

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: June 11, 2012	
SUBJECT/REPORT NO: Audit Report 2012-01 - Recreation Facilities and Arenas - Cash Handling (AUD12008) (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 AUD12008 respecting Audit Report 2012-01, Recreation Facilities and Arenas – Cash Handling, be received;
- (b) That the Management Action Plans as detailed in Appendix “A” of Report AUD12008 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 AUD12008) implemented.

EXECUTIVE SUMMARY

The 2012 Internal Audit work plan approved by Council included an audit of cash handling at the City's recreation facilities and arenas. The audit included a review of cash collection, handling and balancing processes to ensure controls are adequate and revenue is 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 (2012-01) containing observations, recommendations and management responses. Audit Report 2012-01 is attached as Appendix "A" to Report AUD12008.

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 possibility of loss or theft. Reconciling records and investigating and resolving discrepancies mitigate the risk of misappropriation of funds. There is some cost associated with the purchase and installation of particular safes in the recreation facilities although the cost has not yet been determined.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

The audit was scheduled as part of the 2012 Internal Audit work plan approved by Council. The audit fieldwork was completed in March 2012. The results of this audit are attached as Appendix "A" of Report AUD12008.

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

Community Services, Recreation Division – Cash Handling Policy 09-06-01

RELEVANT CONSULTATION

Appendix "A" to Report AUD12008 includes management action plans which reflect the responses of management responsible for the administration of the City's recreation facilities, i.e. the Recreation Division of the Community Services Department.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

Total revenue of over \$15.8 million was generated by the Recreation Division's many programs and activities which include registration and admission fees, food services, golf green fees and facilities and equipment rentals. Methods of payment include cash, cheques, debit and credit cards. Payments can be made online, at the facilities or at the Recreation customer service counter located in the Lister building.

For purposes of this audit, on-site cash handling at two recreation centres, two arenas and two pools were reviewed in detail. Excluded from the scope are revenue streams associated with golf courses and stadiums, facilities rentals and advertising and contract revenues which all can be considered for separate audits at a later time.

The audit focused on controls relating to on site cash handling and revenue sources. Specific cash handling procedures at each location will vary due to the size of the facility, 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 various processes.

A formal Audit Report (2012-01) containing observations, recommendations and resulting management action plans was issued. Twelve recommendations were included in Audit Report 2012-01 (attached as Appendix "A" of Report AUD12008). Highlights of the recommendations made are as follows:

- Improvement over the security of cash and membership passes through restricted access to the safe and storage areas;
- Bank deposits made in a timely manner;
- Measures to improve controls over petty cash (approved vouchers, eliminate funds not used), refunds (detailed logs/reports for managerial review) and membership passes (reconciliation of sales to reports/register tapes and periodic stock counts); and
- Reconciliations of cash on hand to daily system/register reports completed as per the procedures followed by supervisory review.

Management and staff agreed to all the recommendations. Specific action plans with implementation dates 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 AUD12008

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**CITY OF HAMILTON
INTERNAL AUDIT REPORT 2012-01
COMMUNITY SERVICES - RECREATION FACILITIES AND ARENAS – CASH HANDLING**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
1.	<p><u>Access to Funds & Membership Passes</u></p> <p>Physical access to the safe or storage areas where funds (petty cash, floats, daily receipts, bank deposits) or passes are kept is not restricted to limited staff. For example:</p> <ul style="list-style-type: none"> • At Brewster Pool, 14 people have keys to a drawer containing the float, membership passes and another key to the change room locker revenue and a cabinet holding additional admittance cards. • At Mountain Arena, two cashiers who know the safe combination have access to petty cash, daily deposit envelopes and bank deposits. • At Carlisle Arena, eight people have a key to the office and know the combination to the safe where various funds are kept. • At Sackville Hill Seniors Centre, 11 employees and members of the Board of Finance with keys to the office have an opportunity to access the float and membership passes. Also, the volunteer, who fills in for the receptionist at lunch, has access to the float and daily cash receipts held in the cash register till. 	<p>That management improve the security over cash and membership passes with the following:</p> <ul style="list-style-type: none"> • Limit the number of people who have access to the safe and storage areas containing daily deposit envelopes, bank deposits, petty cash and membership passes; • Store petty cash in a secure location with access restricted to the custodian; • Store daily cash receipts and bank deposits in a secure location with access restricted to only staff who prepare and perform the bank deposit; and 	<p><i>Brewster Pool, Mountain Arena, Ancaster Aquatic Centre, Carlisle Arena, Bennetto Recreation Centre, Huntington Park Recreation Centre, Sackville Hill Seniors Centre</i></p> <p>Agreed. Recreation Managers will:</p> <ul style="list-style-type: none"> • Define the staff who will have access to keys and safe codes and ensure money is secured in a locked room in a safe (target date – May / June 2012); • Identify the cash custodian for petty cash in each district and identify a secure location that restricts the access to the petty cash to only the custodian (target date - May 2012); • Investigate the cost of installing double drop safes or two safes in facilities in order to manage restrictive access to the float, petty cash and daily deposits (target date – June 2012); and

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#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
1.	<p><u>Access to Funds & Membership Passes (Cont'd.)</u> Lack of restricted access to cash receipts provides the opportunity for misappropriation of funds from the float, daily cash receipts, bank deposits and petty cash. Misappropriated passes result in lost revenues for the City. It may be difficult to identify when and why discrepancies occur or the person responsible if access to cash and passes is not limited.</p>	<ul style="list-style-type: none"> • Segregate a portion of the float for use by volunteers and secure all other cash receipts. 	<ul style="list-style-type: none"> • Provide access only to segregated portion of the float when volunteers are in control of the cash handling process. This recommendation will be written into the <i>Recreation Facility and Cash Handling Procedures</i> (target date – July 2012).

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#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
2.	<p><u>Timely Deposit of Funds</u></p> <p>Per the <i>Recreation Facility Cash Handling Procedures</i>, a bank deposit is to be prepared when accumulated daily receipts exceed \$100 or at least twice per week no matter the amount.</p> <p>The recreation facilities and arenas are not following these guidelines. On average, bank deposits ranging from \$623 to \$1,427 are deposited every 6 – 14 days.</p> <p>Cash stored for long periods before being deposited in the bank and accessible by many employees, as noted in Observation #1, provides the opportunity for misappropriation or lapping of funds.</p>	<p>That all deposits be made in the bank in a timely manner, within the stated timelines, per the procedures.</p>	<p><i>Brewster Pool, Mountain Arena, Ancaster Aquatic Centre, Carlisle Arena, Bennetto Recreation Centre, Huntington Park Recreation Centre</i></p> <p>Agreed. Recreation Managers will:</p> <ul style="list-style-type: none"> • Standardize the days that deposits are to be brought to the bank so that supervisors can manage the scheduling and plan time for staff to complete this function (target date – May 2012); • Meet with District Support Clerks and Part-Time Administrative Clerks to assess any revisions to the <i>Recreation Facility Cash Handling Procedures</i> (target date – June 2012); and • Obtain informal quote from bonded couriers to assess the cost of a company picking up deposits (target date – June 2012). <p>Further, an analysis of the staff time and mileage costs will be completed so that resources assigned to the banking task can be valued and used in deciding between a courier service or staff performing the task (target date – June 2012).</p>

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#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
3.	<p><u>Petty Cash Documentation</u></p> <p>Per the <i>Recreation Facility Cash Handling Procedures</i>, each receipt should be accompanied by a petty cash voucher containing: an explanation as to the nature of the expense and the initials of the person authorizing the expense, the person receiving the funds and the person disbursing the funds.</p> <p>In the audit testing, several instances of incomplete or unapproved vouchers were identified. For example, 60% (12 of 20) of the transactions sampled at Bennetto Recreation Centre did not include adequate petty cash vouchers.</p> <p>Lack of proper controls can result in the use of petty cash funds for inappropriate or unapproved disbursements.</p>	<p>That petty cash vouchers be completed and approved for all reimbursements, as required by the cash handling procedures.</p>	<p><i>Bennetto Recreation Centre, Huntington Park Recreation Centre</i></p> <p>Agreed. Recreation Managers will remind staff of the need for petty cash vouchers to be completed accurately and approved as per the guidelines. This will be done as part of the regular monthly meetings with supervisors and quarterly meeting with district staff (target date – May 2012 ongoing).</p>

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#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
4.	<p><u>Petty Cash Float Size</u></p> <p>In the review of petty cash, several examples of very few reimbursement instances were noted. In particular:</p> <ul style="list-style-type: none"> • Brewster Pool and Ancaster Aquatic Centre each submitted only one petty cash reimbursement request in the last six months of 2011. Very few reimbursements at these facilities indicate that the float levels are not justified. • Site supervisors at Mountain and Carlisle Arenas use their corporate procurement cards for small purchases rather than petty cash. The floats have not been used in the last seven months. <p>Idle petty cash and the multiple employee access to these funds as noted in Observation #1 provide the opportunity for misappropriation or lapping of cash funds.</p>	<p>That petty cash floats with minimal or no activity be reduced or eliminated.</p>	<p><i>Brewster Pool, Mountain Arena, Ancaster Aquatic Centre, Carlisle Arena</i></p> <p>Agreed. Recreation management will assess the allocation of petty cash per centre, recommend that amounts be lowered and that allocation is by district, not by centre (target date – April 2012).</p>

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#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
5.	<p><u>Void/Refund Approval</u></p> <p>Cashiers have the ability to void (reversing the last sale) and refund transactions without management approval.</p> <p>Cash and cheque transactions are to be refunded via cheque requisition. Controls within the CLASS system make processing a cash refund on-site difficult due to a highlighting of an imbalance between system reports. However, cashiers at facilities using a cash register have the ability to process a cash refund and circumvent the cheque requisition process. Cashiers do not consistently record the nature of the void or refund on the cash register receipt and attach it to the Box Office Report.</p> <p>Facilities using the CLASS system have the ability to process debit and credit card transactions and refunds on-site. Cashiers do not consistently generate a Refund Confirmation from CLASS outlining the nature and amount of the refund.</p> <p>In all instances, management does not review or approve voids and refunds to ensure all transactions are legitimate. Lack of supervisory oversight provides an opportunity to conceal a misappropriation of funds by processing a void or refund.</p>	<p><u>For facilities with a cash register</u> - That cashiers maintain a log documenting the date, amount and description of all voided and refunded transactions. Management should reconcile the number and value of voids and refunds reported on the register transactions summary tape to the cashier's log to account for all such transactions. These documents should bear evidence of this review and approval of the voided and refunded transactions.</p> <p><u>For facilities with a CLASS POS system</u> - That management generate a report from the CLASS system at least quarterly showing the date, amount and description of all voided and refunded transactions. This report should bear evidence of management's review and approval of all voided and refunded transactions.</p>	<p><i>Mountain Arena, Carlisle Arena, Sackville Hill Seniors Centre</i></p> <p>Agreed. Recreation Managers will create a log for the cashier to record voided and refunded transactions (target date – June 2012).</p> <p>Reconciliation procedures are to be written into the <i>Recreation Facility Cash Handling Procedures</i> as a part of a monthly review and report by supervisors. Any discrepancies are to be reported to the Recreation Manager for follow up (target date – September 2012).</p> <p><i>Brewster Pool, Ancaster Aquatic Centre, Bennetto Recreation Centre, Huntington Park Recreation Centre</i></p> <p>Agreed. Recreation Managers will work with supervisors and the CLASS Analyst in developing a procedure to review and approve voided and refunded CLASS transactions. Once completed, this procedure will be written into the Cash Handling Procedure Manual (target date – September 2012).</p>

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#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
6.	<p><u>Membership Passes & Clip Cards</u></p> <p>Per the <i>Recreation Facility Cash Handling Procedures</i>, the physical quantity of sequentially pre-numbered membership passes and clip cards should be reconciled to sales on a daily basis. The person in charge verifies the Box Office Report which captures the pass count and reconciliation.</p> <p>Reconciliation of passes to revenue reported in the CLASS point-of-sale system or cash register does not occur on a consistent basis. Eighty-five percent (53 of 62) of Box Office Reports tested showed evidence that membership passes and clip cards were not reconciled to reported sales. For example:</p> <ul style="list-style-type: none"> • In 43 instances, the CLASS PLU Sales Report showing the type and quantity of passes sold was not printed and attached to the Box Office Report; • In seven cases, explanations were not provided when the passes sold per the CLASS PLU Sales Report or cash register tape did not agree with the inventory counts; and • In three instances, the inventory count was not documented. 	<p>That management improve control over membership passes and clip cards by:</p> <ul style="list-style-type: none"> • Reformatting the pass section on the Box Office Report to calculate the quantity of passes sold and include a sign off section for the cashier and person in charge; and • Ensuring staff reconcile the CLASS PLU Sales Report or cash register tape to the quantity of passes sold. 	<p><i>Brewster Pool, Mountain Arena, Ancaster Aquatic Centre, Carlisle Arena, Bennetto Recreation Centre, Huntington Park Recreation Centre, Sackville Hill Seniors Centre</i></p> <p>Agreed.</p> <ul style="list-style-type: none"> • The CLASS Analyst will re-format the pass section on the Box Office Report to calculate the quantity of passes sold and include a sign-off section for the cashier and person in charge (target date – May 2012); and • The CLASS Analyst will investigate creating a report within CLASS that will identify all daily revenue (target date – May 2012). Recreation Managers will remind staff to reconcile this new report or the CLASS PLU Sales Report to the quantity of passes sold (target date – May 2012 ongoing).

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#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
6.	<p><u>Membership Passes & Clip Cards (Cont'd.)</u></p> <p>Most facilities have a substantial stock of passes on hand that are not used or counted on a daily basis. Although some sites count passes on a periodic basis, Internal Audit observed transposition and other errors with existing inventory lists.</p> <p>Lack of control and oversight over the inventory of membership passes and clip cards and the number of employees having access to passes as noted in Observation #1 provide the opportunity for misappropriation and theft.</p>	<p>That an inventory list be maintained for passes held in stock at each location.</p> <p>That the District Support Clerk perform periodic counts of membership passes and clip cards and compare counted quantities to the inventory list. The inventory lists should bear evidence that the counts were performed.</p>	<p><i>Brewster Pool, Mountain Arena Ancaster Aquatic Centre, Carlisle Arena, Bennetto Recreation Centre, Huntington Park Recreation Centre, Sackville Hill Seniors Centre</i></p> <p>Agreed. The Recreation Division is moving towards an automated membership module whereby passes and clip cards will not be stored in facilities. The new cards will be stored in an inactive state until they are purchased and activated through the sale process (target date December 2012).</p>

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#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
7.	<p><u>Daily Reconciliations</u></p> <p>Per the <i>Recreation Facility Cash Handling Procedures</i>, cash on hand should be reconciled to revenue reported in the CLASS point-of-sale system or cash register at the end of each shift. The cashier and person in charge sign off on the Box Office Report and daily deposit envelope as evidence that the reconciliation and corresponding cash counts were carried out.</p> <p>Internal Audit observed that:</p> <ul style="list-style-type: none"> • 19% (12 of 62) of Box Office Reports analyzed were not signed off by the cashier and/or person in charge; • 11% (7 of 62) of Box Office Reports contained errors and/or omissions; • The person in charge at Mountain Arena did not sign off or count funds in the daily deposit envelope; and • The person in charge at Sackville Hill Seniors Centre does not check the reconciliation, recount cash or sign off on the Box Office Report. 	<p>That the following procedures be carried out to improve the reconciliation process:</p> <ul style="list-style-type: none"> • All employees be reminded of the importance of the reconciliation process and their responsibilities; • Management perform training if aspects of the reconciliation process are not understood; and • Management ensure that the reconciliation procedures are being followed by signing off on reviewed reports, correcting errors and verifying the accuracy of the deposited funds. 	<p><i>Brewster Pool, Mountain Arena, Ancaster Aquatic Centre, Carlisle Arena, Bennetto Recreation Centre, Huntington Park Recreation Centre, Sackville Hill Seniors Centre</i></p> <p>Agreed.</p> <ul style="list-style-type: none"> • Recreation Managers will ensure that monthly District Support Clerk meetings are scheduled so that reminders of the procedures and various training opportunities can occur (target date – May 2012 ongoing). • District Support Clerks will sign off on reviewed reports correcting errors and verifying the accuracy of the deposited funds. This procedure will be written into the <i>Recreation Facility Cash Handling Procedures</i>.

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#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
7.	<p><u>Daily Reconciliations (Cont'd.)</u></p> <p>Without adequate supervisory review coupled with the fact that access to daily receipts is not limited as noted in Observation #1, there exists the opportunity to misappropriate funds and conceal the shortage by manipulating the Box Office Report.</p> <p>Internal Audit observed that revenue reported on the CLASS PLU Sales Report does not match other CLASS reports. Receipts collected for swimming lessons, rentals, registrations and monies placed on customer accounts are not captured on the CLASS PLU Sales Report. A proper reconciliation of cash receipts and sales cannot be carried out if CLASS reports do not show all cash receipt and sale amounts.</p>	<p>That management reconfigure the CLASS PLU Sales Report to ensure all revenue is captured. The revised report should be rolled out to all facilities using the CLASS point-of-sale system.</p>	<p><i>Brewster Pool, Ancaster Aquatic Centre, Bennetto Recreation Centre, Huntington Park Recreation Centre</i></p> <p>Agreed. The CLASS Analyst will investigate creating a report within CLASS that will identify all daily revenue (target date – May 2012).</p> <p>The revised report that identifies all daily revenue will become the new standard for cash receipts and sales reconciliation. This step will be written into the <i>Recreation Facility Cash Handling Procedures</i> (target date – July 2012).</p>

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#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
8.	<p><u>Cash Handling Procedures</u></p> <p>The <i>Recreation Facility Cash Handling Procedures</i> provide detailed instruction regarding how cash should be handled and reconciled at the City's recreation centres and arenas. As these procedures were last updated in June 2009, differences exist between actual and documented cash handling processes. For example,</p> <ul style="list-style-type: none"> • Bank deposit timelines are not being followed as noted in Observation #2; • Cashiers at Mountain Arena and Sackville Hill Seniors Centre accept currency denominations greater than \$50; • Voided deposit slip and bag numbers are not consistently recorded on the Box Office Report; • Petty cash is no longer replenished at City Hall and petty cash reimbursement cheques may be cashed at branches other than the Jackson Square location; and • A reserve float does not exist. <p>In addition, the <i>Procedures</i> do not provide adequate guidance with respect to refund, void and no sale transactions, documentation relating to locker revenue counts and controls with respect to membership passes and clip cards held in stock.</p> <p>Detailed written procedures provide guidance to current and future employees carrying out cash handling processes. Outdated procedures may result in incorrect or inconsistent application. Also, operational efficiencies and economies of scale are not shared and utilized if recreation centres and arenas act as independent units and apply different procedures.</p>	<p>That the <i>Recreation Facility Cash Handling Procedures</i> be reviewed and updated on an annual basis. The reviewer and date should be documented in the <i>Procedures</i> as evidence that the review occurred. Revised <i>Procedures</i> should be distributed to and followed by all staff.</p>	<p>Agreed. Recreation Managers will assign an annual review of the <i>Recreation Facility Cash Handling Procedures</i> to be completed by the District Support Clerks in consultation with the CLASS Analyst and approved by the Recreation Management Team (target date – annually each summer).</p> <p>Distribution to staff upon approval of the revisions will occur through the Supervisors (target date – annually, prior to fall start up (September)).</p>