SUBJECT: Audit Report 2007-02 – Police Service Accounts and Revenue Processes (CM07033) (City Wide)

RECOMMENDATION:

That Report CM07033 respecting Audit Report 2007-02, Police Service Accounts and Revenue Processes, be received.

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City Manager's Office

EXECUTIVE SUMMARY:

The 2007 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 requested annually for an independent verification of the Department’s controls and procedures. The audit resulted in the issuance of an audit report containing observations and recommendations. Management action plans have been provided by the HPS. The report is attached as Appendix “A”.

BACKGROUND:

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 fees, false alarm fees, tow fees, various petty cash and operating fund accounts, processes used in the Records Section as well as procurement card usage. The fieldwork was completed in February 2007. The report was received by the Police Services Board on July 30, 2007.

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:

The HPS collects fees for services – paid duty, false alarms, towing, accident reports and clearance fees. Such fees total approximately $2.58 million (2006) a year. As such transactions represent the 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.

The main areas identified for improvement were: more aggressive collection methods for paid duty fees (interest charges, utilization of collection agency) and towing fees (suspension or non-renewal); depositing of all monies collected intact (Records); and enforcing by-law requirement for suspension of service for premises with four false alarms.

In addition, there are other funds such as petty cash used to cover operating expenditures. These funds were counted and resulting amounts compared to ledger/bank balances. Expenditures were traced to invoices or receipts. Differences were reported.

Several officers are provided with procurement cards for operational expenses. Cardholders were selected for review which concentrated on the appropriateness of the expenditures, corresponding supporting documentation and compliance with City and HPS card policies. The recommendations made included: proper approval of monthly statements; adequate supporting documentation for all card purchases; and adherence to restrictions placed on transactions (i.e. transaction limit of $1,000).

HPS management has taken action on the items reported, as approved by the Police Services Board. The action plans will be followed up at the next annual audit.

ALTERNATIVES FOR CONSIDERATION:

Not applicable.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

Financial
None.

Staffing
None.

Legal
None.

POLICIES AFFECTING PROPOSAL:

City of Hamilton and HPS procurement card policies.
False Alarm By-law.
Hamilton Police Service Records Retention Policy.
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.

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

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Attachment
1) REVIEW OF RESERVE ACCOUNT
Internal Audit performed a review of the Hamilton Police Reserve Account (under custodian Nadia Urciuoli) for the period March 23, 2006 to February 12, 2007. 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) INVESTIGATIVE SERVICES OPERATING FUND
On February 12, 2007, Internal Audit reviewed the operating fund for Investigative Services Division (ISD) for the period March 22, 2006 to February 13, 2007. The review included the counting of cash on hand and comparing it to the ledger balance, reviewing the ledger, tracing expenditures to invoices, receipts or other supporting documents and confirming fund replenishments with reports from the Accounts Payable division of the City of Hamilton. All fund replenishments were corroborated by reports from Accounts Payable.

The counted cash on hand exceeded the ledger balance by $0.96.

3) PAID DUTY FEES
The paid duty contract requires event organizers to make payment within 30 days of completing an event. However, several cases were noted where invoices remained unpaid beyond the stipulated 30 day period.

As at February 22, 2007, $38,949.43 had not been paid, all of which was overdue (i.e. greater than 30 days old). There has been an increase in the total balance owing since the last audit ($38,950 at February 22, 2007; $11,799 at March 15, 2006). Despite repeated staff efforts to collect long overdue amounts, approximately $15,000 is outstanding from October, 2006 or earlier. Subsequent to the completion of the audit fieldwork, a sizeable portion of this amount ($16,095) owing by one customer was paid. However, staff have indicated that $2,600 will remain uncollectible.

**It is recommended that:**
Organizers requesting paid duty contracts be required to pay all balances overdue by 60 days or more before the current event is scheduled.

**Management Response:**
Agreed. Effective July 1, 2007 a new internal procedure will be implemented whereby an organizer whose outstanding balance is greater than 60 days old will not be able to schedule a current paid duty until the outstanding balance is paid.

Management charge interest on overdue accounts as indicated on the paid duty contracts.

**Management Response:**
Agreed. Effective June 1, 2007, interest will be charged on outstanding balances greater than 30 days old.

**Accounts that disregard overdue notices be sent to a collection agency.**

**Management Response:**
Agreed. A Board Report was presented to the Hamilton Police Services Board at the September Board meeting requesting that overdue accounts be sent to a collection agency. That agency would be the same one as used by the False Alarm Program.
4) FALSE ALARM FEES
Despite the efforts of the collection agency that helped HPS recover over $30,720 and the collection efforts of staff, the unpaid balance in false alarm fines has increased. As of March 7, 2007, unpaid balances totaled $209,982 compared to $145,903 on March 17, 2006 (a 44% increase). Further, the unpaid balance over 90 days old has also increased, from $92,974 on March 17, 2006 to $115,101 on March 7, 2007.

As per a recommendation noted in last year’s review, the section has begun to suspend premises for failing to pay outstanding invoices or for having had four (4) false alarms. However, only 13 of 233 potential properties that have not paid their outstanding invoices in 2006 were suspended. An additional 23 properties out of a potential 152 that had incurred four (4) false alarms were also suspended. While this is an improvement over 2005 when suspensions were not carried out at all, the majority of properties that should have been suspended were actually not.

Failure to suspend premises as provided for in the by-law results in a sub-optimal use of officer and administration staff’s time as well as providing no incentive to pay false alarm fines.

It is recommended that:
Management step up the enforcement of the by-law requirement that obligates the false alarm unit to suspend premises that have had four (4) false alarms and allows for suspension of premises for non-payment of invoices.

Management Response:
Agreed. Effective May 1, 2007, where a premise has four (4) false alarms, that premise shall be suspended as outlined in the False Alarm By-law. Furthermore, where a premise is invoiced for services and there is a non-payment of an invoice for those services, that premise shall be suspended until the outstanding invoice is paid.

5) PROCUREMENT CARD USAGE
A review of November, 2006 procurement card charges made by all ISD officers, three (3) senior officers and four (4) non officer staff selected at random and all cardholders in departments where petty cash was counted (see section 6 below) 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.

5.1 Approval of Expenditures and Filing of Supporting Information
Several Instances were noted in which the "Cardholder Activity" statements were not signed by the cardholders’ Command Officer as required at the bottom of these statements and as evidence of supervisory review required as per HPS' General Purchasing Procedure for procurement cards (section A.3 c., point 9).

It is recommended that:
Cardholders be reminded of their responsibility regarding the approval of monthly statements as contained in the Procurement Card Agreement Forms and the Procurement Card Policies.

Management Response:
Agreed. A directive was sent to all managers as a reminder of their responsibility to monitor use, confirm expenditures and maintain proper records according to the Hamilton Police Service (HPS) Records Retention Policy.
5.2 Supporting Documentation
While the majority of transactions tested had supporting documentation, there were still some instances where purchases were not supported by vendors' receipts or invoices. This is in contravention of HPS' General Purchasing Procedure for procurement cards. In some cases, supporting documentation was not on file with the procurement card statement as it had been sent to Accounts Payable attached to the travel advance request.

It is recommended that:
Cardholders be reminded of their responsibilities in regard to provide supporting documentation for all procurement card purchases. Regarding travel, copies of documentation should be retained with the cardholder activity statement regardless of whether documentation must be sent elsewhere with travel expenses. When purchasing meals, the documentation should include detailed receipt(s), the nature of the expenditure(s), and the name of any person(s) for which a meal was purchased. Supervisors must ensure that staff statements are submitted for review and approval on a monthly basis and that procurement card usage is in compliance in all respects with HPS Procurement Card Policy.

Management Response:
Agreed. See comment under 5.1.

5.3 Bypass of Pre-determined Single Transaction Limit
In the review of procurement card usage, it was noted that in four (4) instances, two (2) different cardholders “split” the amount of their purchases to bypass the single transaction limit of $1,000. This practice is contrary to HPS’ General Purchase Procedure (section A.1, 4).

It is recommended that:
Cardholders be reminded of the purchasing policy procedures in place that govern the proper use of procurement cards. Single transaction limits should not be circumvented as they are meant to limit individual spending on the procurement cards. If larger single transaction limits are required by the nature of the cardholder's activities, a formal request should be made to the Chief Accountant.

Management Response:
Agreed. See comment under 5.1

6) PETTY CASH
Internal Audit carried out a review of eight petty cash accounts. For the selected accounts, the review involved comparing the sum of the cash on hand and any receipts to the balances indicated in the records provided by the HPS' Chief Accountant. It was also ensured that expenditures were supported by proper receipts.

6.1 Court Security
The actual petty cash (cash on hand plus receipts) in this section was $148.09 less than the imprest balance of $400. Receipts on hand ($150) had been accumulated over the last 5-6 months. The cause of the shortage could not be established as this imprest balance has not been correctly reconciled since before December 2005 and has gone through several custodians.

The current custodian was not aware of the imprest amount and claimed that the balance on hand when he assumed responsibility was $71.09.
It is recommended that:
Management replenish the petty cash to an appropriate imprest balance (based on level and value of transactions and frequency of replenishment). The custodian should be properly instructed as to how to account for petty cash funds.

Management Response:
Agreed. A historical review took place and a report was submitted to identify the shortfall which was due to reimbursement payments from the Attorney General for Out of Town Escorts not being returned to this petty cash fund from which the expenses had been paid but deposited in the General Accounts. The funds owing were returned to the petty cash fund on April 28, 2007 and the imprest balance replenished to $400, an amount determined sufficient to support the usage by members of the Court Security Branch.
On May 1, 2007, a custodian for this petty cash fund was identified and trained. Protocol now requires the Inspector of Court Services to review the account on a monthly basis.

6.2 Mountain Station
The actual petty cash (cash on hand plus receipts) in this section exceeded the imprest balance of $400 by $11.74.

There were also instances of reimbursements (typically $5.00 per week) to the petty cash custodian for payment into a coffee fund run by another staff person at the station. Payments were meant to cover the purchasing of cans of coffee. These amounts were not supported by receipts.

It is recommended that:
All disbursements from petty cash be supported by receipts or other appropriate documentation.

Management Response:
Agreed. A directive has been sent to the Station 30 (Mountain) Commanders to ensure all disbursements are supported by receipts.

6.3 East End Station
The actual petty cash (cash on hand plus receipts) in this section exceeded the imprest balance of $600 by $10.27.

6.4 Finance - Administration
The actual petty cash (cash on hand plus receipts) in this section exceeded the imprest balance of $2,500 by $0.24.

6.5 Central/Escorts
The actual petty cash (cash on hand plus receipts) in this section exceeded the imprest balance of $300 by $0.30.

6.6 Investigative Services Division
The actual petty cash (cash on hand plus receipts) in this section exceeded the imprest balance of $400 by $1.47.

6.7 Fleet
The actual petty cash (cash on hand plus receipts) in this section agreed to the imprest balance of $300.
6.8 Police Services Board
The actual petty cash (cash on hand plus receipts) in this section agreed to the imprest balance of $400.

7) TOW FEES
The Aging Summary Report for tow fees as of January 9, 2007 indicates outstanding receivable amounts of $47,475 of which over 25% is greater than 90 days past due. These latter receivables are attributable to five (5) towing companies which are habitually late (some are more than six (6) months behind in payments) and have tried to pass NSF cheques. There is increased likelihood that some of these funds may be uncollectible.

It is recommended that:
Management closely monitor the amounts owed by the five (5) habitually non-paying towing companies and give consideration to collecting the funds via a collection agency and/or not renewing their contracts when they come due for renewal. In addition, no further tow referrals until accounts are brought up to date may be contemplated if within the terms of the current contract.
Management Response:
Agreed. Companies that are past due more than 30 days are sent letters requesting payment within seven (7) days as per the contract or they are suspended. Since the audit, the Tow Co-ordinator has been closely monitoring the companies, resulting in 23 letters being sent and one (1) suspension. This action has resulted in companies being more diligent in paying their fees.

8) RECORDS SECTION
In reviewing the balancing process of funds collected as per the Point of Sale (POS) records and the actual deposits, a situation of apparent overage in the amount to be deposited was noted. As per instructions received by staff, this overage was placed in the safe and only funds that agreed with the POS report were deposited. Upon discovering the use of the wrong report, the funds were removed from the safe and deposited over a week later. This situation indicates that monies collected are not deposited in tact but are adjusted up or down to agree with the records with overages put away in the safe and shortages topped up when required. This is not a good practice as shortages due to misappropriation or theft can simply be covered by the excess funds available without being detected and investigated.

It is recommended:
That all monies collected be deposited in tact on the next business day, regardless if there is a difference with the records. Situations where there are shortages/overages should be investigated.
Management Response:
Agreed. On March 26, 2007, the over/short money balance was deposited in the HPS miscellaneous income account. In implementing a new internal procedure on March 26, 2007, a "Supervisors' Over/Short Account" was set up in the Point of Sale (POS) system to log any money identified as either over or short for the day. This allows an immediate audit of any discrepancy. As part of their required duties, the Records Supervisors review and report on POS transactions and discrepancies regularly. Further, another new process ensures that the customer signs the HPS copy of the receipt if cash is paid and change is owed. These receipts are referred to in investigating cash discrepancies.
Since the start of these new processes, there have been no over or short discrepancies in cash.
From time to time during internal audits, issues are identified which have little or no control impact but, instead, related to the efficiency, effectiveness and economic aspects of the operation. The following items are brought to the attention of management for consideration.

1. **False Alarms**
   1.1 **Receivables**
   Since some of the outstanding receivables date back to 2002, and many of the property owners that are delinquent in their payments have moved away, it may not be possible to recover such payments. The Cry Wolf system continues to reflect such old amounts as receivables. The system should reflect amounts that one realistically expects will be realized.

   It is recommended that:
   A process be put in place that would periodically and regularly review outstanding amounts on the Cry Wolf system and delete those that are unlikely to be collected due to their aging or circumstances.

   **Management Response:**
   Agreed. A review is being conducted by the Commander of Support Services with the objective that delinquent accounts, where no reasonable expectation of collection exists, will be cleared from the system.

1.2 **Issuing Prospective Clients an Invoice Without a Request for Service**

   In an effort to increase the number of registrations as of December 1, 2006, the Alarm Program Administrator began to issue an invoice together with the registration form to prospective registrants. Over half of the invoices (which need to be printed, stuffed and mailed) are discarded by the property owner and are not paid. This practice results in overstating receivables and revenue in the Cry Wolf System at any given time as the system has recorded revenue for a service that, in fact, the customer has not requested. The process is also inefficient as the Administrator has to reverse these unpaid, unsolicited registration billings out of the system every 60 days from the date that the invoices were issued (since there is a 60 day deadline for a prospective registrant to reply).

   It is recommended that:
   **Staff discontinue the practice of issuing unsolicited registration invoices.**

   **Management Response:**
   Alternative being considered. The above process has been examined in the past but more effective or efficient business practices could not be identified. Nonetheless, a review of best practices to improve the system will be conducted by the Commander.