

**CITY OF HAMILTON  
INTERNAL AUDIT REPORT 2013-12  
PUBLIC WORKS – FOOD SERVICES (GOLF COURSES)**

<b>OBSERVATIONS OF EXISTING SYSTEM</b>	<b>RECOMMENDATION FOR STRENGTHENING SYSTEM</b>	<b>MANAGEMENT ACTION PLAN</b>	<b>FOLLOW UP (AUGUST 2015)</b>
<p><u>Procedures</u> There are no documented policies and procedures in place to provide detailed instruction regarding how cash, revenue and inventory should be handled and reconciled at the City's golf courses.</p> <p>When written procedures are lacking documentation on current practices, employees use personal understanding and experience to carry out duties which could result in incorrect, incomplete or inconsistent application. It would also be problematic and inefficient for the successor to commence his/her duties within a short period of time.</p>	<p>1. That management develop, approve and implement cash handling and inventory management procedures. The procedures should be reviewed annually by management and bear evidence of such review (sign-off).</p>	<p>Agreed. There is an older Cash Handling Procedures document from when Golf was part of Recreation. The Cash Handling policy is currently being revised at the corporate level. Once completed, the policy will be adopted by the golf course management.</p> <p>Golf course management will also develop inventory management procedures and will review them yearly for any necessary changes. The expected completion date is mid 2014.</p>	<p>Completed. Management has implemented the "Operating Policies for Golf Food and Beverage" document which addresses cash handling and inventory management procedures.</p>



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<p><u>Safeguarding Cash</u>                      The Clubhouse Supervisor and two Servers at Chedoke have access to the top portion of the safe. In addition to the extra change float to which the Servers require access when the Clubhouse Supervisor is not present, the revenues awaiting deposit and the petty cash are also stored in the top portion of the safe.</p> <p>When unnecessary staff have access to reconciled revenues awaiting deposit or petty cash funds, the risk of misappropriation is increased.</p>	<p>4. That the extra change float be kept in a locked box in the bottom portion of the safe. Access to revenues awaiting deposit and petty cash should be restricted to the Clubhouse Supervisor.</p>	<p>Agreed. To be implemented beginning January 1, 2014.</p>	<p>Alternative Implemented. Access to revenues awaiting deposit and petty cash has been partially restricted. Compensating controls are in place to address the residual risk.</p>

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<p><u>Void / Refund Documentation</u>                      Refund and void transactions are not being reviewed by management. No reason is provided by staff who enter void and refund transactions. The risk of fictitious refunds or voids is increased as there is no documentation to support the transaction. An opportunity exists to process a void or refund for cash to offset misappropriated funds.</p>	<p>5. That management develop, approve and implement a refund policy. All voids and refund transactions should be supported with adequate documentation and reasons and approved by the Clubhouse Supervisor.</p>	<p>Agreed. Refunds are minimal in golf operations (\$165 during the 2013 test period at King’s Forest). Tighter controls will be implemented by requiring staff to include a copy of the refund in the deposit envelope along with a reason for the refund. These will be attached to the copy of the Pay Type Summary and reviewed when the daily balancing is completed by the supervisor. To be completed by March 1, 2014.</p>	<p>Completed. Refunded transactions are supported by the receipt, an explanation and are reviewed by a second person.</p>

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<p><u>Records Retention / Review – Cash and Revenues</u> Documents used by staff to record and reconcile cash and revenues are not consistently retained or signed off by management. The following documents are not consistently retained and it could not be determined if they were signed off by staff and reviewed by management:</p> <ul style="list-style-type: none"> <li>- Daily Cash Envelopes</li> <li>- Beverage Cart Daily Inventory Control Sheets</li> <li>- HW (Halfway House) Daily Inventory Control Sheets</li> </ul> <p>In addition, the Pay-Type Summary Report does not bear evidence of management review of cash and revenues reconciliation.</p> <p>Audit Services could not fully test the accuracy and completeness of cash and revenues as supporting documentation was not available. Without proper supporting records and sign-off, there is no adequate evidence of management review of key cash and revenue reconciliations for accuracy and completeness.</p>	<p>6. That management maintain adequate records to support the cash and revenue reconciliations processes and ensure adequate evidence of review on reconciliation documentation.</p>	<p>Agreed. Currently, daily car and HW inventory sheets are retained for a month until it is known that the FA has balanced the deposits. They will now be retained for the entire year.</p> <p>Deposit envelopes, which are used by the supervisor to verify the deposit, will also be kept for a period of one year. This will begin March 1, 2014.</p> <p>The Pay Type Summary Report is completed after the fact by the Supervisor in order to balance the day's sales which is evidence of review. At that time, the completed and initialed deposit slip is attached to the summary. Moving forward, the Pay Type Summary Report will also be initialed. This report is sent downtown to the FA. This report is run after the day being reviewed and cannot be altered in any way. Management does review the Pay Type Summary on a daily basis.</p>	<p>Completed. Records supporting the cash, inventory and revenue reconciliations are retained adequately.</p>

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<p><u>Alcohol Purchasing</u> Three alcohol inventory purchases were identified as violations to the City of Hamilton's Procurement Policy By-Law No. 12-155 as they were made through unauthorized vendors.</p> <p>In addition, alcohol inventory purchases are not tracked and amounts are not applied against the purchase order in PeopleSoft.</p> <p>Without proper tracking of alcohol inventory purchases, the risk of inventory ordered in excess of authorized PO limits is increased.</p>	<p>7. That Food Services' alcohol inventory purchases comply with the City of Hamilton's procurement policies, including using approved vendors.</p> <p>8. That alcohol inventory purchases be tracked to ensure they are within authorized limits on the purchase order.</p>	<p>Agreed. This has been addressed by a PO system put in place this year for the first time ever in golf operations where purchases are tracked within the business unit.</p> <p>Agreed. The FA will deplete all POs as purchases are made in order to ensure purchases are within the POs' limits. To be completed by March 1, 2014.</p>	<p>No Longer Applicable. Alcohol purchases for golf courses have been exempted from the Procurement Policy.</p> <p>No Longer Applicable. Alcohol purchases for golf courses have been exempted from the Procurement Policy.</p>

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<p><u>Inventory Reconciliation</u>                      The City's golf courses currently use Jencess to process sales of various food and beverage inventory items. Golf course inventory is being counted regularly for reordering purposes but is not reconciled against usage. Audit Services prepared a reconciliation of beer inventory from April 1 – September 29, 2013 at Chedoke Golf Course. Sales in Jencess were higher than expected by 387 premium cans and lower than expected by 407 domestic cans. This was explained as a result of Servers incorrectly selling a domestic brand but recording it as premium in error. This error went undetected as inventory reconciliations were not performed.</p>	<p>9. That inventory reconciliations be prepared regularly and thresholds set for acceptable variances. Variances beyond this level should be followed up by management with required corrections or explanations of differences documented.</p>	<p>Agreed. As suggested during the audit, the Jencess PO system will be used to receive pre-packaged ready sale items into the on hand counts. During the weekly physical counts, these counts will be compared to the Jencess on hand counts and any areas of concern will be identified and dealt with. To be completed by March 1, 2014.</p>	<p>In Progress. An alternative process was developed in 2015 to monitor inventory usage against management expectations. However, insufficient time has elapsed to assess its effectiveness. Expected Completion: June 2016.</p>

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<p><u>Inventory Reconciliation (cont'd)</u> Records of counts are not consistently retained and individual items are not always counted (i.e. beer is counted by the case at King's Forest) making inventory reconciliations of other items not possible. Counts are not signed off by staff performing them to provide accountability.</p> <p>The City's risk of misappropriation of inventory going undetected increases when inventory is not reconciled to usage. The completeness and accuracy of inventory counts cannot be confirmed and variances are not investigated.</p>	<p>10. That individual inventory items be counted, counts be signed off and all count records be retained by the Clubhouse Supervisor.</p>	<p>Agreed. Inventory items are counted weekly for new orders to be placed, to compare purchases vs sales and to verify that the margin is within an acceptable tolerance which will be formally established in the inventory management procedures being developed in #1. The count sheets will be modified to include a column for initials of the person counting and retained by the Supervisor. To be completed by March 1, 2014.</p>	<p>No Longer Applicable. Due to operational and technical considerations, management has decided that with the exception of alcohol, individual inventory items will not be reconciled.</p> <p>An overall gross margin analysis is instead performed. Management indicated that they accept the residual risk associated with this approach.</p>



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<p><u>Jencess Inventory Reconciliation</u>                      The Jencess System used at the City's golf courses to process transactions is not being fully utilized. This system has the ability to track single sale inventory items (i.e. canned beer, chips, pop) and provide on hand totals to be used in performing inventory counts.</p> <p>In addition to Jencess sales not being reconciled to amounts used (as noted in #7), inventory received is not entered into Jencess. Without fully utilizing the Jencess system, it cannot be used to monitor inventory and review items quickly to determine if reordering is required instead of performing a full count. Utilizing capabilities in Jencess will also make the inventory counts and reconciliation processes more efficient.</p>	<p>11. That all single sale inventory items be recorded in Jencess upon receipt. Inventory counts should be compared to Jencess and variances and waste adjusted regularly in Jencess by the Clubhouse Supervisor.</p>	<p>Agreed. All single sale items are already in the Jencess system but the system has not been utilized as a perpetual inventory system, (its PO System). Instead, the system has been allowed to count the quantities sold and these amounts have been used to compare against the purchases in order to ensure our margins within an acceptable tolerance. Moving forward, all purchases of pre-packaged supplies will be input into Jencess for single sale items which will allow management to see, at any given time, what on hand inventories should be when physical counts are conducted. The on hand inventory will be adjusted for items, like waste, as required. To be completed by March 1, 2014.</p>	<p>In Progress. Due to technical limitations management has decided to perform reconciliations without the use of Jencess. Alcohol items are being reconciled on a regular basis, but variances are not being investigated consistently. Expected Completion: June 2016.</p>

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<p><u>Jencess Inventory Reconciliation (cont'd)</u>                      Bulk inventory (i.e. draft beer, liquor, various ingredients in restaurant meals – chicken, French fries) cannot be reconciled in Jencess. These items are not being reconciled against usage increasing the risk of misappropriation of inventory going undetected</p>	<p>12. That a sample of higher value bulk inventory items be reviewed and documented regularly to determine that bulk inventory usage is plausible and in line with yield expectations.</p>	<p>Agreed. A sample of higher value bulk inventory items will be reviewed and documented regularly to determine that bulk inventory usage is plausible and in line with yield expectations which will be determined in the inventory management procedures being developed in #1. To be completed by March 1, 2014.</p>	<p>In Progress. An alternative process was developed in 2015 to monitor inventory usage against management expectations. However, insufficient time has elapsed to assess its effectiveness. Expected Completion: June 2016.</p>

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<p><u>Inventory Waste</u>                      Clubhouse Waste Sheets at King’s Forest require a reason for the waste to be provided. However, they are not consistently signed by staff incurring the waste. No reasons were provided for waste from the food and beverage carts at King’s Forest and Chedoke and no documentation was available for review from the halfway house at Chedoke.</p> <p>For waste sheets that were available, there was no evidence that they had been reviewed or that significant waste had been authorization by management. For example, at Chedoke 49 domestic beer cans were indicated as moldy and disposed of without evidence of authorization.</p> <p>When all inventory waste is not adequately tracked or reviewed, efforts cannot be made to identify and minimize waste. Without management monitoring and authorizing unusual or significant instances, recording of variances as waste can mask misappropriation of inventory items.</p>	<p>13. That Inventory Waste Sheets, Beverage Cart Daily Inventory Control Sheets and HW Daily Inventory Control Sheets be modified to include an area for providing a reason for the waste. These documents should consistently be signed off by staff incurring the waste.</p> <p>14. That management develop guidelines for when management authorization and signoff is required for significant waste.</p> <p>15. That inventory waste be regularly monitored by the Clubhouse Supervisor.</p>	<p>Agreed. An area to provide the waste reason will be added to the control sheets and the documents will be checked to verify they are signed off by staff. Where ever possible, the evidence of the waste will be presented to a second staff to verify. To be completed by March 1, 2014.</p> <p>Agreed. A second signature line will be added for waste sheets to be signed at the time of the waste by another present staff person. Any amounts over \$20 will require that the Supervisor be notified. To be completed by March 1, 2014.</p> <p>Agreed. The Supervisor will regularly check waste sheets and initial them as proof that they were examined. To be completed by March 1, 2014.</p>	<p>Completed. Inventory Control sheets have been modified to allow for staff comments. Explanations are consistently being provided for instances of waste.</p> <p>In Progress. A threshold for management authorization has been determined. However, this was not being applied consistently. Expected Completion: September 2015.</p> <p>Initiated. Insufficient evidence could be obtained that inventory waste was being consistently monitored. Expected Completion: September 2015.</p>

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<p><u>Inventory Oversight</u> Inventory removed from stock for sale on the food and beverage carts and amounts returned at the end of the shift require the initials of the Servers and a second staff member on the Beverage Cart Daily Inventory Control Sheet as verification of the amounts taken / returned. During the month of August, there were three instances at Chedoke and ten instances at King's Forest of inventory being taken or returned without proper control sheet signoff by a second staff member.</p> <p>Inventory removed for sale through the halfway house at Chedoke did not require signoff of the control sheet by a second staff for verification until September 2013. There was insufficient information available to verify if this requirement is currently being met.</p> <p>When a second staff member does not verify inventory taken and returned, the Server has the opportunity to manipulate documentation, conceal shortages and misappropriate inventory.</p>	<p>16. That all inventory taken for sale on the food and beverage carts have a second staff initial for verification on the Beverage Cart Daily Inventory Control Sheet. Management should follow up on non-compliance.</p> <p>17. That all inventory taken for sale at the halfway house be recorded on the HW Daily Inventory Control Sheet and a second staff initial the sheet as verification. Management should follow up on non-compliance.</p>	<p>Agreed. A second staff initial is already required and will be closely monitored by the Supervisor/Chief Cook to ensure initialing is always happening. To be completed by March 1, 2014.</p> <p>Agreed. The halfway house (HW) at Chedoke has already adopted the same method used for the beverage carts for inventory taken for sale. Compliance with the procedure will be routinely checked. Already completed in September 2013.</p>	<p>Completed. Initial and subsequent inventory stock for the food and beverage carts are consistently verified by a second person.</p> <p>Completed. Initial and subsequent inventory stock for the Chedoke halfway house is consistently verified by a second person.</p>

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<p><u>Inventory Sales</u> Inventory sales calculated by Servers on the Beverage Cart Daily Inventory Control Sheets for amounts sold from the cart do not match sales recorded in Jencess. This is primarily the result of the cost of items charged to the customer not including HST, including HST at the wrong rate or the prices of items in Jencess not matching prices on the Control Sheets. These differences are offset by Servers' tips. At Chedoke, the sale quantities of four items over a one week period were input into Jencess at a lower amount by Servers so that there would not be an effect on tips earned.</p> <p>When all sales are not recorded in the register as determined/reconciled on the Control Sheets, revenues in the financial records will not be appropriately reflected and inventory will not reconcile.</p>	<p>18. That amounts charged to the customer and costs in Jencess be adjusted as required to match the price of all items sold through the cart and halfway house.</p> <p>19. That the Jencess transaction receipt be included in the DCE, matched to the calculated sales on the Beverage Cart / HW Daily Inventory Control Sheets and be reviewed by the Clubhouse Supervisor.</p>	<p>Agreed. Inventory count sheets prices will be matched as closely as possible to the Jencess system taking into account HST variances. To be completed by March 1, 2014.</p> <p>Agreed. The transaction receipts will be attached to the Daily Inventory Control sheets for the cart and HW on a daily basis and reviewed when the daily cash is being balanced. To be completed by March 1, 2014.</p>	<p>Completed. Cart and halfway house sales prices have been adjusted to match those in Jencess.</p> <p>In Progress. The Jencess transaction receipt is included with the control sheets during the balancing process; however, reconciliations are not consistently signed off as evidence of review.</p> <p>Expected Completion: June 2016.</p>

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<p><u>Catering Agreements</u>                      There is no formal document or contract signed by a customer entering into a catering agreement. All correspondence regarding costs and services to be provided are agreed to via email.</p> <p>When there is no signed agreement in place, the City is at risk of financial loss if there are disputes or the customer decides to cancel the event at the last minute. Any terms may become unenforceable.</p>	<p>20. That management develop and implement the use of a catering contract. This contract should detail the services to be provided and the cost and be signed by both the customer and Food Services management.</p>	<p>Agreed. A newer catering/tournament contract has already been created and will be used in 2014 with both parties signing it. To be completed by March 1, 2014.</p>	<p>No Longer Applicable. Customer signatures are now obtained, supporting the services and price agreed upon.</p> <p>However, management has considered the cost versus benefits of implementing catering contracts and decided not to pursue this action plan.</p>

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<p><u>Catering Revenue</u>                      The Clubhouse Supervisor prepares the invoice for catering events, collects payment from the customer, processes the payment through Jencess and deposits the payment in the City bank account. Catering revenue is not recorded until payment is received. In reviewing seven functions, two had revenues recorded in a period subsequent to when they occurred and payment was received for one that no invoice had been prepared. In addition, billings and collection do not flow through the City's Accounts Receivable process.</p> <p>The lack of segregation of duties and the non-recording of amounts owing for catering services in the City's financial records increase the risk of catering revenue being misappropriated, being incorrectly reflected in the City's financial reports or its collection being missed.</p>	<p>21. That pre-numbered catering contracts, invoices and details of payments be provided to a secondary staff member for review to ensure all events have been billed and payments collected. This individual should maintain a listing of all events, outstanding amounts and follow up with the Clubhouse Supervisor, as required. In this manner, a record of catering activity and accounts receivable would be maintained by a party other than the Clubhouse Supervisor, providing a better segregation of duties.</p>	<p>Agreed. The FA will track catering activity. To be completed by March 1, 2014.</p>	<p>Not Completed. Catering activity is not being reviewed by a second person. Expected Completion: June 2016.</p>

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The following items were noted during the course of the audit. Although they do not present internal control deficiencies, they are indicated in this Addendum so management is aware of the issues and can address them appropriately.

Floats

21. Cash floats are not regularly reconciled to the ledger and amounts are not confirmed with the cash custodian to ensure floats are still intact. Cash floats differed from the general ledger by \$209.10 as HST was taken on the cheque to issue the Chedoke floats in error. This was not identified as floats are not regularly reconciled.

***It is recommended:***

***That cash floats be reconciled and confirmed to be intact at least quarterly.***

***Management Response:***

***Agreed. While the section was previously under Recreation, quarterly float reports were prepared and submitted. This practice will resume again with the FA in Public Works. Implementation date: January 2014.***

***FOLLOW UP COMMENT:***

***Completed. Cash floats are being reconciled on a quarterly basis.***

Petty Cash

22. Petty cash floats of \$500 at Chedoke and \$200 at King's Forest were not used during the 2013 season indicating the petty cash floats at each course may be too large. More cash is on hand than required for daily operations, increasing the risk of misappropriation.

***It is recommended:***

***That petty cash floats be reduced and funds deposited back into the City bank account.***

***Management Response:***

***Agreed. The amount of petty cash will be reduced moving forward into 2014.***

***FOLLOW UP COMMENT:***

***Completed. Petty cash at Chedoke has been reduced.***