

CITY OF HAMILTON

**CITY MANAGER'S OFFICE
Audit Services Division**

TO: Chair and Members Audit, Finance and Administration Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: September 21, 2011	
SUBJECT/REPORT NO: Audit Report 2011-01 - Culture Facilities - Cash Handling (AUD11026) (City Wide)	
SUBMITTED BY: Ann Pekaruk Director, Audit Services City Manager's Office	PREPARED BY: Ann Pekaruk 905-546-2424 x4469
SIGNATURE:	

RECOMMENDATION

- (a) That Report AUD11026 respecting Audit Report 2011-01, Culture Facilities - Cash Handling, be received;
- (b) That the Management Action Plans as detailed in Appendix "A" of Report AUD11026 be approved; and
- (c) That the General Manager of Community Services be directed to instruct the appropriate staff to have the Management Action Plans (attached as Appendix "A" to Report AUD11026) implemented.

EXECUTIVE SUMMARY

The 2011 Internal Audit work plan approved by Council included an audit to review cash collection, handling and balancing processes in the City's Culture facilities to ensure controls are adequate and revenue properly accounted for. Segregation of duties, physical security over cash and reconciliation processes were assessed. Recommendations were made to strengthen internal controls, safeguard assets and identify opportunities for administrative efficiencies.

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The results of the audit are presented in a formal audit report (2011-01) containing observations, recommendations and management responses. The Report 2011-01 is attached as Appendix "A" to Report AUD11026.

Alternatives for Consideration – Not Applicable

FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: Sound procedures and strong controls over the handling and safeguarding of cash reduce the risk of loss or theft. Reconciling records and investigating and resolving discrepancies mitigate the risk of misappropriation of funds.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

There are eight (8) civic museums that are administered and maintained by the City of Hamilton as follows: Dundurn Castle, Hamilton Military Museum, Battlefield House Museum, Hamilton Children's Museum, Museum of Steam & Technology, Fieldcote Memorial Park & Museum, Griffin House and Whitehern Museum.

Revenues collected at the civic museums during 2010 totalled \$492,000. The main revenue sources include admissions (\$241,000), gift shop merchandise sales (\$70,800), program registrations (\$61,100) and facilities rentals (e.g. weddings, movie shoots, grounds - \$88,300). Methods of payment include cash, cheques, debit and credit cards.

The audit was scheduled as part of the 2011 Internal Audit work plan approved by Council. The audit fieldwork was completed in April 2011. The results of this audit are attached as Appendix "A" of Report AUD11026.

The Audit, Finance and Administration Committee receives and approves final audit and review reports as part of its responsibilities for the oversight of governance and control.

POLICY IMPLICATIONS

None.

RELEVANT CONSULTATION

Appendix "A" to Report AUD11026 includes management action plans which reflect the responses of management responsible for the administration of cash handling at the City's museums, part of the Culture Division of the Community Services Department.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

The audit focused on the functions conducted out of the museums' administration offices with emphasis on controls relating to cash handling and revenue sources. Specific cash handling procedures at each civic museum will vary due to the size of the museum, the amount of funds collected and the number of staff on hand. However, common controls over cash such as reconciliation, physical security and prompt deposit should be evident to some degree in all circumstances.

The audit identified opportunities to improve controls, strengthen managerial oversight and accountability, enhance physical security over funds and increase the effectiveness and efficiency of processes.

A formal Audit Report (2011-01) containing observations, recommendations and resulting management action plans was issued. Sixteen (16) recommendations were included in Audit Report 2011-01 (attached as Appendix "A" of Report AUD11026). Highlights of some of the recommendations made are as follows:

- Improvement of controls over and approval of void and refund processing.
- Endorsement of cheques immediately upon receipt.
- Measures to improve petty cash controls and disbursement and security over the funds.
- Reconciliations of cash collections performed daily and reviewed by management.
- Controls to tighten the access over cash funds.
- Measures to ensure compliance with Payment Card Industry Data Security Standards for cardholder data.
- Reconciliation, security and deposits of donations.
- Enforcement of timely deposit schedule.
- Adoption of common procedures already developed and utilized by Dundurn Castle.

Management and staff have already implemented or have agreed to implement all of the recommendations. Specific actions plans can be found in the attached Audit Report.

ALTERNATIVES FOR CONSIDERATION

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

Not applicable.

CORPORATE STRATEGIC PLAN (Linkage to Desired End Results)

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability, 3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development, 6. Environmental Stewardship, 7. Healthy Community

Financial Sustainability

- ♦ Delivery of municipal services and management of capital assets/liabilities in a sustainable, innovative and cost effective manner.

APPENDICES / SCHEDULES

Appendix "A" to Report AUD11026: Audit Report 2011-01

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**CITY OF HAMILTON
INTERNAL AUDIT REPORT 2011-01
CULTURE FACILITIES – CASH HANDLING**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
1.	<p><u>Void / Refund Approval</u> Controls over void (reversing the last sale on the cash register) and refund processing can be improved. Cashiers void and refund transactions without management approval. The act of recording the nature of the void or refund on a register receipt or log is not carried out consistently at the museums. No documentation exists to corroborate that management reconciles these receipts or questions voids and refunds reported on the register transaction summary tape. Lack of supervisory oversight provides the cashier with an opportunity to process a void or refund for cash and misappropriate the funds.</p>	<p>That cashiers maintain a log documenting the date, amount, nature and payment with respect to all voided and refunded transactions. Management should use this log to reconcile and approve voided or refunded transactions reported on the register transaction summary tape. The log and register transaction summary tape should bear evidence of this review and indicate resolution of questionable items.</p>	<p><u>All Sites</u> Agreed. Management has already created a log book that includes date, void/refund, name, reason and supervisor's initials. Voided tapes are attached to daily "Z out" register printouts.</p> <p>A formal procedure will be added to the Museum and Heritage Presentation Section cash handling procedure manual and to training and staff orientation by Q4, 2011.</p>
2.	<p><u>Donation Counts and Physical Security</u> Donation box count processes do not contain adequate controls or generate documentary evidence to substantiate the completeness and accuracy of donations recorded in the cash register. For instance:</p> <ul style="list-style-type: none"> • Although two people count and initial a piece of paper noting the donation amount at Dundurn Castle, the cashier destroys this evidence after entering the donation in the register, leaving no audit trail. • At other museums, the same person counts and enters the donation in the register. <p>Without adequate checks and documentation to facilitate oversight, the person counting the donation or the cashier recording the donation has an opportunity to misappropriate funds.</p>	<p>That two employees count funds from the donation box, record the counted donation, initial the form and retain this documentation in the register. The Curator should reconcile recorded donations to this form.</p>	<p><u>All Sites</u> Agreed. Two (2) staff members will now empty the donation box twice each month and enter the amount into the cash register. As a result, the donation money will always appear in the daily box office reconciliation.</p> <p>This procedure will be added to the Museum and Heritage presentation Section cash handling procedure manual and to training and staff orientation by Q4, 2011.</p>

**CULTURE FACILITIES – CASH HANDLING
MAY 2011**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
3.	<p><u>Donation Counts and Physical Security (Cont'd)</u></p> <p>There are opportunities for improvements to the physical security over on-site donation boxes. For instance:</p> <ul style="list-style-type: none"> • Seven (7) staff at Fieldcote and nine (9) at the Steam & Technology museums can open the donation box. • Donation boxes are not secure. The Children's Museum's donation box is missing from the front counter. The Fieldcote and Steam & Technology Museums' boxes are easy to remove from the premises (light weight, inside visible) and there is the ability to easily remove funds from the Fieldcote donation slot. • Donations are not regularly removed from the boxes and deposited in the bank. <p>Inadequate physical security combined with infrequent donation deposits exposes these funds to the risk of misappropriation or being stolen.</p>	<p>That management improve physical security of the donation boxes by restricting access to required personnel. A chain or other securing mechanism should be used to physically restrict the removal of the donation box in its entirety. Donations need to be deposited through the cash register on a bi-monthly basis.</p>	<p><u>All Sites</u></p> <p>Agreed. Donation boxes have been secured and/or are stored in a secure location at night and donation box keys are stored in a secure location. See response for observation #2 regarding emptying of donation boxes.</p> <p>This procedure will be added to the Museum and Heritage presentation Section cash handling procedure manual and to training and staff orientation by Q4, 2011.</p>

**CULTURE FACILITIES – CASH HANDLING
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#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
4.	<p><u>Offsite Cash Collection</u> At Battlefield House and Fieldcote Museums, there are occasions when interpreters/volunteers collect admission fees at a site location other than where the cash register is situated. Due to the lack of direct supervision of these activities, management cannot verify that remitted cash receipts are complete. For example, a Battlefield interpreter collects cash, records admissions and reconciles cash collected to admissions recorded. Inadequate segregation of duties exists as the interpreter handles cash and prepares the reconciliation. This can result in an opportunity to misappropriate funds and cover up the shortage.</p>	<p>That interpreters issue pre-numbered admission tickets. Management should then account for the sequential numbering of issued tickets and reconcile the number of tickets sold to cash remitted and recorded in the register on at least a weekly basis.</p>	<p><u>General Comment</u> Agreed. See below for specific variations to procedures.</p> <p>Only those staff persons with cash handling in their job descriptions will be permitted to handle cash.</p> <p><u>Battlefield</u> All ticket sales now take place at Nash-Jackson House.</p> <p><u>Fieldcote</u> Due to the limited staffing at Griffin House during open hours, it is not practical to adhere to standard cash out and cash handling procedures. Staff will request City Council to revert to donation only admission at Griffin House and staff will adhere to the procedures as noted in #2 and #3 (donation box). The request will be made in the User Fee Report to Council to be effective January 1, 2012.</p>

**CULTURE FACILITIES – CASH HANDLING
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#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
5.	<p><u>Cheque Endorsement</u> Cheques are not adequately endorsed in a timely fashion.</p> <ul style="list-style-type: none"> • Battlefield House and the Steam & Technology Museums' endorsements containing the museum's name, address and/or first four digits of the bank account are not adequate. • At five (5) museums, cheques are endorsed when the deposit is processed rather than when the cheque is actually received. <p>Risk for misappropriation or manipulation of cheques with the intent to commit fraud is increased when cheques are not appropriately endorsed in a timely manner.</p>	<p>That Battlefield House and the Steam & Technology Museums procure an endorsement stamp containing appropriate deposit information.</p> <p>That cashiers restrictively endorse cheques immediately upon receipt.</p>	<p><u>All Sites</u> Agreed. Endorsement stamps are in place and procedures have been changed.</p> <p><u>All Sites</u> Agreed. All cheques are endorsed immediately upon receipt.</p> <p>These procedures will be added to the Museum and Heritage presentation Section cash handling procedure manual and to training and staff orientation by Q4, 2011.</p>

**CULTURE FACILITIES – CASH HANDLING
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#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
6.	<p><u>Petty Cash Reconciliation and Documentation</u></p> <p>In a well-kept petty cash system, the following are documented and accompany the receipt: an explanation as to the nature of the expense and the initials of the person authorizing the expense, the person receiving funds and the person disbursing the funds. All or some of these components are not present on a consistent basis at five (5) museums.</p> <p>The petty cash on hand plus reimbursed receipts do not reconcile to the expected petty cash float at the Fieldcote, Whitehern and Children's Museums. The following factors were determined as contributors to the discrepancy:</p> <ul style="list-style-type: none"> • Receipts in the petty cash box have not been reimbursed because there is a lack of funds; • Funds are removed from petty cash to purchase items without tracking or controlling withdrawals; • Funds from the daily deposits are borrowed to reimburse petty cash expenses without an adequate tracking system; • Receipts are only partially reimbursed due to the lack of funds without adequate documentation; and • Poor controls result from not limiting the number of staff who have access to the petty cash float. <p>Lack of proper controls can result in the misuse of petty cash funds such as inappropriate reimbursements and lack of accountability for the funds.</p>	<p>That all museums adopt the Steam & Technology Museum's petty cash voucher system which contains all components of a well-documented petty cash system.</p> <p>That the custodian only reimburse receipts in their entirety when petty cash is available and only store paid receipts in the petty cash box.</p> <p>That management improve physical security over the petty cash funds by restricting access to only the petty cash custodian.</p>	<p><u>All Sites</u> Agreed. All sites will adhere to the municipal petty cash procedures, effective immediately.</p> <p>In the longer term, because sites do not have inter-office mail service, there is a challenge related to the timeliness of the petty cash process. Staff are investigating the possibility of electronic submissions.</p> <p>Agreed. Custodians reimburse receipts in their entirety when cash is available and only reimbursed receipts are stored in the cash box. This procedure is in place now.</p> <p>Agreed. Petty cash boxes have been secured in spaces accessible only to the petty cash custodian.</p> <p>The procedures will be added to the Museum and Heritage presentation Section cash handling procedure manual and to training and staff orientation by Q4, 2011.</p>

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#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
7.	<p><u>Daily Reconciliations</u></p> <p>Daily, bi-monthly and monthly box office reports are prepared in Excel to summarize revenues and funds collected for preparing the PeopleSoft journal entry and bank deposit. As a result, information on the register transaction summary tape, the Moneris batch tape and the bank deposit should reconcile to the box office report to ensure all revenue recorded in the register is collected, deposited in tact and recorded in the financial records.</p> <p>On several occasions, the daily box office report did not reconcile to the register transaction summary tape and no reasons were documented. Internal Audit identified the following practices which contributed to improper reconciliation of daily transactions:</p> <ul style="list-style-type: none"> • Not recording all transactions and cash receipts through the register; • Grouping cash short/over with other balances; • Overriding formulae in the daily box office report to make revenues match deposits, irrespective of total revenues reported on the register tape; and • Not understanding the importance of or rationale behind the reconciliation by employees. <p>Inadequate segregation of duties exists as the cashier handles cash, prepares the deposit and, at most sites, prepares the box office report. Without adequate supervisory review as a compensating control, cashiers have the opportunity to misappropriate funds and conceal the shortage by manipulating the box office report.</p>	<p>That the following procedures be performed to improve the reconciliation process:</p> <ul style="list-style-type: none"> • The cashier prepares the box office report at the end of the day when the daily deposit is prepared; • Management reviews the box office report at the end of the day to ensure balances reconcile to the register transaction summary tape, the Moneris batch total tape, the deposit slip and the cash receipts on hand to be deposited. The box office report should bear evidence of this review and indicate why discrepancies are accepted; • All cells in the daily box office report, apart from admission numbers and adjustments, are protected so formulae cannot be manipulated; • Daily box office reports contain a cash short/over adjustment line to capture differences between revenue reported in the register, box office report and bank deposit; • All employees are aware of basic cash handling controls and are reminded of the importance of the reconciliation process; and • Management performs training if aspects of the reconciliation process are not understood. 	<p><u>All Sites</u></p> <p>Agreed in Principle. At this time, there are staffing and logistical issues with following these recommendations, as written.</p> <p>A point-of-sale system (currently under development) would solve many of these issues. The expected implementation period of the point-of-sale system and alignment with other City systems will require several years.</p> <p>In the meantime, staff are instituting a Microsoft Access database system which will have greater security controls. This system will be implemented by the end of 2011.</p> <p>All sites will follow the daily cash out procedures in place at Dundurn National Historic Site which were endorsed by the previous cash handling audit in 2007.</p> <p>This procedure will be added to the Museum and Heritage presentation Section cash handling procedure manual and to training and staff orientation by Q4, 2011.</p>

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#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
8.	<p><u>Fund Access</u></p> <p>Many employees have physical access to the safe or cash storage areas. In many locations, boxes containing change, deposits or petty cash are not locked. Otherwise, cash is stored in envelopes, plastic bags in tins or plastic containers which may be opened and resealed at any time. For instance:</p> <ul style="list-style-type: none"> • At Dundurn Castle, upwards of eight (8) to ten (10) people have access to the safe which contains the cash tray (\$220), change box (\$150) and daily deposits (average \$7,750). Daily deposits are stored in white envelopes sealed with scotch tape. • At Battlefield House Museum, the \$4,000 Battle Re-enactment change float is stored in the Museum's safe and not used 51 weeks of the year. At least three (3) people are aware of the safe's combination. • At Whitehern Historic House and Garden, all employees have access to the unlocked filing cabinet in the staff room containing the cash tray (\$100) and the daily deposits (average \$916). Internal Audit discovered funds of \$1,114.70 Canadian and \$36.00 US in the filing cabinet that could not be accounted for. • At the Battlefield House Museum's administration office, cheques for deposit are stored in a binder in an unlocked cupboard. 	<p>That management improve the security over cash with the following:</p> <ul style="list-style-type: none"> • Limit the number of people who have access to the safe, daily deposits and cash storage areas; • Store the locked petty cash box in a secure location with access restricted to the petty cash custodian; • Deposit the Battlefield Re-enactment float in the bank when it is no longer needed after the annual event; and • Store deposit cheques in a secure location with restricted access. 	<p><u>All Sites</u> Agreed. All of these recommendations have been implemented.</p> <p>The procedures will be added to the Museum and Heritage presentation Section cash handling procedure manual and to training and staff orientation by Q4, 2011.</p>

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#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
8.	<p><u>Fund Access (Continued)</u> Lack of restricted access to funds provides the opportunity for misappropriation of funds from the float, change box, daily deposits or petty cash. It may be difficult to identify when and why discrepancies occur or the person responsible if access to cash is not restricted to only employees who need such access for their jobs.</p>		
9.	<p><u>Security of Change Box</u> The change box is not adequately secured at Dundurn Castle. It is stored in an unlocked cupboard. Not securing the change box makes the funds contained therein more susceptible to theft or misappropriation.</p>	That the change box at Dundurn Castle be kept in a locked cupboard.	<p><u>Dundurn</u> Agreed. Change boxes at Dundurn Castle have been moved to a secure location.</p>

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#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
10.	<p><u>Standardized Procedures</u></p> <p>Cash handling processes are not standardized or documented across the City's six (6) museums because each museum operates as a stand alone entity. Lack of standardized processes has led to differences with respect to:</p> <ul style="list-style-type: none"> • Which controls are implemented to address common cash handling risks (as evidenced throughout this report); • Who assumes responsibility to create invoices and follow up on outstanding account balances; • How various types of revenue are classified and grouped for reporting purposes; and • How refunds and amounts to be invoiced are entered into the register and reconciled on the box office report. <p>Lack of standard processes in combination with varying levels of internal control knowledge exposes each museum to different risks and control deficiencies. Lack of consistency in the classification and recording of transactions may make financial comparisons and operating decisions difficult. Operational efficiencies and economies of scale are not shared and utilized if museums act as independent units.</p>	<p>That management build upon the extensive procedures documented for Dundurn Castle to create standard cash handling processes for all museums and ensure compliance.</p>	<p><u>All Sites</u> Agreed. Section-wide cash handling procedures will be in place by the beginning of Q4, 2011.</p> <p>The procedures will be added to the Museum and Heritage presentation Section cash handling procedure manual and to training and staff orientation by Q4, 2011.</p>

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#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
11.	<p><u>Protection of Cardholder Data</u> The City must demonstrate compliance with Payment Card Industry (PCI) Data Security Standards (DSS) which address the handling of credit cardholder information. The Moneris merchant receipts retained by the museum contain the Primary Account Number (PAN) and other cardholder data (i.e. cardholder name and expiry date). As the PAN and other cardholder data are stored together on these receipts, this information must be protected in order to be PCI DSS compliant in securing sensitive cardholder data.</p> <p>Also, the Moneris point of sale administrator card, which can be used to generate reports that contain the PAN and other cardholder data that must be protected, is stored in the cash tray.</p>	<p>That management investigate ways to protect sensitive cardholder data on the Moneris merchant receipts. For instance, management may contact Moneris to determine whether the PAN may be masked on future merchant receipts and black out the PAN in the interim. In addition, current practices should include the secure and restricted access to credit card information.</p> <p>That the Moneris POS administrator card be stored in a more restricted location to limit the ability to access sensitive information from point-of-sales (POS) terminals. Reports generated with the administrator card to reconcile daily receipts should be encrypted or secured appropriately after POS transactions are reconciled.</p>	<p><u>All Sites</u> Agreed. The change proposed in the recommendation requires an upgrade to the Moneris system which will be carried out on Moneris' schedule. If not conducted by the beginning of Q4, 2011, the Division will pay to have the system update completed by the end of 2011.</p> <p><u>All Sites</u> Agreed. Point-of-sale administrator cards have been moved to a secure location in a locked drawer controlled by the Supervisor. Reports generated with the administrator card will be password protected and restricted to supervisory staff. This procedure will be added to the Museum and Heritage presentation Section cash handling procedure manual and to training and staff orientation by Q4, 2011.</p>

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#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
12.	<p><u>Timely Deposit of Funds</u> Daily cash receipts are accumulated and are to be deposited twice a month (mid and end of month). For several of the museums, it was found that a deposit slip would be created and funds readied for deposit. However, the actual deposit in the bank would not be made until 7-25 days later, leaving some funds undeposited for over six (6) weeks. For example, Battlefield House Museum's actual deposits lagged 7-14 days from the deposit slip dates, Whitehern Historic House and Garden's deposit dates lagged 12-18 days and the Children's Museum deposit dates were 13-25 days after the deposit slip dates.</p> <p>Cash being stored for such long periods before actual deposit in the bank and the fact that so many employees have easy access to the stored funds as noted in Observation #8 provide the opportunity for misappropriation or lapping.</p>	That all deposits be made in the bank in a timely manner, within the twice monthly guidelines as required.	<p><u>All Sites</u> Agreed. A revised procedure is now in place that all bank deposits are completed twice monthly and money is physically deposited at the bank or city Hall on the same day as the preparation of the bank deposit.</p>