SUBJECT: HECFI - Cash Handling and Revenues - Audit Report 2008-04 (CM08026) (City Wide)

RECOMMENDATION:

(a) That Report CM08026 respecting Audit Report 2008-04, HECFI – Cash Handling and Revenues, be received; and

(b) That the management action plans as detailed in Appendix “A” of Report CM08026 be approved and the Chief Executive Officer, HECFI, be requested to direct the appropriate staff to have these plans implemented.

Ann Pekaruk
Director, Audit Services
City Manager's Office

EXECUTIVE SUMMARY:

The 2008 Internal Audit work plan approved by Council included the audit of the cash handling and revenues for Hamilton Entertainment and Convention Facilities Inc. (HECFI). The results of the audit are included in a formal audit report containing observations, recommendations and management responses attached as Appendix “A” to Report CM08026.

BACKGROUND:

HECFI was not included in the 2007 review of cash handling practices of all City departments completed by an external consultant. Therefore, the 2008 Internal Audit work plan approved by Council included a review of significant cash handling and revenue processes at HECFI, namely the box office and catering/rental facilities.
BACKGROUND: (Continued)

The single largest revenue source for HECFI in 2007 was food and catering sales ($1.63 million). The 2007 revenue generated by the box office totalled $695,000. However, this only reflects settlement amounts from the various events. The dollar value of ticket sales (i.e. transactions handled by the box office) was $18.3 million, of which $1.3 million was cash.

The audit was completed in August 2008. The results of this audit are attached as Appendix “A” of Report CM08026.

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.

ANALYSIS/RATIONALE:

A review of relevant policies and procedures, the examination of the existing system, records and documentation and the testing of specific transactions were all used to carry out this audit.

Controls as they relate to the collection and handling of cash and near cash (i.e. cheques, debit and credit card transactions) were reviewed and assessed as to their effect on the completeness, recording and safeguarding of the asset. A formal audit report containing observations, recommendations and resulting management action plans was issued and is attached as Appendix “A” of Report CM08026. The associated risks have been identified with each observation noted.

The audit resulted in the identification of areas for improvement with respect to: management review of the log for detailed explanations regarding differences in box office ticket collection and those reported by Ticketmaster and subsequent investigation of recurring differences; restrictive endorsement of incoming cheques; storage and protection of sensitive credit card information; and adherence to policies and procedures regarding deposits and final payments for catered events/room rentals.

Management and staff have agreed to or have already taken actions to implement all of the formal recommendations. Specific action plans can be found in the attached audit report.

ALTERNATIVES FOR CONSIDERATION:

Not applicable.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

Financial
Explanations and details provided for log discrepancies help mitigate the risk of potential theft or lapping due to management oversight. The restrictive endorsement of cheques reduces the risk of unendorsed cheques being lost or misappropriated.

Staffing
None.

Legal
None.
POLICIES AFFECTING PROPOSAL:
None.

RELEVANT CONSULTATION:
The attached report included management action plans which reflect the responses of management and staff responsible for the cash handling and revenue collection functions of HECFI.

The report was received and discussed by HECFI’s Audit and Finance Committee on September 25, 2008.

CITY STRATEGIC COMMITMENT:

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Community Well-Being is enhanced. ☐ Yes ☑ No

Environmental Well-Being is enhanced. ☐ Yes ☑ No

Economic Well-Being is enhanced. ☑ Yes ☐ No

City Council’s strategic commitment to “Best Practices – Best Value” under “A City That Spends Wisely and Invests Strategically” is addressed through audits and reviews and their subsequent follow up to ensure controls are in place to protect the assets of the City and promote efficient, effective and economic services and programs.

Does the option you are recommending create value across all three bottom lines? ☐ Yes ☑ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants? ☐ Yes ☑ No

:dt

Attachment – Appendix “A”
### OBSERVATIONS OF EXISTING SYSTEM

**Box Office**

1. 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.

### RECOMMENDATION FOR STRENGTHENING SYSTEM

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.

### MANAGEMENT ACTION PLAN

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.
## OBSERVATIONS OF EXISTING SYSTEM

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<th>PAYMENTS FOR CATERED EVENTS/ROOM RENTALS</th>
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<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. 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.</td>
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## RECOMMENDATION FOR STRENGTHENING SYSTEM

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<th>THAT CHEQUES BE RESTRICTIVELY ENDORSED IMMEDIATELY UPON INITIAL RECEIPT BY STAFF.</th>
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<td>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.</td>
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<td>THAT HECFI’S CURRENT POLICIES AND PROCEDURES REGARDING DEPOSITS AND FINAL PAYMENTS BE ADHERED TO. A REVIEW OF THESE POLICIES AND PROCEDURES MAY BE WARRANTED TO ENSURE ANY REQUIRED UPDATES OR CHANGES ARE REFLECTED IN THE APPROVED PRACTICE.</td>
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## MANAGEMENT ACTION PLAN

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<th>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.</th>
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<td>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.</td>
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<td>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.</td>
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