

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: March 2, 2011	
SUBJECT/REPORT NO: Audit Report 2010-12 - Provincial Offences Administration (POA) - Revenue & Cash Handling (AUD11015) (City Wide)	
SUBMITTED BY: Ann Pekaruk Director, Audit Services City Manager's Office	PREPARED BY: Ann Pekaruk 905-546-2424 ext. 4469
SIGNATURE:	

RECOMMENDATION

- (a) That Report AUD11015, respecting Audit Report 2010-12, Provincial Offences Administration (POA) – Revenue & Cash Handling, be received;
- (b) That the Management Action Plans as detailed in Appendix “A” of Report AUD11015 be approved; and,
- (c) That the General Manager of Finance and Corporate Services be directed to instruct the appropriate staff to have the Management Action Plans (attached as Appendix A to Report AUD11015) implemented.

EXECUTIVE SUMMARY

The 2010 Internal Audit work plan approved by Council included an audit of the functions conducted out of the Provincial Offences Administration (POA) Office with a focus on controls relating to cash handling and revenue sources. Segregation of duties, physical security over cash, reconciliation processes and collection and write off methods were assessed. Recommendations were made to strengthen controls and to safeguard cash assets.

The results of the audit are presented in a formal Audit Report (2010-12) containing observations, recommendations and management responses. In addition, an Addendum, which identifies issues, risks or inefficiencies (not necessarily control deficiencies, which appear in Report AUD11015) is included and management has been asked to address these points also. Audit Report 2010-12 and the Addendum are attached as Appendix "A" to Report AUD11015.

Alternatives for Consideration – Not Applicable

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

Financial: Sound procedures and strong controls over the 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)

The audit was scheduled as part of the 2010 Internal Audit work plan approved by Council. The audit fieldwork was completed in December, 2010. The results of the audit are attached as Appendix "A" of Report AUD11015.

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

- Provincial Offences Act
- Several City by-laws relating to noise, property standards, animal control

RELEVANT CONSULTATION

Appendix A to Report AUD11015 includes management action plans, which reflect the responses of management and staff responsible for the functions conducted out of the POA Office, City Clerk's, Corporate Services Department.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

The *Provincial Offences Act* is a statute that sets out procedures for administering and prosecuting provincial offences under other provincial laws and regulations and municipal by-laws. The POA Office processes all provincial offence fine payments that originate in the City of Hamilton as well as other municipalities. Non-payments are enforced by way of license suspension and / or collections. Prosecution functions are independent of the administration office and fall under the purview of the City's Legal Services Department.

There are 3 different types of provincial offence notices:

- Part I – Commencement of Proceedings by Certificate of Offence – Offence notices, also known as tickets, are issued up to a maximum fine of \$1,000.
- Part II Notice – Commencement of Proceedings for Parking Infractions – A certificate of parking infraction or a parking infraction notice are issued for unlawful parking, standing or stopping of a vehicle.
- Part III Notice – Commencement of Proceedings by Information – Enforcement agencies lay “information”, which is either preceded or followed by a summons requiring the defendant to appear in court. These procedures are used for more serious matters.

The POA Office processes fine payments for Parts I and III Notices. Part II Notices are administered and related fines are collected by the Parking & By-law Services Division rather than the POA Office.

Revenues generated from Parts I and III Notices from January 1 – August 31, 2010 amounted to approximately \$4.5 million from approximately 67,000 charges filed.

The POA Office accepts cash, cheque, money order, debit and credit card payments for offence fines in person, by mail, by fax and over the Internet using the Paytickets website. Provincial offence notices and payments are tracked using the Province's Integrated Courts Offence Network (ICON) system. Financial and accounting information compiled in ICON is recorded in the City's PeopleSoft system.

The audit focused on the functions conducted out of the Provincial Offences Administration (POA) Office with emphasis on controls relating to cash handling and revenue sources. The audit identified opportunities for improved controls, increased managerial oversight and accountability, better physical security over funds and potential effectiveness and efficiency improvements.

**SUBJECT: Audit Report 2010-12 - Provincial Offences Administration (POA) -
Revenue & Cash Handling (AUD11015) (City Wide) - Page 4 of 4**

A formal Audit Report (2010-12) containing observations, recommendations and resulting management action plans was issued. Sixteen (16) recommendations were included in Audit Report 2010-12 and the Addendum (attached as Appendix "A" of Report AUD11015). Highlights of some of the recommendations made are as follows:

- Segregation of duties (due to the small size of the office, an optimum segregation of duties may not be possible and the addition of management review and approval would provide assurance of comprehensive secondary oversight).
- Physical security of cash trays and deposits and secured access to the safe.
- Reconciliation of receipts and bank activities to the ICON system and review by management.
- Supporting documentation to reconcile ticket payments at the Municipal Service Centres.
- Development of performance measures to assess internal and external collection efforts.
- Measures to ensure compliance with Payment Card Industry Data Security Standards.
- Reconciliation of cash boxes and floats.

Management and staff have agreed to implement all but one (Addendum #3) 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 AUD11015: Audit Report 2010-12

**POA - REVENUE & CASH HANDLING
JANUARY 2011**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
2.	<p><u>Access to Safe</u> During the day, the room containing the open safe (where cash receipts are stored) is locked. The Senior Court Administration Clerk (CAC) and the Financial Officer store the keys to access the room in their unlocked desk drawers. By not securing these keys, unauthorized staff may gain access to the safe and the funds awaiting deposit.</p>	<p>That the Senior CAC and the Financial Officer lock their desk drawers when unattended or carry the key to access the room with the safe on their person. Management should regularly check that this practice is being adhered to and document any non-compliance.</p>	<p>Agreed. Effective immediately, the Senior CAC and Financial Officer lock their keys to the room containing the safe in their desk drawers. In fact, Management verified that this practice was in place during a recent staff absence.</p>
3.	<p><u>Physical Security of Cash Trays and Deposits</u> During the course of the audit, several instances were observed in which staff left the cash window area and did not lock their cash drawers. It was also noted that a cash deposit was stored in a staff member's unlocked drawer. Not securing cash receipts provides an opportunity for individuals within the POA Office to access funds and makes them more susceptible to loss or theft.</p>	<p>That all CACs be reminded of their responsibility to always lock their cash drawers when they leave the staff counter area. Management should regularly check that this practice is being adhered to and note any non-compliance.</p>	<p>Agreed. Effective immediately, the Supervisor, Court Administration advised all Court Admin Clerks of this concern. Management will do regular spot checks and record results in a spreadsheet for future audit purposes.</p>

**POA - REVENUE & CASH HANDLING
JANUARY 2011**

<p>4. <u>Reconciliation of Receipts to ICON</u> Cashiers are required to complete and sign a Cash Count Sheet as evidence that daily cash, cheque, money order, credit card and debit receipts reconcile to those recorded in ICON. However, the Cash Count Sheet is not reviewed or used by the Senior CAC or the Financial Officer as part of the daily receipt reconciliation process to ensure Point of Sale transactions agree to the offences paid in ICON.</p> <p>Also, any reconciling items on the Cash Count Sheet are not investigated or corrected daily.</p> <p>Reconciling records and investigating and resolving discrepancies mitigates the risk of misappropriation of funds.</p>	<p>That the Senior CAC and the Financial Officer use the Cash Count Sheet to document the daily reconciliation process between receipts collected and those recorded in ICON. Any discrepancies should be corrected and resolved with the cashier before processing of the next batch of transactions begins. As evidence of the reconciliation process and the accuracy of recorded receipts, the Cash Count Sheet should be initialed by the Senior CAC or Financial Officer.</p>	<p>Agreed. Effective immediately, the reconciliation sheet was revised to include signatures of the cashier and the verifier. Verifiers were informed that an investigation must occur when a cashier does not balance and complete and extensive documentation of the issue and resolution.</p>
---	---	--

**POA - REVENUE & CASH HANDLING
JANUARY 2011**

<p>5. <u>Reconciliation of Bank Activity</u></p> <p>a) A defendant can pay a fine over the internet using the Paytickets website which transmits payment information to ICON overnight with electronic credit card payments deposited directed into the POA bank account. In carrying out the monthly reconciliation processes and journalizing month end revenue entries, the Financial Officer does not reconcile the Paytickets revenue reported in ICON to that reported by the bank and simply uses the bank statement figure to prepare the journal entry. This resulted in an error in the June reconciliation process.</p> <p>Although the error was minor, there is a greater risk that the POA monthly reconciliation processes are not adequately reconciling recorded receipts to bank activity, in particular, Paytickets payments.</p> <p>b) Journal entries are not posted in a timely manner. Rather than recording journals in the current month, transactions are left outstanding as reconciling items on the bank activity reconciliation. The following examples were noted:</p> <ul style="list-style-type: none"> • Funds from other municipalities amounting to \$18,226.59 were deposited in the POA bank account in May 2010 but recorded in PeopleSoft in June 2010; • Funds from a collection agency amounting to \$3,167.60 were processed by the bank on June 29, 2010; however, these receipts were not captured as part of the June financial results; 	<p>That the Financial Officer use the Paytickets report to prepare the monthly journal entry. It should be ensured that Paytickets amounts recorded in ICON match those recorded on the bank statement and differences are reconciled.</p> <p>That the Supervisor, Court Administration, review monthly bank reconciling items and challenge items that should be cleared or captured in current financial results.</p>	<p>Agreed. The Financial Officer verifies the daily download of Payticket payments with the bank statement deposits and then the ICON reports. Once all are reconciled the PeopleSoft journal is prepared each month. The Financial Officer will review and reconcile any discrepancies in a timely manner.</p> <p>Alternatives to be implemented. Effective immediately, the Financial Officer will confirm all direct deposits from other municipalities and collection agencies on the bank statement to assist keeping bank deposits and from PeopleSoft entries within the same month. The Financial Officer will be copied in e-mail correspondence between the Collection Coordinator and collection agency when an invoice error is detected and corrected. The Financial Officer will ensure all reconciling items (including NSF cheques) are cleared in the appropriate month.</p>
--	---	---

**POA - REVENUE & CASH HANDLING
JANUARY 2011**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
5.	<p><u>Reconciliation of Bank Activity (Cont'd)</u></p> <ul style="list-style-type: none"> • A NSF cheque amounting to \$135 was recorded and returned by the bank in May 2010 but recorded in PeopleSoft in June 2010; and • Several items on the June, 2010 bank reconciliation dated as far back as February, 2010 and had not been cleared. <p>Transactions should be recorded in the month they occur to provide the most up-to-date and accurate information.</p>		

**POA - REVENUE & CASH HANDLING
JANUARY 2011**

6.	<p><u>Lack of Supporting Documentation</u> Defendants are permitted to remit payment for certain offences at a Municipal Service Centre (MSC) rather than the POA Office. The MSC records the cash receipt in an Excel spreadsheet and PeopleSoft, deposits the cash in the City's main bank account and forwards the defendant's documentation to the POA Office for input into ICON. At month end, a balance exists in the MSC payments account as there is a time delay with items waiting to be entered into ICON. The Financial Officer's monthly reconciliation of the MSC payments account does not attempt to reconcile this balance to receipts in transit or waiting to be entered into ICON. The reconciliation of the MSC account is only carried out at year end. If MSC payments are not reconciled on a monthly basis, it may be difficult to resolve discrepancies or identify errors occurring earlier in the fiscal year.</p>	<p>That each Municipal Service Centre include a copy of the Excel spreadsheet summarizing the batch of offence payment documentation remitted to the POA Office for processing. The POA Office should stamp the receipt date on the batch listing. The receipt date, payment dates and payment amounts summarized on the batch listing may be used by the Financial Officer to reconcile MSC payments and investigate discrepancies in a more timely manner.</p>	<p>Alternative to be implemented. Effective immediately, the Financial Officer has been given access to view and print reports from the MSC CLASS (point of sales) system showing POA payments processed at the MSCs. These CLASS reports will be used by the Financial Officer to reconcile MSC payments to those received and processed in the POA Office's ICON system.</p>
----	---	--	--

**CITY OF HAMILTON
INTERNAL AUDIT REPORT 2010-12
PROVINCIAL OFFENCES ADMINISTRATION (POA) – REVENUE & CASH HANDLING**

ADDENDUM

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, risks and inefficiencies and can address them appropriately.

Council Approval of Written Off Offences

1. On September 8, 2010, Council approved a write off of \$564,740 pertaining to offences in default for more than seven years. This amount was based on an estimate calculated by the POA Office in April 2010. Although offences were coded to be written off in July and August 2010, the POA Office did not revise the estimate to report actual write offs of \$603,628 to Council. The difference resulted from a variation in the estimate to actual of offences more than 7 years old and from not capturing write offs for deceased persons and underpayments in the original Council report.

It is recommended:

That the POA Office set a precise cut-off period and generate an accurate actual write off report to Council for approval.

Management Response:

Agreed (in principle). In the future, the POA Write Off Report presented to Council will include separate numbers for deceased persons and minor underpayments in addition to amounts for offences deemed over 7 years old and uncollectible. The POA Office will set a precise cut off date for the write offs once the Ministry of the Attorney General (MAG) provides the POA Office with information on purging records from the system.

The POA Office, however, does not agree with Internal Audit's \$603,628 estimate of actual write offs. Further activity may occur to cases after the write off code has been entered into the ICON system and before MAG removes the offence in the final system purge (i.e. payment of a fine, approval of an extension of time to pay, an appeal or re-opening of a case). Even though MAG indicated a write off purge report would be generated twice a year using date criteria (June 30 and December 31), no such purges have yet occurred for 2010 write offs. As a result, it is not possible to reconcile the \$564,740 write off approved by Council against the number actually purged from ICON in 2010.

**CITY OF HAMILTON
INTERNAL AUDIT REPORT 2010-12
PROVINCIAL OFFENCES ADMINISTRATION (POA) – REVENUE & CASH HANDLING**

ADDENDUM

Writing Off of "Minor Underpayments"

2. "Minor underpayments" under \$30 may be written off as per the POA Write Off Best Practices. The POA staff have been writing off amounts greater than \$30. This increases the risk of inappropriate write offs.

It is recommended:

That the POA Office update the POA Write off Best Practices to reflect the types and amounts of fees that are considered "minor" and acceptable to write off as per current practice and considering the cost to collect.

Management Response:

Agreed. The POA Write off Best Practices Policy will be reviewed and updated to reflect current write off procedures and costs.

Efficiency and Effectiveness of Collection Efforts

3. The POA Office does not have recovery expectations or performance measures for internal staff or external collection agencies to assess the efficiency or effectiveness of collection efforts. From January – September 2010, defaulted fines of approximately \$2.8M were collected of which 75% (\$2.1M) were collected internally and the remainder (\$700K) collected by external collection agencies. Without context in relation to the amount of total defaulted fines and amounts written off during the year, it is very difficult to assess whether collection efforts are efficient and the minimum amount of fines are written off each year.

It is recommended:

That the POA Office develop and measure performance indicators, such as collection rates, to assess the performance of internal and external collection efforts. Future collection initiatives and strategies should be developed based on information gained from performance measures.

Management Response:

Disagree. The POA office currently utilizes all known collection strategies available to a municipality. The POA Office is restricted as to the types of collection strategies that can be implemented due to having limited personal information about defendants and such access is restricted due to freedom of information legislation.

**CITY OF HAMILTON
INTERNAL AUDIT REPORT 2010-12
PROVINCIAL OFFENCES ADMINISTRATION (POA) – REVENUE & CASH HANDLING**

ADDENDUM

Collection of unpaid fines is unique and dependent on individual circumstances (e.g. type of defendant; fine amount; type and number of files assigned to individual collections staff). Thus, it is difficult to forecast collection rates with any degree of accuracy.

The monetary amount of fines collected by external collection agencies are compared to one another and to amounts collected by the internal collection department as a whole. There is very little variance between monetary amounts collected by the two external agencies, whose collections are on par with what they are collecting for other municipalities.

Protection of Cardholder Data

4. The City must demonstrate compliance with Payment Card Industry (PCI) Data Security Standards (DSS) which address the handling of credit cardholder information. The POA Office retains the following documents which contain a Primary Account Number (PAN) and other cardholder data (i.e. cardholder name and expiry date):

- Moneris POS Stored Transactions Tape;
- Payment Notice (Part I Offence);
- Notice of Fine and Due Date;
- For Credit card Payments Form; and
- First and Final Notices.

As the PAN and other cardholder data are stored together on these documents, this information must be protected in order to be PCI DSS compliant and secure sensitive cardholder data.

It is recommended:

That the Moneris POS administrator cards, used to generate the Transactions Tape, be stored in the safe to restrict the ability to access sensitive information from POS terminals. The Moneris POS Stored Transactions Tapes, generated to reconcile daily receipts, should be destroyed or secured appropriately after POS transactions are reconciled.

Management Response:

Agreed. The Moneris POS administrator cards have been collected and stored in the safe. Staff have been advised to shred the transaction detail report once their receipts have been reconciled.

**CITY OF HAMILTON
INTERNAL AUDIT REPORT 2010-12
PROVINCIAL OFFENCES ADMINISTRATION (POA) – REVENUE & CASH HANDLING**

ADDENDUM

That the POA Office investigate ways to protect sensitive cardholder data on the forms outlined above. For instance, the POA Office may request the Ministry of the Attorney General change the format of such forms or restrict access to stored documents within the POA Office. The POA Office should inquire of actions being taken by other areas in the City to address PCI DSS and consider similar actions, where feasible.

Management Response:

Agreed. The Municipal Court Manager's Association's POA Forms Committee has requested that the Ministry of the Attorney General revise the POA forms to incorporate credit card information in a tear off portion that can be disposed of once the fine payment has been processed. A similar request has been made to the collection software author for collection forms. In the interim, POA staff will black out the credit card number if the form needs to be retained. Also, the POA Office will be seeking an opinion from the City's PCI compliance team whether locking these files in a secure room will meet compliance criteria.

Reconciliation of Cash Boxes

5. Petty cash and witness fee cash boxes are not reconciled in a timely manner. Even though the amounts are minor in value, cash boxes that are not counted on a regular basis provide the opportunity for individuals with access to misappropriate funds. It may also be more difficult for staff to investigate or explain differences discovered as part of the reconciling process due to the length of time that has transpired.

It is recommended:

That the Financial Officer count and reconcile the petty cash and witness fee cash boxes on a quarterly basis.

Management Response:

Agreed. Effective immediately, the Financial Officer will count and reconcile the petty cash and witness fee cash boxes on a quarterly basis.

**CITY OF HAMILTON
INTERNAL AUDIT REPORT 2010-12
PROVINCIAL OFFENCES ADMINISTRATION (POA) – REVENUE & CASH HANDLING**

ADDENDUM

Reconciliation of Cash Floats

6. On a daily basis, the Senior CAC or the Financial Officer re-counts the cash deposit. However, cash remaining in the tray (i.e. the float) is not recounted to ensure it is intact. An opportunity exists for the cashiers to kite funds from the float until the monthly CAC rotation occurs.

It is recommended:

That the Senior CAC or the Financial Officer count the cashiers' floats as part of the daily receipt reconciliation process. As evidence of such review, the float balance reported on the Cash Count Sheet should be initialed by the Senior CAC or Financial Officer.

Management Response:

Agreed. Effective immediately, the cashier's floats are now counted as part of the daily reconciliation process. The Senior Court Admin Clerk or the Financial Officer initials the Cash Count Sheet to show the float was counted and signs the Sheet with the cashier to vouch that the total reconciliation process was carried out.

Approval of Deposit Envelopes

7. The Senior CAC or Financial Officer is not consistently initialing the cashier's deposit envelope as evidence that funds for deposit were verified and counted. Inadequate verification of deposit funds increases the risk that cash receipts are not deposited intact.

It is recommended:

That appropriate staff be reminded of their responsibility to initial deposit envelopes and check mathematical extensions as part of the daily receipt reconciliation process.

Management Response:

Agreed. Staff have already been reminded of this responsibility and the need to verify the mathematical extensions as part of the daily receipt reconciliation process.