

Accounts Written-off in 2012

Date:	May 27, 2013
To:	Toronto Public Library Board
From:	City Librarian

SUMMARY

This report is to inform the Toronto Public Library Board of all accounts written-off during 2012. Accounts written-off in 2012 decreased by 4%, following a 13% decrease in 2011.

FINANCIAL IMPACT

In 2012, customer balances due to fines for past due or lost materials totalling \$1,081,467 were written-off representing a decrease of 4% from the previous year. In 2011, there was also a decrease which amounted to 13%. As customer balances are recorded in revenues only when actually received, which is standard practice in public libraries, the write-offs are not shown as a loss on the 2012 operating results. The operating budget is only based on customer fines that are actually expected to be collected during the year. This accounting practice for fines has been reviewed with the external auditors and the Auditor General.

The Director, Finance & Treasurer has reviewed this financial impact statement and is in agreement with it.

DECISION HISTORY

As part of its 2005 annual work plan, the City’s Auditor General performed a review of Toronto Public Library’s (TPL) fines and income. At its meeting on June 19, 2006, the Toronto Public Library Board reviewed the report from the Auditor General entitled *Fees and Income Review – Toronto Public Library* and approved the recommendations contained within the report. One of the recommendations made by the Auditor General was to ensure that all account write-offs during the year, including customer fines related to past due and lost materials, be reported to the Board on a periodic basis.

ISSUE BACKGROUND

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.

The practice of charging customers fines for overdue or lost items is covered in the Circulation and Collection Use Policy. Fines are charged as an incentive to encourage return of library collections on time. When an item is lost or damaged, a replacement charge is assessed based on the original invoiced cost, regardless of the age or condition of the lost item or whether that item is replaced in the collection.

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.

Auditor General – Fines and Income Review

In 2006, the Auditor General performed a review of fines and income at TPL. The objective of the review was to assess whether TPL has appropriate and effective management controls over cash collection and related processes, and covered the following areas:

- Management and Administration of Fines, Fine Waivers and Write-offs;
- Internal Controls Over Cash;
- Room Booking and Equipment Rentals;
- Management of Leases and Lease Rentals;
- Management Control Over Photocopy Revenue; and
- Information Technology Environment and Controls.

Particular attention was paid to the collection of fines revenue, including the associated waives and purging processes, as this represented over 60% of total revenue generated.

The audit was conducted in accordance with generally accepted government auditing standards, and produced 32 recommendations to strengthen management controls and improve system support. All of the recommendations have been either implemented or determined to be no longer relevant as reported by the Auditor General to the Library Board on June 7, 2011.

Fines Collection

Since amalgamation, the Library has focused on and significantly improved its fines collection processes, policies and procedures to achieve the complementary objectives of customer retention, operational efficiency and fiscal responsibility. 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 punitive fines or penalties 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 customers choose not to pay fines or return materials, and may even stop using the Library altogether.

Significant improvements have been made in the area of fines collections following the introduction of a single library system in 1999 that allowed 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 the benchmarks are essentially being met;
3. Cash registers were introduced to approximately 50% of the branches, which had never used cash registers, so now all branches have registers;
4. Detailed cash handling procedures were harmonized and performance benchmarks developed;
5. Extensive staff training has been provided on how to deal with customers 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 account write-offs. In 2013, system enhancements will allow customers to pay fines on-line that will further reduce cash handling and staff intervention.
7. Use of a collection agency was introduced in 2003 to deal with uncollected accounts. At the time when the collection agency option was being assessed, an environmental scan showed that TPL already had one of the most stringent collections processes for overdue and lost items fines. Using the collection agency for uncollected accounts has resulted in cash collection of \$1,092,835 net of the collection agency fee and \$2,089,736 worth of collections returned.

In 2012 additional collections measures were implemented as the threshold for sending an account to the collection agency was reduced from \$50 to \$40 and the fine for engaging a collection agency on an account was raised from \$10 to \$15. In addition, a small balance program was introduced to recover outstanding accounts between \$10 and \$40, with a \$5 fine. These new measures impacted the fines purged for 2011.

8. Since 1999, adult fines have been doubled and children's fines have quadrupled.
9. Fines rates are based on the nature of the materials borrowed rather than the type of library card held.

As a result of these measures, since 2000, fines revenue has increased by 50%.

Room Rentals

A total of 75 branches have space that is available to be rented by the public when not in use by the Library. Historically, each branch administered the rental of their available space, and the rental rates differed across the City. In 2002, the room-booking rates and policies were harmonized, and in an effort to streamline the operations and improve processes and controls, in 2011 centralization of the administration around booking rooms was completed. In 2011, the most commonly charged rental rate was increased by 33%. Since 2000, room rental revenue has increased by 80%. There were no write-offs in 2012.

COMMENTS

Section 19.1 of the approved Financial Control Policy authorizes the City Librarian to write-off outstanding accounts of \$10,000 or less owing to the Library as uncollectible provided that reasonable efforts have been made to collect the outstanding amount. Any single account balance greater than \$10,000 would need Board approval for write-off and there were none in 2012. Below is a summary of total write-offs for 2012, 2011 and 2010, which shows a declining trend:

	2012			<i>Incr / (Decr)</i>	2011			<i>Incr / (Decr)</i>	2010		
	Overdue	Lost Items	Total		Overdue	Lost Items	Total		Overdue	Lost Items	Total
Fines Waived	318,646	85,193	403,839	65%	185,311	58,841	244,152	-11%	209,886	62,956	272,842
Fines Purged	313,494	362,388	675,882	-23%	324,807	554,733	879,540	-14%	375,154	650,085	1,025,239
Total waives and purge	632,140	447,581	1,079,721	-4%	510,118	613,574	1,123,692	-13%	585,040	713,041	1,298,081
Other write-offs			-				1,940				905
Total write-offs			1,079,721	-4%			1,125,632	-13%			1,298,986

It should be noted that actual market value of the lost items is significantly less than the amount written-off amount because:

1. The customer charge for a lost item is based on the vendor list price, which is the gross price before the TPL discount of up to 40%; and
2. The lost item is in circulation and its value has depreciated over time with use.

Lost items written off represent 0.06% of the total annual circulation of 32,032,036. In other words, 99.94% of all items borrowed are returned.

Waiving of Fines

Waiving allows staff to exercise discretion in individual situations, promoting financial accountability and at the same time encouraging customers to continue using the Library. Waives can be used to achieve the following:

1. Waives are a means to deal with individuals with socio-economic challenges, especially children, youth and newcomers, who may otherwise be denied service. In September 2005, the Board approved the introduction of a program to intermittently waive certain fines outstanding for teens in order to encourage them to return to the Library;

2. A portion of an overdue fine may be waived if library collections, which usually comprise the largest portion of the fine, are returned;
3. Waives are used to negotiate payment plans.

Teen Fines Forgiveness Program. The Teen Fines Forgiveness program was run during 2012, which allowed teens to lower their fines balances to encourage use of the Library. Teens could fill out a survey and submit it to a branch for a fines reduction of up to \$20. In total, 3,278 coupons were redeemed, which is similar to previous campaigns run in 2005, 2008 and 2009. While the number of coupons redeemed was similar, the dollar value redeemed increased by 13% in 2012 to \$33,582, which could be attributed to the higher fines rate and structure, as teens who borrow adult materials now pay the adult fines rate. As a result of redeeming coupons, 981 teens renewed their library cards, which is a 17% increase over the previous campaign. About half of the teens who redeemed coupons live in priority areas, which is a 27% increase from the last campaign. The results suggest that the 2012 program was effective in reaching high needs youth and encouraging youth to use the Library.

In 2012, a total of \$403,839 was waived by staff – comprised of overdue fines of \$318,646 and lost items of \$85,193 – which is a \$159,687 or 65% increase from the prior year. The increase in waives, which is more than offset by the increase in fines revenue collected, is explained below:

- During the March 2012 labour disruption, materials could not be returned and as a result, overdue charges were waived on a number of customer accounts. Following the labour disruption, there was a two-week grace period for fines as normal services were being resumed.
- The additional collections measures implemented in 2012 - which included reducing the threshold for sending an account to the collection agency, increasing the fine for engaging a collection agency on an account, and introducing a small balance program applied retrospectively - resulted in more than doubling the amount sent to the collection agency in 2012. As a result, of these measures, the net cash collected in 2012 was \$425,585, which was a \$352,644 or 480% increase over the prior year. This significant increase in revenues collected was partially offset by a corresponding \$51,052 increase in the amounts waived.
- In mid-2012, a new fine was introduced for holds not picked up. As with any new fine being implemented, and especially one being introduced in the summer months, there was a need for staff to waive \$15,575 while collecting approximately \$70,000.
- In 2012, the Teen Fines Forgiveness program resulted in redemption of coupons that resulted in waiving \$33,363 in over dues and lost items. In 2011, a Word Out fines forgiveness program resulted in \$6,455 of teen fines forgiveness.

Purging of Fines

Purging of fines is included in the Board-approved Circulation and Collection Use Policy. The Library purges fines (a system of write-off of fines that are deemed to be uncollectible) only after all of the following actions:

1. Borrowing privileges are suspended once:
 - a. \$30 of fines is owing; or
 - b. 15 items are overdue; or
 - c. any account over \$5 is owing longer than six weeks; or
 - d. any item is overdue more than six weeks.
2. Telephone notifications at seven days and 21 days overdue;
3. Final mail notice with account billing and collection agency warning for adult accounts;
4. Adult accounts over \$40 are referred to a collection agency, with instructions for the customer to contact the Library to clear their account. The collection agency does not collect payments; only if a customer contacts the Library and resolves their account, which includes a \$15 collection fine, does the collection agency get paid a percentage of the amount collected;
5. In 2012, a small balance program was introduced that sends adult accounts between \$10 and \$40 to the collection agency; previously, these accounts over two years old would have been purged after going through all the processes above. A \$5 collection fee is also added to the account.
6. Only when all these measures have failed, and a minimum of two additional years have passed (two years for accounts less than \$100 and five years for accounts greater than \$100), are the accounts purged from the system.

Amounts purged in 2012 totaled \$675,882, which is a 23% decrease from 2011. In 2011, amounts purged showed a decline of 14% from the previous year. The average customer account balance purged is \$13.75. It should also be noted that of the amounts purged in 2012, approximately 34% or \$229,492 was owed by children and teens.

	2012	2011	2010
Fines Purged *	675,882	879,540	\$1,025,239
Number of Accounts	49,144	45,099	57,213
Average account balance	13.75	19.50	17.92
<i>* % of fines owed by children and teens</i>	34%	28%	28%

Fines purged is expected to increase in 2013, as the introduction of the small balance program with the collection agency resulted in a temporary reduction of fines purged over the last two years.

CONCLUSION

In 2012, total waivers and purges decreased by 4%, following a 13% decrease in 2011. This can be attributed to extensive and stringent collection processes that have been strengthened in 2012, combined with staff training in collections techniques and customer relations.

As a result of introducing the small balance program, accounts totalling \$1,493,912 were sent to the collection agency, which has an expedited collection process. These accounts would have normally been purged, but now remain active for two additional years. The temporary two-year impact on purges resulting from the introduction of the small balance program will likely result in an increase in amounts purged in 2013. In addition, the impact of the 2012 increases in fines rates and the introduction of a fine for holds not picked up will likely be reflected in purges in 2014 and thereafter.

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SIGNATURE

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