specific measurable goals for the branch, along with performance benchmarks and targets for cost-effectiveness of collection.*

In its annual Business Plan, LAB establishes specific measurable goals for collection. Routinely each month, the branch produces performance results which are measured against cost-effectiveness benchmarks and targets. We would welcome any input from the Ministry with respect to this issue.

3. *The ministry should ensure collectors have complete access to all sources of information that can help them to collect overdue loans. This may require a government wide direction to share information.*

The branch has had significant support from senior Ministry of Finance and Corporate Relations officials in trying to secure access to various government information sources. For example, several prior ADMs of Provincial Treasury wrote letters to the Ministries of Health and Human Resources on this issue, to no avail. We were however, successful in securing limited access into B.C. Hydro's data base as a result of these efforts. Any improvement on the part of government ministries in their willingness to open up their data sources would greatly improve the effectiveness of government debt collectors.

4. *The government should review the method of funding the Loan Administration Branch, as well as the method of accounting for commissions paid to collection agencies, to ensure that decisions about how (or by whom) collection of overdue accounts are managed reflect the best interests of government as a whole, not just the best interests of one ministry.*

This relates to a ministry being able to contract with a collection agency and have the related commissions off-set against revenue collected (Vote 67 - 1999 Estimates). However, if a ministry chooses to have LAB

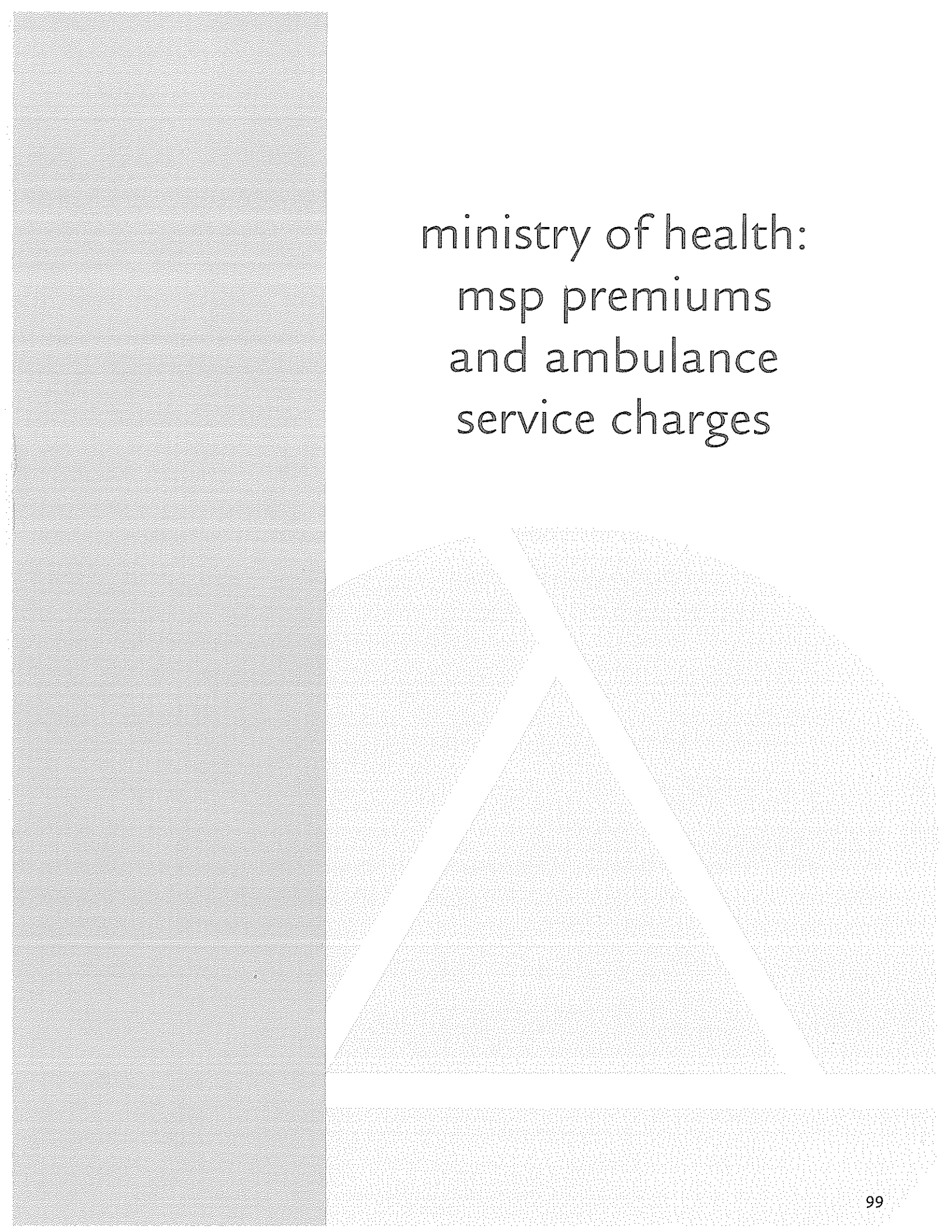
perform collection services the set-off is not available and the ministry has to find funds for LAB's service fees from within its operating budget. This is a significant obstacle for ministries with budgetary pressures. LAB supports the Auditor General's recommendation as it will give ministries the choice to use LAB and/or a Collection Agency without negative budget implications. LAB believes it is in the best interest of government to provide ministries with as many options as possible for procuring cost-effective collection services.

5. The ministry should include, as part of the accountability information it provides to the Legislative Assembly about the branch's activities, year-to-year comparisons of:

- new debt referred for collection during the year,*
- recoveries and write-offs,*
- timeliness of collection,*
- costs of collection programs, and*
- balance of overdue accounts at year end.*

LAB is able to provide the ministry with this information as required.





ministry of health:
msp premiums
and ambulance
service charges

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MSP Premiums and Ambulance Service Charges

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highlights

An audit of the collection of overdue MSP premiums and ambulance service billings

Introduction

The Ministry of Health, through the Medical Services Commission and the Emergency Health Services Commission, operates the province's medical care insurance program and the British Columbia Ambulance Service. These programs ensure that necessary health care services are available to all persons requiring them. There is a charge for the services: participants in the province's medical care insurance program, the Medical Services Plan (MSP), must pay premiums; and persons using ambulance services must pay a charge for those services. In both cases, the premiums and charges cover only a portion of the actual cost of the services.

The collection of health care premiums and user fees, and what is done to collect overdue accounts, occurs in the context of social policies and practices related to universal accessibility to health care services that reflects one of the fundamental values of Canada.

Most persons pay premiums or service charges as required. Some, however, are slow or reluctant to pay. At March 31, 1997, ministry records indicate that the ministry was owed approximately \$30 million for MSP premiums and \$8 million for ambulance service charges. Of those amounts, \$12 and \$6 million, respectively, had been owed for more than 90 days.

Audit Purpose and Scope

We conducted our audit to assess the effectiveness and efficiency of the ministry's efforts to collect overdue MSP premiums and ambulance service charges.

In particular, our audit considered:

- completeness (how successful the ministry is at collecting overdue premiums and service charges);
- timeliness (how quickly those accounts are collected);
- fairness (what assurance there is that debtors are treated fairly and consistently);
- efficiency (the relationship between money collected and the costs of collecting that money); and
- accountability (performance information provided to the Legislative Assembly).

Our audit did not include a review of the government's policy of collecting MSP premiums from individuals rather than funding health care from other sources, nor did it review the government's May 1996 decision to maintain MSP coverage for all residents whether they had paid premiums or not.

Our examination reviewed the results of the fiscal years 1994/95 to 1996/97. It was performed in accordance with value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Overall Conclusion

There has been a dramatic increase in overdue MSP premiums since May 1996, when the government decided to maintain MSP coverage for all residents whether they had paid premiums or not. It appears likely that the ministry can eventually recover most of them or determine that they are not owed for one of several reasons. However, its processes for properly recording overdue MSP premiums are deficient. As well, the ministry's processes for collecting overdue MSP premiums should be improved.

The level of accounts receivable older than 90 days has increased steadily since May 1996, from approximately \$40,000 to over \$12 million on March 31, 1997, because the ministry had only short notice of the government policy decision. It was not prepared, therefore, for the increase in overdue premiums that resulted from the government policy decision. Since the date of the change, the ministry's efforts to recover overdue premiums have been hampered by inadequate legal tools, poor information and computer systems, and insufficient staff. The ministry has recently taken steps to improve this situation, but it is too soon to comment on whether these initiatives will be successful.

The ministry's efforts to collect overdue ambulance service charges are affected by similar resource limitations, plus the additional difficulties associated with collecting money from debtors outside the province. The ministry's processes—including the use of private sector collection agencies—for collecting overdue ambulance service charges are somewhat better developed than those processes for collecting overdue MSP premiums. However, although collection of overdue ambulance service charges has been taking place for some time, the ministry has not established specific goals related to the collection of those charges. We

were therefore unable to determine whether current results are acceptable to the ministry or government.

Finally, we concluded that the ministry has not provided accountability information to the Legislative Assembly in a timely manner.

In reaching our conclusions, we used information about the results of the ministry's collection program provided to us by the ministry and summarized in internal ministry reports. We found some of this management information to be both limited and unreliable. However, for the purposes of describing the growth in overdue accounts receivable since May 1996, we have accepted the ministry's figures as indicative of the general extent of the problem.

Key Findings Completeness

A government policy change in May 1996 resulted in a substantial increase in both the amount of overdue MSP premiums collected and the amount of overdue MSP premiums outstanding. The ministry believes, but has been unable to confirm, that the accounts receivable related to MSP premiums are significantly overstated as a result of direct billings being sent to persons who have left the province or are enrolled in group plans.

In 1996/97, the first year following the government's policy decision to maintain MSP coverage for all residents whether they had paid premiums or not, the ministry recorded over \$20 million in recoveries of, and credit adjustments to, overdue MSP premiums and ambulance service charges (Exhibit 4.1). During the same period, the ministry billed more than

Exhibit 4.1

Collection of Overdue Accounts Receivable (\$ Thousands)

Debt	Total Revenue 1996/97	Overdue Accounts Billed	Collections* 1996/97	Written Off 1996/97
MSP premiums	853,262	35,338	15,450	116
Ambulance charges	18,706	7,831	4,583	1,804

* Collections include all premiums and fees paid, plus credit adjustments that reduce indebtedness.

Source: Ministry of Health

\$43 million in overdue accounts. It also wrote off almost \$2 million as uncollectable.

Risk of loss of MSP premiums is relatively limited. Most overdue premiums recorded as owed to the government can be collected or otherwise resolved. For example, the premiums may not actually be owed, because the person owing them is eligible for premium assistance or has other coverage. The greatest risk is that someone owing MSP premiums will emigrate from the province. If a person does so, there is no incentive to pay arrears once he or she is eligible for coverage in the new place of residence. Risk of loss of ambulance service charges, particularly those owed by persons from outside the province, is considerably higher.

Timeliness

The ministry does not have information about how long it takes to collect MSP accounts receivable, but it does have information about the aging of these accounts.

The major portion of debt for ambulance service charges is also 90 days or older. Indeed, almost half is more than a year old. For ambulance service fees, the ministry collects information about the effectiveness of each type of billing notice. It has information that would permit it to calculate the percentage of accounts, by number or value, that are collected in each period following initial billing. However, this information, as currently reported, is unreliable.

Fairness

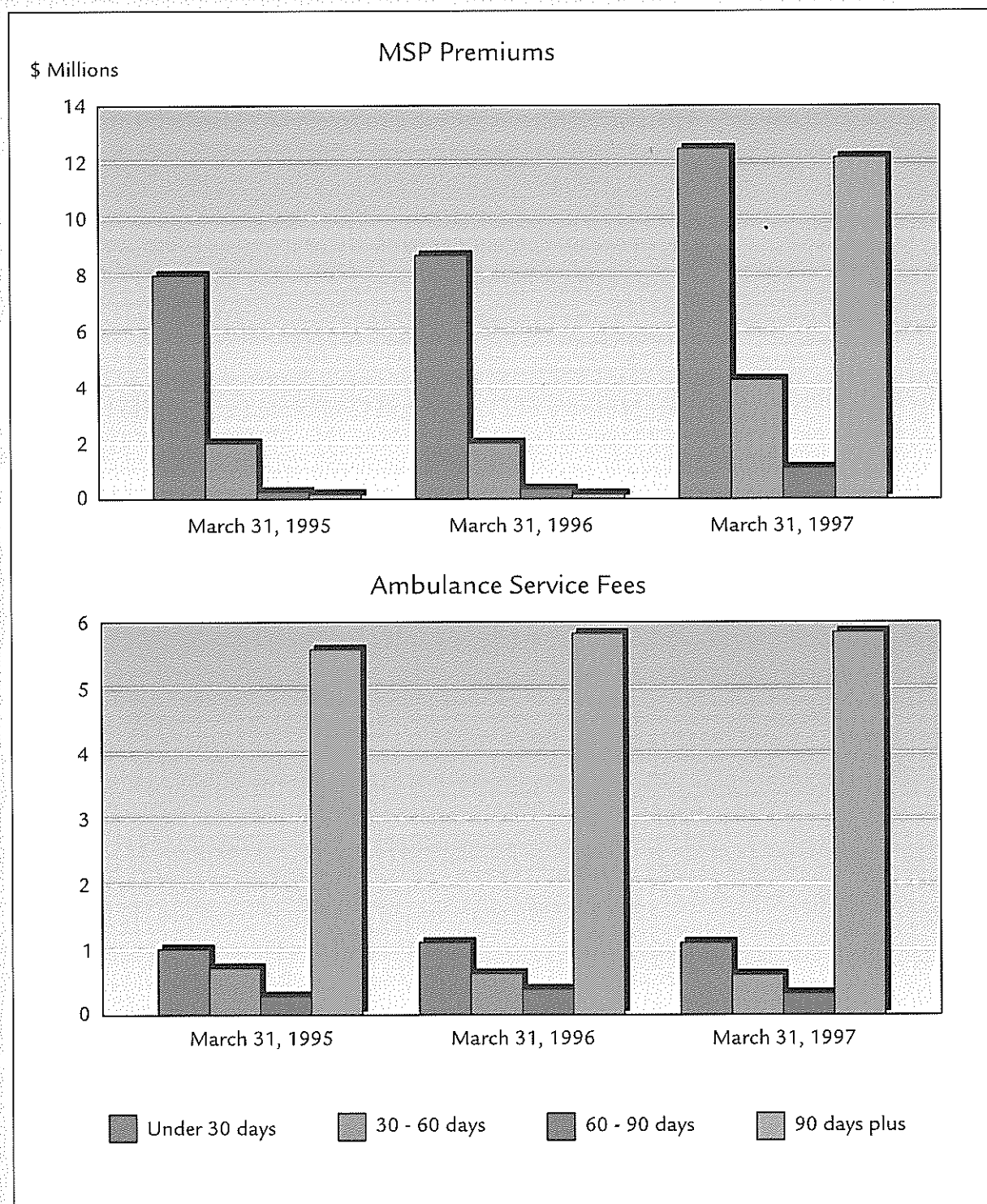
The ministry's lack of resources to pursue overdue accounts vigorously creates a situation that is inherently unfair to those who pay promptly. We did not review collection processes in any detail but, from what we observed, they appear to be applied consistently.

We concluded that the way in which interest is charged on overdue MSP premiums is unfair. Because of limitations in the ministry's billing system, interest is charged on one category of overdue accounts but not on another. The ministry does not charge interest to individuals for overdue premiums, but it does charge interest for overdue premiums owed by employers' group plans.

The ministry is currently developing an improved MSP registration and billing system to remedy current deficiencies.

Exhibit 4.2

Aging of Accounts Receivable



Source: Ministry of Health

Efficiency

It appears that the cost of collecting overdue accounts receivable is low relative to recoveries and adjustments. However, in view of the ministry's apparent inability to keep up with the increased volume of work since May 1996, we cannot conclude that the collection program is operating efficiently.

- In early 1997, the ministry indicated it expected to spend less than \$1 million to recover overdue MSP premiums (not including commissions paid to collection agencies). Before May 1996, the ministry spent about \$300,000 plus associated systems costs each year to recover overdue premiums.
- In 1996/97, the ministry spent \$165,295 for services from private sector collection agencies to collect \$718,674 of overdue ambulance service charges.
- In April 1997, the ministry entered into an agreement with the Ministry of Finance and Corporate Relations to have the Loan Administration Branch collect overdue MSP premiums on its behalf using, when appropriate, private sector collection agencies. The agreement anticipated that \$500,000 in fees would be charged by the branch to cover resources used to collect MSP premiums for 1997/98. At the time of our examination, the branch had provided only limited collection services to the ministry, and estimated that it would charge the ministry only \$182,000 in the current fiscal year.

Management, Goal Setting, and Monitoring

The ministry has not identified measurable outcomes, developed reliable measurement processes, or defined goals and performance expectations for managing the collection of overdue accounts.

Ministry officials advised us that they believe the most meaningful measurable outcome for collection of accounts receivable is the value of accounts that are ultimately written off as a percentage of billed revenue. The goal for collection of ambulance service fees is to keep bad debt write-offs below 10% of billed revenue (excluding certain payments from the Insurance Corporation British Columbia). However, this goal has never been formally documented.

Collection Processes

Ministry collection staff spend most of their time responding to persons who have received collection letters and working with private sector collection agencies. The role of ministry staff is constrained by the little time they have available after responding to enquiries and by the limited legal tools available to them. Amendments to the Medicare Protection Act, brought into force during our examination, provide the ministry with better legal processes to secure and collect overdue MSP premiums.

To collect MSP premiums, both current and overdue, the ministry has to ensure that billing notices reach those persons responsible for payment. For individual payers, there is neither any incentive to notify the ministry of address changes, nor any disincentive for not doing so. In fact, there is some advantage for individuals to avoid or ignore premium notices, because the current MSP billing system is unable to calculate and add interest to overdue accounts owed by individuals. The ministry has recently begun developing an improved MSP registration and billing system to remedy current deficiencies (including the inability to charge interest on overdue accounts owed by individuals).

The ministry uses private sector collection agencies to collect overdue ambulance service charges, but has not in the past used collection agencies to collect overdue MSP premiums.

Accountability

At the time of our examination, in the spring of 1998, the most recent Ministry of Health annual report available was for the year from April 1, 1994, to March 31, 1995. The report contains no information about recoveries and costs associated with the collection of overdue accounts.



summary of recommendations

- 1 *The ministry should review program alternatives, including options of consolidating the ministry's requirements with other government collection programs or expanding the use of private sector collection agencies.*
- 2 *The ministry should determine appropriate performance measures and set clear, measurable goals for its collection program. It should also monitor performance relative to these goals.*
- 3 *The ministry should use cost-benefit analyses to determine the appropriate level of resources to apply to the collection of overdue health care premiums and service charges.*
- 4 *The ministry should include, as part of the accountability information it provides to the Legislative Assembly, year-to-year comparisons of:*
 - *number and dollar value of health care premium and service charge payment defaults during the year,*
 - *recoveries and write-offs,*
 - *timeliness of collection,*
 - *costs of collection programs, and*
 - *balance of overdue accounts at yearend.*



detailed report

Premiums and Service Charges

Medical care insurance, the Medical Services Plan (MSP), ensures that all residents of British Columbia, regardless of ability to pay, have access to medical care practitioners, laboratory services, and diagnostic procedures. The cost of these services, paid for by the government, is funded by a combination of MSP premiums and money from the general revenues of the government.

Collecting overdue MSP premiums has recently become more important to the ministry than previously. All residents of the province are entitled to apply for enrolment in the provincial medical care insurance program. However, prior to May 1996, enrolment was optional and if a person did not pay (or have paid on his or her behalf) the MSP premiums required under the Medicare Protection Act, he or she would be without medical care insurance. Persons not paying premiums were simply dropped from the program after three months' failure to pay premiums. They could reinstate coverage at any time by applying for enrolment and satisfying whatever conditions were imposed at that time. Since May 1996, this has changed. All residents of British Columbia, unless they formally opt out of the plan, are covered by MSP at all times. If premiums are not paid, they simply accumulate and represent a debt owed to the government. A variety of subsidies are available for persons who do not have the means to pay the premiums.

Persons using the services of the British Columbia Ambulance Service are required to pay a prescribed charge (Exhibit 4.3).

In most cases, the charge covers only a portion of the actual cost of the services. Persons using ambulance services are, of course, not required to pay the charge before using the services. The bill is sent out some time later. Persons with private insurance may be able to recover the cost, but the user is responsible for paying the ministry, except when specific third parties (such as the Insurance Corporation British Columbia, the Department of Veterans Affairs, the provincial coroner, or an employer under the Workers' Compensation Act) are responsible. For a variety of reasons, some persons are unwilling to pay the user charge.

Completeness and Timeliness of Collection

For MSP premiums, both the amount of overdue accounts receivable collected and the amount of overdue accounts receivable outstanding have increased significantly since May 1996.

Direct comparison of recoveries over the years is not possible. Before September 1996, recoveries attributed to the ministry's collection program reflected only payments received and processed by the collection unit. Since then, recoveries attributed to the ministry's collection program reflect all

Exhibit 4.3

Fee Schedule for British Columbia Ambulance Services (in effect in 1997)

1 Except where item 2, 3 or 4 applies, for the transportation of a "beneficiary" or "qualified person" as defined in the Hospital Insurance Act	\$54 for the first 40 km plus \$0.50 per km thereafter, up to a maximum of \$274
2 For the transportation of an employee who requires an emergency health service where an employer is required, pursuant to an enactment, to provide emergency health services	\$444 for each call
3 For the inter-hospital transfer of a Canadian resident where the transfer and return occur within 24 hours	\$54 for the first 40 km plus \$0.50 per km thereafter, up to a maximum of \$274
4 For the transportation of a person in any circumstances other than those described in item 1, 2 or 3	\$386 for each ground call; \$1900 per hour for each call by helicopter; \$6.00 per statute mile for each call by fixed wing aircraft
5 Where an ambulance is called by a patient, family member or care facility, but transportation is not required or is refused	\$50 for each call
6 For the hiring of an ambulance and its attendants to stand by at a location and be available in case a medical emergency occurs	\$142 per hour (minimum 3 hours) that the ambulance and attendants remain at the location and \$2.20 per km travelled to and from the ambulance station
7 For the hiring of emergency medical assistants without an ambulance present to stand by in case a medical emergency occurs	\$92 per hour (minimum 3 hours) plus the applicable rate if ambulance transportation is required
8 For involuntary committals made under the Mental Health Act	No charge

changes to account balances that occur after an account has become the responsibility of the collection unit. This change does not affect data on total revenues, write-offs, or amounts under collection at yearend.

Before May 1996, there was minimal risk of loss related to MSP premiums because residents who wanted coverage had to either pay or apply for premium assistance. Since that date, risk of loss has increased because coverage is provided whether or not premiums are paid. However, as long as a person whose MSP premiums are in arrears remains in the province, there is a high probability that the ministry can eventually collect overdue premiums, determine that the person is eligible for premium assistance, or determine that premiums are not owed for some other reason. The risk of loss is greater if a person owing premiums for coverage moves out of the province. If a person leaves the province, there is no incentive to pay arrears once the person is eligible for coverage in the new place of residence.

Exhibit 4.4

Collection of Overdue MSP Premiums in 1996/97 (\$ Thousands)

Debt	Total Revenue	Collections*	Written Off	Under Collection March 31, 1997
MSP premiums	853,262	15,450	116	12,900

* Collections include all premiums and charges paid, plus credit adjustments that reduce indebtedness.

Source: Ministry of Health

Exhibit 4.5

Collection of Overdue MSP Premiums for prior years (\$ Thousands)

Year	Total Revenue	Collections	Written Off	Under Collection at Yearend
1995/96	822,484	1,107	295	4,909
1994/95	805,212	1,037	24	4,489

Source: Ministry of Health

Although coverage is not compulsory, there is a presumption of coverage unless there is evidence of a contrary intent. As a result, the amount recorded as overdue MSP premiums has increased from slightly more than \$2 million at March 31, 1996, to more than \$17 million at March 31, 1997. At the time of our audit, this amount had further grown to more than \$34 million. Although the ministry believes that a substantial portion of this amount is attributable to persons who have left the province without advising the ministry, or who are enrolled in group plans, it cannot confirm this is the case.

The history of overdue ambulance charges has been more stable.

However, the major portion of debt for ambulance service charges is 90 days or older. Indeed, almost half is more than a year old (most of which is owed by residents of British Columbia).

Fairness

The ministry's lack of resources to pursue overdue accounts vigorously creates a situation that is inherently unfair to those who pay promptly. We did not review collection processes in any detail but, from what we observed, they appear to be applied consistently.

We concluded that the way in which interest is charged on overdue MSP premiums is unfair. Premiums for MSP are paid in one of two ways: either through employer group plans via payroll deduction; or, for those who are not eligible to participate in a group plan, by individuals directly to the ministry. The MSP registration and billing system is unable to charge interest to individuals for overdue premiums, although it is capable of charging interest (and does so) for overdue premiums owed by employers' group plans.

Efficiency of Collection

The ministry does not specifically identify the full costs of collecting overdue MSP premiums or ambulance service charges. These costs are not separated from other financial administration, information systems, and general administration costs.

In early 1997, commenting on the impact of the May 1996 policy change, the ministry indicated it expected to spend less than \$1 million on administrative costs associated with recovering overdue MSP premiums (not including

commissions paid to collection agencies). It estimated that, before the May 1996 change, it had spent about \$300,000 each year (plus associated systems costs) to recover overdue premiums.

Exhibit 4.6

Aging of MSP Premiums Receivable (\$ Thousands)

	Total	Current	30-60 Days	60-90 Days	90 Days Plus
March 31, 1997	29,946	12,464	4,238	1,089	12,154
March 31, 1996	10,837	8,670	1,998	126	42
March 31, 1995	10,094	7,965	1,996	94	39

Source: Ministry of Health

Exhibit 4.7

Collection of Overdue Ambulance Service Charges (\$ Thousands)

Year	Total Revenue	Recoveries	Written Off	Under Collection March 31
1996/97	18,706	4,583	1,804	5,850
1995/96	19,532	237	1,398	5,997
1994/95	19,237	394	1,482	5,724

Source: Ministry of Health

Exhibit 4.8

Aging of Ambulance Charges Receivable (\$ Thousands)

	Total	Current	30-60 Days	60-90 Days	90 Days Plus
March 31, 1997	7,879	1,101	611	325	5,841
March 31, 1996	7,950	1,108	629	390	5,823
March 31, 1995	7,594	1,011	718	284	5,581

Source: Ministry of Health

In April 1997, the ministry entered into an agreement with the Ministry of Finance and Corporate Relations to have the Loan Administration Branch collect overdue MSP premiums on its behalf using, when appropriate, private sector collection agencies. The agreement anticipated that \$500,000 in fees would be charged by the branch to cover resources used to collect MSP premiums for 1997/98. At the time of our examination, the branch had been asked to provide only limited collection services to the ministry, and estimated that it would charge the ministry only \$182,000 in the current fiscal year. Unlike for referrals to private collection agencies, fees are payable to the Loan Administration Branch irrespective of results.

Certain costs—commissions paid to private sector collection agencies, for example—are known. In 1996/97, the ministry spent \$165,295 for services from private sector collection agencies to collect \$718,674 of overdue ambulance service charges.

Overall, because of its lack of success at keeping up with the increased volume of work and the limited performance and cost information available, we cannot conclude that the collection program is efficient.

Recommendation 1:

The ministry should review program alternatives, including options of consolidating the ministry's requirements with other government collection programs or expanding the use of private sector collection agencies.

Management, Goal Setting and Monitoring

The ministry has not established measurable outcomes and reliable measurement processes for the collection of overdue accounts receivable. Consequently, there are no specific performance measures or goals for the collection of overdue MSP premiums and ambulance service charges.

The ministry's goal for collection of ambulance service fees is to keep bad debt write-offs below 10% of billed revenue (excluding certain payments from ICBC). However, this goal has never been formally documented.

The ministry needs performance measures that provide a succinct assessment of the effectiveness and cost-effectiveness of its programs. At a minimum, for its collection activities, these measures should include information about revenues, recoveries, timing of recoveries, losses, and program costs.

Establishing goals is a prerequisite to determining the appropriate level of effort and expenditure that should be devoted to their attainment. Because the ministry has not defined performance measures nor set performance goals, it is unable to determine what resources are required to meet specific goals, or to assess the relationship between goal and resource alternatives.

To ensure the resources applied to the collection of overdue MSP premiums and ambulance service charges are being used effectively and efficiently, the ministry needs to identify goals and performance expectations for the collection of overdue accounts, allocate resources to achieve these goals, and monitor performance relative to goals.

Recommendation 2:

The ministry should determine appropriate performance measures and set clear, measurable goals for its collection program. It should also monitor performance relative to these goals.

Recommendation 3:

The ministry should use cost-benefit analyses to determine the appropriate level of resources to apply to the collection of overdue health care premiums and service charges.

Collection Processes

If MSP premiums or ambulance service charges are not paid when they become due, the ministry takes a number of progressive steps to collect them. Initial attempts to collect through mailed billing notices occur within the program area responsible for billing the premium or charge: the Medical Services Commission for MSP premiums, or the Finance and Management Services division of the ministry which sends out the bills for the British Columbia Ambulance Service.

When MSP premiums cease being paid for an individual, three monthly billing notices are sent requesting immediate payment. If there is no response to the billing notices, responsibility for collection is transferred to the ministry's collection unit. Two collection letters are sent, requesting immediate payment, an application for premium assistance, or an explanation of why coverage is no longer required. Recently, 15,000 to 25,000 collection letters have been sent out each month.

The objective of the collection unit is to collect the money owed to the government, provide debtors with information about the availability of premium assistance, or gather sufficient information to establish that the debt does not exist. Most of the unit's efforts are devoted to answering correspondence and telephone calls received in response to the collection letters. Some persons send payment. Others contact the collection unit and staff provide information about premium assistance; gather data about births, deaths, and other coverage changes; and receive information about changes of addresses. Almost half of staff time is also devoted to handling returned mail, correcting billing information, or determining that the apparent debt is overstated because a person is eligible for premium assistance or has left the province.

When an ambulance service has been provided, an invoice is sent, followed by a reminder notice six weeks later. If the bill is not paid and no other arrangement has been made to settle the account, responsibility for collection is transferred to the ministry's collection unit. Two collection letters are then sent, the second one warning that the account will be placed with a collection agency if payment is not made immediately. Recently, 8,000 to 10,000 collection letters have been sent out each month. If payment is not received, the account is referred to one of three private sector collection agencies. Once a year, a list of outstanding accounts for ambulance services associated with motor vehicle accidents is sent to ICBC. In 1996/97, this resulted in the payment of approximately 700 accounts totalling \$311,000.

The ministry uses private sector collection agencies to collect overdue ambulance service charges but, until recently, it was unwilling to do the same thing for overdue MSP premiums. Since April 1, 1997, the Ministry of Health has had an agreement with the Ministry of Finance and Corporate Relations to have the Loan Administration Branch collect overdue MSP premiums on its behalf. Developing the working relationship between the ministry and the branch has taken some time, and the ministry has only recently begun to refer accounts to the branch for collection. The branch plans to make initial efforts to collect overdue premiums, and then to refer accounts to private sector collection agencies. A summary and assessment of how the branch operates is included in another section of this report.

Better Billing Information Is Required

To collect MSP premiums, both current and overdue, the ministry has to ensure that billing notices reach those persons responsible for payment. This is particularly a problem when dealing with individual payers (non-group members) who move without notifying the ministry of their change of address. One of the first tasks that the Loan Administration Branch has undertaken for the ministry is to deal with the large amount (estimated to be 30,000 pieces) of returned mail. Until recently, the ministry paid little attention to returned mail because of the policy, prior to May 1996, of cancelling coverage if premiums were not paid. When persons seeking health care services discovered their coverage had been cancelled, they contacted the ministry and provided up-to-date information in order to reinstate coverage.

For individuals who pay premiums directly, there is neither any incentive to notify the ministry when they move, nor any disincentive for not doing so. In fact, there is some benefit to avoiding or ignoring premium notices, because the current MSP billing system does not have the capability of calculating and adding interest to overdue accounts.

Additionally, many persons leave the province without advising the ministry of their departure. Recently the ministry has started data-matching with other provinces to identify former residents of British Columbia now resident in another province, and the date of their departure from this province. Unfortunately, data-matching for persons who leave Canada is not possible. The ministry recently created a "de-enrolment" unit that will be responsible for identifying persons who may not be eligible to participate in the MSP because they are not residents of British Columbia. The unit began its work in December 1997.

More Effective Legal Tools Are Now Available

The ministry has been limited in terms of what it can do to collect money owed to it. Currently, collection staff focus their efforts on working with persons who have responded to collection letters, and on managing the relationship between the ministry and private sector collection agencies. The role of ministry staff has been limited by the time that is available after reactive tasks are completed and by the limited legal tools available to them.

Beyond the basic steps of locating debtors and making demands for payment, the most effective tool available for collecting a debt owed to the government is the ability to make a third-party demand. A third-party demand requires a third party (usually a bank or an employer) who is holding money for, or owes money to, a debtor to pay that money to a creditor. Under the Financial Administration Act, certain employees of the Ministry of Finance and Corporate Relations may make third-party demands on behalf of the government. In past, the Ministry of Health had to work through detailed and time-consuming administrative procedures to have a third-party demand issued. For the relatively small amounts that make up most of the debt owed to the Ministry of Health, the time and cost of the administrative procedures tended to outweigh the benefits of the remedy. Now, through their new arrangement, the ministry and the Loan Administration Branch have been working to streamline the procedures for processing third-party demands and to identify cases where demands can be used.

Amendments to the Medicare Protection Act, brought into force during the time of our examination, permit the Medical Services Commission to file a certificate of indebtedness with the court—a first step toward securing and collecting the debt. However, the commission has decided that it will use this power only where other collection initiatives have been unsuccessful. The amendments also provide for collecting an individual's arrears from a group of which the individual is a current member, even though the arrears may have been incurred before the individual joined the group. The ministry has stated it will use this remedy only after all other measures have failed.

A Better Information System Is Required

The ministry has recently begun developing an improved MSP registration and billing system to remedy current deficiencies. One of those deficiencies is the system's inability to charge interest to "pay-direct" individuals for overdue premiums, although it can do so for overdue premiums owed by employers' group plans. A greater concern is that the system is not "Year 2000 compliant," which means that it risks failing at that time.

The billing system for ambulance service charges is separate from the system used to bill MSP premiums, but it is no better. Like the MSP billing system, the ambulance service billing system is unable to charge interest on overdue accounts.

Better Ambulance Service Billing Practices Can Improve Collection

The time required to issue the initial billing for ambulance services varies. On average, the initial billing occurs approximately two months after the date of service, but billing can be delayed for many months from that time because service provider reports—which are the source of most billing information—have incomplete information. For air ambulance services, the situation is made worse because billing information must be collected from two separate sources. Billing can also be delayed because there are insufficient Ambulance Service administrative staff available to complete administrative reviews and data processing.

Even after the service charge has been billed, response to the billing may be delayed for a number of reasons. The Ambulance Service invoice anticipates a number of scenarios in which the recipient of the invoice might believe that the bill should be paid by someone else. For example, persons on welfare are advised to discuss the account with the local Social Services office, persons who believe the account is covered by automobile insurance are advised to forward the bill to ICBC or other insurer, and eligible veterans are advised to send the bill to Veterans Affairs Canada. However, the advice does not include alerting the Ministry of Health of any of these actions. As a result, the automated process of reminder notice and collection letters will continue while these organizations determine what action to take, although billing can be suspended if the ministry is told that a third party may be responsible for payment. The advantage of not suspending billing is that it may prompt the recipient to remind the insurer or other potential payer to deal with the account.

Reporting to the Legislative Assembly

The ministry has an obligation to provide Members of the Legislative Assembly sufficient timely information to enable them to assess the performance the ministry's programs.

The primary source of accountability information about the collection of overdue MSP premiums and ambulance service charges is the annual report of the Ministry of Health. However, at the time of our examination, the most recent annual report available at the time of our audit was for the year from April 1, 1994, to March 31, 1995 (information that is almost three years old). This annual report shows the total collected from MSP premiums, but provides no details about ambulance service charges. The report also contains no information about recoveries and costs associated with the collection of overdue accounts.

We believe that, as part of the accountability information the ministry provides about its programs, some information about what it does to collect overdue premiums and charges would be useful to Members of the Legislative Assembly. This type of information is often best presented in the form of ratios, along with trend analysis for a fiscal period or comparisons between fiscal periods over several years.

Recommendation 4:

The ministry should include, as part of the accountability information it provides to the Legislative Assembly, year-to-year comparisons of:

- *number and dollar value of health care premium and service charge payment defaults during the year,*
- *recoveries and write-offs,*
- *timeliness of collection,*
- *costs of collection programs, and*
- *balance of overdue accounts at yearend.*



response of the ministry of health

Thank you for the final draft of your report "MSP Premiums and Ambulance Service Billings" and the opportunity to make a formal response to your audit.

As you are aware, effective May 8, 1996, Government policy was altered to maintain MSP coverage for all beneficiaries whether they had paid their premiums or not. This policy change was in keeping with the principal of accessibility to insured medical services mandated by the Canada Health Act. Prior to this, MSP policy was to cancel enrolment where premiums were owing for more than 90 days. One of the consequences of this new policy was that the Ministry, in absence of evidence to the contrary, continued to record premiums receivable from beneficiaries assuming they were eligible residents even though the Ministry recognized that a substantial number of them would likely have left the province. This resulted in an overstatement of accounts receivable and also an overestimation of bad debts expense.

I would also like to point out that net revenue (total revenue less bad debts) has increased from \$821.97 million in 1995/96 to a projected \$869.0 million in 1998/99. This is an increase of over \$47 million, or 5.7%, and is consistent with population growth.

With respect to the specific recommendations in the report, I provide the following comments:

Recommendation 1:

"The Ministry should review program alternatives, including options of consolidating the Ministry's requirements with other government collection programs or expanding the use of private sector collection agencies."

Response:

The Ministry agrees with this recommendation and subsequent to the date of this audit has entered into a pilot program with a private sector collection agency to recover delinquent MSP accounts.

The Ministry is also in the process of implementing a number of system changes that will greatly enhance the efficiency of our agreement with the Ministry of Finance and Corporate Relations Loan Administration Branch. The Ministry will continue to identify opportunities for consolidating the Ministry's requirements with other government collection programs.

Recommendation 2:

"The Ministry should determine appropriate performance measures and set clear, measurable goals for its collection

program. It should also monitor performance relative to these goals."

Response:

While the Ministry has performance measures for collection of ambulance fees, that include bad debt write-off targets and accounts receivable turnover, it has not formally documented these. This will be done. Performance targets for MSP premiums collection have yet to be established because the policy change that maintained MSP coverage for all residents whether they had paid premiums or not greatly increased accounts receivable. Once new collection strategies and options have been fully implemented and actual collection experience has been realized realistic performance measures will be established.

Recommendation 3:

"The Ministry should use cost-benefit analyses to determine the appropriate level of resources to apply to the collection of overdue health care premiums and service charges."

Response:

The Ministry agrees that a cost-benefit analysis is appropriate to determine the level of resources that should be applied to collection activities. Included in this analysis there must be recognition of government policy that fees should not be a deterrent to the provision of appropriate health services. If an ambulance is needed it should be called regardless of the financial situation of the patient.

Recommendation 4:

"The Ministry should include, as part of the accountability information it provides to the Legislative Assembly, year-to-year comparisons of:

- Number and dollar value of health care premium and service charge payment defaults during the year*
- Recoveries and write-offs*
- Timeliness of collection*
- Costs of collection programs, and*
- Balance of overdue accounts at yearend."*

Response:

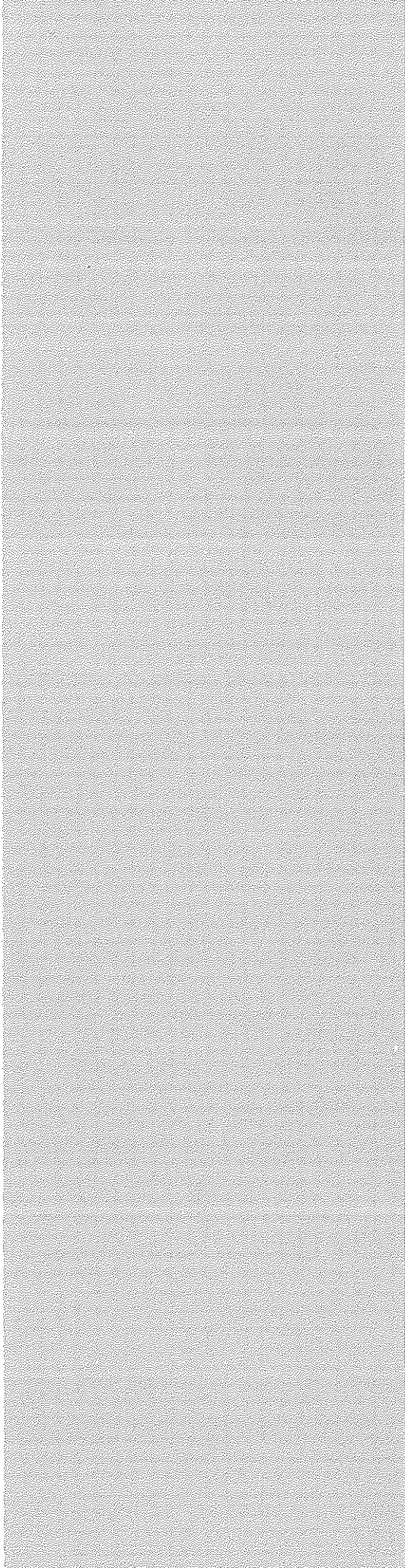
The Ministry currently provides accountability information to Members of the Legislative Assembly in the Public Accounts and Estimates regarding annual revenues, year-end accounts receivable balances, provisions for doubtful accounts and annual commission and bad debt expenses.

Annual revenues analysis of valuation allowances (provisions for doubtful accounts) and valuation allowances (bad debt) expense, year-end accounts receivable and provision for doubtful account balances are reported to OCG at fiscal year-end in the format supplied by OCG for inclusion in the Public Accounts. Revenues, related bad debt expenses and commission costs are also included in the Ministry's Revenue Plan for inclusion in the Estimates.

In the 1998/99 Estimates, Vote 67 provides for the offset of bad debt expenses and commission costs to revenue and discloses the commission costs and bad debt expenses by Ministry.

The Ministry, however, accepts the recommendation and will include the additional accountability information in the next Ministry of Health annual report.





motor vehicle branch/
insurance corporation
of british columbia:
fines

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Fines

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highlights

An audit of the collection of overdue fines

Introduction

At March 31, 1997, the provincial government was owed over \$136 million in fines for various minor offences. Motor vehicle-related offences accounted for the majority of those unpaid fines. It is important for the credibility of the fines system that the government take prompt and vigorous action to collect these fines.

Until November 1996, collection of these fines was the responsibility of the Motor Vehicle Branch. In November 1996, the Motor Vehicle Branch was merged with the Insurance Corporation of British Columbia (ICBC). Since that time, ICBC has had responsibility for collection of these fines.

Audit Purpose and Scope

The purpose of our audit was to assess the effectiveness and efficiency of the government's program for collecting overdue motor vehicle-related fines.

In particular, our audit considered:

- completeness (how successful the government is at collecting overdue fines);
- timeliness (how quickly overdue fines are collected);
- fairness (what assurance there is that debtors are treated fairly and consistently);
- efficiency (the relationship between revenues and the costs of collecting those revenues); and
- accountability (performance information provided to the Legislative Assembly).

Our examination reviewed the results of the fiscal years 1994/95 to 1996/97. It was performed in accordance with value-for-money standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Overall Conclusion

The collection of overdue motor vehicle-related fines has been seriously inadequate, to the point that the credibility of the fines system could be threatened. Almost 90% of all receivables (approximately \$122 million) are 90 or more days overdue, and over 50% are more than two years old. The average age of receivables is 30 months, with approximately \$30 million, or 22% of all accounts, greater than five years old. Starting in the year 2000, the government will be faced with the prospect of having to write off, over the following several years, \$16 million of fines that can no longer be legally collected.

Although the Province began issuing tickets in 1990, organized collection of overdue motor vehicle-related fines did not begin until 1994. Collection results have been hampered greatly by a lack of staff and poor information systems. The merger of the Motor Vehicle Branch with ICBC is encouraging, as the corporation's collection capability, enhanced by new "refuse to issue" collection powers, provides an opportunity to improve results. However, the corporation has few incentives to pursue outstanding accounts. We are concerned that, unless additional resources are provided, the corporation will be unable to reduce what appears to be an unreasonably high level of overdue fines.

Key Findings

Completeness and Timeliness of Collection

The average debt owed by the approximately 557,000 debtors is \$246. There are 5,700 debtors owing more than \$2,000 each, including 15 debtors owing between \$10,000 and \$14,000 each. Approximately 187,000 debtors, owing \$32 million, are out-of-province drivers. Before 1994 and the creation of the collection program, accounts receivable were growing at the rate of \$1 million a month, because little or no organized collection effort was taking place. Today, the collection program is still trying to catch up.

Before the collection program started, the main tool available to collect unpaid fines was the authority to refuse to renew licences of those with unpaid fines. This, however, had the effect of postponing the requirement to pay fines, without interest, for as long as five years. Drivers could then receive a licence by either paying or negotiating a payment schedule to pay outstanding fines over a period of time. Moreover, there was an 80% default rate on payment schedules. In 1994, the

branch introduced a different process, described as a payment plan, which reduced the default rate to 34%. However, neither process could be used to collect from persons who did not have a British Columbia driver's licence.

In 1995, the Motor Vehicle Branch began referring overdue accounts to a private sector collection agency. Since April 1995, a total of 225,689 accounts have been referred, representing \$89.1 million.

Efficiency of Collection

Before sending accounts to the collection agency, the branch also attempted to collect directly by sending out letters notifying debtors that their account might be turned over to a collection agency unless payment was made. In 1996/97, demands for payment resulted in collection of \$36.1 million.

Although some of the costs of collection are known, there is no reliable information available to evaluate the relative cost-effectiveness of internal and contracted collection activities. As a result, cost-benefit analyses have not been used to evaluate resourcing alternatives.

Fairness

An important element of fairness is that all debtors be treated consistently. The branch, to date, fails this test, as many debtors have been allowed to ignore requests for payment with impunity. Government policy requires that, before an account is referred to a collection agency, the debtor must be notified that this will occur. Currently, there are over 300,000 accounts that have not been referred to the collection agency because the branch lacks the necessary resources to deal with enquiries and complaints that result from sending letters to debtors.

Management, Goal Setting and Monitoring

Until recently, there was only limited performance measurement information available. As a result, there were no clear performance measures and targets established for collection activities. ICBC is in the process of developing and implementing better information systems and performance measurement.

Collection Processes

Since November 18, 1996, when the Motor Vehicle Branch was merged with ICBC, one organization has, for the first time, control of all aspects of the province's motor vehicle regulatory system. The merger of the two organizations provides an opportunity to improve performance. However, unless additional resources are provided, it is doubtful the corporation will be able to reduce the current high level of unpaid fines.

ICBC is examining existing information systems and plans to integrate the fine collection databases with its point-of-service systems for issuing insurance and driver's licences. This will assist the collection of overdue fines.

Reporting to the Legislative Assembly

Our review of annual reports for ministries that included the Motor Vehicle Branch found that the reports contained little, if any, information about the branch. As ICBC did not have responsibility for collecting overdue motor vehicle-related fines on behalf of the Province until November 1996, at the time of our examination it had yet to report on the branch's performance to the Legislative Assembly.



summary of recommendations

- 1 *The corporation should develop a strategy for collecting unpaid fines in order to establish confidence in the effectiveness of the motor vehicle-related fines system.*
 - *The corporation should prepare a business plan that identifies the cost-effectiveness of collection alternatives. This plan should be used to obtain the necessary resources to provide cost-effective collection of unpaid fines.*
 - *In the short term, the corporation should develop strategies, including specific objectives, to eliminate the backlog of long-outstanding fines.*
- 2 *The corporation should refer accounts to collection agencies based on cost-effectiveness.*
- 3 *The corporation should include, as part of the accountability information it provides to Members of the Legislative Assembly, year-to-year comparisons of:*
 - *the number and dollar value of unpaid fines referred for collection during the year,*
 - *the results of its efforts to collect unpaid fines,*
 - *the costs it incurs collecting those fines, and*
 - *the balance of unpaid fines at yearend.*



detailed report

Collection of Fines

At March 31, 1997, the provincial government was owed over \$136 million in fines for various minor offences. Motor vehicle-related offences accounted for the majority of those unpaid fines. It is important for the credibility of the fines system that the government take prompt and vigorous action to collect these fines.

Collection of fines was the responsibility of the Motor Vehicle Branch until November 1996, at which point the Motor Vehicle Branch was merged with the Insurance Corporation of British Columbia (ICBC). Since that time, ICBC has had responsibility for collecting the fines

The current violation ticket scheme was introduced November 5, 1990. Tickets are issued under the Motor Vehicle Act, the Commercial Transport Act, the Motor Vehicle (All Terrain) Act, the Highway Act, and the Motor Carrier Act. Convictions under a motor vehicle-related Criminal Code offence can also result in indebtedness to the government. The Offence Act sets out the requirements and procedures for laying charges with a violation ticket.

The Motor Vehicle Branch established a collection program in 1994. The strategy of the program was based on employing a minimum number of staff who would refer significant overdue accounts to collection agencies.

Completeness and Timeliness

At the time of our review, the average debt owed by approximately 557,000 debtors was \$246. However, of that total, 5,700 debtors owed more than \$2,000 each, including 15 debtors who owed between \$10,000 and \$14,000 each (Exhibit 5.1). Approximately 187,000 debtors (owing \$32 million) are out-of-province drivers.

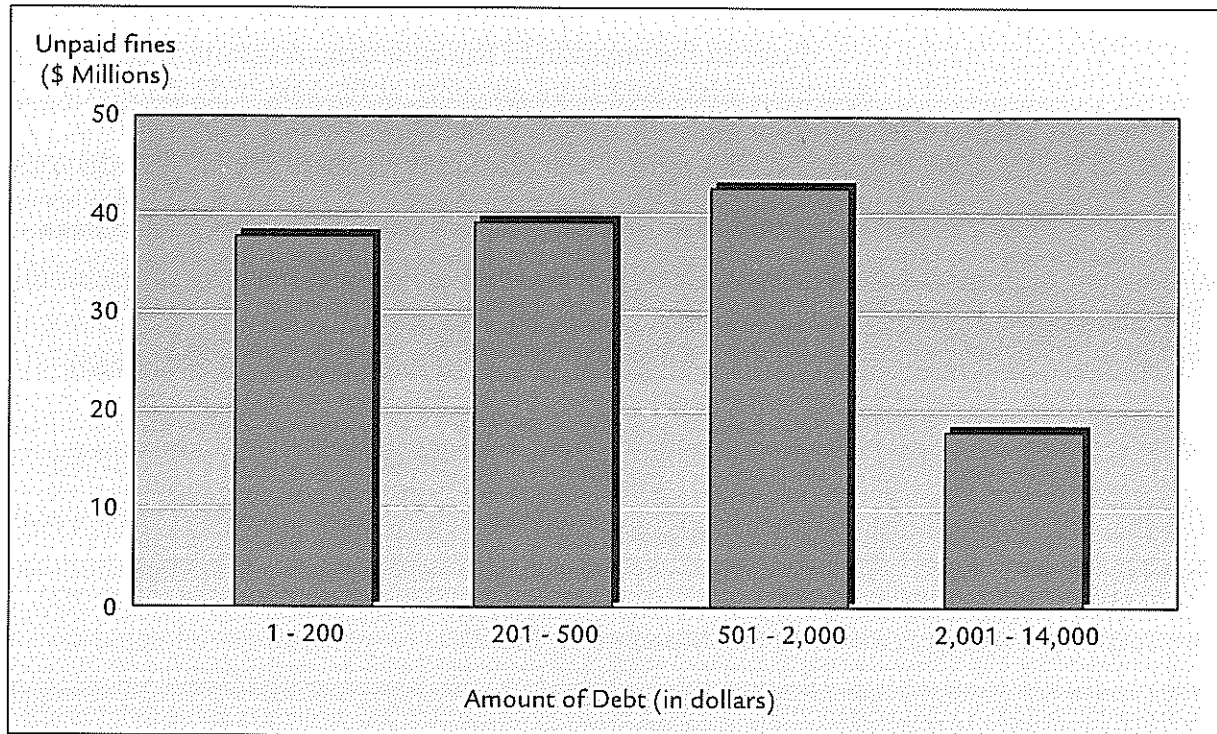
Exhibit 5.2 shows the approximately \$137 million balance of all unpaid fines, before the allowance for doubtful accounts, at March 31, 1997.

Before 1994, the Motor Vehicle Branch had a policy of not renewing a driver's licence if the holder had outstanding fines. However, licences are only renewed every five years. Delinquent drivers who did not pay in full could renew their licence by

Exhibit 5.1

Value of Individual Debtor Accounts

Comparison of overall receivables and ranges of debtor accounts



Source: Insurance Corporation of British Columbia

Exhibit 5.2

Accounts Receivable Summary at March 31 (\$ Thousands)

	1995	1996	1997
Fines (MVB)	104,466	111,077	105,840
Fines (other ministries)	3,511	4,022	4,318
Weigh scales	346	355	315
Returned cheques	687	782	811
Court Services fines	23,541	22,008	22,661
Criminal Code fines	1,688	2,062	2,599
Total receivables	134,239	140,306	136,544
Less: Allowance for doubtful accounts	46,486	49,323	52,139
Net accounts receivable	87,753	90,983	84,405

Sources: Insurance Corporation of British Columbia and Ministry of Attorney General

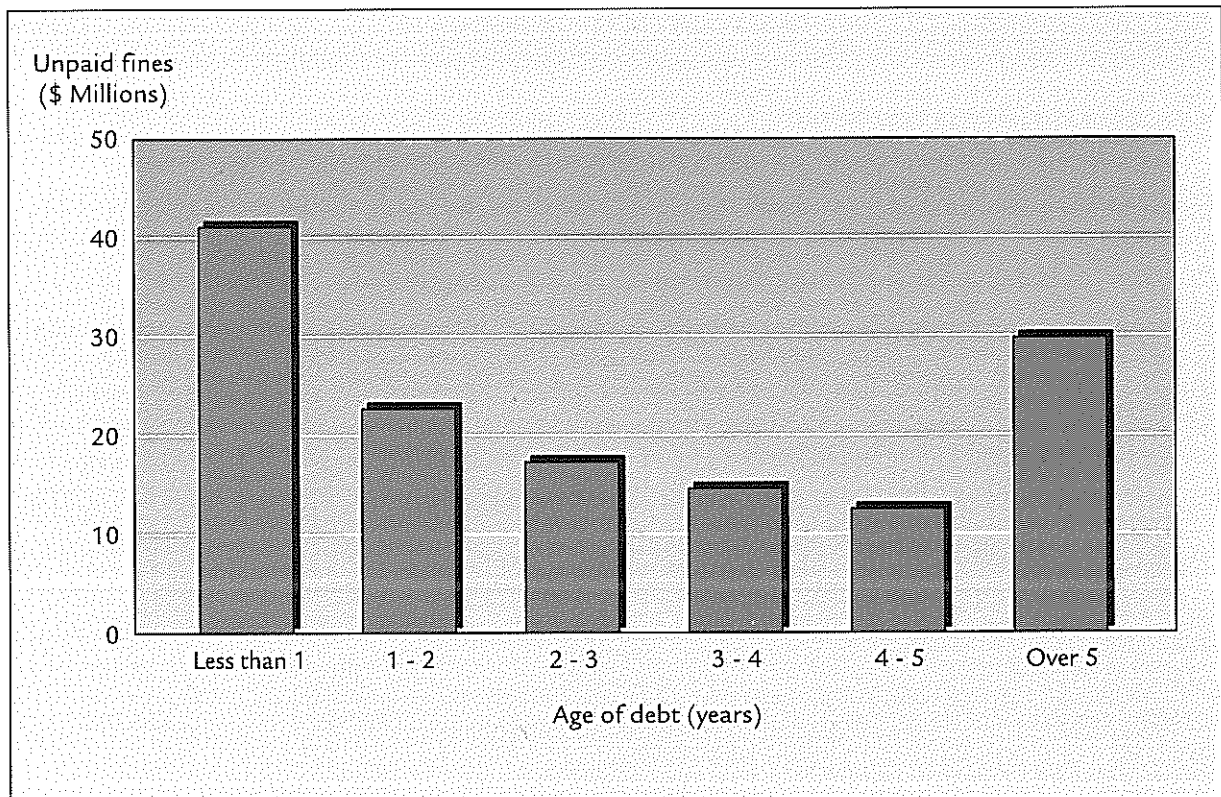
agreeing to a payment schedule. Approximately 80% of these arrangements were defaulted on, thereby deferring the obligation to pay for a further five years. In 1994, the branch introduced a different process, described as a payment plan, which reduced the default rate to 34%.

Prior to the creation of the collection program in 1994, accounts receivable were growing at the rate of \$1 million a month, with little or no organized collection efforts were in place. At the time of our audit, only 26% of the 557,000 debtors were under active collection. About 90% of all receivables were 90 or more days overdue. As Exhibit 5.3 shows, approximately \$74 million, or 54% of all receivables, had been owed for more than two years.

By 1994, the average age of receivables was 30 months. Exhibit 5.4 compares revenues from motor vehicle-related fines with the growth in receivables since 1990.

Exhibit 5.3

Unpaid Fines Aging Summary (at March 31, 1997)



Source: Insurance Corporation of British Columbia

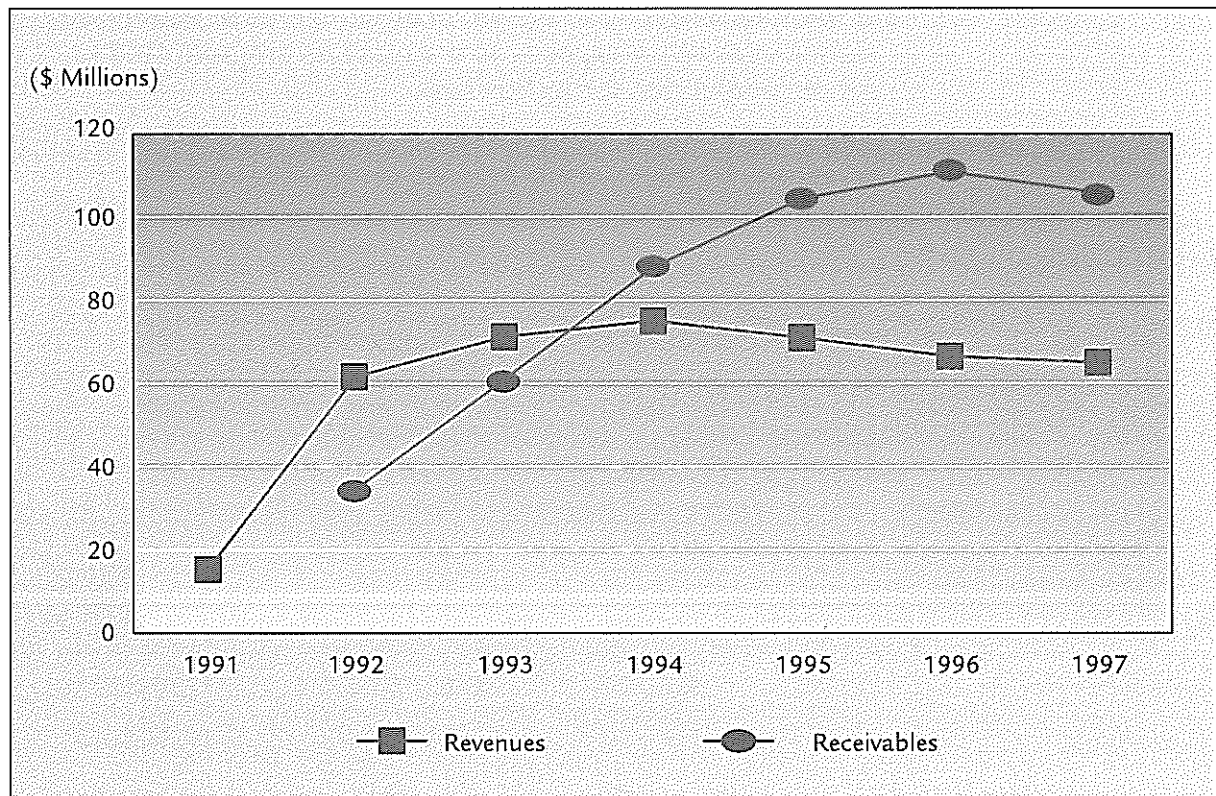
Recommendation 1:

The corporation should develop a strategy for collecting unpaid fines in order to establish confidence in the effectiveness of the motor vehicle-related fines system.

- *The corporation should prepare a business plan that identifies the cost-effectiveness of collection alternatives. This plan should be used to obtain the necessary resources to provide cost-effective collection of unpaid fines.*
- *In the short term, the corporation should develop strategies, including specific objectives, to eliminate the backlog of long-outstanding fines.*

Exhibit 5.4

Growth of Fines Receivable Compared to Fines Revenues (1991 to 1997)



Source: Insurance Corporation of British Columbia

Efficiency of Collection

In April 1995, the Motor Vehicle Branch began referring accounts for unpaid fines to a private sector agency. Since then, 225,689 accounts have been referred to the agency, representing \$89.1 million. At March 31, 1997, approximately \$31 million had been collected, on which commissions of \$7.3 million were paid. Exhibit 5.5 shows the referral activity to date, as well as the results achieved by the agency.

Evaluating the performance of the agency based on its overall recovery rate of 34% is difficult, as there has been little management analysis of accounts referred. Until recently, accounts were not referred based on age or the likelihood of collection. It would seem reasonable that older accounts or accounts which have not responded to the branch's internal collection efforts would be likely candidates for referral. This was not the case, however.

The branch initially intended to use the services of several private sector collection agencies once systems support was in place. However, because other program issues became priorities, the systems were not developed and expansion beyond one agency never occurred. We believe that government should employ more than one agency in order to ensure that it has sufficient resource capacity to maintain its program, and to foster competition for its business.

Exhibit 5.5

Summary of Collection Agency Referrals (for the calendar years 1995 to 1997)

	1995	1996	1997
Number of Debtors	500,000	535,000	557,000
Accounts referred during the year	12,193	85,838	127,658
Dollar value placed to agency	\$8,900,000	\$33,500,000	\$46,700,000
Average balance	\$730	\$390	\$365
Collections	\$850,000	\$12,300,000	\$17,400,000
Commissions	\$191,000	\$2,900,000	\$4,100,000
Cumulative Recovery Rate	9.5%	31.1%	34.3%

Source: Insurance Corporation of British Columbia

Before referring accounts to its collection agency, the Motor Vehicle Branch attempted to collect accounts directly by sending out letters notifying debtors that, unless payment was made, their account might be turned over to a collection agency. The branch also carried out some collection of accounts not turned over to the collection agency. In 1996/97, the branch collected \$36.1 million.

Recommendation 2:

The corporation should refer accounts to collection agencies based on cost-effectiveness.

Although some of the costs of collection are known, there is no reliable information available to evaluate the relative cost-effectiveness of internal and contracted collection activities. As a result, cost-benefit analyses have not been used to evaluate resourcing alternatives.

Fairness

An important element of fairness is that all debtors be treated consistently. However, many persons with unpaid fines have been allowed to ignore them with impunity.

The collection program issued dunning letters notifying debtors of their debt and the consequences of non-payment, including referral to the collection agency. To deal with the backlog of unpaid fines, 25,000 dunning letters a week should have been issued. Instead, only 6,000 were sent each week, and only those accounts were subject to more aggressive collection by the collection agency.

Over 187,000 debtors, owing approximately \$32 million, are out-of-province drivers. One way to collect unpaid fines from these debtors is by implementing reciprocal enforcement agreements with other provinces and states. Through the Canadian Council of Motor Transport Administrators, the Motor Vehicle Branch has been working to create a technical framework that will enable the provinces to exchange licensing information in order to track drivers with outstanding fines.

Management, Goal Setting and Monitoring

The Motor Vehicle Branch never had the level of resources required to achieve its objectives. Cost-benefit analyses to assess goals and resource alternatives were not used and, until recently, only limited performance measurement information was available. As a result, there were neither clear performance measures nor targets with which to determine the extent to which objectives were met.

The accuracy, reliability and timeliness of information from the accounting system is questionable. Essential management reports either cannot be produced, are prepared infrequently, or are incomplete. For example:

- A reliable aging of receivables is not produced.
- There is no breakdown of payments by age.
- Some management reports have been discontinued or are run infrequently because of the system's inability to purge obsolete information.
- The accounts receivable system incorrectly records Court Services write-offs as payments.
- The Court Services Branch, which also collects fines resulting from disputed motor vehicle-related violation tickets, is not linked with the branch's accounts receivable system. As a result, timing problems lead to increased queries and pressure on staff.

In 1996, the Motor Vehicle Branch acquired an electronic debtor history profile system that was to be linked to the branch's accounts receivable system. The system was never fully implemented because the government's priorities shifted, and resources were not available to complete the integration. Subsequent information systems developments have reduced the need for this system, although it remains a useful resource.

ICBC has been developing its Customer Account Management System (CAM) to merge ICBC and Motor Vehicle Branch databases. The system will facilitate the corporation's ability to apply "refuse to issue" remedies to all debtors, and will enable Autoplan brokers to collect debt payments at the point of sale. CAM includes a new accounts receivable system and more flexible management reporting options. However, ICBC estimates it will be 1999 before CAM is fully operational. The second phase of the project, implemented in early 1998, allows ICBC to refuse to provide insurance to persons with outstanding fines.

Collection Processes

It was not until July 1994 that a collection program was established to address the growing overdue accounts receivable problem. Initially, four employees were hired, all with collection experience. By 1996, this number grew to eight. The main role of the branch was to refer overdue accounts to collection agencies, which began in 1995.

If motor vehicle-related fines are not paid by the date identified on the violation ticket, there are a number of steps that can be taken to collect them, including:

- dunning letters
- referral to a collection agency
- garnishee of wages
- access to personal bank accounts
- lien against real property
- bailiff seizure of assets
- reporting to a credit bureau
- refusal to renew a driver's licence and insurance

With the merging of ICBC and the Motor Vehicle Branch, one organization has, for the first time, control of all aspects of the province's motor vehicle regulatory system. Now that ICBC has responsibility for collection, its "refuse to issue" powers can be applied to both driver's licences and motor vehicle insurance to improve the collection of unpaid fines.

However, the refusal to renew a driver's licence has a limited effect, as only 51% of the 557,000 debtors have a valid driver's licence. Refusal to issue car insurance works very well for registered owners, but registered owners represent only 35% of the debtors.

Reporting to the Legislative Assembly

The primary source of accountability information to the Assembly is the annual report of the Ministry or Crown corporation responsible for the Motor Vehicle Branch. In the past, these ministries have included the Solicitor General, Attorney General, and Ministry of Transportation and Highways. Annual reports for these ministries disclose little, if any, accountability- and performance-related information about the branch's collection efforts. As ICBC did not have responsibility for the branch until November 1996, at the time of our examination it had not yet reported on its performance.

We believe the Legislative Assembly should know:

- the extent to which motor vehicle-related fines receivable are overdue;
- what government is doing to collect those fines;
- how successful and timely it is at collecting them;

- how much it costs to collect them; and
- what government can do to improve the effectiveness and efficiency of collection.

Recommendation 3:

The corporation should include, as part of the accountability information it provides to Members of the Legislative Assembly, year-to-year comparisons of:

- *the number and value of unpaid fines referred for collection during the year,*
- *the results of its efforts to collect unpaid fines,*
- *the costs it incurs collecting those fines, and*
- *the balance of unpaid fines at yearend.*



response of the insurance corporation of british columbia

The portion of the Auditor General's Report dealing with collections of the former Motor Vehicle Branch (MVB) reflects institutional arrangements and collections practices that are no longer current. In 1997, the former MVB was merged with the Insurance Corporation of British Columbia (ICBC), which assumed responsibility for almost all driver and vehicle-related services including the collection of motor vehicle fines and other debts.

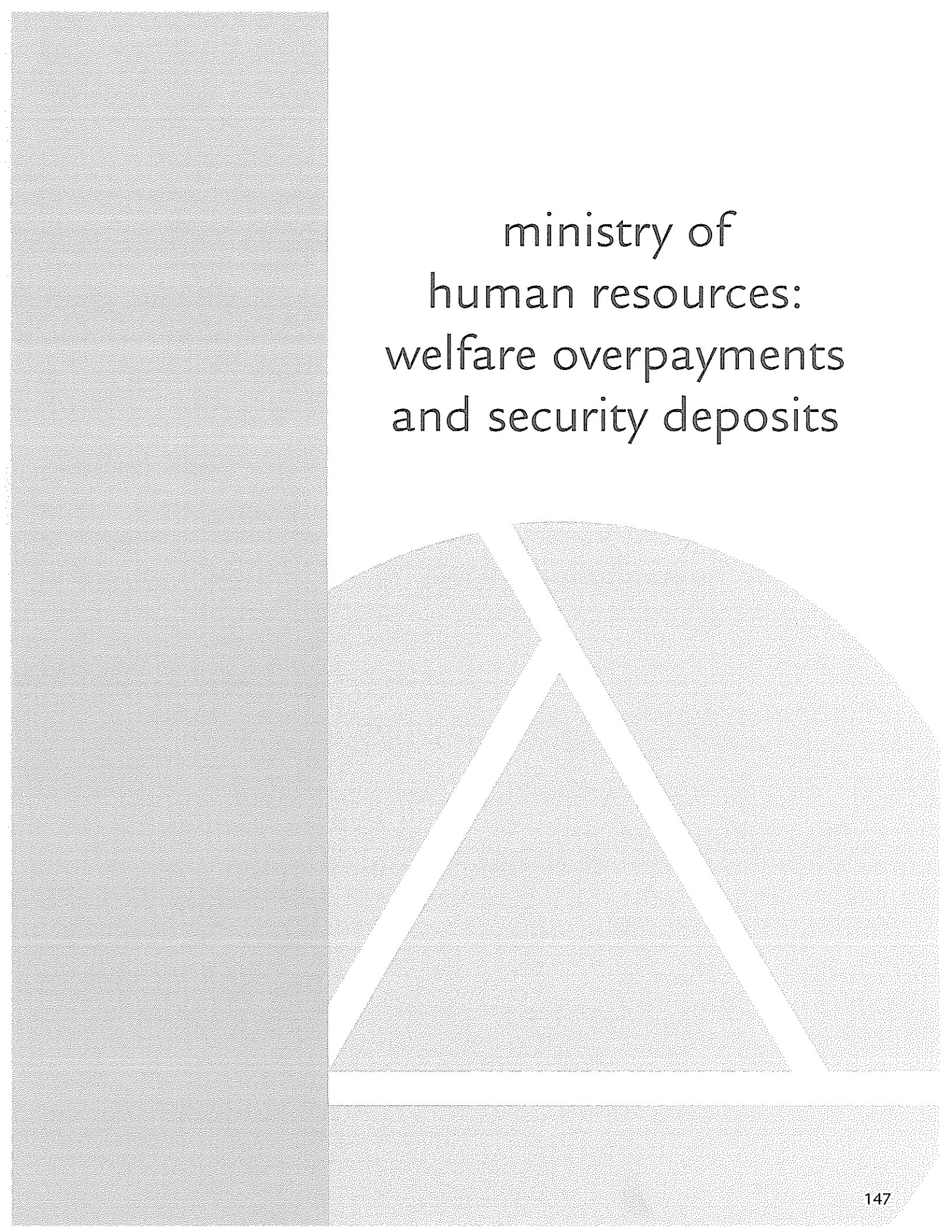
The government has already taken action to improve fine collections. Legislative changes in 1997 provided ICBC with the authority to:

- *prevent debtors from purchasing vehicle licences and insurance;*
- *limit the term of vehicle licences and insurance; and*
- *prevent debtors from obtaining or renewing driver's licences.*

The new collections measures came into effect in May 1998, and ICBC is making further systems improvements to reinforce the new measures that will become effective shortly. The expanded collection remedies now in place at ICBC should greatly improve the collectability of "new" fines and debt. While there is no question that a significant portion of the existing debt has been outstanding for a considerable time, ICBC is making every effort to ensure its successful collection.

ICBC is continuing to develop further measures to enhance collections. Initiatives under consideration include additional cross-effective remedies and reciprocal fine collection arrangements with other jurisdictions.





ministry of
human resources:
welfare overpayments
and security deposits

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Welfare Overpayments and Security Deposits

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highlights

An audit of the collection of security deposits and income assistance overpayments

Introduction

At March 31, 1997, almost \$124 million was owed to the Ministry of Human Resources by current and past recipients of income assistance benefits, for security deposits on rented accommodation and for overpayment of benefits. To protect the integrity of its income assistance programs, the government needs to pursue the collection of these debts vigorously, while recognizing the difficult personal circumstances of many of the debtors.

Audit Purpose and Scope

The purpose of this audit was to assess the effectiveness and efficiency of the government's program for collecting repayable income assistance benefits.

In particular, our audit considered:

- completeness (how successful the ministry is at collecting accounts);
- timeliness (how quickly overdue accounts are collected);
- fairness (what assurance there is that debtors are treated fairly and consistently);
- efficiency (the relationship between revenues and the costs of collecting those revenues); and
- accountability (performance information provided to the Legislative Assembly).

Our examination reviewed the results of the fiscal years 1994/95 to 1996/97. It was performed in accordance with value-for-money standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Overall Conclusion

The collection of security deposits and income assistance benefits is seriously inadequate. Of the almost \$124 million outstanding at March 31, 1997, approximately \$101 million is unlikely ever to be collected.

We recognize the balance that the ministry must achieve in any attempt to collect money from its clients and former

clients. Persons on income assistance generally cannot afford large repayments, and there is a risk that vigorous collection from persons recently on income assistance might force them back on assistance. However, we also recognize that it is important, from both financial and social perspectives, that the ministry recover whatever money it reasonably can.

Key Findings

At March 31, 1997, the ministry was owed over \$34 million for security deposits. Repayment of a portion of that amount, \$6.8 million, was overdue. It is estimated that, of the total amount outstanding, over \$20 million will not be recovered for a variety of reasons, one of which is that landlords will be entitled to retain deposits because tenants have vacated without giving notice or have vacated and left premises in disrepair.

At March 31, 1997, income assistance overpayments totalled \$89.5 million. The ministry has made provision for over \$81 million that it considers will be not likely be collected, given the social and economic circumstances of the debtors. The ministry has undertaken a pilot project to collect money owed by ex-social assistance recipients whose files were closed before September 1996, using the services of private sector collection agencies. Collection of debts for files closed after September 1996 has been deferred until the ministry evaluates the results of the pilot project.



summary of recommendations

- 1 *The ministry should continue development of programs that will ensure that, to the extent reasonably possible, debts related to social assistance are collected. We recognize the difficulties involved in doing so, but believe that if there is a perception the ministry will not pursue debts, then avoidance may become widespread.*
- 2 *The ministry should review program alternatives, including options for consolidating the ministry's requirements with other government collection programs or expanding the use of private sector collection agencies.*
- 3 *The ministry should determine appropriate performance measures and set clear, measurable goals for its programs for collecting overdue accounts. It should also monitor performance relative to these goals.*
- 4 *The ministry should use cost-benefit analyses to determine the appropriate level of resources to apply to the collection of overdue accounts.*
- 5 *The ministry should include, as part of the accountability information it provides to the Legislative Assembly about social assistance programs, year-to-year comparisons of:*
 - *number and dollar value of overpayments and other accounts referred for collection during the year,*
 - *recoveries and write-offs,*
 - *timeliness of collection,*
 - *costs of collection programs, and*
 - *balance of overdue accounts at yearend.*



detailed report

Social Assistance

The Government of British Columbia, through the Ministry of Human Resources, provides financial assistance to individuals and families whose resources are inadequate to meet their basic needs. The ministry determines the eligibility of individuals and administers assistance through a variety of programs, including:

- Income assistance, which provides financial assistance to individuals.
- Youth Works, which provides a living allowance for young people who attend training to improve employment opportunities.
- Disability benefits, which provide financial assistance for persons requiring extra assistance with daily living or who incur medical costs due to a condition that will exist for an extended period.
- Hardship assistance, which provides short-term assistance for persons not eligible for basic income support. Most hardship benefits are repayable.
- Other benefits, including repayable security deposits and transition-to-work benefits.

Most financial assistance cases do not result in the creation of debts owed to the Province. However, the ministry, to preserve the integrity of its financial assistance programs, has prevention, compliance, and enforcement programs that result in debts owed to the Province by landlords and current and ex-income assistance recipients.

Completeness and Timeliness

Security Deposits

The balance of security deposit receivables, before the allowance for doubtful accounts, was approximately \$34.4 million at March 31, 1997 (Exhibit 6.1).

Security deposits related to *continued tenancies* represent money that may eventually be repayable to the ministry. Before August 1997, the ministry provided landlords with security deposits on behalf of income assistance recipients. When the tenancy ended, the landlord was required to return the deposit, subtracting any amount retained as a result of damage or the tenant leaving without providing notice. However, until a tenancy has terminated, the landlord is not

required to return the deposit. Collection action is taken only on *terminated tenancies* where the security deposit has not been returned. The ministry estimates that approximately 65% of all terminated and continued tenancy receivables will not likely be recovered. Security deposits may not be recovered for a variety of reasons, which relate to defaults on the part of the tenant or defaults on the part of the landlord.

Since August 1997, security deposits are the responsibility of income assistance clients, who are required to collect the deposit from the landlord and repay it to the ministry. In the event that repayment is not made, the security deposit will be recovered from assistance payments if the person is still on income assistance.

A program to recover security deposits from landlords began April 1, 1994. The program includes tracing debtors, contacting and negotiating with landlords, and filing claims with the Residential Tenancy Branch of the Ministry of Attorney General. Since the program began, approximately \$10 million has been repaid and a further \$18.3 million settled in the form of substantiated claims by landlords. If negotiations with landlords are unsuccessful, the ministry can apply under the Residential Tenancy Act for an order requiring the landlord to pay or account for a security deposit. However, this remedy is limited to amounts owed for less than two years.

The ministry also monitors to confirm that tenancies are actually continuing, and that there is no need for action to recover the security deposit.

Exhibit 6.1

Security Deposits Receivable (at March 31)

	1995	1996	1997
Continued tenancies	\$17,540,447	\$24,360,741	\$27,575,326
Terminated tenancies	2,212,811	6,983,064	6,806,774
Total Receivables	19,753,258	31,343,805	34,382,100
Less: Allowance for doubtful accounts	138,194	1,208,000	*20,200,000
Net Accounts Receivable	\$19,615,064	\$30,135,805	\$14,182,100

* In 1996/97 the ministry's financial records, for the first time, disclosed fully the probability that the majority of security deposits will not be recovered from landlords.

Source: Ministry of Human Resources (Financial Services Branch)

The ministry is conducting a pilot project using private sector collection agencies to recover income assistance overpayments. The ministry expects that, if the program is successful, it will be expanded to include security deposits provided by the ministry since August 1997.

Income Assistance

Receivables for income assistance overpayments, before the allowance for doubtful accounts, were \$89.5 million at March 31, 1997 (Exhibit 6.2). Although income assistance overpayments have existed for a number of years, it was not until 1996/97 that the ministry formally recognized these receivables and presented them in the Public Accounts.

Approximately half of all income assistance receivables are from persons who are on assistance. Payment participation from these 40,000 clients is virtually 100% due to the ministry's ability to offset income assistance cheques against receivables. However, these payments are, for the most part, limited to \$10 month. Since the average debt for those on assistance is approximately \$1,158, it would take almost 10 years to repay. For those owing more than \$9,000 it would take almost 78 years to repay. The allowance for doubtful accounts has been set at 90%. See Exhibit 6.3.

For clients no longer on income assistance, the ministry is faced with the dilemma of attempting to collect while at the same time recognizing that an aggressive approach may place the individual back on assistance. An analysis of debts owed by those no longer on assistance at March 31, 1997, is shown in Exhibit 6.4.

Exhibit 6.2

Income Assistance Overpayments Receivable (at March 31)

	1995	1996	1997
Open files (<i>currently on assistance</i>)	N/A	N/A	\$46,622,563
Closed files (<i>after September 14, 1996</i>)	N/A	N/A	15,625,510
Closed files (<i>before September 14, 1996</i>)	N/A	N/A	27,220,005
Total Receivables	N/A	N/A	89,468,078
Less: Allowance for doubtful accounts	N/A	N/A	81,123,014
Net Accounts Receivable	N/A	N/A	\$8,345,064

Source: Ministry of Human Resources (Financial Services Branch)

Exhibit 6.3

Income Assistance Overpayments: Aging and Range of Debt
(for Open Cases at March 31, 1997)

Debt Age	Debt Ranges					Total \$	Total %
	\$1-500	\$500-1000	\$1000-2500	\$2500-5000	\$5000+		
0-6 months	\$4,716,468	\$5,558,672	\$11,752,108	\$9,991,664	\$13,238,052	\$45,256,964	97.7
6-12 months	29,858	41,561	97,152	96,190	84,149	348,910	.7
1-3 years	38,952	47,152	114,860	114,810	76,407	392,181	.9
4-5 years	11,629	14,702	48,423	23,113	51,048	148,915	.3
5+ years	11,727	12,532	38,339	47,730	72,266	182,594	.4
	\$4,808,634	\$5,674,619	\$12,050,882	\$10,273,507	\$13,521,922	\$46,622,564	100.0
Total files	20,956	7,789	7,231	2,845	1,447	40,268	
Average debt	\$229	\$729	\$1,667	\$3,611	\$9,345	\$1,158	

Source: Ministry of Human Resources (Financial Services Branch)

Exhibit 6.4

Income Assistance Overpayments: Aging and Range of Debt
(for Closed Cases at March 31, 1997)

Debt Age	Debt Ranges					Total \$	Total %
	\$1-500	\$500-1000	\$1000-2500	\$2500-5000	\$5000+		
0-6 months	\$1,655,902	\$1,992,454	\$3,730,409	\$2,723,273	\$2,951,496	\$13,053,534	30.5
6-12 months	1,085,557	1,290,923	2,355,150	1,646,676	1,773,530	8,151,836	19.0
1-3 years	1,929,202	2,103,516	3,134,490	2,849,628	3,847,287	13,864,123	32.4
4-5 years	887,140	850,608	1,175,325	1,008,612	1,182,144	5,103,829	11.9
5+ years	549,593	404,642	657,887	439,090	620,979	2,672,192	6.2
	\$6,107,394	\$6,642,143	\$11,053,261	\$8,667,279	\$10,375,436	\$42,845,513	100.0
Total files	25,758	9,234	7,094	2,531	1,200	45,817	
Average debt	\$237	\$719	\$1,558	\$3,424	\$8,646	\$935	

Source: Ministry of Human Resources (Financial Services Branch)

Recovery of income assistance overpayments has been limited to date. During 1996/97, the ministry collected \$6.1 million. The majority of this, \$5.8 million, was collected from persons still on assistance. Only \$345,158 was collected from persons no longer on assistance.

In 1996, as a pilot project, the ministry began referring accounts that had been closed before September 1996, to private collection agencies. From September 1996 until March 1997, a total of 14,074 accounts, representing \$11.9 million, were referred for collection. The ministry has paid \$186,232 to recover \$345,158.

While these results are disappointing, they are much better than the collection results of those files closed after September 1996. No collection activity has been undertaken on those. Approximately 16,000 files closed after September 1996, representing over \$15.6 million, have been held pending the results of the collection agencies pilot project.

Recommendation 1:

The ministry should continue development of programs that will ensure that, to the extent reasonably possible, debts related to social assistance are collected. We recognize the difficulties involved in doing so, but believe that if there is a perception the ministry will not pursue debts, then avoidance may become widespread.

Efficiency

As discussed above, the ministry has undertaken a pilot project using the services of private sector collection agencies to collect money owed by ex-social assistance recipients. As well, the ministry receives some voluntary repayments from ex-social assistance recipients. It also collects overpayments from persons still on income assistance. However, recoveries are limited to \$10 per month in most cases.

The ministry does collect security deposits. However, this remedy is limited due to lack of staff. Also, security deposits more than two years old cannot be recovered under the Residential Tenancy Act. Other collection activity in this area awaits review of the results of the pilot project.

Recommendation 2:

The ministry should review program alternatives, including options for consolidating the ministry's requirements with other government collection programs or expanding the use of private sector collection agencies.

Fairness and Consistency

For income assistance debts turned over to collection agencies, there is some assurance that debtors are treated fairly and in a consistent manner. However, approximately 16,000 files representing over \$15 million in income assistance overpayments, have not been turned over to collection agencies and have not been subject to any internal collection effort. Our conclusion is that treatment of debtors is unacceptably inconsistent.

Management, Goal Setting and Monitoring

The collection unit of the Financial Services Branch has not established clear and measurable targets for collection. The unit has also not clearly linked the relationship between objectives for collection of its receivables and the level of resources required. Cost-benefit analyses, to assess goals and resource alternatives, have not been used.

Recommendation 3:

The ministry should determine appropriate performance measures and set clear, measurable goals for its programs for collecting overdue accounts. It should also monitor performance relative to these goals.

Recommendation 4:

The ministry should use cost-benefit analyses to determine the appropriate level of resources to apply to the collection of overdue accounts.

Reporting to the Legislative Assembly

Annual reports for the 1994/95 and 1995/96 fiscal years for the Ministry of Social Services (the predecessor of the Ministry of Human Resources) provide some information about the ministry's efforts to recover security deposits and income assistance overpayments. The information reported in each of these years identified the amount in security deposits that became collectable during the year and the amount actually collected or otherwise reconciled, and the amount of income assistance recovered from one group of debtors. The annual report for the 1996/97 fiscal year was not available at the time of our examination.

The information reported represents a positive step toward full disclosure and accountability by the ministry. We acknowledge the ministry's efforts, and encourage it to report the additional information outlined below.

Recommendation 5:

The ministry should include, as part of the accountability information it provides to the Legislative Assembly about social assistance programs, year-to-year comparisons of:

- *number and dollar value of overpayments and other accounts referred for collection during the year,*
- *recoveries and write-offs,*
- *timeliness of collection,*
- *costs of collection programs, and*
- *balance of overdue accounts at yearend.*



response of the ministry of human resources

The Ministry of Human Resources appreciates the opportunity to comment on the Auditor General's review of Security Deposits and Income Assistance Overpayments dated September 2, 1998.

For background, the main source of accounts receivable for the Ministry is income assistance recipients. The types of receivables include:

- *Security deposit advances*
- *Repayable hardship assistance*
- *Fraud*

Prior to 1996, the Ministry did not attempt to actively recover any of its receivables from former income assistance recipients. The pilot project undertaken in July 1996 thus represented an attempt to recover debts that were not only old, but poorly documented. The lack of success for recovery of these debts is therefore not surprising. The Ministry appreciates the recognition provided by the Office of the Auditor General of the difficulty involved in pursuing these debts. Most income assistance recipients do not have adequate funds to make repayments. Many of those who are no longer on assistance have limited funds, as well. The Ministry's main goals are to assist people who are truly in need and to facilitate clients in moving from welfare to work. In many cases, these goals would be undermined by an aggressive collection effort.

The Ministry is committed to continue its efforts to collect these debts in a fair and equitable manner. In response to the Auditor General's report, the Ministry has already initiated a review of our collection efforts. This review has concentrated on the determination of the mandate of the Ministry with respect to three phases of collection:

- 1. Initial request for payment*
- 2. Demands for payment*
- 3. Litigation*

The results of the review will form the basis of a revised collection strategy which will allow the Ministry to continue its efforts to collect these debts without compromising its core goal of providing assistance.

In the implementation of this collection strategy, the Ministry will use cost-benefit analyses and determine appropriate performance measures. Consideration will also be given to providing information on the results in the Ministry Annual Report.

The Ministry of Human Resources appreciates the constructive recommendations offered by the Office of the Auditor General.



appendices

appendix a

1998/99 Reports Issued to Date

Report 1

Follow-up of 1996 Performance Audits/Studies



Report 2

Managing the Cost of Drug Therapies
and Fostering Appropriate Drug Use

Report 3

Collection of Overdue Accounts Receivable



appendix b

Office of the Auditor General: Performance Auditing Objectives and Methodology

Audit work performed by the Office of the Auditor General falls into three broad categories:

- Financial auditing;
- Performance auditing; and
- Compliance auditing.

Each of these categories has certain objectives that are expected to be achieved, and each employs a particular methodology to reach those objectives. The following is a brief outline of the objectives and methodology applied by the Office for performance auditing.

Performance Auditing

Purpose of Performance Audits

Performance audits look at how organizations have given attention to economy, efficiency and effectiveness.

The concept of performance auditing, also known as value-for-money auditing, is based on two principles. The first is that public business should be conducted in a way that makes the best possible use of public funds. The second is that people who conduct public business should be held accountable for the prudent and effective management of the resources entrusted to them.

The Nature of Performance Audits

An audit has been defined as:

...the independent, objective assessment of the fairness of management's representations on performance, or the assessment of management systems and practices, against criteria, reported to a governing body or others with similar responsibilities.

This definition recognizes that there are two primary forms of reporting used in performance auditing. The first—referred to as attestation reporting—is the provision of audit opinions on reports that contain representations by management on matters of economy, efficiency and effectiveness.

The second—referred to as direct reporting—is the provision of more than just auditor’s opinions. In the absence of representations by management on matters of economy, efficiency and effectiveness, auditors, to fulfill their mandates, gather essential information with respect to management’s regard for value for money and include it in their own reports along with their opinions. In effect, the audit report becomes a partial substitute for information that might otherwise be provided by management on how they have discharged their essential value-for-money responsibilities.

The attestation reporting approach to performance auditing has not been used yet in British Columbia because the organizations we audit have not been providing comprehensive management representations on their performance. Indeed, until recently, the management representations approach to value for money was not practicable. The need to account for the prudent use of taxpayers’ money had not been recognized as a significant issue and, consequently, there was neither legislation nor established tradition that required public sector managers to report on a systematic basis as to whether they had spent taxpayers’ money wisely. In addition, there was no generally accepted way of reporting on the value-for-money aspects of performance.

Recently, however, considerable effort has been devoted to developing acceptable frameworks to underlie management reports on value-for- money performance, and public sector organizations have begun to explore ways of reporting on value-for-money performance through management representations. We believe that management representations and attestation reporting are the preferred way of meeting accountability responsibilities and are actively encouraging the use of this model in the British Columbia public sector.

Presently, though, all of our performance audits are conducted using the direct reporting model; therefore, the description that follows explains that model.

Our performance audits are not designed to question government policies. Nor do they assess program effectiveness. The Auditor General Act directs the Auditor General to assess whether the programs implemented to achieve government policies are being administered economically and efficiently. Our performance audits also evaluate whether members of the Legislative Assembly and the public are provided with appropriate accountability information about government programs.

When undertaking performance audits, auditors can look either at results, to determine whether value for money is actually achieved, or at management processes, to determine whether those processes should ensure that value is received for money spent.

Neither approach alone can answer all the legitimate questions of legislators and the public, particularly if problems are found during the audit. If the auditor assesses results and finds value for money has not been achieved, the natural questions are "Why did this happen?" and "How can we prevent it from happening in future?" These are questions that can only be answered by looking at the process. On the other hand, if the auditor looks at the process and finds weaknesses, the question that arises is "Do these weaknesses result in less than best value being achieved?" This can only be answered by looking at results.

We try, therefore, to combine both approaches wherever we can. However, as acceptable results information and criteria are often not available, our performance audit work frequently concentrates on managements' processes for achieving value for money.

We seek to provide fair, independent assessments of the quality of government administration. We conduct our audits in a way that enables us to provide positive assessments where they are warranted. Where we cannot provide such assessments, we report the reasons for our reservations. Throughout our audits, we look for opportunities to improve government administration.

Audit Selection

We select for audit either programs or functions administered by a specific ministry or public body, or cross-government programs or functions that apply to many government entities. There are a large number of such programs and functions throughout government. We examine the larger and more significant ones on a cyclical basis.

We believe that performance audits conducted using the direct reporting approach should be undertaken on a five- to six-year cycle so that members of the Legislative Assembly and the public receive assessments of all significant government operations over a reasonable time period. Because of limited resources, we have not been able to achieve this schedule.

Our Audit Process

We carry out these audits in accordance with the value-for-money auditing standards established by the Canadian Institute of Chartered Accountants.

One of these standards requires that the “person or persons carrying out the examination possess the knowledge and competence necessary to fulfill the requirements of the particular audit.” In order to meet this standard, we employ professionals with training and experience in a variety of fields. These professionals are engaged full-time in the conduct of performance audits. In addition, we often supplement the knowledge and competence of our own staff by engaging one or more consultants, who have expertise in the subject of that particular audit, to be part of the audit team.

As performance audits, like all audits, involve a comparison of actual performance against a standard of performance, the CICA prescribes standards as to the setting of appropriate performance standards or audit criteria. In establishing the criteria, we do not demand theoretical perfection from public sector managers. Rather, we seek to reflect what we believe to be the reasonable expectations of legislators and the public. The CICA standards also cover the nature and extent of evidence that should be obtained to support the content of the auditor’s report, and, as well, address the reporting of the results of the audit.



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