RECOMMENDATION

That Report AUD10018 respecting the follow up of Audit Report 2008-04, HECFI – Cash Handling and Revenues, be received.

EXECUTIVE SUMMARY

Audit Report 2008-04, HECFI – Cash Handling and Revenues, was originally issued in November, 2008 and management action plans with implementation timelines were included in the Report. In April, 2010, Internal Audit conducted a follow up exercise to determine that appropriate and timely actions had been taken. Regarding the implementation of the four (4) recommendations made in the original Report, one (1) has been completed, one (1) is in progress, an alternative has been implemented for one (1) and one (1) has not been implemented.

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 2008-04, HECFI – Cash Handling and Revenues, was originally issued in November, 2008. The Report indicated four (4) recommendations identifying areas for improvement with respect to financial, operational and administrative controls.

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 and staff responsible for cash handling and revenue collection functions at HECFI.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

The report attached as Appendix “A” to Report AUD10018 contains the first three columns as originally reported in Report 2008-04, along with an added fourth column indicating Internal Audit’s comments.
The implementation of the restrictive endorsement of incoming cheques has been completed with the purchase and use of an appropriate stamp.

The storage and protection of paper copy credit card information is in progress. Even though Business Services has taken appropriate measures in this regard, the Hospitality Sales section still retains copies in an unlocked cabinet in an area which is accessible to several individuals.

An alternative has been implemented regarding the differences in the box office funds collected and those reported by Ticketmaster. The Business Services Analyst reviews the log on a regular basis and unresolved items are escalated to the Manager of Accounting.

Updating of policies regarding accepted payment modes and timing of final payments for catered events/room rentals has not been completed.

**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)


**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 AUD10018.

ap:dt
### Appendix "A" to Report AUD10018

### CITY OF HAMILTON

#### INTERNAL AUDIT REPORT 2008-04

#### HECFI – CASH HANDLING AND REVENUES

#### FOLLOW UP

<table>
<thead>
<tr>
<th>#</th>
<th>OBSERVATIONS OF EXISTING SYSTEM</th>
<th>RECOMMENDATION FOR STRENGTHENING SYSTEM</th>
<th>MANAGEMENT ACTION PLAN</th>
<th>FOLLOW UP (April 2010)</th>
</tr>
</thead>
</table>
| 1. | **Box Office**
All tickets for HECFI events purchased at the HECFI box office are processed by the Ticketmaster software on site. At the end of the work day staff are required to reconcile the actual funds on hand with those noted on the Ticketmaster reports. Normally, the funds on hand agree with the amounts on the reports. On the occasions where a difference is noted, the amounts are logged with the intention of a correction in a timely manner. However, an adequate detailed explanation for the difference is usually not provided. While such daily variances cover a large range ($10-$1,700 in the sampling), the provision of detailed explanations allows for a verifiable audit trail as well as providing the ability to look for trends and common elements, which may indicate potential theft or lapping. | That detailed explanations for differences noted between the funds collected and those reported by the Ticketmaster software be provided in the log. Management should review the log on a regular basis and question any unusual or recurring differences or explanations. | Agreed. The Director, Business Development, will regularly review the log and ensure that detailed explanations for any differences are noted on it. This is effective immediately. | Alternative Implemented. In place of a Director, Business Development, the Business Services Analyst reviews the log on a regular basis. While explanations provided by staff are not always adequately detailed on the log, supporting documentation for the differences is always available. Items that cannot be resolved by the Business Services Analyst are escalated to the Manager of Accounting. |
### OBSERVATIONS OF EXISTING SYSTEM

<table>
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<tr>
<th>#</th>
<th>Payments for Catered Events/Room Rentals</th>
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<tr>
<td>2.</td>
<td>HECFI's policies and procedures indicate specific rules for advance deposits and final payments from new clients wanting to hold a catered event or rent a room. During the course of this review, it was noted that customers sometimes opt to pay for first and second deposits via cheque. These cheques are not endorsed immediately upon being received by staff. Instead they are sent via interoffice mail to Business Services at which point they are endorsed by the Analyst. Such a practice increases the risk of unendorsed cheques being lost or misappropriated. Clients may also opt to pay the first or second deposit for an event via credit card. In doing so, they provide their credit card information to staff. This information is retained in paper form, triplicated and stored in different areas, fairly accessible to all staff. Therefore, the risk exists that sensitive information provided by customers may be inappropriately accessed or disclosed.</td>
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</table>

HECFI's existing policies and procedures require new customers to pay the balance due for a function by 72 hours prior to the event. Further, the acceptable methods of payment are specified as cash, certified cheque or bank draft. In both cases sampled during this review, neither the time requirement nor the acceptable method of payment complied with the policy. Receiving payments from new clients before events and allowing enough time for the payments to clear the banking system ensures that the customers develop an adequate credit history with HECFI and that funds owing are collected before the events take place.

### RECOMMENDATION FOR STRENGTHENING SYSTEM

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<tr>
<td>2.</td>
<td>That cheques be restrictively endorsed immediately upon initial receipt by staff. That client provided credit card information be stored electronically and protected by password so as to limit access to only the staff that specifically require it for their duties. That HECFI's current policies and procedures be adhered to.</td>
</tr>
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</table>

Agreed. Staff receiving cheques will place restrictive endorsements on them immediately upon receipt. This will be implemented as soon as the applicable stamps are purchased. Agreed. Access to sensitive information should be restricted. Staff will investigate the most efficient procedures to accomplish this goal and hope to have a recommendation to Senior Management Team by the end of 2008. Agreed. HECFI's formal policy should be adhered to and any exceptions to the policy should be justified and approved in writing by the responsible Director. In the two instances cited in the observation, it is our belief that the policy was complied with, in principle, and thus no further action is deemed necessary.

### MANAGEMENT ACTION PLAN

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<td>2.</td>
<td>Completed. Stamps for the restrictive endorsement of cheques have been purchased and are in use. All cheques, including post dated cheques are restrictively endorsed immediately upon initial receipt.</td>
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In Progress. Even though Business Services has taken measures to protect its paper copies of client card data (storage cabinets locked, card numbers blanked out), copies in the Hospitality Sales section are kept in unlocked cabinets in an area where several individuals have the combination to the door lock after hours. According to management, the implementation of an electronic storage system for credit card data would require the expense of an annual PCI compliance audit. Not Completed. Of the four new customers selected during the follow up audit, two did not comply with the current written requirement to pay the balance 72 hours prior to the event. There was no evidence of written approval by the responsible Director. However, in all the four cases sampled, full payment was received on or before the event. Further, the current written requirement has not been updated to reflect the existing business practice for the use of debit and credit cards as acceptable methods of final payment. Management indicated that the changes in the permitted payment modes will be suggested at the time Hospitality staff make policy changes for the timing of the final deposit requirement from 72 hours to 48 hours. |