

Accounts Written-off in 2011

Date:	June 25, 2012
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 2011. Accounts written-off in 2011 decreased by 13% from the prior year.

FINANCIAL IMPACT

Accounts written off in 2011 totalled \$1,125,135, almost entirely associated with customer balances due to fines for past due or lost materials, and this represent a 13% decrease from the prior year. 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 2011 operating results. The operating budget is only based on customer fines which 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 list price, regardless of the age or condition of the lost item.

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 waivers 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 (<http://www.torontopubliclibrary.ca/content/about-the-library/pdfs/board/meetings/2006/jun19/09.pdf>). All of the 32 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.

“Our review indicates that the Toronto Public Library has completed the implementation of all outstanding audit recommendations. Since the completion

of our audit, the Toronto Public Library has taken significant action to improve controls in the collection of fines and revenues.”

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 which 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. 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, and environmental scan showed that TPL already had one of the most stringent collections process for overdue and lost items fines. Using the collection agency for uncollected accounts has resulted in cash collection of \$657,000 dollars and \$1,799,000 million of items returned, both net of the collection agency fee.

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 manage accounts between \$10 and \$40, with a \$5 fine.

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; and

As a result of these measures, over the 1999-2011 period, fines revenue has increased by 40%.

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 amalgamation, room rental revenue has increased 100%.

COMMENTS

Section 19.1 of the approved Financial Control Policy authorizes the City Librarian to write-off outstanding account 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 2011. Below is a summary of total write-offs for 2011 and 2010:

Accounts Written-off

	2011			Incr / (Decr)	2010		
	Overdue	Lost Items	Total		Overdue	Lost Items	Total
Fines Waived	185,311	58,841	244,152	-11%	209,886	62,956	272,842
Fines Purged	324,807	554,733	879,540	-14%	375,154	650,085	1,025,239
Total waivers and purge	510,118	613,574	1,123,692	-13%	585,040	713,041	1,298,081
Room booking write-offs			-				905
Other write-offs			1,940				-
Total write-offs			<u>1,125,632</u>				<u>1,298,986</u>

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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 0.07% of the total annual circulation of 33,252,235. In other words, 99.93% 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 their 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.

The Word Out fines forgiveness program was run during 2011, which allowed teens to lower their fines balances and encourage continued usage of the library. Teens could register for the Word Out program and download a \$10 fines forgiveness coupon. Teens could also spend time in the library to “read down” their fines and collect a \$2 coupon for every hour in the library. A total of \$ 6,455 in teen fines was waived.

In 2011, a total of \$244,152 was waived by staff which is an 11% decrease from the prior year and which included \$6,455 of redeemed coupons during the Word Out program. Waives included both overdue fines of \$185,311 and lost items of \$58,841.

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

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- 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 which sends adult accounts between \$10 and \$40 to the collection agency; previously, these accounts would have been purged after going through all the processes above and is over two years old. Small balance accounts totalling \$188,944 were sent to the collection agency which has an expedited collection process. A \$5 collection fine is also added to the account, and the account balances will not be eligible for purging for two additional years.
 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.

The total amount purged in 2011 was \$879,043 which is a 14% decrease from 2010. The average customer account balance purged is less than \$20. It should also be noted that of the amounts purged in 2011, approximately 28% or \$247,204 was owed by children and teens.

	2011	2010
Fines Purged *	879,540	\$1,025,239
Number of Accounts	45,099	57,213
Average account balance	19.50	17.92

* 28% of fines are owed by children and teens

Other Write-offs

Other write-offs are \$1,940 and this relates to an amount owed by a caterer for services at the Appel Salon at Toronto Reference Library. The company which owes the account is no longer in business.

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CONCLUSION

In 2011, total waivers and purges decreased by 13% and for the previous five years, the levels of waivers and purges remained relatively constant despite increasing circulation activity. This can be attributed to extensive and stringent collection processes which have been strengthened in 2012, combined with staff training in collections techniques and customer relations.

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SIGNATURE

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