CITY OF HAMILTON

CITY MANAGER’S OFFICE
Audit Services

TO: Chair and Members
Audit and Administration Committee
WARD(S) AFFECTED: CITY WIDE

COMMITTEE DATE: March 24, 2010

SUBJECT/REPORT NO:
Audit Report 2009-03 - Hamilton Police Service – Cash Accounts & Revenue Processes (AUD10010) (City Wide)

SUBMITTED BY:
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PREPARED BY:
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SIGNATURE:

RECOMMENDATION:

That Report AUD10010 respecting Audit Report 2009-03, Hamilton Police Service – Cash Accounts and Revenue Processes, be received.

EXECUTIVE SUMMARY

The 2009 Internal Audit work plan approved by Council included a review of various cash accounts and revenue processes for the Hamilton Police Service (HPS). The audit is an annual request from the HPS for an independent verification of financial controls and procedures. The audit resulted in the issuance of an audit report containing observations and recommendations. Management action plans have been provided by senior management of the HPS. The report is attached as Appendix “A” to Report AUD10010.

Alternatives for Consideration – Not Applicable

Vision: To be the best place in Canada to raise a child, promote innovation, engage citizens and provide diverse economic opportunities.
Values: Honesty, Accountability, Innovation, Leadership, Respect, Excellence, Teamwork
FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: None.
Staffing: None.
Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

Annually, the HPS requests the Internal Audit Division of the City of Hamilton to conduct a review of selected HPS cash accounts and revenue processes. This review included: paid duty, false alarm and tow fees; various petty cash and operating fund accounts; processes used in the Records Section; and procurement card usage. The fieldwork was completed in April 2009. The report was received by the Police Services Board on December 21, 2009.

The Audit 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

City of Hamilton and HPS procurement card policies
False Alarm By-law

RELEVANT CONSULTATION

The report includes management action plans which reflect the responses of senior management of the HPS. These responses were approved by the Police Services Board.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

The HPS collects fees for services such as paid duty, false alarms, towing, accident reports and clearance fees which totalled approximately $2.6 million in 2008. As these transactions represent main sources of revenue for the HPS, the work carried out by Internal Audit focused on the billing and payment receipts cycles as well as collection efforts for delinquent accounts.

In addition, there are other funds such as petty cash, Investigative Services Operating Fund and the Reserve account used to cover operating expenditures and community involvement. Funds were counted and resulting amounts compared to ledger/bank balances. Expenditures were traced to supporting invoices or receipts.
Several officers, civilians and senior staff were selected for testing as cardholders of procurement cards. The appropriateness of expenditures, corresponding supporting documentation and compliance with City and HPS card policies were reviewed.

The main areas identified for improvement were:

- the collection of long overdue paid duty accounts and the charging of interest on any overdue accounts (this item has been carried forward from the prior year);
- the continued effort of writing off bad debts relating to false alarm fees;
- the inclusion of more detailed information on the spreadsheet used as a ledger for the Investigative Services Operating Fund, the periodic reconciliation of cash replenishments to the Fund and the signature of both staff involved in the transaction on the receipts used to track the expenditure of funds;
- adequate supporting documentation for all procurement card purchases (this item has been carried forward from the prior year) and the timely submission of monthly procurement card statements for supervisory approval; and
- a reminder of the appropriate use of petty cash funds in the Court Security area.

HPS management has taken action on the items reported, as approved by the Police Services Board. Specific action plans can be found in the attached audit report and will be followed up at the next annual audit.

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 capital assets/liabilities in a sustainable, innovative and cost effective manner

APPENDICES / SCHEDULES

Appendix “A” to Report AUD10010
ap:dt
1) REVIEW OF RESERVE ACCOUNT
Internal Audit performed a review of the Hamilton Police Reserve Account for the period March 13, 2008 to February 27, 2009. The review concentrated on the proper accounting of funds received and expensed in the account. Cash disbursements were traced to entries on the bank statement as well as to receipts, invoices and authorizing memos. Receipts were tied to the bank statements. The ending ledger balance was reconciled to the ending bank balance as indicated in the bank statement.

The procedures and controls appear satisfactory. No errors or omissions were noted.

2) RECORDS
The review of the Records section focused on the following: access security to the POS System; the flow of financial information within the section including the integrity of the POS reports; the application of discounts for services such as Police Clearance searches; and the validity of voided and cancelled transactions. Management has implemented the recommendations made in last year’s report regarding the regular review by the Assistant Chief Accountant of overages and shortages in the POS adjustment account and the journalization of such amounts in a PeopleSoft general ledger account.

The procedures and controls appear satisfactory. No errors or omissions were noted.

3) FALSE ALARM FEES
The review of the False Alarms section focused on the following: the flow of financial information including the proper billing of customers; the suspension of accounts for non-payment or for exceeding the prescribed number of false alarms; the verification of the commission charged by the Collection Agency; and the review of the outstanding receivable balances.

The continued use of the collection agency and the write off of some uncollectible accounts has reduced the receivables outstanding at the end of 2008 by almost 50% from the prior year.

As of February 2009, a policy allowing only the current year plus two additional past years to be held as outstanding in the accounts was implemented. Approximately $20,000 of the outstanding amount of $82,634 as of December 31, 2008 is over two years old. Management will write off this amount as a bad debt. Staff should be encouraged to continue their write off efforts.

4) TOW FEES
The Tow Fees review focused on the following: the flow of financial information including correctly invoicing the tow companies for the number of tows carried out; and verifying that the payment terms are enforced with the towing companies.

As of December 2008, the receivable balance of $16,622 is almost all current. The procedures and controls appear satisfactory. No errors or omissions were noted.

(1) HPS responses were not provided until February, 2010 (after Police Services Board receipt).
5) **PAID DUTY FEES**

Outstanding receivables for this section have increased over the prior year to approximately $43,700 (April 2008 - $1,100). The establishments at Hess Village are responsible for $38,250 with some amounts owing for close to one year.

**It is recommended:**
That management pursue a means of collecting long overdue accounts from the Hess Village establishments.

**Management Response:**
Interest will be charged on overdue Hess Village accounts in 2010.

As noted on each of the last two audit reports, interest should be charged on outstanding balances greater than 30 days old as per the paid duty contracts. In both years, management had indicated that interest would be applied to the outstanding accounts. This still has not been implemented.

**It is recommended:**
That management charge interest on overdue accounts as indicated on the paid duty contracts. (Repeat recommendation)

**Management Response:**
This recommendation will be evaluated in 2010 using the Hess Village system as an example.

6) **INVESTIGATIVE SERVICES OPERATING FUND**

The review of Investigative Services Division’s (ISD) operating fund covered the period April 24, 2008 to March 2, 2009. The cash on hand was counted and compared to the ledger balance, expenditures were traced to invoices, receipts or other supporting documents and fund replenishments were confirmed through reports from the Accounts Payable division of the City of Hamilton. No errors or omissions were noted.

The counted cash on hand exceeded the ledger balance by $0.93.

It was also noted that, as of the beginning of January 2009, the fund custodian has implemented a new system to monitor the funds issued. This system uses pre-numbered receipts that are attached to reports requesting cash for various ISD operational requirements. As previously stated, each receipt must be signed by the officer receiving the funds, but now two officers must be present when the funds are given to an informant. In addition, the electronic system formerly used as a ledger is no longer being used. It has been substituted by an Excel spreadsheet. However, the amount of detailed information currently recorded on this spreadsheet is minimal.

**It is recommended:**
That the spreadsheet now being used as a ledger for the ISD operating fund be modified to include more detailed information such as the date the funds were issued, the reason the funds are being requested and the name of the officer receiving the funds.

**Management Response:**
This recommendation has been implemented.
That, as recommended in last year’s report, periodic reconciliations (i.e. quarterly) of cash replenishments of the ISD funds be performed to ensure that all such amounts are captured by the spreadsheet.

Management Response:
Quarterly reconciliations commenced as of December 2009.

That the pre-numbered receipts now being used to track the funds be signed by both officers involved in the transaction.

Management Response:
This recommendation has been implemented.

7) PROCUREMENT CARD USAGE

A review of the November 2008 procurement card charges made by all ISD officers and four randomly selected civilian staff and June, July and August 2008 procurement card charges made by all senior officers was completed. In all cases, the review focused on the appropriateness of the expenditures and the corresponding supporting documentation as well as compliance with the City of Hamilton and the HPS procurement card policies.

Supporting Documentation
While the majority of transactions indicated the nature of the purchases (i.e. a short description of the item or the name(s) of the person(s) for which a meal was purchased), there were still some instances noted where this was not the case.

It is recommended:
That cardholders be reminded of their responsibilities to disclose the nature of each purchase and the name(s) of the person(s) for which a meal was purchased on the procurement card.

Management Response:
This recommendation has been implemented.

Timeliness of Submitting Cardholder Statements
Most cardholders submit their statements to their supervisor for approval at the end of each month. However, in two instances of the 29 cases reviewed, the cardholders took an excessive length of time to submit their statements contrary to the procurement card policies. One cardholder’s November 2008 statement had not yet been submitted in March 2009 at the time of our audit.

It is recommended:
That cardholders adhere to the policy provision of submitting their cardholder statements for supervisory approval at the end of each month.

Management Response:
This recommendation has been implemented.
8) **PETTY CASH**

Internal Audit carried out a review of six selected petty cash accounts. The review involved comparing the sums of the cash on hand and any receipts to the imprest balances. It was also ensured that the expenditures were supported by proper receipts.

7.1. **Finance**

The actual petty cash (cash on hand plus receipts) in this section exceeded the imprest balance of $2,500 by $0.32.

7.2. **Fleet Services**

The actual petty cash (cash on hand) in this section amounted to $299.99 and was short of the $300 imprest balance by $0.01.

7.3. **Supply Services**

The actual petty cash (cash on hand plus receipts) in this section amounted to $350.01 and exceeded the imprest balance of $350 by $0.01.

7.4. **Central Escorts**

The actual petty cash (cash on hand plus receipts) in this section amounted to $300 and was equal to the imprest balance of $300.

7.5. **East End Station**

The actual petty cash (cash on hand plus receipts) in this section amounted to $610.17 and exceeded the imprest balance of $600 by $10.17.

7.6. **Court Security**

The actual petty cash (cash on hand plus receipts) in this section amounted to $400 and was equal to the imprest balance of $400.

A review of the items reimbursed through petty cash produced a receipt for the purchase of cans of beer as part of the prizes awarded for this section’s golf tournament.

*It is recommended:*

*That the petty cash custodian for this section be reminded that these funds be used only for the purpose for which they were originally issued i.e. for prisoner escorts, for prisoners with special needs and for other small value immediate requirements specific to the section’s responsibilities.*

*Management Response:*

*This recommendation has been implemented.*

Last year’s recommendation of reducing the imprest amount of petty cash for Central Station has been completed.