

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: January 17, 2013	
SUBJECT/REPORT NO: Follow Up of Audit Report 2010-11 - Citizen Service Centre - Funds Handling (AUD13004) (City Wide)	
SUBMITTED BY: Ann Pekaruk Director, Audit Services City Manager's Office	PREPARED BY: Ann Pekaruk 905-546-2424 x4469
SIGNATURE:	

RECOMMENDATION

That Report AUD13004, respecting the follow up of Audit Report 2010-11, Citizen Service Centre – Funds Handling, be received.

EXECUTIVE SUMMARY

Audit Report 2010-11, Citizen Service Centre (CSC) – Funds Handling, was originally issued in March, 2011 and management action plans with implementation timelines were included in the Report. In November, 2012, Internal Audit conducted a follow up exercise to determine that appropriate and timely actions had been taken. Of the nine recommendations that management agreed to in the original Report and Addendum, seven have been completed and two are in progress.

Alternatives for Consideration – Not Applicable

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

Financial: Several of the security issues identified could lead to stolen or misappropriated funds. A strengthening of controls over funds processed would provide reasonable assurance that funds are protected.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

Audit Report 2010-11, Citizen Service Centre – Funds Handling, was originally issued in March, 2011. The Report and Addendum provided nine recommendations identifying areas for improvement with receiving, recording, balancing and deposit of funds handled by the CSC's staff.

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 management responsible for the funds handling – the Citizen Service Centre (City Hall) and the Taxation Division, both part of the Corporate Services Department.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

The report attached as Appendix "A" to Report AUD13004 contains the first three columns as originally reported in Report 2010-11 along with an added fourth column indicating Internal Audit's comments as a result of the follow up work. Two items in the Addendum have also been followed up with the appropriate detail provided.

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Seven of the nine recommendations have been fully implemented. These are: review and update of procedures; restricted access to funds through proximity cards, locking up of deposit bags and storage of post-dated cheques; endorsement of post-dated cheques; removal of petty cash funds no longer required; and receipt of an updated Brinks employee Photo and Signature Listing.

Two recommendations still in progress are as follows: enhanced deposit controls over funds accepted from other departments; and management sign off of regular testing of the locking of cash drawers when cashiers leave the counter area.

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 AUD13004.

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**CITY OF HAMILTON
 INTERNAL AUDIT REPORT 2010-11
 CORPORATE SERVICES
 CITIZEN SERVICE CENTRE (CITY HALL) – FUNDS HANDLING
 FOLLOW UP**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (NOVEMBER 2012)
1.	<p><u>Deposits Accepted from Other Departments</u></p> <p>The Citizen Service Centre (CSC) receives deposits from other departments at City Hall. The deposits are in a sealed bag along with the deposit slip. The deposit information on the outside of the bag is recorded in the Brinks' log and the bag is placed in the safe.</p> <p>The CSC does not sign for the deposit of other departments and does not match these deposits against the bank statement.</p> <p>This raises the question of accountability if a deposit bag goes missing or deposit amounts do not agree.</p>	<p>That deposit controls be enhanced by implementing the following:</p> <p>a) the individuals dropping off and receiving the deposit sign the log;</p> <p>b) CSC staff verify all deposit amounts as per the Brinks' log against the bank statement and attach supporting documentation to prove the matching; and</p> <p>c) departments are notified in the event of a deposit that is unable to be matched to the bank statement.</p>	<p>Agreed. CSC staff now receive two copies of deposit slips for each bag received from other departments. One copy is initialed and returned to the departmental staff, the second copy is filed with the Brinks log book.</p> <p>While CSC staff verify that the bank has received and deposited CSC funds picked up by Brinks on a daily basis, they now also verify that deposits forwarded to Brinks on behalf of other Departments have been received and deposited.</p> <p>CSC staff will immediately notify departments if a deposit is not matched to the bank statement.</p>	<p>In Progress. Individuals dropping off the deposit are not required to sign the log. As an alternative, staff receive two copies of the deposit slips that should be signed by the individuals dropping off and receiving the deposit. One slip is returned to the departmental staff. The second copy is filed with the Brinks log book but it is not consistently signed by CSC staff.</p> <p>CSC staff are verifying deposit amounts per the Brinks log against the bank statement and attaching supporting documentation to prove the matching.</p> <p>Departments are notified when a deposit is unable to be matched to the bank statement.</p>

**CITIZEN SERVICE CENTRE (CITY HALL) – FUNDS HANDLING
 FOLLOW UP – NOVEMBER 2012**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (NOVEMBER 2012)
2.	<p><u>Procedures</u> Eight out of ten procedures applicable to the CSC and reviewed by Internal Audit had not been reviewed and/or revised during the previous 12 months. In addition, there were no written procedures pertaining to accepting deposits from other departments, locking cash drawers and matching CSC deposits to the bank statement.</p> <p>When there are no complete or updated written procedures to refer to, the employee currently carrying out the process relies on personal understanding and experience, 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>That procedures be reviewed yearly by management to ensure that the documents are current. There should be evidence of review (sign-off). Procedures noted as lacking in the observation should be written and distributed to staff.</p>	<p>Agreed. Cash Handling Procedure #MSC001 has been updated to reflect the receipt of deposits from other departments, locking cash drawers and matching deposits to the bank statement.</p> <p>No revisions were required to the other nine procedures but they have been updated to reflect the date they were reviewed.</p> <p>The requirement for a yearly review will be added to the service centres' year end process.</p>	<p>Completed. Cash Handling and Balancing Procedure MSC001 indicates that cash drawers are to be kept secure at all times and describes the process for receiving deposits from other departments. Tracking Bank Deposits Procedure MSC017 has been created to detail the process of matching deposits to the bank statement. Audit Services verified that there was evidence of review of all procedures within the 2012 fiscal year. The requirement for a yearly review of procedures has been added to the year end process checklist.</p>

**CITIZEN SERVICE CENTRE (CITY HALL) – FUNDS HANDLING
FOLLOW UP – NOVEMBER 2012**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (NOVEMBER 2012)
3.	<p><u>Physical Security - Access Via Proximity Card</u></p> <p>During audit fieldwork, it was noted by Internal Audit that CSC Management had authorized seventeen (17) staff members to have access to the staff counter area and balancing room at the CSC via proximity cards.</p> <p>However, when the listing of staff that had access to the CSC via proximity cards was obtained from Facilities, it was noted that two hundred and seven (207) employees had been granted access to the CSC staff counter and balancing room.</p> <p>Exposure of cash handling operations to such a large number of individuals increases the risk of misappropriation or loss of funds.</p>	<p>That proximity card access be restricted to only staff members that require access to the CSC staff counter area and the balancing room as part of their regular job duties. The access listings should be received from Facilities yearly and reviewed by CSC Management.</p>	<p>Agreed. The Supervisor of Facilities has revised "group" formatting in the security system, providing access to only staff members that have been approved by CSC management. A current copy of the security listing will be requested by management as part of the service centres' year end process.</p>	<p>Completed. The Manager, Citizen Service Centre obtained and reviewed a copy of the security listing in January and July, 2012. Obtaining a copy of the access listing has been added to the year end process checklist.</p> <p>The number of employees granted access to the CSC staff counter and balancing room has been reduced from 207 to 29.</p>

**CITIZEN SERVICE CENTRE (CITY HALL) – FUNDS HANDLING
 FOLLOW UP – NOVEMBER 2012**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (NOVEMBER 2012)
4.	<p><u>Physical Security - Locking of Cash Drawers</u></p> <p>During the audit testing, there were several instances in which staff had left the staff counter area and had not locked their cash drawer.</p> <p>Unattended and unlocked cash drawers pose the risk of cash and cheques being inappropriately removed. Coupled with the observation noted in #3 above, the fact that the area is also accessible to many staff increases that risk.</p>	<p>That CSC staff be reminded of their responsibility to always lock their cash drawer when they leave the staff counter area. Management should regularly test that this practice is being adhered to and document any non-compliance.</p>	<p>Agreed. CSC staff have been reminded of their responsibility to always lock their cash drawer when they leave the staff counter area.</p> <p>Management will regularly check, on a random basis, that CSC staff are locking their cash drawers when they leave the counter area. A record of non-compliance will be kept by management.</p>	<p>In Progress. A "Monthly Cash Drawer Security Checks" tracking sheet has been created and the results of random checks from January to July, 2012 were documented. However, management has not signed off the sheet from August to October, 2012, thus providing no evidence of review. A random check for locked cash drawers conducted by Internal Audit found that CSC staff locked their drawers when they left the counter area.</p>
5.	<p><u>Physical Security - Deposit Bags</u></p> <p>It was noted during the audit that deposit bags are removed from the safe and placed in the balancing room prior to the Brinks pick up. Given the observation that was noted in #3, this leaves the deposit bags unattended in an area that is accessible to a large number of staff. A more secure arrangement would safeguard the funds.</p>	<p>That deposit bags remain locked in the safe until Brinks' staff arrive on-site at the CSC to collect the deposits.</p>	<p>Agreed. Facilities has now corrected the problem noted in #3 but, as an extra precaution, Brinks deposits bags are now left in the vault until Brinks staff have arrived for pick up.</p>	<p>Completed. Brinks deposit bags remain locked in the safe until Brinks staff have arrived for pickup.</p>

**CITIZEN SERVICE CENTRE (CITY HALL) – FUNDS HANDLING
 FOLLOW UP – NOVEMBER 2012**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (NOVEMBER 2012)
6.	<p><u>Physical Security – Post-Dated Cheques</u></p> <p>Post-dated cheques are stored in a vault area kept unlocked during business hours. Cheques can more easily be misplaced or stolen if not kept in a secure, restricted area.</p>	<p>That all post-dated cheques be stored in a locked cabinet or drawer at all times.</p>	<p>Agreed. The post-dated cheques are now stored in a secure combination safe inside the main vault. The two Tax Division Customer Service staff who handle the post-dated cheques have been advised of the amended procedure and have been provided with the combination to the secured combination safe.</p>	<p>Completed. Post-dated cheques are stored in a secure combination safe, to which access is limited.</p>
7.	<p><u>Restrictive Endorsement of Post-Dated Cheques</u></p> <p>Post-dated cheques are not restrictively endorsed upon receipt by the CSC staff.</p> <p>It was noted that post-dated cheques received by the CSC are given to the Taxation division for endorsement, storage and processing at a later date. There is lag between when the Taxation division receives the post-dated cheques and when they are endorsed.</p> <p>Endorsing cheques upon receipt reduces the risk of theft or misappropriation.</p>	<p>That all post-dated cheques be restrictively endorsed upon receipt at the CSC.</p>	<p>Agreed. The Manager, Customer Service (Revenues), has implemented that all post-dated cheques received through the mail and drop box are endorsed upon receipt. The Manager of Citizen Service Centres has directed CSC staff to endorse all post-dated cheques received over the counter, prior to forwarding to the Taxation Division.</p>	<p>Completed. Post-dated cheques are restrictively endorsed by CSC staff upon receipt, prior to forwarding to the Taxation Division.</p>

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INTERNAL AUDIT REPORT 2010-11
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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.

Petty Cash

1. It was noted that the petty cash funds had not been utilized for any reimbursable expenditures since the move back to City Hall in May, 2010. In addition, during the cash count, Internal Audit discovered a petty cash shortage of \$95.00. This shortage had not been previously reported to the Manager, Citizen Service Centre & Municipal Service Centres, as required by the over/short policy for the CSC. There is the risk that petty cash funds may be used improperly.

Management stated key handling procedures were not properly followed in the time period that the petty cash shortage was thought to have occurred.

It is recommended:

That petty cash funds be removed from the CSC.

Management Response:

Agreed. The petty cash fund has been closed. The petty cash fund was transferred from Clerks staff to CSC staff during the move back to City Hall and the opening of the Citizen Service Centre. In the eight months since it's opening, there has been no petty cash transactions and it has been determined that the fund is not required. The failure to follow the proper key handling procedure has been addressed with the petty cash custodian.

Follow Up Comment:

Completed. The petty cash fund has been closed and removed from the CSC.

**CITIZEN SERVICE CENTRE (CITY HALL) – FUNDS HANDLING
FOLLOW UP – November 2012**

Brinks Identification Sheet

2. It was noted by Internal Audit that the Brinks' Photo and Signature Listing was over two years old. Brinks' staff information was not up to date for use by CSC staff to identify Brinks' employees authorized to pick up deposits.

It is recommended:

That a current Photo and Signature Listing be requested from Brinks at least annually and be utilized by staff on a regular basis as part of the Brinks deposit pick up process.

Management Response:

Agreed. While the Brinks Photo and Signature Listing viewed by Internal Audit was over two years old, it was verified to be up to date and had been received from Brinks in May 2010. Management has added the requirement to request updated Brinks Photo and Signature listings to the service centres' year end process.

Follow Up Comment:

Completed. Management has a Brinks Photo and Signature Listing dated March 28, 2012. Obtaining an annual Photo and Signature Listing has been added to the year end process checklist.