

Accounts Written-off in 2013

Date:	May 26, 2014
To:	Toronto Public Library Board
From:	City Librarian

SUMMARY

This report is to inform the Toronto Public Library Board of accounts written-off during 2013. Accounts written-off in 2013 decreased by \$123,591 or 18%, following a \$205,598 or 23% decrease in 2012.

FINANCIAL IMPACT

In 2013, customer balances due to fines for past due or lost materials totalling \$552,291 were purged and written-off representing a decrease of \$123,591 or 18%, following a \$205,598 or 23% decrease in 2012.

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 2013 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.

The purging of fines, which results in the write-off of fines that are deemed to be uncollectible, is 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 Waives 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, 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.
7. Since 1999, adult fines have been doubled and children's fines have quadrupled.
8. 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 \$1,444,324 net of the collection agency fee and \$2,307,202 worth of collections returned.
9. 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.
10. Since 2012, fines rates are based on the nature of the materials borrowed rather than the type of library card held.

11. A system enhancement in late 2013 allows customers to pay fines on-line which will further reduce cash handling and staff intervention.

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 2013. Below is a summary of total write-offs for 2013, 2012 and 2011, which shows a declining trend:

Accounts Written-off					
	2013	<i>Incr/(Decr)</i>	2012	<i>Incr/(Decr)</i>	2011
Overdue purged	266,461	-15%	313,494	-3%	324,807
Lost items purged	<u>285,830</u>	<u>-21%</u>	<u>362,388</u>	<u>-35%</u>	<u>554,733</u>
Total purged	552,291	-18%	675,882	-23%	879,540
Other write-offs	<u>-</u>		<u>-</u>		<u>1,940</u>
Total write-offs	<u>552,291</u>	<u>-18%</u>	<u>675,882</u>	<u>-23%</u>	<u>881,480</u>

Amounts purged and written off in 2013 totaled \$552,291, which representing a decrease of \$123,591 or 18%, following a \$205,598 or 23% decrease in 2012.

It should be noted that actual market value of the lost items is significantly less than the written-off amount because the lost item is in circulation and its value has depreciated over time with use.

Lost items written off represent 0.04% of the total annual circulation of 32,145,021. In other words, 99.96% of all items borrowed are returned.

The average customer account balance purged is \$12.35, which represents a decrease of \$7.15 or 37% from 2011, due to more stringent collection processes. It should also be noted that of the amounts purged in 2013, approximately 44% or \$242,988 was owed by children and teens, which is a 57% increase from 2011.

	2013	2012	2011
Fines purged*	552,291	675,882	879,540
Number of accounts	<u>44,708</u>	<u>49,144</u>	<u>45,099</u>
Average account balance	<u>12.35</u>	<u>13.75</u>	<u>19.50</u>
* % of fines owed by children & teens	44%	34%	28%

Purging of Fines

Purging of fines is included in the Board-approved Circulation and Collection Use Policy. The Library purges fines (a system 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.
2. Telephone or email 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.

Waiving of Fines

Waiving is also a standard business practice for public libraries. Waives are not considered write-offs because the customer has contacted the Library and resolved their outstanding account. Either a correction is made to the account or a portion is forgiven for specific customer or service reasons. In prior years, waivers were classified as write-off amounts, but this has been corrected with the 2013 report.

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 correct billing errors that could arise from misunderstandings, keying errors, or incorrect patron account information.
2. 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;

3. A portion of an overdue fine may be waived if library collections, which usually comprise the largest portion of the fine, are returned;
4. Waives are used to negotiate payment plans.
5. Waives are a means to deal with service disruptions which may result from mechanical failure, local emergencies, severe weather or labour disruption.

In 2013, a total of \$375,521 was waived by staff, a 10% decrease over the prior year, of which \$95,241 or 25% was to correct customer accounts. Approximately 35% of waivers was for children and teens.

CONCLUSION

In 2013, total write-offs decreased by 18%, following a 23% decrease in 2012. This can be attributed to extensive and stringent collection processes that have been strengthened over the years, combined with staff training in collections techniques and customer relations.

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SIGNATURE

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