

REVIEW OF:

Natural Resource Billing and Receivables Management Practices

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Introduction

The Ministry of Forests, Lands, Natural Resource Operations, and Rural Development (the Ministry) within the Government of British Columbia (the Government) has seen several changes to its organizational structure over the last decade. This includes the implementation of the Corporate Services for the Natural Resource Sector (CSNR) and a centralized revenue collections model which has transferred the responsibility for accounts receivable (A/R) to the Receivables Management Office (RMO) within the Ministry of Finance. RMO is an agency responsible for the collections of overdue tax accounts as well as some non-tax debts.

The Ministry collects both forest and non-forest revenue. For 2018/19, budgeted forestry revenue was \$903 million, while non-forestry revenue was budgeted at \$576 million.

Forestry revenue is comprised of:

- \$520 million for stumpage fees from timber tenures. Stumpage fees are charged to businesses and individuals when they harvest timber from Crown land in British Columbia (BC or the Province).
- \$341 million from BC Timber Sales. BC Timber Sales sells approximately 20% of the Province's available timber volume through auction.
- \$42 million from rental fees, fees in lieu of manufacture, range permits and fees, and forest waste.

The largest source of non-forest revenue relates to water revenues. The majority of water revenues are payments for power production (\$383 million), with the remainder coming from individuals and businesses utilizing water on Crown land (\$12 million). Another significant non-forest revenue source is Crown land (\$135 million) which includes Crown land leases, sales and royalty revenue.

Roles and Responsibilities

The roles and responsibilities for managing, collecting and recording revenue are shared amongst the Ministry, CSNR, and RMO. The Ministry and CSNR are responsible for the management of revenues, including forecasting, pricing, sales, billings, approving write-offs, and some non-forest revenue collections. RMO is responsible for forest revenue collections and recording revenue in the general ledger.

Review Summary

The Ministry requested that Internal Audit & Advisory Services (IAAS) complete an advisory review of its key billing and A/R management processes, including whether appropriate management oversight occurs.

IAAS reviewed the billing and A/R management processes within the Ministry, including the involvement of CSNR in those processes. The scope of the review focused on the billing and receivable management processes over timber tenures, BC Timber Sales, water revenue, and Crown land.

The review evaluated the Ministry's billing and A/R management processes and, where appropriate, made recommendations on whether:

- billing and A/R management processes were well designed;
- roles and responsibilities were clearly defined and understood; and
- sufficient management oversight occurred.

IAAS found that many of the Ministry's billing and A/R management processes appear appropriately designed. However, areas of improvement were identified.

1.0 A/R Collection Practices

Consistent and timely A/R collections is a good practice which helps reduce the risk of having to write-off uncollectible accounts. A/R collections require a specific skill set to effectively manage this process. Ensuring an appropriate A/R collections process, and sufficient training is in place can help mitigate this risk.

The Government's Core Policy and Procedures Manual (CPPM) provides general guidelines on receivables management and the debt collection process. CPPM requires that ministries establish a collection strategy that takes advantage of a full range of collection methods and tools. Ministries are expected to take "prompt and vigorous action to collect overdue receivables using a fair, but determined, process to recover these accounts."

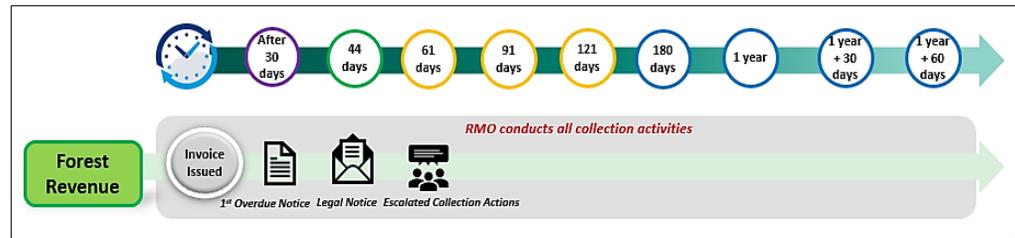
The Revenue Solutions Branch within the Revenue Division of the Ministry of Finance can provide further guidance on A/R management upon request. This guidance includes general standards for ministries to follow, including that ministries should:

- contact the debtor by letter or phone within 20 days of the payment due date;
- send escalation notices every 30 days;
- perform consistent follow-up calls; and
- perform escalated collection actions including, for example, liens and charges, set-offs, third party garnishments or asset seizure.

A/R collection practices within the Ministry vary by revenue source. Practices range from completing all collection activities within a specific branch, using RMO to perform A/R collections, or a combination of these practices. The use of different collection practices has resulted in inconsistent collection actions being taken and an inconsistent experience for clients.

1.1 Forest Revenue A/R Collections

RMO conducts the A/R collections function for forest revenues. RMO staff use a standard process for all A/R collection accounts, including the issuance of a demand letter when a client's account is 30 days overdue followed by sending a legal letter to the client. Subsequently, RMO will escalate collection actions as appropriate.

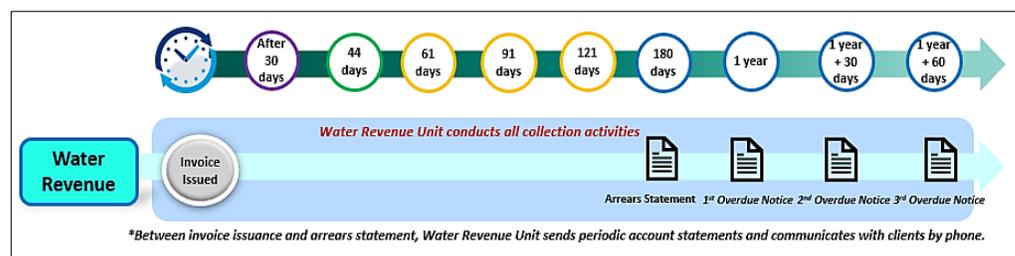


RMO has a number of escalated collection actions available including, bank demands, liens, set-offs, and asset seizure and sale. The collection action taken by RMO is generally based on the amount outstanding and the client's payment history.

1.2 Water Revenue A/R Collections

The Water Revenue Unit (WRU) within CSNR is responsible for the administration of water licenses to authorize license holders the right to legally access water sources. A water right is the authorized use of surface water or groundwater. All water in BC is owned by the Crown on behalf of the residents of the Province.

A/R collections for water rentals are conducted by the WRU. WRU's collections process involves following up with clients by phone, mailing periodic account statements with amounts owing and sending overdue collection notices.



This review identified that overdue collection notices are not consistently sent on a timely basis to clients. A sample of A/R collections showed that, on average, WRU took over one year to send the first overdue collection notice after the payment was due. Having a consistent and timely process in place decreases the risk of accounts being uncollectible and helps ensure consistency to clients.

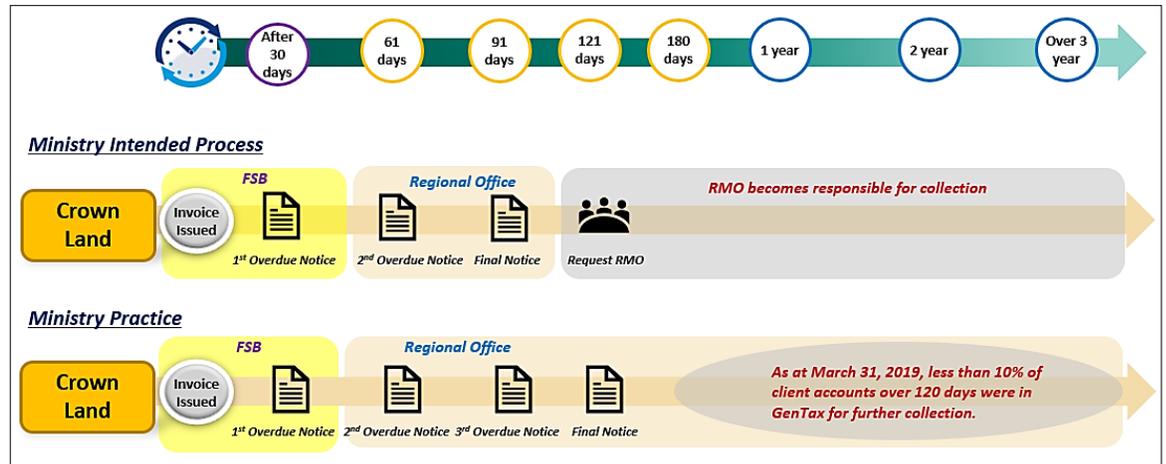
If collection actions are unsuccessful, WRU has escalated actions available, including placing a lien on the property and cancelling the water license. This review identified that escalated actions are rarely taken. These escalated actions can be effective tools to help with collecting delinquent accounts. It may be beneficial for WRU to explore whether additional escalated collection actions would benefit WRU's collections activities.

1.3 Crown Land Revenue A/R Collections

The A/R collections process for Crown land involves multiple business areas including the Financial Services Branch (FSB), regional offices, and RMO.

FSB sends an initial overdue notice 30 days after an invoice is due. After this, Ministry policy requires collections to be completed by regional offices. If the debt remains uncollected after 120 days, regional offices are to provide RMO with the collection account for further follow-up.

This review identified Ministry policy is not consistently followed. For example, at March 31, 2019, less than 10% of client accounts over 120 days overdue had been sent to RMO. Regional offices continue some ad hoc collection activities beyond 120 days, including sending further overdue notices and contacting the client by phone. With a decentralized collections process, the Ministry should ensure that regional office staff are sufficiently trained in collection activities. Inconsistent and untimely collection actions increase the risk of collectability.



Having multiple business areas involved in the collections process can lead to uncertainty about accountability and oversight. FSB does not monitor the A/R collection activities undertaken by regional offices. There are opportunities for FSB to expand its oversight role of A/R collections.

Recommendation:

- (1) **The Ministry should determine whether all collections should be facilitated through RMO. If not, Ministry practices should be improved to ensure consistent practices including monitoring, collections actions are escalated, and appropriate oversight is in place.**

2.0 Credit Granting

Credit checks are often used as a tool to help establish a client's ability to pay prior to issuing credit to the client. This helps an organization mitigate the risk of providing credit to clients with a higher risk of delinquency. CPPM provides general guidance on when credit can be granted to clients. However, CPPM does not provide specific guidance on whether a credit check should be conducted.

The Ministry does a background check on clients applying to bid in timber auctions and any successful bidders on a timber license. This process includes multiple checks to ensure the client is in good financial standing, including past delinquency with the Province, as well as other non-financial checks. Ministry staff can also complete credit checks through credit reporting agencies as part of this process.

Credit checks may not be a requirement for all revenue programs. It is important that an organization consider when a credit check may be beneficial based on risk of the revenue program and deemed risk of the client.

The Ministry does not have a policy for staff to consider when a credit check may be required. In the absence of a formal policy, the need for credit checks may not be consistently considered within the Ministry.

Recommendation:

- (2) **The Ministry should develop a risk-based credit check policy.**

3.0 Crown Land Royalties

Individuals and businesses can apply for a Crown land tenure to use Crown land for a specific purpose, ranging from industrial and business purposes to recreation and research. Tenure holders are required to pay annual rents as well as royalty payments, where applicable.

Crown land royalties are amounts charged for income earned on tenured land or materials extracted from the land (for example, soil, peat, sand, gravel, etc.). Crown land tenure holders are required to report income earned, or the quantity of material extracted through an annual self-declared statutory declaration.

The Ministry relies on the statutory declarations submitted by tenure holders, along with the holder's financial statements, as the basis for royalty payments.

The Ministry does not validate the amounts declared through the statutory declarations. There are opportunities to increase the extent of validation of the amounts reported by tenure holders. Implementing a risk-based verification process can mitigate potential risk of tenure holders under reporting through their statutory declaration.

Recommendation:

- (3) **The Ministry should develop a risk-based verification process to validate Crown land royalty declarations.**

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Internal Audit & Advisory Services would like to thank the management and staff of the Ministry, CSNR and RMO who participated in and contributed to this advisory review, for their cooperation and assistance.



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Appendix 1 - Summary of Recommendations

1	The Ministry should determine whether all collections should be facilitated through RMO. If not, Ministry practices should be improved to ensure consistent practices including monitoring, collections actions are escalated, and appropriate oversight is in place.
2	The Ministry should develop a risk-based credit check policy.
3	The Ministry should develop a risk-based verification process to validate Crown land royalty declarations.