

**CITY OF HAMILTON
 INTERNAL AUDIT REPORT 2013-05
 COMMUNITY AND EMERGENCY SERVICES – FOOD SERVICES (ARENAS AND RECREATION FACILITIES)
 FOLLOW UP**

OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (DECEMBER 2016)
<p><u>Procedures</u> The <i>Food Services Cash Handling Procedures</i> provide detailed instruction regarding how cash, revenue, inventory and vending commissions should be handled and reconciled at the City’s recreation centres and arenas. These procedures were last updated in August 2009 and differences exist between actual and documented processes. For example, no updates have been made for the use of CLASS POS registers or changes to the forms being used.</p> <p>In addition, the Procedures do not provide adequate guidance on obtaining authorization for wastage inventory items or entering into agreements to provide catering services.</p> <p>When written procedures are lacking documentation on current practices, employees use personal understanding and experience to carry out processes 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 update, approve and implement cash handling procedures. The procedure should be reviewed annually by management and bear evidence of such review (sign-off).</p>	<p>Agreed. Food Services Cash Handling procedures will be updated and approved by Recreation management by Q1, 2014. (Plan – New draft cash handling recommendations by October 25th; review by Cash Handling Committee November 8th; Plan revisions November 15th; Finance Review November 22nd; Plan revisions November 27th; Recreation Directors review December 11th; Plan revisions December 13th; final approval December 20th)</p> <p>A new Catering form will be developed, reviewed and approved by City Wide Services (CWS) management, ensuring consistency and clarity in catering agreements. This will be completed by Q3, 2013.</p> <p>A management review will be done on the wastage processes by Q1, 2014, followed by recommendations and an implementation plan by Q2, 2014.</p>	<p>In Progress. Policies and procedures (P&P) are being reviewed and updated before the new season starts this Fall. Management indicated that policies and procedures will be reviewed on an annual basis going forward.</p> <p>Expected Completion: Per management, the P&P item has been completed since the audit work was conducted. The Catering form is being revised due to recommendations received from Finance in December 2016 and will be completed in Q1 2017. The review of wastage processes has been completed. The Food Services P&P will be reviewed and revised again once new inventory software is in place, completion is expected in Q3 2017.</p> <p>This additional progress has not yet been validated by Audit Services.</p>

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<p><u>Timely Deposit of Funds</u> Per the <i>Food Services Cash Handling Procedures</i>, a bank deposit for funds collected is to be prepared at a minimum of once per week. A review of five arenas identified:</p> <ul style="list-style-type: none"> • Deposits at four arenas contain more than one week of sales and receipts; and • Deposits were made to the bank three to six days after they were prepared. <p>Cash stored for long periods before being deposited in the bank provides the opportunity for misappropriation, lapping or theft of funds.</p>	<p>2. That all deposits be prepared and deposited within the timelines stated in the written procedures.</p>	<p>Agreed. Deposits will now be done according to the <i>Food Services Cash Handling Procedures</i>. Compliance report to be completed for CWS management by Q1, 2014.</p>	<p>Completed. Funds are deposited on a weekly basis.</p>

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<p><u>CLASS POS Transactions</u> Cash register transactions at arena concessions are processed by Junior Clerks. In a review of four different arenas that use CLASS Point of Sale (POS) cash register systems, Junior Clerks were found to be processing transactions under the Senior Clerk's username at three of the locations. It is difficult to establish accountability for transactions processed (i.e. sales, refunds, voids).</p>	<p>3. That all Junior Clerks use their own assigned usernames and passwords for processing transactions through the CLASS POS cash register system.</p>	<p>Agreed. The current system of logging into the network and then logging into CLASS has been problematic due to lockout and security features. We will investigate in POS locations how to address after hours support from IT and CLASS so that staff will eliminate the usage of other staff's passwords and usernames to speed up the opening process. In the event where after hours support is delayed, clerks will identify in the Daily Cash Envelope (DCE) what action and information was used to sign in and will inform the supervisor to remediate the problem. Implementation Date – October 30, 2013.</p>	<p>Alternate Implemented. Junior Clerks use their assigned usernames and password to process transactions. A process is in place to identify and document when a Junior Clerk has difficulty logging into CLASS and uses another employee's username. Subsequent to May 2016, Management has instructed Junior Clerks to obtain a temporary username and password through Food Services Administration if difficulties are encountered logging into the system. As a result, accountability is established.</p>

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<p><u>Void / Refund Documentation</u> The <i>Food Services Cash Handling Procedures</i> require Junior Clerks performing refunds, voids or error transactions in the POS system to complete a refund slip and include it in the Daily Cash Envelope (DCE). A review of refunds completed at five locations identified that refund slips were not being completed.</p> <p>When Junior Clerks do not complete refund slips, 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 and misappropriate the funds.</p>	<p>4. That completed refund slips be attached to the DCE for all refunds, voids and error transactions.</p>	<p>Agreed. Refund, errors and voids (general refunds) slips will continue to be completed by staff (junior clerks) as per department cash handling policies and procedures and submitted with each DCE for each general refund completed. All general refunds completed will be reconciled by Arena Senior Clerks (ASC) via a new software refund report now available in all Food Services POS CLASS and through the Z reading for Non POS CLASS locations. Periodic Box Office Statement (BOX Office) has been revised to include daily tracking of any transactions that have a general refund component. Box Office general refund information will include staff's name and amount of refund as well as indicating if staff completed and submitted general refund slip with DCE, as required.</p>	<p>In Progress. Clerks are not attaching refund slips to the DCE on a consistent basis. Management indicated staff will be trained in refund processes before the new season starts this Fall. Management will begin reviewing void and error transactions this Fall.</p> <p>Expected Completion: Per management, this item has been completed since the audit work was conducted. Refund and voids are completed as per the Food Services P&P and submitted monthly to the Administrative Supervisor for review and investigation if required.</p> <p>This additional progress has not yet been validated by Audit Services.</p>

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<u>Void / Refund Documentation (Cont'd.)</u>		Daily and Periodic refund reports are now reconciled by ASC and Co-ordinator to ensure compliance is achieved. In situations where junior clerks are not performing these functions, a verbal, written and possible disciplinary action will be addressed to ensure compliance.	

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<p><u>Management Sign-Off</u> Senior Clerks are not consistently initialing the DCE as evidence that the cash collected from daily sales has been counted and matches the total recorded by the Junior Clerk.</p> <p>In addition, there is no indication of sign-off for management review of the Bi-Monthly Cash Management Summary (cash and revenue reconciliation), Bi-Monthly Inventory Control Sheet (inventory reconciliation) or Bi-Monthly Inventory Variance Summary Report (summary of inventory differences for all locations).</p> <p>A review of nine Bi-Monthly Inventory Control Sheets identified two having errors with opening balances and seven with errors in wastage amounts recorded.</p> <p>Without proper sign-off there is no evidence of management review of key cash and inventory reconciliations for accuracy and completeness.</p>	<p>5. That Senior Clerks initial all DCEs as evidence of review.</p> <p>6. That management sign off on the Bi-Monthly Cash Management Summary, Bi-Monthly Inventory Control Sheet and Bi-Monthly Inventory Variance Summary Report as evidence of review.</p>	<p>Agreed. Senior Clerks will initial all DCEs from now on.</p> <p>Agreed. Recreation Food Services (RFS) Supervisor will sign-off on all Bi-Monthly Cash Management Summaries, Bi-Monthly Inventory Control Sheets and Bi-Monthly Inventory Variance Summary Reports effective immediately.</p>	<p>Completed. Senior Clerks are initialing DCEs on a consistent basis.</p> <p>In Progress. The Bi-Monthly Box Office Summaries are used to populate an Overall Sales Report. The Supervisor does not sign the Overall Sales Report on a consistent basis. Due to a staffing shortage, the Bi-Monthly Inventory Control Sheets and Bi-Monthly Inventory Variance Summary Reports for Feb and Mar 2016 were not finalized in May 2016 when audit fieldwork occurred. Management indicated that staffing will be in place when the new season started to ensure reports are prepared, reviewed and signed off in a timely manner.</p> <p>Expected Completion: Per management, this item has been completed since audit work was conducted. A new process is in place. This additional progress has not yet been validated by Audit Services.</p>

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<p><u>Physical Security of Concession Inventory</u> Access to concession inventory is not restricted to Food Services staff. The Arena Supervisors and/or Senior Operators at each location have access to inventory areas to accept deliveries when Food Services staff are not present or for Health and Safety purposes.</p> <p>Two of five locations tested identified even more staff having access to inventory. All full time arena staff at the Dundas Arena and all arena staff at Morgan Firestone Arena have access to the key required to enter inventory storage areas.</p> <p>When access is not restricted, the potential for unauthorized entry and misappropriation of inventory is increased.</p>	<p>7. That the key to inventory storage areas be secured and restricted to only staff requiring such access.</p>	<p>The Recreation Food Services (RFS) Security Report will align Food Services physical security practices with the arenas' security processes and will be completed by Q3, 2013 and reviewed by Recreation management. Revisions, as recommended by the Report, will be implemented by Q4, 2013.</p>	<p>Completed. Keys are restricted to only staff requiring access as part of their job duties at both Dundas and Morgan Firestone arenas.</p>

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<p><u>Concession Inventory Reconciliation</u> Arenas' concession inventories are received through transfers from the Food Services administration office, transfers from other concessions, deliveries directly to the arenas by vendors or purchases using petty cash.</p> <p>Original transfer sheets, approved invoices and receipts for petty cash inventory purchases are not reconciled to the Bi-Monthly Inventory Control Sheet, a document meant to update inventory quantities on hand. A review of nine Bi-Monthly Inventory Control Sheets identified several discrepancies - three amounts did not have supporting transfer sheets or invoices and one item on a transfer sheet was not included in the inventory quantities.</p>	<p>8. That original inventory transfer sheets, copies of approved invoices and petty cash receipts be matched to the Bi-Monthly Inventory Control Sheet. The Inventory Co-ordinator should sign off that all items have been matched/reconciled.</p>	<p>Agreed. The Inventory Co-ordinator will sign off on Bi-Monthly reconciliation reports effective immediately.</p>	<p>In Progress. The Inventory Co-ordinator prepares the Bi-Monthly Inventory Control Sheet using various documents and signs the Sheet as the preparer. The volume of manual inventory transactions that need to be matched to the Bi-Monthly Inventory Control Sheet is challenging. Management is investigating whether an electronic perpetual inventory system may be implemented with the new corporate point of sales system.</p> <p>Expected Completed: Q4 2017.</p>

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<p><u>Concession Inventory Reconciliation (Cont'd.)</u> Further, quantities for items purchased in bulk but sold in individual quantities are not reviewed or reconciled. For example the number of french fry cups sold is reconciled but is not compared as to the yield of the number of french fry bags used.</p> <p>Without matching transfer sheets, invoices and petty cash receipts or reconciling all bulk inventory items to the bi-monthly inventory quantities, the completeness and accuracy of the inventory cannot be confirmed. This increases the City's risk of misappropriation of inventory going undetected.</p>	<p>9. That all bulk inventory items be accounted for on the Bi-Monthly Inventory Control Sheet and the yield reviewed and reconciled.</p>	<p>Agreed. In addition to individual inventory counts, the top four bulk items will now be identified and included in the Bi-monthly Inventory Report under "Yieldage Inventory". The reconciliation between units sold, serving size and usage of bulk items will be analyzed and cross-referenced to ensure actual food costs and standard ideal costing is achieved. To be in place by September 20, 2013. (To identify more than the top four bulk items is cost prohibitive.)</p>	<p>In Progress. Bulk inventory items are captured on the Bi-Monthly Inventory Control Sheet. However, management has been unable to account for variances between inventory levels, sales and yield in an efficient and effective manner. Management is working with Finance to create a cost method perpetual inventory template to better account for yield variances.</p> <p>Expected Completion: Q4 2017, per management this will coincide with the implementation of new inventory software.</p>

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<p><u>Concession Inventory Variances</u> Inventory sales calculated on the Bi-Monthly Inventory Control Sheets (sales per inventory count) and actual sales as recorded in the cash registers are compared to determine the accuracy of bi-monthly inventory counts and identify any potential issues. A review of nine Bi-Monthly Inventory Control Sheets identified three with total variances greater than the target of 2.5% as noted in the <i>Food Services Cash Handling Procedures</i> (83.52%, 70.23%, and 9.85%). There was no evidence of follow up, correction or explanations for the large variances.</p> <p>Individual inventory item variances are not reviewed unless the total target variance of 2.5% is exceeded. All nine Bi-Monthly Inventory Control Sheets tested had individual items with variances over 10%. There is a risk of errors or potential misappropriation going undetected when large individual variances are not reviewed and followed up.</p>	<p>10. That Bi-Monthly Inventory Control Sheets with variances greater than 2.5% be followed up with required corrections or explanations of differences documented.</p> <p>11. That a threshold be set for individual product variances and differences exceeding this percentage be followed up and explained. A calculation of individual product variances should be included on the Bi-Monthly Inventory Control Sheet.</p>	<p>Alternative to be implemented. The target of 2.5%, as noted in the Food Services Cash Handling Procedures, will be reviewed with regard to cost/benefit and adjusted accordingly.</p> <p>Agreed. The current inventory variance process will be reviewed by CWS management and process improvements will be implemented by Q1, 2014.</p>	<p>In Progress. Management is working with Finance to determine what inventory variance thresholds would be reasonable.</p> <p>Expected Completion: Q4 2017, per management this will coincide with the implementation of new inventory software.</p> <p>Not Completed. Management indicated they will set thresholds for individual product variances after a new perpetual inventory system is implemented and inventory data collected may be analyzed.</p> <p>Expected Completion: Q4 2017.</p>

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<p><u>Concession Inventory Variances (Cont'd.)</u> In addition, "combo" items from the cash register sales reports were excluded from the Bi-Monthly Inventory Control Sheets. When all items are not included in the reconciliation, variance percentage calculations will be incorrect and therefore cannot be relied upon.</p>	<p>12. That total sales from the cash register be matched to the Bi- Monthly Inventory Control Sheet to ensure all items have been recorded.</p>	<p>Not Practical/Alternative to implemented. Current CLASS POS does not allocate these "combo" sales into individual costing and sales categories. All "combo" items in CLASS POS and Non CLASS POS with more than one inventory element have been addressed in the Bi-Monthly Inventory Report where "combo" sales amounts are credited to sales and individual elements are included in their respective inventory categories. For example, in a hotdog "combo", the hot dog and pop are single serves (included in their inventory categories) and fries are a bulk item (addressed under "Yieldage Inventory" (see #7).</p>	<p>In Progress. The Bi-Monthly Inventory Control Sheet captures bulk items in quantities rather than dollars which makes it difficult to compare to sales amounts. Management indicated that the accounting for bulk inventory items and combo sales will be analyzed and captured in the perpetual inventory template being developed with Finance. Expected Completion: Q1 2017.</p>

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<p><u>Vending Machine Contracts</u> Food Services receives commission revenue from operators of full service vending machines selling cold beverages, snacks, or video game play in arenas and recreation centres.</p> <p>There currently are no active contracts in place with these vendors which violates the Procurement Policy for the City of Hamilton By-law No. 12-255 concerning revenue generating contracts.</p>	<p>13. That Food Services award revenue generating contracts in accordance with the Procurement Policy.</p>	<p>Agreed. Recreation Food Services (RFS) is undertaking a full procurement plan in conjunction with the new Healthy Food & Beverage Policy. New contracts will be in place as per the Procurement Policy starting in Q4, 2013.</p>	<p>In Progress. A contract has been awarded for cold beverage vending machines. Management is currently working on a request for tender for snack vending.</p> <p>Expected Completion: Q3 2017.</p>

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<p><u>Vending Machine Commissions</u> In sampling vending machine commissions received, two vendors were identified whose machines are considered "non-automated" (i.e. do not produce an internally generated sales report upon which the commissions are based).</p> <p>Contrary to the written procedure, Food Services staff do not count the funds with the vendors when the cash is emptied from the machines and do not retain any documentation indicating the total cash collected at the time of the pickup.</p> <p>When City staff do not witness the cash pickups from the non-automated vending machines and rely on the vendors to calculate and produce the commission cheques, there is an increased risk of not receiving the full share of revenues earned.</p>	<p>14. That all cash pickups from non-automated vending machines be witnessed by Food Services/arena/ recreation centre staff with sign-off. Appropriate documentation should be forwarded to the Food Services office to be reconciled to commission cheques received.</p>	<p>Agreed. Cash pickups from non-automated vending machines will be witnessed by Food Services/arena/recreation centre staff with sign-off by September 6th, 2015. A cash pick-up form will be forwarded to the Food Services office to be reconciled to commission cheques received.</p> <p>Small (less than \$50/month) vending machine commissions where there is no cost/benefit will be discontinued.</p>	<p>In Progress. Although a process is in place and a form is available to document vending machine counts, City staff are not consistently signing off on vouchers sent to Food Services. Management will begin to monitor compliance and provide reminders or additional training to locations not following the process.</p> <p>Per management, a new process will be created cooperatively as part of contract requirements with vendors that are successful in the procurement process. Expected Completion: Q3 2017.</p>