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To: Toronto Public Library Board – June 19, 2006

From: City Librarian

Subject: **Auditor General Report - Fines and Income Review – Toronto Public Library Response**

Purpose:

To obtain Toronto Public Library Board approval for a preliminary management response to the report and recommendations of the Auditor General, following the review of Fines and Income at Toronto Public Library (TPL).

Funding Implications and Impact Statement:

There are no immediate financial implications relating to the receipt of this report.

Implementation of a number of the Auditor General's recommendations may require additional staff resources and purchase of additional equipment and systems. The financial implications of addressing these issues will be assessed and reported to the Audit Committee as part of the implementation plan.

The Auditor General's report presents scenarios for a number of cost reduction or revenue enhancement situations; however, the Library believes that the feasibility of achieving these savings requires further assessment.

Recommendation:

It is recommended that:

- (1) the Toronto Public Library Board approve the *Auditor General Report – Fines and Income Review – Toronto Public Library Response*;
- (2) the Toronto Public Library Board approve submission of the *Auditor General Report – Fines and Income Review - Toronto Public Library Response* to the Audit Committee for the September 20, 2006 meeting; and
- (3) the appropriate Library staff be authorized and directed to take the necessary action to give effect thereto.

Background:

At its meeting on November 29, 2004, City Council received the Auditor General's 2005 Audit Work Plan. Included in the work plan was "Fines and Related Income – Toronto Public Library".

The audit field work started in the last quarter of 2005, and was completed in the first quarter of 2006. The Library Board was advised of the Auditor General's Fines and Income Review process at the May 15, 2006 Board meeting. TPL has received the Auditor General's final report on the review of Fines and Income (see Agenda Item #9), and this report is TPL management's response on the Auditor General's report and recommendations. A change has occurred in the process since reporting to the Board in May; the Auditor General's report and the Library's management response will be presented at the September 20, 2006 meeting of the Audit Committee rather than at the June meeting.

Comments:

The Public Libraries Act is based on a principle of free library services. The Toronto Public Library's mandate is, above all, to preserve and promote equitable, universal access to information and high quality services and programs, in a welcoming and supporting environment. Administrative procedures, internal controls and standard revenue collection procedures, while acting as very valuable tools for the Library in maximizing revenues, must be carefully balanced against this mandate. The Library fully supports those recommendations for incremental improvements that maximize revenues and improve operational efficiencies as long as they do not come at the expense of the service, privacy and accessibility the Library is committed to providing to the people of Toronto. This principle forms the framework of the Library's response to the Auditor General's Report on Toronto Public Library – Fines and Income Review.

Collection, Waiving and Purging of Fines:

With respect to fines, they are charged as an incentive to encourage return of library materials on time. Both the waiving of fines – that is, the practice of forgiving the payment of a fine for specific customer service reasons – and the purging of fines – that is, the write-off of fines that are deemed to be uncollectible – are standard business practices for libraries, and serve very practical and pragmatic business and financial purposes.

Since amalgamation, the Library has focused on and significantly improved its collection processes, policies and procedures to achieve the complementary objectives of customer retention, operational efficiency and revenue maximization. Careful consideration has been given to the policies established and resources allocated to achieving these goals. Literature and experience, of the Toronto Public Library and other library systems across North America, have shown that there is a point of diminishing returns as more fines or penalties are implemented or enforced. Increasingly stringent collections methods do not necessarily increase revenues collected, and have, in fact, been shown to have detrimental effects on both the financial and

business performance of the Library as patrons choose not to pay fines or return materials, and may even stop using the Library all together.

On the other hand, waiving allows staff discretion in dealing with individual situations, and can be used to achieve the following:

- (1) in lieu of a formal welcome policy, waivers are a means to deal with individuals with socio-economic challenges, especially children, youth and newcomers, who may otherwise be denied service. For example, a recent Board-approved teen forgiveness program –a form of waiving using a \$20 coupon – was very successful in getting teens, whose borrowing privileges had been suspended, to return to the Library;
- (2) a portion of an overdue fine may be waived if library materials, which usually comprise the largest portion of the fine, are returned;
- (3) with a circulation of over 30 million items, errors do happen, and waivers allow errors to be corrected;
- (4) waivers are used to negotiate payment plans.

Each administrative procedure or internal control requires an allocation of resources, and decisions need to be made on the balance between operational efficiency vs. how much financial risk is acceptable. Put in context, fines represent only two percent of the total Library budget, and therefore consideration must be given to how many resources should be dedicated to fines collection – resources that would otherwise be focused on the development and delivery of primary library services to patrons.

Fines Collections Initiatives Already Implemented:

Significant improvements have been made in the area of fines collections following the introduction of a single integrated library system (ILS) in 1999 and a common database of library materials collections:

- (1) immediately after amalgamation, the circulation and fines policy was harmonized;
- (2) benchmarks were developed to monitor the amount of fines collected and the amount waived, and there have been improvements every year since;
- (3) cash registers were introduced to approximately 50 percent of the branches, which had never used cash registers;
- (4) detailed cash handling procedures were harmonized and performance benchmarks developed;
- (5) extensive staff training has been provided on how to deal with patrons on fines collection and cash handling and how to use systems and equipment;

- (6) copy cards and point of sale machines were introduced to reduce cash handling and to facilitate payments, which also serve to reduce bad debt write-offs; and
- (7) a collection agency was introduced.

Since the implementation of the ILS, fines and income have shown the following trends:

- (1) **Fines revenue increase of 23 percent.** Adult fines have been increased twice in the last five years, from 20 cents to 30 cents per day, or a 50 percent increase. A new fine rate was introduced for teens who were previously paying adult rates.
- (2) **Room and equipment rentals increase of 34 percent.** The harmonized room rental policy was approved in 2002 with a three-year phased implementation. This policy eliminated the practice of not charging for use of rooms, which existed in some regions, and introduced different rates for commercial vs. not-for-profit groups.
- (3) **Tenant lease revenues increase of 34 percent.** New rental rates were established for commercial vs. not-for profit tenants, which allowed TPL to recover its administrative costs. In addition, City Real Estate division was hired to assist with negotiations, and TPL allocated additional staff resources to manage real estate issues. All vacant space has now been rented.
- (4) **Photocopy revenues decrease of 28 percent.** TPL provides photocopy services as a core public service, which also serves to protect the Library's extensive investment in its library collections. The decrease in photocopy revenues has been the experience in every library, due to changing technologies:
 - (a) the availability of more information and resources on-line, including the internet and TPL's website, catalogue, databases and Virtual Reference Library; and
 - (b) the widespread introduction of public PCs in all branches, with the ability to e-mail information for home printing.

The Auditor General's recommendations will lead to strengthened controls, and some of the recommendations have already been implemented. TPL management has reviewed the recommendations and issues raised in the Auditor General's report, and a summary of the response is contained in Attachment 1.

Conclusion:

While the Library recognizes that there is room for improvements, it feels that, overall, it has achieved an appropriate balance between establishing a responsible level of internal controls and meeting strategic service priorities with operational efficiency. While being fiscally responsible, the Library has managed to significantly grow its usage with virtually no increase in staffing since the ten percent staff reduction immediately after amalgamation. With a circulation of over

30 million items, over 17 million visits to the Library, and over 21 million virtual visits to the website, Toronto Public Library is the busiest library in North America, and the 2006 increase in activity indicates that this will continue.

With Library Board approval, TPL's response to the Auditor General Report – Fines and Income Review will be presented for information to the September 20, 2006 meeting of the Audit Committee.

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List of Attachments:

Attachment 1: Toronto Public Library – Auditor General's Fines and Income Review –
Management Response and Action Plan