

## Accounts Written-off in 2014

<b>Date:</b>	May 25, 2015
<b>To:</b>	Toronto Public Library Board
<b>From:</b>	City Librarian

### SUMMARY

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The purpose of this report is to inform the Toronto Public Library Board of accounts written-off during 2014, which are predominantly comprised of accounts purged by the Integrated Library System (ILS). For 2014, \$1,608,970 of accounts were purged, which represents an increase of \$1,056,593 from 2013. The amount purged in 2014 is higher than the annual average of approximately \$950,000 and this increase can be attributed primarily to the following:

1. In 2012, the use of the collection agency was significantly expanded and the retroactive application resulted in a number of accounts being reactivated in that year, which are now being purged two years later in 2014.
2. The expanded use of the collection agency in 2012 resulted in a significant increase in the collection agency referral fees added to customer accounts, and the uncollected portion of these referral fees are being purged in 2014.
3. In 2008, TPL was in the process of converting its ILS, which resulted in a number of accounts being sent to the collection agency in 2009 instead of 2008. Accounts over \$100 are purged five years after being sent to the collection agency, so the impact is a higher purging in 2014.
4. In 2012, TPL implemented significant fines increases as well as new fines, and as a result, the average balance for customer accounts has nearly doubled and this increased the purge in 2014.

### FINANCIAL IMPACT

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In 2014, customer accounts totalling \$1,608,970 were purged and written-off by the ILS, an increase of \$1,056,593 from 2013.

As fines are recorded as revenues only when actually received, which is standard practice in public libraries, the write-offs are not shown as a loss on the 2014 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.

## **ISSUE BACKGROUND**

The Public Libraries Act is based on a principle of free library services. 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 (including Fees and Fines) Policy, most recently approved by the Board at the meeting on April 20, 2015. 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. A pre-due notification email process was introduced in 2013, which allows customers to better manage their accounts.

The purging of fines, which is a system write-off of fines that are deemed to be uncollectible, is standard business practice for libraries and serve very practical and pragmatic business and financial purposes. Purging is covered in the Circulation and Collection Use (including Fees and Fines) Policy which sets two criteria for the regular annual purge of outstanding account balances from the ILS database:

- when the last use of the library card is more than two years and the total balance owing is less than \$100; or
- when the last use of the library card is more than five years and the total balance is greater than \$100.

The Library purges fines only after taking all of the following actions to collect accounts:

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;
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 and applied retroactively, 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.

### **Auditor General – Fines and Income Review**

As part of its annual work plan, the City's Auditor General performed a review of Toronto Public Library's fines and income. 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.

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. 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.

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.

### **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 ILS 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.
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 referral fee 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 referral fee.

Since 2003, using the collection agency for uncollected accounts has resulted in cash collection of \$1,772,583 net of the collection agency commission and \$2,517,283 of collections returned.

10. Since 2012, fines rates are based on the nature of the materials borrowed rather than the type of library card held.
11. New fines were introduced in 2013 for inter-library loans and for holds not picked up.

12. A system enhancement in late 2013 allows customers to pay fines on-line which will further reduce cash handling and staff intervention.
13. A new fine for digital equipment was implemented in mid-2014.

## 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 2014. Below is a five year summary of total write-offs:

### Total Write-Offs

Type of Fine	2010	2011	2012	2013	2014	Annual Average
Fines for past due	345,491	276,616	275,408	240,711	704,566	368,558
Lost Materials	656,425	559,841	367,336	286,667	707,282	515,510
Referral fees	23,323	43,083	33,139	24,999	197,122	64,333
<b>Total Purged</b>	<b>1,025,239</b>	<b>879,540</b>	<b>675,882</b>	<b>552,377</b>	<b>1,608,970</b>	<b>948,402</b>
Other write-offs	905	1,940			701	
<b>Total write-offs</b>	<b>1,026,144</b>	<b>881,480</b>	<b>675,882</b>	<b>552,377</b>	<b>1,609,671</b>	

In 2014, customer accounts totalling \$1,608,970 were purged and written-off by the ILS, an increase of \$1,056,593 from 2013. The amount purged in 2014 is higher than the annual average of approximately \$950,000 and this increase can be attributed primarily to the following:

1. In 2012, the use of the collection agency was significantly expanded and the retroactive application resulted in a number of accounts being reactivated in that year, which are now being purged two years later in 2014. The minimum threshold for the existing program for sending an account to the collection agency was lowered from \$50 to \$40, and a new small balance program was introduced to send accounts between \$10 and \$40 to the collection agency. In 2014 the purge amount is higher by: (1a) approximately \$79,000 due to the lowering the threshold to \$40; and (1b) approximately \$224,000 due to the small balance program.

Since the inception of the small balance program, the Library has collected annually an additional \$300,000, net of commission. 91% of adult fines purged in 2014 were previously sent to the collection agency, an increase from 70% in 2013, as a result of lowering the threshold and introducing the small balance program.

2. The expanded use of the collection agency in 2012 resulted in a significant increase in the collection agency referral fees added to customer accounts, and the uncollected

portion of these referral fees are being purged in 2014. The referral fee for engaging a collection agency on an account over \$40 was raised from \$10 to \$15, and the accounts under the small balance program incurred a referral fee of \$5. The higher referral fees from 2012 result in an estimated \$160,000 increase in the 2014 purge. Note that since the accounts were uncollected, then no commission was paid to the collection agency on these accounts.

3. In 2008, TPL was in the process of converting its ILS which resulted in a number of accounts being sent to the collection agency in 2009 instead of 2008. Accounts over \$100 are purged 5 years after being sent to the collection agency, so the impact is an estimated \$145,000 increase to the 2014 purge, and an understatement of the 2013 purge.
4. In 2012, TPL implemented significant fines increases and well as new fines, and as a result, the average balance for customer accounts has nearly doubled and this increased the purge in 2014.
5. The table below analyzes the annual purge amounts for the last five years, and makes adjustments to normalize the annual purges to make the amounts more comparable. The normalized 2014 purge amount is \$1,000,970, which is very close to the annual average.

#### Pruge Analysis and Normalization

	2010	2011	2012	2013	2014	Average
<b>Annual Purge Amount</b>	1,025,239	879,540	675,882	552,377	1,608,970	948,402
<b>Normalization adjs:</b>						
1a. Threshold for collection agency - from \$50 to 40			79,000		(79,000)	
1b. Introduce small balance program			224,000		(224,000)	
2. Higher referral fees					(160,000)	
3. 2008 overdue accounts to to collection agency in 2009 due to ILS implementation				145,000	(145,000)	
<b>Normalized Annual Purge</b>	<b>1,025,239</b>	<b>879,540</b>	<b>978,882</b>	<b>697,377</b>	<b>1,000,970</b>	

Lost items purged in 2014 totalled \$707,282 and represents 44% of the total purge. It should be noted that the purge value represents the original purchase value of the lost items, and the market value for the lost item may be significantly less than the purged amount because the lost item is in circulation and its value has depreciated over time with use. The estimated number of lost items purged is 52,000 items, which represents 0.16% of the total annual circulation of 32,034,795. In other words, 99.84% of all items borrowed are returned.

The average customer account balance purged is \$23.13, which is nearly double the average balance from 2013, due to higher fines rates as well as new fines. It should also be noted that of the amounts purged in 2014, \$218,905 was owed by children and teens, whose accounts are not sent to the collection agency.

	2010	2011	2012	2013	2014
Fines purged*	1,025,239	879,540	675,882	552,291	1,608,970
Number of accounts	54,413	45,099	49,144	44,708	69,559
Average account balance	18.84	19.50	13.75	12.35	23.13
* children & teens fines purged	322,260	276,687	259,549	242,989	218,905

## CONCLUSION

For 2014, \$1,608,970 of accounts were purged, which represents an increase of \$1,056,593 from 2013. The amount purged in 2014 is higher than the annual average and the reasons for the increase are provided in this report.

## CONTACT

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## SIGNATURE

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City Librarian