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 22, 2011	
SUBJECT/REPORT NO: Follow Up of Audit Report 2009-08 - Cemeteries - Administrative Office (AUD11023) (City Wide)	
SUBMITTED BY: Ann Pekaruk Director, Audit Services City Manager's Office **SIGNATURE:**	**PREPARED BY:** Ann Pekaruk 905-546-2424 x4469

RECOMMENDATION

That Report AUD11023 respecting the follow up of Audit Report 2009-08, Cemeteries Administrative Office, be received.

EXECUTIVE SUMMARY

Audit Report 2009-08, Cemeteries Administrative Office, was originally issued February, 2010 and management action plans with implementation timelines were outlined in the Report. In April, 2011, Internal Audit completed a follow up exercise to determine that appropriate and timely actions had been taken. Of the nine (9) recommendations made in the original Report and Addendum, five (5) have been completed and four (4) are in progress.

Alternatives for Consideration – Not Applicable

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

Financial: None.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND   (Chronology of events)

Audit Report 2009-08, Cemeteries Administrative Office, was originally issued in February, 2010. The Report provided nine (9) recommendations identifying areas for improvement with respect to assessing processes, support systems and the control environment to ensure the effectiveness and efficiency of the services provided.

It is normal practice for Internal Audit to conduct follow up reviews within a 12-18 month period following issuance of the original report in order to determine whether action plans committed to by department management have been implemented.

POLICY IMPLICATIONS

None.

RELEVANT CONSULTATION

The results of the follow up were provided to the management and staff responsible for the administration of the Cemeteries Office, Public Works Department.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

The report attached as Appendix "A" to Report AUD11023 contains the first three columns as originally reported in Report 2009-08 along with an added fourth column indicating Internal Audit's comments as a result of the follow up work. Three (3) items in the Addendum have also been followed up with the appropriate detail provided.

Five (5) of the nine (9) recommendations have been fully implemented. These are: control and security over funds collected; protection and safeguarding of credit card information; elimination of duplicate recordkeeping; and a more efficient method of processing clients' monthly instalment payments.

The four (4) recommendations rated as in progress include: the annual review of the procedures pertaining to processes carried out by the Cemeteries Administrative Office; the expeditious conversion of historical paper cemetery records into an electronic format; management's review of transactions entered into HMIS (administration and management software tool) with proof of such review; and the maintenance of accurate accounting records to reflect revenue amounts in the time period earned and cash in the period received.

ALTERNATIVES FOR CONSIDERATION

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

None.

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 AUD11023: Audit Report 2009-08.

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CITY OF HAMILTON
INTERNAL AUDIT REPORT 2009-08
CEMETERIES ADMINISTRATIVE OFFICE
FOLLOW UP

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (APRIL 2011)
1.	**Policies and Procedures** The Cemeteries Administrative Office (the Office) offers for sale a number of cemetery related articles and services ranging from the sale of the interment rights to the installation of markers and monument foundations. While many of the Office's policies are governed by the Cemeteries Act (Revised), 1990 and the By-Laws of the Hamilton Municipal Cemeteries, the Office has no formal written procedures that would provide guidance for the day-to-day processes associated with the sale of the many and varied cemetery related articles and services to the public. Without written procedures, the employees currently carrying out the processes rely on personal understanding and experience which could result in incorrect, incomplete or inconsistent application of the processes. It may also be problematic and inefficient for a successor to commence his/her duties within a short period of time.	That procedures pertaining to the processes carried out by the Cemeteries Administrative Office be formally documented in writing. These procedures should be reviewed regularly (once each year) to ensure that they remain current and are applied appropriately and consistently.	Agreed. This is a work plan item for the Cemeteries Administrative Supervisor. Flowcharts created from the audit will assist in the establishment of such procedures. Target completion date is quarter 4, 2009.	In Progress. Procedures were documented in writing and implemented in January 2010. The annual review of these procedures has not yet been carried out for the 2011 calendar year.

CEMETERIES ADMINISTRATIVE OFFICE
FOLLOW UP – APRIL 2011

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (APRIL 2011)
2.	**Information of Historic Significance** Many of the City's cemeteries date back to the early 1800's. The information related to many of those interred in these cemeteries is currently only available on old paper maps, lot owner cards and ledgers, all of which are stored at the Administrative Office at Hamilton Cemetery. In the event of a fire or flood at this location, many of these historically important documents would be lost as no backup system exists. For a number of years, a Data Entry Clerk has been entering this information into the Hanlon Management Information System (HMIS) (an application purchased in the mid 1990's to maintain electronic cemetery records). This has been an extremely lengthy process. Management has indicated that they are in the process of determining the resources required to complete the conversion of paper documents to electronic format.	That management complete the calculation for the resources required to convert the historically significant paper cemetery records into electronic format. Resources should then be temporarily assigned to complete the conversion within a reasonable time period.	Agreed. Calculation for the resources will be completed in quarter 4, 2009. Resource options for the conversion will then be assessed based on the calculation and the need for completion within a reasonable time period.	In Progress. As of the end of February 2011, the conversion of paper documents to electronic format will be complete in a maximum of five years. One permanent data entry clerk and one temporary summer student have been assigned to this project.

CEMETERIES ADMINISTRATIVE OFFICE
FOLLOW UP – APRIL 2011

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (APRIL 2011)
3.	**Payment Collection and Processing** Transactions involving the sale of cemetery related articles or services produce contracts and payments. While the majority of the clients pay by cheques or credit cards, some continue to pay with cash. Often individual transactions can total more than $1,000 each.			
	Upon completing a transaction, the payment (including any cash payments) and the contract are stored in an unsecured file that is shared amongst the three Cemetery Support Clerks. The payments remain in the file and may be accessed by the Clerks as well as other office staff that provide relief coverage during lunches and breaks.	That the payments collected daily are secured with controlled access. Ideally, a process whereby each Clerk's daily intake is kept separate and is supported by an independent record for balancing (i.e. Point of Sale (POS) deposit log) would provide for accountability for City funds.	Agreed. A Point of Sale (POS) deposit log for balancing will be implemented by November 2009. A lock box option to secure payments is targeted for completion in quarter 1, 2010.	Completed. Payments are secured in a locked vault drawer. An HMIS report showing transactions processed by each employee is used to reconcile recorded transactions to payments received.
	Every Thursday, a Financial Assistant II (FA II) attends the Cemetery office, balances the payments and prepares the weekly deposit. The deposit is then left in an area that is accessible by all office staff until it is picked up by Brinks the following morning.	That, after the deposit is prepared, it is secured so that it remains intact and inaccessible until it is picked up for deposit to the bank.	Agreed. See above. Further, a no cash option for customer payments will be investigated to encourage all payments be made through cheque, credit card or debit card. Target completion quarter 1, 2010.	Completed. Cash payments are no longer accepted. The sealed bank deposit bag is secured in a locked drawer in the vault (as described above) until the Brinks pick up.
	The above procedures leave the funds subject to risk. Since the week's transactions are known to be reviewed only on Thursdays, a misappropriation or even a "borrowing and replacement" of cash within the week of collection can occur and no one individual can be held accountable.			

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#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (APRIL 2011)
4.	**Pre-Payment Plan (PPP)** A PPP is a formal contract between the client and Hamilton Municipal Cemeteries whereby the client agrees to make equal monthly payments for the interment services offered. The client usually makes such payments by providing a series of post-dated cheques or by providing a credit card number against which the monthly payment can be charged. During the course of this audit, it was noted that not only is the original paper document with the credit card information kept, it is also duplicated in paper form as well as being stored electronically. In addition, the paper document containing the client's credit card information is stored in an unsecured accordion file for as much as a week before it is properly filed (see #3 above). Therefore, sensitive information provided by clients runs the risk of being inappropriately accessed or disclosed.	That client's credit card information be retained electronically in a secure environment and protected by password so as to limit access.	Agreed. Credit card information will now be retained only in a secured electronic file, effective immediately. Further, once the contract has been fully paid (maximum of 2 years), the credit card information will be blocked from the file and inaccessible. Expected implementation quarter 3, 2009.	Completed. Credit card information on original documents signed by the client has been rendered unreadable. The client's credit card information is retained in a password protected Excel spreadsheet with access limited to specific employees.

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FOLLOW UP – APRIL 2011

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (APRIL 2011)
5.	**HMIS** HMIS is the cemetery administration and management software tool used by many cemeteries across North America including the Hamilton Municipal Cemeteries. As of February 1, 2009, all cemetery contracts are generated and tracked through HMIS. A review of the access rights to HMIS indicated that the Cemeteries Administrative Supervisor has full access (including system administration) to HMIS. Further, due to the small number of employees at the Cemeteries Office, the Supervisor has, on occasion, had to enter data into the system. An individual with full access rights to a system should not be involved in handling transactions as this is not an adequate segregation of duties. It was also noted that, due to a missing module in HMIS, it is not possible to verify the number and type of transactions entered into HMIS by staff members. Such access would provide a trail that would facilitate tracking unusual HMIS usage as well as verifying the Administrative Supervisor's minimal operational duties.	That management invest in the HMIS module which tracks transactions by individual staff entering the data. Reports detailing such information should be regularly reviewed by management.	Agreed. The HMIS module was implemented September 1, 2009 to track transactions entered by individual staff. Management will review the reports at least once monthly beginning quarter 4, 2009. The Supervisor will not be entering information into HMIS unless there is no other option, in which case, the Supervisor will enter the transaction in HMIS and notify the manager that she has done so. The record can then be reviewed.	In Progress. An HMIS module was implemented which produces reports showing transactions entered into the system by each employee. The Administrative Supervisor reviews reports generated for the Cemetery Support Clerks. However, there is no evidence that the Administrative Supervisor's transaction report is reviewed by the manager.

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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.

1. During the course of this review, it was noted that since February 2009 each sale of the cemetery related articles and services is tracked by two different systems: the computerized HMIS system and the manual system involving lot owner cards, books, ledgers and maps. This duplication of effort is inefficient.

    In addition, the manual system results in the production of many different paper documents. A considerable amount of time is spent filing away this paper to facilitate retrieval of information which, in many cases, is available on the HMIS system. Further, when these documents are requested, they must be photocopied (sometimes more than once) and forwarded in hard copy format to requesting staff. Due to their volume and manual element, they risk being lost, damaged or destroyed.

    It is recommended:
    That the current system of duplicate recordkeeping be eliminated with emphasis placed on effective utilization of the HMIS. The full functionality of this software needs to be investigated.

    Management Response:
    Agreed. Respecting the elimination of duplicate recordkeeping and placing emphasis on HMIS, the Cemeteries Administrative Supervisor will determine which manual systems should be discontinued with an expected completion of quarter 2, 2010. Management will develop a plan to address the investigation of the full functionality of the HMIS software once the POS implementation (as noted in #3 above) and other audit recommendations have been implemented. The additional, specialized resources required for the investigation and continued systems upkeep will be identified by quarter 2, 2010.

    Follow Up Comment:
    Completed. Duplicate recordkeeping has been eliminated by recording all transactions directly into HMIS. The Administrative Supervisor has identified additional HMIS features that may increase efficiencies; however, an implementation timeline is unknown due to budgetary restraints.

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2. The installment payments made by the clients each month are processed in a manual and labour intensive fashion. Post-dated cheques are retrieved and processed at the end of the month. Each credit card PPP requires the manual keying of the individual card number, card expiry date, transaction amount and contract number into the card reader repetitively every month over the term of each PPP contract. As a result, the current manual procedures are inefficient.

It is recommended:
That management investigate alternate, more efficient methods of processing clients' monthly installment payments (e.g. promoting pre-authorized chequing or contacting the bank to process the monthly credit card transactions).

Management Response:
Agreed. The Cemeteries Administrative Supervisor and Finance & Administration will investigate and assess alternative methods of processing clients' monthly installment payments during quarter 4, 2009 for implementation in quarter 2, 2010.

Follow Up Comment:
Completed. An online transactions processing engine provided by Moneris was utilized in 2010 to automatically process recurring credit card payments saving a significant amount of time for both Cemetery and financial staff. The cost of implementing a system to process post-dated cheques via electronic funds transfer was assessed and outweighed the related benefit.

3. On occasion, the Cemeteries Administrative Office accounting records reflect that a payment was received in a particular month when it was actually received the following month, particularly when contracts are entered into close to a month end. Such reporting discrepancies make it more difficult and time consuming to perform proper month end reconciliation.

It is recommended:
That the accounting records be maintained so as to accurately reflect revenue amounts in the time periods they are actually received.

Management Response:
Agreed. The Cemetery accounting records will be maintained to accurately reflect revenue amounts in the period earned and cash in the period received.

Follow Up Comment:
In Progress. The Cemeteries Administrative Office maintains a record of payments received which is used in the month end reconciliation process to accurately reflect cash in the period received. Accounting records do not accurately reflect revenue amounts in the period earned as information is not summarized to prepare monthly accrued revenue entries.