TO: Chair and Members  
Audit, Finance and Administration Committee

WARD(S) AFFECTED: CITY WIDE

COMMITTEE DATE: November 23, 2011

SUBJECT/REPORT NO:  
Audit Report 2011-04 - Hamilton Police Service - Cash Accounts & Revenue Processes (AUD11034) (City Wide)

SUBMITTED BY:  
Ann Pekaruk  
Director, Audit Services  
City Manager's Office

PREPARED BY:  
Ann Pekaruk 905-546-2424 x4469

SIGNATURE:

RECOMMENDATION


EXECUTIVE SUMMARY

The 2011 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 AUD11034.

Alternatives for Consideration – Not Applicable
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 July 2011. The report was received by the Police Services Board on September 19, 2011.

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 $2.62 million in 2010. 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 delegation of spending authority by the Board to the signing authorities of the Reserve Account;
- The review by the Records Manager of POS transactions processed at day's end by the Supervisor;
- The collection of long overdue Paid Duty accounts and the charging of interest on any overdue accounts (repeat from prior year);
- Adequately completed and approved documentation for all Paid Duty events (repeat from prior year);
- The use of automated software for tracking Paid Duty revenues and receivables (repeat from prior year);
- Adequate supporting documentation for all procurement card purchases (there has been improvement over the prior year but several instances still identified);
- The obligation to use approved suppliers and abide by the Purchasing Policy for no use of procurement cards for personal purchases, even with reimbursement; and
- The reimbursement of petty cash, at a minimum, once in each calendar year to ensure proper reflection of expenditures in the correct accounting period.

HPS management has already taken action or has committed to take action on the items reported, as approved by the Police Services Board. Specific action plans can be found in the attached audit report (Appendix “A” to Report AUD11034) 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 of capital assets/liabilities in a sustainable, innovative and cost effective manner

APPENDICES / SCHEDULES

Appendix “A” to Report AUD11034: Audit Report 2011-04

ap:dt
1) **REVIEW OF RESERVE ACCOUNT**

Internal Audit performed a review of the Hamilton Police Reserve Account for the period April 1, 2010 to March 31, 2011. 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 Police Services Act states that the Board may use auction proceeds for any purpose that it considers in the public interest. During testing, it was noted that the Hamilton Police Service (HPS) Board did not approve all reserve account expenditures. Many disbursements were approved by the Chief or other reserve account signing authority and were not reported in the Board minutes. In addition, four (4) expenditures approved by the Board incurred actual costs different than those approved by the Board.

*It is recommended:*

*That the Board consider delegating spending authority to the signing authorities of the Reserve Account.*

**Management Response:**

*Agreed. The Chief of Police will exercise commitment authority up to a maximum of $1,000.00 – the Executive Officer to the Chief will exercise spending authority.*

*It is recommended:*

*That management present an annual report to the Board detailing all reserve account activities.*

**Management Response:**

*Agreed. In February of each year, the Executive Officer to the Chief of Police will report to the Police Services Board, the previous year’s expenditures.*

2) **RECORDS**

The review of the Records section focused on the following: access security to the Point-of-Sale (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; the validity of voided and cancelled transactions; and the storage of credit card information and compliance with Payment Card Industry (PCI) Data Security Standards (DSS).
The current closing process does not adequately safeguard the funds collected during the day from misappropriation. The lack of a segregation of duties on the part of the Supervisor on duty allows him/her to take control of the cash, check the voids and refunds as well as process a void or refund transaction at the end of the day before resetting the POS system for the next day. Before closing the system, the Supervisor also has the ability to reprint system reports that have been generated for balancing purposes by the Cashier. No further oversight or independent review occurs.

**It is recommended:**
That an independent third party (e.g. Records Manager) review the POS transactions reported at the end of the day to ensure those processed by the Supervisor are reasonable and supportable.

**Management Response:**
Agreed. This process has been implemented and is complete. The Records Manager reviews daily POS activity reports and signs off.

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 overall amount of receivables, as well as the balance in each aging category, has remained consistent with the prior year. For instance, receivables that are greater than 90 days old as at December 31, 2010 totalled $14,568 as compared to $13,572 at December 31, 2009. Staff should be encouraged to remain diligent in collection efforts and continue to use the collection agency to keep past due receivables to a minimum.

Last year’s recommendation regarding training staff members on the written procedure for closing delinquent accounts has been implemented. The written procedure and instructions for future staff members were incorporated into a training binder.

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 31, 2010, the receivable balance of $11,760.00 was almost all current. The procedures and controls appear satisfactory. No errors or omissions were noted.

5) **PAID DUTY FEES**
Outstanding receivables greater than thirty (30) days for this section have decreased over the prior year to approximately $8,200.00 (2010 Review – approx. $78,500.00) as a result of transferring Hess Village receivables to the City.
Last year’s recommendation regarding the collection of long overdue accounts from Hess Village establishments has been implemented. The City’s Accounts Receivable section assumed the responsibility to invoice and collect all amounts owing by Hess Village establishments. Also, one bar that was unsuccessful with their special duty appeal remitted payment of approximately $55,100.00 in July 2010 which significantly reduced the receivable balance carried forward from last year.

As noted on each of the last four (4) reports, interest should be charged on outstanding balances greater than thirty (30) days old as per the paid duty contracts. Last year, management had indicated that interest would be assessed on past due receivables from Hess Village establishments once transferred to the City. Although this was accomplished through use of the City’s Accounts Receivable section, management’s response does not address overdue accounts from customers not associated with Hess Village. In the other three (3) 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:**
*Alternative to be Implemented.* The current billing system for Paid Duty Fees does not have the capability of calculating interest on overdue accounts. Therefore, to charge interest on accounts greater than 30 days overdue would require the purchase and installation of a new billing and accounts receivable system or the manual calculation of interest on overdue accounts. To address this recommendation, the Paid Duty section will monitor month-end receivables aging and make collection efforts, as necessary, on outstanding accounts. This process will also provide information useful in assessing the feasibility of purchasing and installing a new billing and accounts receivable section.

As noted on last year’s audit report, required documentation was not completed for Paid Duty events. This observation remains pertinent as current Paid Duty contracts were not completed in entirety (particularly, documenting the contract number and completing “Part C – Staffing”). In 50% of cases tested, the Paid Duty contract was not appropriately approved by the Paid Duty Officer, as required by the form. Also, there were a few instances of incomplete Request for Voluntary Paid Duty forms being included in event packages. These forms are no longer used when processing event requests as the names of assigned officers are written on the Paid Duty contract.

Last year, management indicated that the “Part C – Staffing” section was not completed as this information is captured on the Paid Duty invoice. Although this rationale is valid, the Paid Duty contract remains incomplete. Management also indicated that a file folder system would be used for contracts that require a supervisor signature. Although the file folder system was implemented, approvals are still not obtained or documented adequately.
It is recommended:
That management ensure that all documentation is adequately completed for Paid Duty events and that all Paid Duty events are approved. (Repeat recommendation) With respect to event documentation, management may consider revising the format of the contract to ensure only information pertinent to the current process is captured.

Management Response:
Agreed. The Inspector of Support Services will work with the Special Duty Events Manager to ensure that all documents are completed properly and that all forms are authorized. The process will be reviewed to determine if these small discrepancies can be avoided.

As noted on last year’s audit report, an accounting software system for Paid Duty revenues is not currently being used by HPS. Management had indicated that the Chief Accountant would look into the feasibility of installing an accounting program. This study has not been carried out.

It is recommended:
That management implement a simple accounting software system to automate the tracking of Paid Duty revenues and receivables. This program could also be used to calculate interest on past due receivables. (Repeat recommendation) Alternatively, management could track receivable balances and calculate interest using Excel spreadsheets.

Management Response:
Alternative to be Implemented. The Hamilton Police Service uses an MS-Access system developed internally by the Computer Services Section as a billing system for Paid Duty Fees. This system is not set up with the capabilities of an accounts receivable system. As indicated in the observation, the Service has made successful efforts since the last audit to significantly reduce the balance of outstanding receivables greater than 30 days. To continue with these efforts, as per the Management response for recommendation 5.1, the Paid Duty section will monitor month-end receivables aging for purposes of improving collection efforts and obtaining information to assess the feasibility of purchasing and installing a new billing and accounts receivable system.

6) INVESTIGATIVE SERVICES OPERATING FUND
The review of Investigative Services Division’s (ISD) operating fund covered the period June 5, 2010 to June 21, 2011. The cash on hand was counted and compared to the ledger balance, expenditures were traced to receipts and fund replenishments were confirmed through reports from the Accounts Payable section of the City of Hamilton.
Last year’s recommendation regarding returning all funds to the authorized fund custodian and recording transactions in the ISD ledger immediately upon receipt was not completed. Residual funds were returned to the custodian. However, transactions were not recorded in the ISD ledger. Also, there is no indication that the custodian reviewed or retained the transaction list to ensure the completeness of returned cash. Internal Audit reconciled the amount of funds returned to the opening fund balance and the list of disbursements.

**It is recommended:**
*That the ISD Operating Fund custodian obtain a complete list of transactions which were carried out during his extended absence last year and reconcile disbursements and returned cash to the amount of funds originally distributed. Documentation supporting this review should be retained by the custodian.*

**Management Response:**
Agreed. Under the current ISD ledger operating functions (an improved ledger is being sought), there is no mechanism to back enter transactions that were made outside the parameters of a completed transaction. However, a sub-ledger was completed to record each transaction outside the ISD Operating Fund in/out transactions which have been reconciled. The original documentation will be moved from the sub-ledger custodian to the ISD Operating Fund Custodian and reviewed as recommended.

Also, last year’s recommendation regarding appropriate delegation of authority when the ISD Operating Fund custodian is away for an extended period of time was not completed. Management had indicated that a second custodian would be assigned to disburse and record funds in the ISD ledger. This still has not been implemented.

**It is recommended:**
*That a secondary ISD Operating Fund custodian be assigned and trained in the event that the primary ISD Operating Fund custodian is absent for an extended period of time. The secondary custodian should have access to the system which monitors issued funds and issues receipts. (Repeat recommendation)*

**Management Response:**
Agreed. The ISD Operating Fund Custodian is exploring the feasibility of appointing a secondary or back up custodian.

The fund custodian has a system to monitor the funds issued. This system uses numbered receipts that are attached to reports requesting cash for various ISD operational requirements. Each receipt must be signed by the officer receiving the funds and the officer disbursing the funds. A second series of pre-numbered receipts is used when the funds are issued to the informant. Two officers must be present when the funds are given to an informant and both sign another pre-numbered receipt. In addition, the informant is required to sign to provide evidence of receipt of funds.
Appendix “A” to Report AUD11034
Page 6 of 14

HPS
Annual Internal Audit Review
July 2011

As noted on last year’s audit report, the use of two sets of receipts not cross-referenced to each other creates inefficiencies in searching for an audit trail and filing all pertinent information in one location. Management had indicated that the Inspector of ISD would look in the feasibility of developing a carbon copy form capturing information from both sets of receipts. This feasibility study is still being considered.

The fund custodian has a system to monitor the funds issued. This system uses numbered receipts that are attached to reports requesting cash for various ISD operational requirements. Each receipt must be signed by the officer receiving the funds and the officer disbursing the funds. A second series of pre-numbered receipts is used when the funds are issued to the informant. Two officers must be present when the funds are given to an informant and both sign another pre-numbered receipt. In addition, the informant is required to sign to provide evidence of receipt of funds.

As noted on last year’s audit report, the use of two sets of receipts not cross-referenced to each other creates inefficiencies in searching for an audit trail and filing all pertinent information in one location. Management had indicated that the Inspector of ISD would look in the feasibility of developing a carbon copy form capturing information from both sets of receipts. This feasibility study is still being considered.

It is recommended:
That management consider creating customized receipt pads to accommodate, all on one form, the entire ISD “sign off” process for the receipt of funds and informant signatures, where appropriate. The pads should be carbon forms with enough copies to meet filing requirements. (Repeat recommendation)

Management Response:
Agreed. The Inspector of ISD continues to explore a secure and accountable receipting system that will be improved over existing receipts and still meet the needs of the Operational Funds accountability system.

7) PROCUREMENT CARD USAGE
A review of the September 2010 procurement card (P-card) charges made by all ISD officers and four (4) randomly selected civilian staff and the May 2010, September 2010 and February 2011 P-card charges made by all senior officers was completed. In all cases, the review focused on the appropriateness of expenditures and the corresponding supporting documentation as well as compliance with HPS and City of Hamilton P-card policies.

Supporting Documentation
While the majority of P-card transactions were supported with receipts, there were eight (8) instances where cardholders did not provide any supporting documentation and a further fourteen (14) instances where appropriate vendor receipts (i.e. a Visa payment confirmation slip is not a receipt) were not attached. In one (1) case, the cardholder was able to provide Internal Audit with documentation when requested during the course of the review.
In forty-eight (48) instances tested, cardholders did not clearly indicate the business purpose or nature of the purchase and for fourteen (14) transactions, the names of individuals partaking of meals were not indicated on the receipt, as required.

*It is recommended:*
That all cardholders and supervisors review the P-card policies and be reminded of their responsibilities to provide and ensure purchase receipts clearly indicate item descriptions, the business purposes and individuals partaking of meals. (Repeat recommendation)

*Management Response:*
Agreed. Cardholders and supervisors will review the P-card policies and be reminded of their responsibilities with the use of P-cards. The results of the Procurement Card audit will be discussed at a Senior Management meeting and the responsibilities of cardholders will be cascaded to all members of the Service who have a corporate credit card.

**Use of P-card by Other Than Cardholder**
Procurement cards are issued to approved personnel after they have signed agreements agreeing to abide by the City’s and HPS’ policies and procedures for P-cards. In the review of P-card transactions, four (4) instances were noted in which a P-card was used by other than its cardholder. By allowing others to use an employee’s P-card, the cardholder’s accountability is compromised as is particularly evident when the user and then the cardholder fail to submit adequate supporting documentation, contrary to the P-card policies.

*It is recommended:*
That cardholders be instructed to not share their procurement cards with any other employees.

*Management Response:*
Agreed. The results of the Procurement Card audit will be discussed at a Senior Management meeting and the responsibilities of cardholders will be cascaded to all members of the Service who have a corporate credit card.

**Disallowed Purchases**
The City’s Policy for Procurement Cards (section 4.15(5)) disallows the use of P-cards:

(a) When a contract is in effect for the good or service (unless pre-authorized in writing by the Manager of Procurement). The City’s contracts for office supplies, office furniture, computer supplies and toner include references to HPS and thus, six (6) such purchases should have been with the contracted suppliers. However, they were made through P-card purchases at other suppliers and no pre-authorization from Procurement was evident.
(b) For personal purchases of any nature. Four (4) transactions representing personal purchases were identified. In three (3) cases, the cardholders identified the transactions as personal themselves and reimbursed HPS for the charges.

*It is recommended:*
*That cardholders be reminded of their obligation to use approved suppliers and abide by the Purchasing Policy for disallowed commodities. (Repeat recommendation)*

**Management Response:**
*Agreed. Cardholders will be reminded of their obligation to use approved suppliers and abide by the Purchasing Policy. The results of the Procurement Card audit will be discussed at a Senior Management meeting and the responsibilities of cardholders will be cascaded to all members of the Service who have a corporate credit card.*

*That cardholders be reminded that use of P-cards for personal purchases are not allowed, even with reimbursement.*

**Management Response:**
*Agreed. Cardholders will be reminded that personal purchases are not allowed. The results of the Procurement Card audit will be discussed at a Senior Management meeting and the responsibilities of cardholders will be cascaded to all members of the Service who have a corporate credit card.*

**Tracking Asset Purchases**
As noted on last year’s audit report, assets acquired using P-cards are still not adequately recorded in an Asset Management system by HPS. A simple system is currently in place to track tool purchases in excess of $25 but other capital purchases such as electronics, software and equipment are still not tracked. Without an effective way to track purchased assets, unnecessary purchases may occur which divert budgeted funds from other uses or items purchased could easily disappear after the initial need is satisfied. Management had indicated that the Manager of Fleet, Facilities and Supply would create a system to track all such minor assets.

*It is recommended:*
*That management consider a tracking mechanism for all minor assets, especially those bought through P-cards. (Repeat recommendation)*

**Management Response:**
*Agreed. A simple tracking mechanism was established for fleet and extended to facilities on a moving forward basis. These are the two branches that purchase small assets of significant value and/or quantity. The purchase threshold was increased from $25 to $50 in fleet since too many consumable tools fell into this category. The purchase threshold remains at $25 in facilities.*
The Asset listing identifies "Item", "Date Purchased" and "Value". It has been expanded to include "Date and Reason of Disposal" to reflect the fact that some items become non-functional because of wear, damage or age.

The fleet and facilities branches are the two branches that routinely purchase small assets. The system now includes all assets purchased with P Cards dating back to January 2010. It is updated as the P-Card statements are reviewed with staff. This system could easily be made available to other commanders to assist in asset tracking if required.

Account, Department ID and GST/HST Allocations
Default account and department ID numbers are assigned to each cardholder. If the cardholder does not inform the Chief Accountant of changes, the P-card expenditure is allocated to the default accounts. Based on the account allocations and notes appearing on the P-card statement, fifty-five (55) transactions were identified for which the account and/or department ID allocations were not reasonable. As a result, financial information used to make operational decisions may be distorted.

The GST/HST allocations appearing on a cardholder’s P-card statement are automatically calculated by the P-card provider based on the total receipt amount. However, some charges such as tips, books and hotel taxes imbedded in the total receipt amount are GST/HST exempt. If the cardholder does not inform the Chief Accountant of adjustments, the sales tax allocation and, ultimately, the City’s remittance to/recovery from the government will be incorrect. Internal Audit identified thirty-five (35) transactions for which the GST/HST allocation was incorrect and a further twenty-eight (28) transactions for which the GST/HST allocation could not be properly determined based on the attached receipts.

It is recommended:
That management remind cardholders and supervisors reviewing P-card statements to be diligent in revising account, department ID and sales tax allocations and communicating these revisions to the Chief Accountant.

Management Response:
Agreed. Cardholders and Supervisors reviewing P-Card statements will be reminded to review account distribution and sales tax allocations and to inform Finance Services if a journal entry is required to make a correction.

That the Chief Accountant’s Office designate a Department Card Co-ordinator who reviews statements for accuracy and compliance with HPS’ General Purchasing Policy. Incomplete statements should be returned to the cardholders.
Management Response:
Disagreed. Currently, each Division is responsible for reviewing and filing its respective cardholder statements and receipts. To assign one staff member to perform these duties on a Service-wide basis would require that a new position be established for this purpose since there is no available capacity within any one position at this time. Accordingly, it is recommended that each Division continue to be responsible for reviewing and filing its respective credit card statements.

Revised P-card Procedures
The City revised its Procurement Card Processing Procedures on March 2, 2011. However, the City Treasurer did not inform HPS of the revisions. As a result, Internal Audit did not assess HPS on any revised procedures as part of this year's review.

It is recommended:
That the Chief Accountant review the revised Procurement Card Processing Procedures and implement any required changes. This document should be distributed or made available to all individuals involved in the P-card process.

Management Response:
Agreed. Finance Services will review the revised Procurement Card Processing Procedures and will advise all cardholders of changes to the process.

By-Pass of Pre-Determined Single Transaction Limit
In the review of P-card usage, one (1) instance was noted in which two (2) different cardholders "split" the amount of the purchase to by-pass the single transaction limit on one of the cardholder's card. This is contrary to HPS' General Purchasing Policy (A.1,4). Single transaction limits should not be circumvented as they are implemented to limit spending on procurement cards.

It is recommended:
That cardholders be reminded of their single transaction limits to ensure adherence to the set amounts and discourage “splitting” single purchase amounts in order to circumvent such limits.

Management Response:
Agreed. This recommendation has been implemented since the completion of the audit fieldwork. The results of the Procurement Card audit will be discussed at a Senior Management meeting and the responsibilities of cardholders will be cascaded to all members of the Service who have a corporate credit card.

8) PETTY CASH
Internal Audit carried out a review of six (6) selected petty cash accounts. The review involved comparing the sums of cash on hand and any receipts to the imprest balances. It was also ensured that the expenditures were supported by proper receipts and vouchers.
As noted on last year’s audit report, the following overages were reported because the actual petty cash balances (cash on hand plus receipts) exceeded the petty cash imprest balances: Finance - $4.04, Division 3 – Mountain Station - $11.28 and Investigative Services Division - $18.33. Management had indicated that the Chief Accountant advised all petty cash custodians of this issue and instructed them to turn in the excess cash. The Chief Accountant could not provide Internal Audit with documentation (i.e. journal entry, bank deposit slip) to confirm that the above overages were returned and deposited in the City’s account.

**It is recommended:**

*That all excess petty cash be turned over to Accounting for deposit and journalization in the general ledger. (Repeat recommendation)*

**Management Response:**

*Agreed. This recommendation has been implemented since the completion of the audit fieldwork.*

8.1. Police Services Board

The actual petty cash (cash on hand plus receipts) in this section was short of the imprest balance of $400.00 by $0.70.

Last year’s recommendation regarding the use of petty cash vouchers has been implemented.

During testing, it was noted that fifteen (15) receipts totalling $238.56 from the 2009-2010 calendar years were still awaiting replenishment. These prior years’ receipts represented 81% of the total value of receipts in the petty cash box. Lack of timely replenishment indicates that the imprest balance may be too large for this section.

**It is recommended:**

*That the Chief Accountant instruct all petty cash custodians to file a replenishment request at the end of the calendar year to ensure petty cash expenses are captured in the correct accounting period.*

**Management Response:**

*Agreed. Effective December 1st of each year, all Petty Cash custodians will be reminded through an e-mail to complete a Petty Cash reimbursement effective December 31st to ensure expenses are captured in the correct accounting period.*

**It is recommended:**

*That the Chief Accountant reduce the petty cash float balance for this section.*

**Management Response:**

*Agreed. The Police Services Board petty cash custodian has been advised that the petty cash float balance should be reduced and will determine the appropriate balance of the float and return the excess for deposit.*
8.2. Division 2 - East End Station

The actual petty cash (cash on hand plus receipts) in this section amounted to $600.00 and was equal to the imprest balance of $600.00.

Contrary to HPS’ General Purchasing Policy (part A.3(a)(2a)), it was noted during testing that the custodian provides funds to individuals up front in order to purchase items and there is no formal system to track these cash advances. Reimbursements should be made from petty cash only when an authorized slip and receipt are submitted.

*It is recommended:*

*That the Chief Accountant instruct all custodians that petty cash is used to reimburse expenditures and cash should not be distributed in advance of purchases.*

*Management Response:*

*Agreed. This recommendation has been implemented since the completion of the audit fieldwork.*

8.3. Division 1 - Central Escorts

The actual petty cash (cash on hand plus receipts) in this section amounted to $300.00 and was equal to the imprest balance of $300.00.

Similar to that described above for Division 2 - East End Station, it was noted during testing that the custodian provides funds to individuals up front in order to purchase items.

*It is recommended:*

*That the Chief Accountant instruct all custodians that petty cash is used to reimburse expenditures and cash should not be distributed in advance of purchases.*

*Management Response:*

*Agreed. This recommendation has been implemented since the completion of the audit fieldwork.*

Contrary to HPS’ General Purchasing Policy (part A.3(a)(2a)), petty cash vouchers were not used for the Division 1 - Central Escorts petty cash fund.

*It is recommended:*

*That petty cash vouchers be used by the Division 1 - Central Escorts custodian.*

*Management Response:*

*Agreed. Division 1 - Central Escorts petty cash custodian has been advised of the responsibility to use the petty cash vouchers to support each petty cash transaction.*
8.4. Supply Services
The actual petty cash (cash on hand plus receipts) in this section amounted to $350.00 and was equal to the imprest balance of $350.00.

Petty cash vouchers were not used for the Supply Services petty cash fund. This is contrary to HPS’ General Purchasing Policy (part A.3(a)(2a)).

*It is recommended:*
*That petty cash vouchers be used by the Supply Services petty cash custodian.*

*Management Response:*
*Agreed. The Supply Services Section petty cash custodian has been advised of the responsibility to use the petty cash vouchers to support each petty cash transaction.*

8.5. Fleet Services
The actual petty cash (cash on hand plus receipts) in this section amounted to $300.00 and was equal to the imprest balance of $300.00.

8.6. Court Services
The actual petty cash (cash on hand plus receipts) in this section was short of the imprest balance of $400.00 by $3.88.

Last year’s recommendation regarding the storage of other funds separately from petty cash funds has been implemented. Also, last year’s recommendation regarding the purchase of office supplies through the corporate contracted supplier rather than petty cash has been actioned. There was no evidence of office supply purchases through petty cash during the current year review.

During Internal Audit’s testing, it was noted that six (6) receipts totalling $61.68 from the 2010 calendar year were still awaiting replenishment. These prior year receipts represented 39% of the total value of receipts in the petty cash box. Lack of timely replenishment indicates that the imprest balance is too large in this section. Also, three (3) petty cash vouchers were not authorized.

*It is recommended:*
*That the Chief Accountant instruct all petty cash custodians to file a replenishment request at the end of the calendar year to ensure petty cash expenses are captured in the correct accounting period.*

*Management Response:*
*Agreed. Effective December 1st of each year, all Petty Cash custodians will be reminded through an e-mail to complete a Petty Cash reimbursement effective December 31st to ensure expenses are captured in the correct accounting period.*
It is recommended:
That the Chief Accountant reduce the petty cash float balance for this section.

Management Response:
Agreed. This recommendation has been implemented since the completion of the audit fieldwork.

It is recommended:
That the Chief Accountant remind the Court Services custodian that vouchers must be authorized before expenses are reimbursed from petty cash.

Management Response:
Agreed. This recommendation has been implemented since the completion of the audit fieldwork.
1) REVIEW OF RESERVE ACCOUNT

Internal Audit performed a review of the Hamilton Police Reserve Account for the period April 1, 2010 to March 31, 2011. 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 Police Services Act states that the Board may use auction proceeds for any purpose that it considers in the public interest. During testing, it was noted that the Hamilton Police Service (HPS) Board did not approve all reserve account expenditures. Many disbursements were approved by the Chief or other reserve account signing authority and were not reported in the Board minutes. In addition, four (4) expenditures approved by the Board incurred actual costs different than those approved by the Board.

*It is recommended:*
*That the Board consider delegating spending authority to the signing authorities of the Reserve Account.*

*Management Response:*
*Agreed. The Chief of Police will exercise commitment authority up to a maximum of $1,000.00 – the Executive Officer to the Chief will exercise spending authority.*

*It is recommended:*
*That management present an annual report to the Board detailing all reserve account activities.*

*Management Response:*
*Agreed. In February of each year, the Executive Officer to the Chief of Police will report to the Police Services Board, the previous year's expenditures.*

2) RECORDS

The review of the Records section focused on the following: access security to the Point-of-Sale (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; the validity of voided and cancelled transactions; and the storage of credit card information and compliance with Payment Card Industry (PCI) Data Security Standards (DSS).
The current closing process does not adequately safeguard the funds collected during the day from misappropriation. The lack of a segregation of duties on the part of the Supervisor on duty allows him/her to take control of the cash, check the voids and refunds as well as process a void or refund transaction at the end of the day before resetting the POS system for the next day. Before closing the system, the Supervisor also has the ability to reprint system reports that have been generated for balancing purposes by the Cashier. No further oversight or independent review occurs.

It is recommended:
That an independent third party (e.g. Records Manager) review the POS transactions reported at the end of the day to ensure those processed by the Supervisor are reasonable and supportable.

Management Response:
Agreed. This process has been implemented and is complete. The Records Manager reviews daily POS activity reports and signs off.

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 overall amount of receivables, as well as the balance in each aging category, has remained consistent with the prior year. For instance, receivables that are greater than 90 days old as at December 31, 2010 totalled $14,568 as compared to $13,572 at December 31, 2009. Staff should be encouraged to remain diligent in collection efforts and continue to use the collection agency to keep past due receivables to a minimum.

Last year’s recommendation regarding training staff members on the written procedure for closing delinquent accounts has been implemented. The written procedure and instructions for future staff members were incorporated into a training binder.

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 31, 2010, the receivable balance of $11,760.00 was almost all current. The procedures and controls appear satisfactory. No errors or omissions were noted.

5) PAID DUTY FEES
Outstanding receivables greater than thirty (30) days for this section have decreased over the prior year to approximately $8,200.00 (2010 Review – approx. $78,500.00) as a result of transferring Hess Village receivables to the City.
Last year’s recommendation regarding the collection of long overdue accounts from Hess Village establishments has been implemented. The City’s Accounts Receivable section assumed the responsibility to invoice and collect all amounts owing by Hess Village establishments. Also, one bar that was unsuccessful with their special duty appeal remitted payment of approximately $55,100.00 in July 2010 which significantly reduced the receivable balance carried forward from last year.

As noted on each of the last four (4) reports, interest should be charged on outstanding balances greater than thirty (30) days old as per the paid duty contracts. Last year, management had indicated that interest would be assessed on past due receivables from Hess Village establishments once transferred to the City. Although this was accomplished through use of the City’s Accounts Receivable section, management’s response does not address overdue accounts from customers not associated with Hess Village. In the other three (3) 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:
Alternative to be Implemented. The current billing system for Paid Duty Fees does not have the capability of calculating interest on overdue accounts. Therefore, to charge interest on accounts greater than 30 days overdue would require the purchase and installation of a new billing and accounts receivable system or the manual calculation of interest on overdue accounts. To address this recommendation, the Paid Duty section will monitor month-end receivables aging and make collection efforts, as necessary, on outstanding accounts. This process will also provide information useful in assessing the feasibility of purchasing and installing a new billing and accounts receivable section.

As noted on last year’s audit report, required documentation was not completed for Paid Duty events. This observation remains pertinent as current Paid Duty contracts were not completed in entirety (particularly, documenting the contract number and completing “Part C – Staffing”). In 50% of cases tested, the Paid Duty contract was not appropriately approved by the Paid Duty Officer, as required by the form. Also, there were a few instances of incomplete Request for Voluntary Paid Duty forms being included in event packages. These forms are no longer used when processing event requests as the names of assigned officers are written on the Paid Duty contract.

Last year, management indicated that the “Part C – Staffing” section was not completed as this information is captured on the Paid Duty invoice. Although this rationale is valid, the Paid Duty contract remains incomplete. Management also indicated that a file folder system would be used for contracts that require a supervisor signature. Although the file folder system was implemented, approvals are still not obtained or documented adequately.
It is recommended:
That management ensure that all documentation is adequately completed for Paid Duty events and that all Paid Duty events are approved. (Repeat recommendation) With respect to event documentation, management may consider revising the format of the contract to ensure only information pertinent to the current process is captured.

Management Response:
Agreed. The Inspector of Support Services will work with the Special Duty Events Manager to ensure that all documents are completed properly and that all forms are authorized. The process will be reviewed to determine if these small discrepancies can be avoided.

As noted on last year’s audit report, an accounting software system for Paid Duty revenues is not currently being used by HPS. Management had indicated that the Chief Accountant would look into the feasibility of installing an accounting program. This study has not been carried out.

It is recommended:
That management implement a simple accounting software system to automate the tracking of Paid Duty revenues and receivables. This program could also be used to calculate interest on past due receivables. (Repeat recommendation) Alternatively, management could track receivable balances and calculate interest using Excel spreadsheets.

Management Response:
Alternative to be Implemented. The Hamilton Police Service uses an MS-Access system developed internally by the Computer Services Section as a billing system for Paid Duty Fees. This system is not set up with the capabilities of an accounts receivable system. As indicated in the observation, the Service has made successful efforts since the last audit to significantly reduce the balance of outstanding receivables greater than 30 days. To continue with these efforts, as per the Management response for recommendation 5.1, the Paid Duty section will monitor month-end receivables aging for purposes of improving collection efforts and obtaining information to assess the feasibility of purchasing and installing a new billing and accounts receivable system.

6) INVESTIGATIVE SERVICES OPERATING FUND
The review of Investigative Services Division’s (ISD) operating fund covered the period June 5, 2010 to June 21, 2011. The cash on hand was counted and compared to the ledger balance, expenditures were traced to receipts and fund replenishments were confirmed through reports from the Accounts Payable section of the City of Hamilton.
Last year’s recommendation regarding returning all funds to the authorized fund custodian and recording transactions in the ISD ledger immediately upon receipt was not completed. Residual funds were returned to the custodian. However, transactions were not recorded in the ISD ledger. Also, there is no indication that the custodian reviewed or retained the transaction list to ensure the completeness of returned cash. Internal Audit reconciled the amount of funds returned to the opening fund balance and the list of disbursements.

**It is recommended:**

*That the ISD Operating Fund custodian obtain a complete list of transactions which were carried out during his extended absence last year and reconcile disbursements and returned cash to the amount of funds originally distributed. Documentation supporting this review should be retained by the custodian.*

**Management Response:**

*Agreed. Under the current ISD ledger operating functions (an improved ledger is being sought), there is no mechanism to back enter transactions that were made outside the parameters of a completed transaction. However, a sub-ledger was completed to record each transaction outside the ISD Operating Fund in/out transactions which have been reconciled. The original documentation will be moved from the sub-ledger custodian to the ISD Operating Fund Custodian and reviewed as recommended.*

Also, last year’s recommendation regarding appropriate delegation of authority when the ISD Operating Fund custodian is away for an extended period of time was not completed. Management had indicated that a second custodian would be assigned to disburse and record funds in the ISD ledger. This still has not been implemented.

**It is recommended:**

*That a secondary ISD Operating Fund custodian be assigned and trained in the event that the primary ISD Operating Fund custodian is absent for an extended period of time. The secondary custodian should have access to the system which monitors issued funds and issues receipts. (Repeat recommendation)*

**Management Response:**

*Agreed. The ISD Operating Fund Custodian is exploring the feasibility of appointing a secondary or back up custodian* 

The fund custodian has a system to monitor the funds issued. This system uses numbered receipts that are attached to reports requesting cash for various ISD operational requirements. Each receipt must be signed by the officer receiving the funds and the officer disbursing the funds. A second series of pre-numbered receipts is used when the funds are issued to the informant. Two officers must be present when the funds are given to an informant and both sign another pre-numbered receipt. In addition, the informant is required to sign to provide evidence of receipt of funds.
As noted on last year’s audit report, the use of two sets of receipts not cross-referenced to each other creates inefficiencies in searching for an audit trail and filing all pertinent information in one location. Management had indicated that the Inspector of ISD would look in the feasibility of developing a carbon copy form capturing information from both sets of receipts. This feasibility study is still being considered.

The fund custodian has a system to monitor the funds issued. This system uses numbered receipts that are attached to reports requesting cash for various ISD operational requirements. Each receipt must be signed by the officer receiving the funds and the officer disbursing the funds. A second series of pre-numbered receipts is used when the funds are issued to the informant. Two officers must be present when the funds are given to an informant and both sign another pre-numbered receipt. In addition, the informant is required to sign to provide evidence of receipt of funds.

As noted on last year’s audit report, the use of two sets of receipts not cross-referenced to each other creates inefficiencies in searching for an audit trail and filing all pertinent information in one location. Management had indicated that the Inspector of ISD would look in the feasibility of developing a carbon copy form capturing information from both sets of receipts. This feasibility study is still being considered.

It is recommended:

That management consider creating customized receipt pads to accommodate, all on one form, the entire ISD “sign off” process for the receipt of funds and informant signatures, where appropriate. The pads should be carbon forms with enough copies to meet filing requirements. (Repeat recommendation)

Management Response:

Agreed. The Inspector of ISD continues to explore a secure and accountable receipting system that will be improved over existing receipts and still meet the needs of the Operational Funds accountability system.

7) PROCUREMENT CARD USAGE

A review of the September 2010 procurement card (P-card) charges made by all ISD officers and four (4) randomly selected civilian staff and the May 2010, September 2010 and February 2011 P-card charges made by all senior officers was completed. In all cases, the review focused on the appropriateness of expenditures and the corresponding supporting documentation as well as compliance with HPS and City of Hamilton P-card policies.

Supporting Documentation

While the majority of P-card transactions were supported with receipts, there were eight (8) instances where cardholders did not provide any supporting documentation and a further fourteen (14) instances where appropriate vendor receipts (i.e. a Visa payment confirmation slip is not a receipt) were not attached. In one (1) case, the cardholder was able to provide Internal Audit with documentation when requested during the course of the review.
In forty-eight (48) instances tested, cardholders did not clearly indicate the business purpose or nature of the purchase and for fourteen (14) transactions, the names of individuals partaking of meals were not indicated on the receipt, as required.

*It is recommended:*
*That all cardholders and supervisors review the P-card policies and be reminded of their responsibilities to provide and ensure purchase receipts clearly indicate item descriptions, the business purposes and individuals partaking of meals. (Repeat recommendation)*

**Management Response:**
Agreed. Cardholders and supervisors will review the P-card policies and be reminded of their responsibilities with the use of P-cards. The results of the Procurement Card audit will be discussed at a Senior Management meeting and the responsibilities of cardholders will be cascaded to all members of the Service who have a corporate credit card.

Use of P-card by Other Than Cardholder
Procurement cards are issued to approved personnel after they have signed agreements agreeing to abide by the City’s and HPS’ policies and procedures for P-cards. In the review of P-card transactions, four (4) instances were noted in which a P-card was used by other than its cardholder. By allowing others to use an employee’s P-card, the cardholder’s accountability is compromised as is particularly evident when the user and then the cardholder fail to submit adequate supporting documentation, contrary to the P-card policies.

*It is recommended:*
*That cardholders be instructed to not share their procurement cards with any other employees.*

**Management Response:**
Agreed. The results of the Procurement Card audit will be discussed at a Senior Management meeting and the responsibilities of cardholders will be cascaded to all members of the Service who have a corporate credit card.

Disallowed Purchases
The City’s Policy for Procurement Cards (section 4.15(5)) disallows the use of P-cards:

(a) When a contract is in effect for the good or service (unless pre-authorized in writing by the Manager of Procurement). The City’s contracts for office supplies, office furniture, computer supplies and toner include references to HPS and thus, six (6) such purchases should have been with the contracted suppliers. However, they were made through P-card purchases at other suppliers and no pre-authorization from Procurement was evident.
(b) For personal purchases of any nature. Four (4) transactions representing personal purchases were identified. In three (3) cases, the cardholders identified the transactions as personal themselves and reimbursed HPS for the charges.

*It is recommended:*

That cardholders be reminded of their obligation to use approved suppliers and abide by the Purchasing Policy for disallowed commodities. (Repeat recommendation)

**Management Response:**

Agreed. Cardholders will be reminded of their obligation to use approved suppliers and abide by the Purchasing Policy. The results of the Procurement Card audit will be discussed at a Senior Management meeting and the responsibilities of cardholders will be cascaded to all members of the Service who have a corporate credit card.

That cardholders be reminded that use of P-cards for personal purchases are not allowed, even with reimbursement.

**Management Response:**

Agreed. Cardholders will be reminded that personal purchases are not allowed. The results of the Procurement Card audit will be discussed at a Senior Management meeting and the responsibilities of cardholders will be cascaded to all members of the Service who have a corporate credit card.

**Tracking Asset Purchases**

As noted on last year’s audit report, assets acquired using P-cards are still not adequately recorded in an Asset Management system by HPS. A simple system is currently in place to track tool purchases in excess of $25 but other capital purchases such as electronics, software and equipment are still not tracked. Without an effective way to track purchased assets, unnecessary purchases may occur which divert budgeted funds from other uses or items purchased could easily disappear after the initial need is satisfied. Management had indicated that the Manager of Fleet, Facilities and Supply would create a system to track all such minor assets.

*It is recommended:*

That management consider a tracking mechanism for all minor assets, especially those bought through P-cards. (Repeat recommendation)

**Management Response:**

Agreed. A simple tracking mechanism was established for fleet and extended to facilities on a moving forward basis. These are the two branches that purchase small assets of significant value and/or quantity. The purchase threshold was increased from $25 to $50 in fleet since too many consumable tools fell into this category. The purchase threshold remains at $25 in facilities.
The Asset listing identifies "Item", "Date Purchased" and "Value". It has been expanded to include "Date and Reason of Disposal" to reflect the fact that some items become non-functional because of wear, damage or age.

The fleet and facilities branches are the two branches that routinely purchase small assets. The system now includes all assets purchased with P Cards dating back to January 2010. It is updated as the P-Card statements are reviewed with staff. This system could easily be made available to other commanders to assist in asset tracking if required.

Account, Department ID and GST/HST Allocations
Default account and department ID numbers are assigned to each cardholder. If the cardholder does not inform the Chief Accountant of changes, the P-card expenditure is allocated to the default accounts. Based on the account allocations and notes appearing on the P-card statement, fifty-five (55) transactions were identified for which the account and/or department ID allocations were not reasonable. As a result, financial information used to make operational decisions may be distorted.

The GST/HST allocations appearing on a cardholder’s P-card statement are automatically calculated by the P-card provider based on the total receipt amount. However, some charges such as tips, books and hotel taxes imbedded in the total receipt amount are GST/HST exempt. If the cardholder does not inform the Chief Accountant of adjustments, the sales tax allocation and, ultimately, the City’s remittance to/recovery from the government will be incorrect. Internal Audit identified thirty-five (35) transactions for which the GST/HST allocation was incorrect and a further twenty-eight (28) transactions for which the GST/HST allocation could not be properly determined based on the attached receipts.

It is recommended:
That management remind cardholders and supervisors reviewing P-card statements to be diligent in revising account, department ID and sales tax allocations and communicating these revisions to the Chief Accountant.

Management Response:
Agreed. Cardholders and Supervisors reviewing P-Card statements will be reminded to review account distribution and sales tax allocations and to inform Finance Services if a journal entry is required to make a correction.

That the Chief Accountant’s Office designate a Department Card Co-ordinator who reviews statements for accuracy and compliance with HPS’ General Purchasing Policy. Incomplete statements should be returned to the cardholders.
Management Response:
Disagreed. Currently, each Division is responsible for reviewing and filing its respective cardholder statements and receipts. To assign one staff member to perform these duties on a Service-wide basis would require that a new position be established for this purpose since there is no available capacity within any one position at this time. Accordingly, it is recommended that each Division continue to be responsible for reviewing and filing its respective credit card statements.

Revised P-card Procedures
The City revised its Procurement Card Processing Procedures on March 2, 2011. However, the City Treasurer did not inform HPS of the revisions. As a result, Internal Audit did not assess HPS on any revised procedures as part of this year’s review.

It is recommended:
That the Chief Accountant review the revised Procurement Card Processing Procedures and implement any required changes. This document should be distributed or made available to all individuals involved in the P-card process.

Management Response:
Agreed. Finance Services will review the revised Procurement Card Processing Procedures and will advise all cardholders of changes to the process.

By-Pass of Pre-Determined Single Transaction Limit
In the review of P-card usage, one (1) instance was noted in which two (2) different cardholders “split” the amount of the purchase to by-pass the single transaction limit on one of the cardholder's card. This is contrary to HPS' General Purchasing Policy (A.1,4). Single transaction limits should not be circumvented as they are implemented to limit spending on procurement cards.

It is recommended:
That cardholders be reminded of their single transaction limits to ensure adherence to the set amounts and discourage “splitting” single purchase amounts in order to circumvent such limits.

Management Response:
Agreed. This recommendation has been implemented since the completion of the audit fieldwork. The results of the Procurement Card audit will be discussed at a Senior Management meeting and the responsibilities of cardholders will be cascaded to all members of the Service who have a corporate credit card.

8) PETTY CASH
Internal Audit carried out a review of six (6) selected petty cash accounts. The review involved comparing the sums of cash on hand and any receipts to the imprest balances. It was also ensured that the expenditures were supported by proper receipts and vouchers.
As noted on last year’s audit report, the following overages were reported because the actual petty cash balances (cash on hand plus receipts) exceeded the petty cash imprest balances: Finance - $4.04, Division 3 – Mountain Station - $11.28 and Investigative Services Division - $18.33. Management had indicated that the Chief Accountant advised all petty cash custodians of this issue and instructed them to turn in the excess cash. The Chief Accountant could not provide Internal Audit with documentation (i.e. journal entry, bank deposit slip) to confirm that the above overages were returned and deposited in the City’s account.

*It is recommended:*
*That all excess petty cash be turned over to Accounting for deposit and journalization in the general ledger. (Repeat recommendation)*

*Management Response:*
*Agreed. This recommendation has been implemented since the completion of the audit fieldwork.*

8.1. Police Services Board

The actual petty cash (cash on hand plus receipts) in this section was short of the imprest balance of $400.00 by $0.70.

Last year’s recommendation regarding the use of petty cash vouchers has been implemented.

During testing, it was noted that fifteen (15) receipts totalling $238.56 from the 2009-2010 calendar years were still awaiting replenishment. These prior years’ receipts represented 81% of the total value of receipts in the petty cash box. Lack of timely replenishment indicates that the imprest balance may be too large for this section.

*It is recommended:*
*That the Chief Accountant instruct all petty cash custodians to file a replenishment request at the end of the calendar year to ensure petty cash expenses are captured in the correct accounting period.*

*Management Response:*
*Agreed. Effective December 1st of each year, all Petty Cash custodians will be reminded through an e-mail to complete a Petty Cash reimbursement effective December 31st to ensure expenses are captured in the correct accounting period.*

*It is recommended:*
*That the Chief Accountant reduce the petty cash float balance for this section.*

*Management Response:*
*Agreed. The Police Services Board petty cash custodian has been advised that the petty cash float balance should be reduced and will determine the appropriate balance of the float and return the excess for deposit.*
8.2. Division 2 - East End Station

The actual petty cash (cash on hand plus receipts) in this section amounted to $600.00 and was equal to the imprest balance of $600.00.

Contrary to HPS' General Purchasing Policy (part A.3(a)(2a)), it was noted during testing that the custodian provides funds to individuals up front in order to purchase items and there is no formal system to track these cash advances. Reimbursements should be made from petty cash only when an authorized slip and receipt are submitted.

*It is recommended:*

*That the Chief Accountant instruct all custodians that petty cash is used to reimburse expenditures and cash should not be distributed in advance of purchases.*

*Management Response:*

*Agreed. This recommendation has been implemented since the completion of the audit fieldwork.*

8.3. Division 1 - Central Escorts

The actual petty cash (cash on hand plus receipts) in this section amounted to $300.00 and was equal to the imprest balance of $300.00.

Similar to that described above for Division 2 - East End Station, it was noted during testing that the custodian provides funds to individuals up front in order to purchase items.

*It is recommended:*

*That the Chief Accountant instruct all custodians that petty cash is used to reimburse expenditures and cash should not be distributed in advance of purchases.*

*Management Response:*

*Agreed. This recommendation has been implemented since the completion of the audit fieldwork.*

Contrary to HPS’ General Purchasing Policy (part A.3(a)(2a)), petty cash vouchers were not used for the Division 1 - Central Escorts petty cash fund.

*It is recommended:*

*That petty cash vouchers be used by the Division 1 - Central Escorts custodian.*

*Management Response:*

*Agreed. Division 1 - Central Escorts petty cash custodian has been advised of the responsibility to use the petty cash vouchers to support each petty cash transaction.*
8.4. Supply Services

The actual petty cash (cash on hand plus receipts) in this section amounted to $350.00 and was equal to the imprest balance of $350.00.

Petty cash vouchers were not used for the Supply Services petty cash fund. This is contrary to HPS’ General Purchasing Policy (part A.3(a)(2a)).

It is recommended:
That petty cash vouchers be used by the Supply Services petty cash custodian.

Management Response:
Agreed. The Supply Services Section petty cash custodian has been advised of the responsibility to use the petty cash vouchers to support each petty cash transaction.

8.5. Fleet Services

The actual petty cash (cash on hand plus receipts) in this section amounted to $300.00 and was equal to the imprest balance of $300.00.

8.6. Court Services

The actual petty cash (cash on hand plus receipts) in this section was short of the imprest balance of $400.00 by $3.88.

Last year’s recommendation regarding the storage of other funds separately from petty cash funds has been implemented. Also, last year’s recommendation regarding the purchase of office supplies through the corporate contracted supplier rather than petty cash has been actioned. There was no evidence of office supply purchases through petty cash during the current year review.

During Internal Audit’s testing, it was noted that six (6) receipts totalling $61.68 from the 2010 calendar year were still awaiting replenishment. These prior year receipts represented 39% of the total value of receipts in the petty cash box. Lack of timely replenishment indicates that the imprest balance is too large in this section. Also, three (3) petty cash vouchers were not authorized.

It is recommended:
That the Chief Accountant instruct all petty cash custodians to file a replenishment request at the end of the calendar year to ensure petty cash expenses are captured in the correct accounting period.

Management Response:
Agreed. Effective December 1st of each year, all Petty Cash custodians will be reminded through an e-mail to complete a Petty Cash reimbursement effective December 31st to ensure expenses are captured in the correct accounting period.
It is recommended:
That the Chief Accountant reduce the petty cash float balance for this section.

Management Response:
Agreed. This recommendation has been implemented since the completion of the audit fieldwork.

It is recommended:
That the Chief Accountant remind the Court Services custodian that vouchers must be authorized before expenses are reimbursed from petty cash.

Management Response:
Agreed. This recommendation has been implemented since the completion of the audit fieldwork.