SUBJECT: Audit Report 2006-04 – Homes for the Aged – Resident Fees and Trust Funds (CM07008) (City Wide)

RECOMMENDATION:

(a) That Report CM07008 respecting Audit Report 2006-04, Homes for the Aged – Resident Fees and Trust Funds, be received; and

(b) That the management actions plans as detailed in Appendix “A” of Report CM07008 be approved and the General Manager of Community Services or the General Manager of Finance and Corporate Services direct the appropriate staff to have the corresponding plans under their authority implemented.

EXECUTIVE SUMMARY:

The 2006 Internal Audit work plan approved a review of the Homes for the Aged – Resident Fees and Trust Funds. The results of the audit are included in a formal audit report containing observations, recommendations and management responses, attached as Appendix “A” of Report CM07008.
BACKGROUND:

The City owns and operates two (2) homes for the aged (Macassa and Wentworth Lodges) that provide long-term care to over 400 residents. In 2005, the City received over $8 million in user fees, mainly toward accommodation. Also under this function is the responsibility for the administration of funds held on behalf of the residents through the establishment of resident trust funds.

The audit work commenced in the early fall and was completed in December, 2006. The audit determined whether adequate controls were in place to ensure completeness and accuracy of occupancy data (fees are based on occupancy) and related revenues to the City were properly accounted for. In addition, the effectiveness of administration of residents’ trust funds was assessed.

The Audit and Administration Committee receives and approves final audit reports and reviews as part of its responsibilities for the oversight of governance and control.

ANALYSIS/RATIONALE:

The audit resulted in the issuance of a formal audit report containing observations, recommendations and management responses, attached as Appendix “A” of Report CM07008.

The main areas for improvement noted in the audit report include:

- updated financial procedures;
- supervisory/management review of calculations (i.e. reduction in accommodation fees); rates (i.e. optional service charges); reconciliations (Accounts Receivable); and reports (A/R Aging);
- provision of supporting documentation (i.e. changes to resident accommodation fees; documentation for issuance of cheques; optional service charges support; and Accounts Receivable reconciliation);
- appropriate follow up of reconciliations (i.e. cash account in Trust Fund Accounting System (TFAS); and Accounts Receivable);
- security and safeguarding of cash and trust funds (i.e. locked cash boxes; access to imprest funds on hand; unique user access to TFAS; signatures on deposit slips; and cheques restrictively endorsed upon receipt); and
- compliance with Ministry policy to charge bed-holding and accommodation fees on admission.

Management and staff have already taken action or have agreed to take measures in the near future in order to implement all of the eighteen (18) recommendations. Specific action plans can be found in the attached audit report.
ALTERNATIVES FOR CONSIDERATION:

Not applicable.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

Financial
The charging of bed-holding and accommodation fees on admission (as per the policy of the Ministry of Health and Long-Term Care (MOHLTC) will result in additional revenues.

Staffing
None.

Legal
None.

POLICIES AFFECTING PROPOSAL:

Policies of the City’s Accounts Receivable section will be reviewed and adjusted, where necessary, to meet the needs of the homes. Further, policies of the Ministry of Health and Long-Term Care (MOHLTC) regarding bed-holding and accommodation fees on admission will be reviewed and implemented accordingly.

RELEVANT CONSULTATION:

The attached report includes management action plans which reflect the responses of management and staff responsible for the administration and operation of the City’s two homes for the aged (i.e. Macassa & Wentworth Lodges in the Community Services Department and Finance and Administration in the Corporate Services Department).

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
Council’s goal of “A Great City in Which to Live” and its commitment to providing quality community services and supporting people in need are upheld by the provision of services through the area audited and reported upon above.

Environmental Well-Being is enhanced. ☐ Yes ☑ No
CITY STRATEGIC COMMITMENT: (Continued)

Economic Well-Being is enhanced. ☑ Yes ☐ No

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

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

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

:dt
Attachment
### Observations of Existing System

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<th>#</th>
<th>Rate Reduction Calculation</th>
<th>Recommendation for Strengthening System</th>
<th>Management Action Plan</th>
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<td>1.</td>
<td>According to the Ministry of Health and Long-Term Care (MOHLTC), those residents in basic accommodation with an annual income below a certain threshold may be eligible for a rate reduction. The annual income is determined by the resident’s most recent Notice of Assessment (NOA). An “Application for Reduction in Long-Term Care Home Accommodation Fees” needs to be completed and the calculation is done manually by the Business Office Supervisor (BOS) or one of the Business Office Clerks (BOC). The rate calculated is effective immediately. No approval from the MOHLTC is necessary. The rate is reviewed and recalculated annually based on guidelines from the MOHLTC and the resident’s updated NOA. At the time of the audit, the calculation was either done by the BOS or the BOC without a supervisory review in place. Hence, there is risk that the reduced rates may not have been calculated correctly.</td>
<td>That the calculation of rate reduction be done by the BOC and reviewed by the BOS to ensure accuracy. Evidence of review should be noted on the Application.</td>
<td>Agreed. The BOC will complete the Application for Reduction in Long-Term Care (LTC) Home Accommodation Fees and forward it to the BOS for verification. This was implemented in December 2006.</td>
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<p>| 2. | A copy of the Summary is forwarded to the Accounts Receivable (A/R) Clerk at Macassa or the Financial Assistant I (FA1) at Wentworth (both referred to as “A/R Clerk” in this report) at month end. It is the A/R Clerk’s responsibility to update the residents’ records in the Trust Fund Accounting System (TFAS) based on the Summary. For admissions, discharges or deaths, the A/R Clerk ensures the accuracy and completeness by checking against the Memorandums for admissions, discharges or deaths, which were received throughout the month. For residents whose rates were reduced or who were transferred to a different type of accommodation in the month, the A/R Clerk depends solely on the information provided by the Summary as the A/R Clerk does not receive any supporting documentation from the BOS. Without supporting documentation, the A/R Clerk cannot ensure the information regarding the transfers or rate reductions is accurate. If the information from the Summary is not accurate or complete, the amount billed to residents will also be wrong. | That a copy of supporting documents pertaining to residents who transferred to a different type of accommodation or whose rates were changed during the month be attached to the Resident Accommodation Summary when it is forwarded to the A/R Clerk at the end of each month. | Agreed. The BOS will provide the supporting documentation required regarding any change(s) to resident accommodation fees with the monthly Resident Accommodation Summary to the A/R Clerk/FA1. This was implemented in December 2006. |</p>
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<td>3.</td>
<td><strong>Reconciliation by BOS</strong>&lt;br&gt;At the end of each month, the BOS reconciles the cheques and cash on hand to the cash account in the Trust Fund Accounting System (TFAS). She also reconciles the Float Cash account in the TFAS to the bank statement. It was noted that some reconciling items had been outstanding for several months. It makes it difficult to identify current period errors or unusual transactions. Such long outstanding items also make the reconciliation process in the following periods more confusing and cumbersome.</td>
<td>That reconciling items be followed up on a more timely basis (i.e. the month following the original set up).</td>
<td>Agreed. The BOS will ensure that reconciling items are followed up within one month of the original set up. This was implemented in January 2007.</td>
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<td>4.</td>
<td><strong>Cheques Signing Process</strong>&lt;br&gt;During the review of the May 2006 reconciliations prepared by the BOS, it was noted that most reconciling items related to the correction of errors. For example, a cheque was issued from a wrong bank account or a transaction was charged to a wrong account in the TFAS. Further discussions have revealed that although all cheques need to be signed by two of the four signing authorities at each home, most cheques are initiated by the BOS and then forwarded to a second signing authority. Supporting documents are normally not attached. As a result, the second cheque signer may not be in the position to detect any errors.</td>
<td>That supporting documentation be attached when a cheque is forwarded for a second signature. Both signing authorities should review the supporting documentation to ensure that the transaction has been recorded in the correct account in the TFAS and that the cheque has been issued from the proper bank account. The supporting documentation package should be clearly marked with the corresponding cheque number, date and amount before being filed by the BOS.</td>
<td>Agreed. The BOS will attach supporting documentation when submitting a cheque for signature. The supporting documentation will be stamped by the BOS for date and signature by the 2nd signing officer. The cheque number will be recorded on the batch and the batch number will be recorded on the cheque stub. This was implemented in December 2006.</td>
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<td>5.</td>
<td><strong>Cash Handling</strong>&lt;br&gt;There are two BOC’s at each home who deal with the residents’ deposits and withdrawals. The BOS is normally not involved unless it is an emergency and no BOC is available. The BOS and the BOC’s share one user name and password to log into the TFAS to record transactions. &lt;br&gt;As the level of funds required for transactions varies, each BOC can take cash directly out of the vault without the amount being verified by the BOS or another staff. There is also only one cash box at the front desk in which to keep the cheques and cash received by both BOC’s. &lt;br&gt;A combination of all these factors makes individual employees unaccountable for their own transactions. In recent months, several minor shortages between actual funds on hand as compared to records in the TFAS have been noted. The causes are being investigated but without individual employee controls, it is difficult to determine the responsibility for the shortages. &lt;br&gt;Residents are required to sign the withdrawal slips but not the deposit slips. When residents’ signatures do not appear on deposit slips as verification of monies deposited, there is a risk that the amount entered in the TFAS could be different from the amount actually deposited.</td>
<td>That the BOS and each BOC be assigned a unique user name to log into the TFAS. Each individual would be responsible for safeguarding his/her own password. &lt;br&gt;That each BOC be given a separate locked cash box. All cheques and cash received and all deposit and withdrawal slips generated from the TFAS during the day under a particular BOC would be kept in his/her cash box. At the end of each day, each BOC should balance the cheques and cash received to the slips in his/her cash box. &lt;br&gt;That access to the vault be restricted to the BOS only. The BOC would be required to sign for receipt of the money received from the BOS. The BOS should also ensure the money taken out from the vault is included in the reconciliation at the end of the day. When the BOS is away, the key to the vault should be handed over to another management team member who should take on the same responsibilities as the BOS in these situations. &lt;br&gt;That residents be required to sign the deposit slips to verify the amount deposited in the TFAS.</td>
<td>Agreed. The BOS submitted the request for unique user names through the IT Helpdesk on January 15, 2007. &lt;br&gt;Agreed. Locked cash boxes have been ordered for each BOC. Individual balancing by each BOC was implemented November 2006 at Macassa Lodge and January 2007 at Wentworth Lodge. &lt;br&gt;Agreed. Even though BOC’s at both lodges will continue to have access to the vault due to some of their daily duties, access to the imprest fund (cash on hand) will be restricted to the BOS and the A/R Clerk/FA1. This will be implemented in January 2007. &lt;br&gt;Agreed. When deposits are made in person, the depositor will be requested to sign the deposit slip. If a cheque is received by mail, “by mail” and the cheque number will be indicated on the deposit slip. This was implemented in January 2007.</td>
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<td>6.</td>
<td>Residents are charged for optional services such as hairdressing or barber services. The rates charged are approved by local management at each home and are updated periodically. Currently, the hairdresser or the barber provides a list to the Business Office on a weekly basis indicating residents who have accessed the service and how much is being charged. Residents are not required to sign the list as proof of receipt of service. When the attendance is not verified by the residents, there is a risk that the hairdresser or barber may have billed incorrectly or charged for services not rendered. A BOC charges residents’ accounts in the TFAS based on the list prepared by the hairdresser or barber. However, the BOC does not check the batch summary from the TFAS to ensure that the rates charged agree with the approved rates or that the correct resident account has been charged. Without reviewing the rates and accounts charged, there is a risk that improper rates or incorrect residents’ accounts have been charged.</td>
<td>That the residents or their accompanying caregivers sign an attendance sheet provided by the hairdresser or barber for the services provided. That, before approving the batch in the TFAS, the BOS review the batch summary to ensure rates charged are in agreement with the current approved rates, explanations have been provided for unusual rates and correct residents’ accounts have been charged.</td>
<td>Agreed. The Barber and Hairdresser Charge Form will be amended to include a column entitled “Transported By”. The staff/volunteer will be required to initial the column when the resident attends his/her appointment. It will be implemented in January 2007. Agreed. As an alternate process, the BOC will review the batch to ensure the rates charged are the current approved rates. The BOS will randomly review batch summaries on a monthly basis. Any discrepancies will be reviewed with the vendor and BOS and noted on the charge form. This will be implemented in January 2007.</td>
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<td>7.</td>
<td>Reconciliation by A/R Clerk</td>
<td>That reconciling items be followed up on a monthly basis. Written explanations should be provided for any reconciling items outstanding over two months.</td>
<td>Agreed. This process is currently being done by the A/R Clerk/FA1. The BOS will provide written explanation for reconciling items on the monthly reconciliation submitted to the A/R Clerk/FA1. This was implemented in January 2007.</td>
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<td>That management review the reconciliation on a monthly basis and ensure reconciling items are valid and current. Management should discuss any reconciling items that are outstanding for more than two months with the A/R Clerk to ensure they are followed up in due course.</td>
<td>Agreement. Reconciliations are now provided to the Business Administrator (BA) for review on a monthly basis. The reconciliation and backup will be forwarded to Finance on a quarterly basis. This was implemented in November 2006.</td>
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At the end of each month, the A/R Clerk at each home completes a monthly reconciliation package. At the time of the audit, the package with all supporting documentation was forwarded to the Business Administrator (BA) in charge and the Manager of Finance & Administration on a quarterly basis only. During the review of the June reconciliation of Wentworth Lodge, it was noted that some reconciling items had been outstanding for several months. Also, there were a number of items in the Resident Maintenance Clearing account which should normally clear to a zero balance at the end of each period.

Even though the reconciliation does bear the initials/signatures of management, there is no evidence from the reconciliation or the discussions with the A/R Clerk that would indicate that management had questioned these long outstanding reconciling items or balances. When the reconciliation has not been reviewed by management in a timely manner, the effectiveness of such management review is not achieved.

Monthly reconciliation serves as a tool to identify errors or fraudulent transactions that may have taken place during the current period. With a number of reconciling items outstanding for a lengthy period of time, the effectiveness of the process deteriorates and the risk increases. It may also create additional work for staff attempting to follow up.
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<td>8.</td>
<td>Payment Cheques</td>
<td>That all cheques be restrictively endorsed upon receipt.</td>
<td>Agreed. All cheques received will now be endorsed upon receipt.</td>
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<td>That the A/R Clerk at each home maintain a log to track the cheques received and forwarded. Details should include the resident’s name, cheque number and amount of the cheque.</td>
<td>Agreed. The A/R Clerk/FA1 will record the cheque number and date beside the appropriate resident on the current Accounts Receivable listing for all cheques sent to the cashier at City Hall for processing. These processes were implemented in January 2007.</td>
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<td>Policies and Procedures</td>
<td>That the standard financial procedures be reviewed and updated to reflect changes that have taken place. In the future, the procedures should be reviewed at least annually to ensure they are kept up to date.</td>
<td>Agreed. The current procedures have been reviewed and updated in January 2007. An annual update will be performed to ensure that they remain current.</td>
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When there are no current procedures to refer to, there is a risk that the employee currently doing the job may solely depend on personal memory and understanding. If the current process is incorrect, it may cause errors, hide intentional mistakes or lead to inefficiency. There could be a problem of continuity if the employee terminates with very little notice. Without updated and well-documented procedures, it would be difficult for the successor to commence his/her responsibilities in a short period of time.
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<td>A/R Collection</td>
<td>That a formal A/R collection policy be set up. It should indicate how often the A/R Aging Report should be reviewed, how often the residents with overdue balances should be contacted and what type of overdue balances should be referred to the Collection Co-ordinator in Accounts Receivable or proposed for write-off.</td>
<td>Agreed. The current policies of the City’s A/R section will be reviewed and adjusted, where necessary, to meet the homes’ needs. Documentation and implementation are to follow by February 2007.</td>
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<td>That management at each home review the A/R Aging Report and discuss significant overdue balances with the A/R Clerk on a regular basis.</td>
<td>Agreed. The A/R Clerk will run the Aging Report on a monthly basis and review it with the BOS and the Finance Business Administrator (BA). Any significant overdue balances (if not resolved) will be discussed with the Administrator of each of the Homes to ensure follow up is completed on a timely basis.</td>
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<td>Non-Compliance with Ministry Policies</td>
<td>That the MOHLTC policies regarding bed-holding and accommodation fees on admission be reviewed and followed accordingly.</td>
<td>Agreed. The MOHLTC policies regarding bed-holding and accommodation fees on admission will be reviewed and followed accordingly. It is recognized that there may be extenuating circumstances that may warrant the bed-holding charge not being applied. In these circumstances, the decision to charge/not charge the bed-holding fee will be that of Management and recorded as such with full rationale provided. Implementation is expected for January 2007.</td>
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10. During the audit, it was noted that there were no formal processes and steps in place regarding the collection of outstanding accommodation fees.

The A/R Aging Report is only reviewed by the A/R Clerk on an irregular basis. The homes’ management is not involved in this process.

Consequently, there is a risk that follow up of outstanding accounts is not completed on a timely basis.

11. According to the MOHLTC policies, a 5-day bed-holding period on admission to a long term care facility is available with payment of applicable bed-holding and accommodation fees. This means residents should be charged with applicable accommodation fees starting from the day following the date of notification of availability no matter when they move in. In addition, a bed-holding fee of $53 per day will apply if the residents do not move in within two days following the date of notification of availability. It is noted that neither home is charging bed-holding fees on admission to residents who do not move in within two days following the date of notification. Also, residents do not start paying accommodation fees until the day they move in.

Although there is a subsidy from the MOHLTC for occupancy beyond a certain level, it only covers ward accommodations. There is a risk of lost revenue from residents of private and semi-private rooms who choose not to move in at the time of notification of availability.
ADDENDUM

The following items were noted during the course of the audit. Many do not present internal control deficiencies and some may be the result of limited staff resources. They are indicated in this Addendum so management is aware of the errors/issues and can address them, as necessary.

1. Currently, monthly statements of residents’ trust accounts in the TFAS are only sent to those residents whose balances are in a deficit. For the other residents, account statements are available upon request. There is a risk that the residents who do not receive their statements would tend not to review their account transactions frequently. As a result, any errors or unusual transactions would not be identified on a timely basis.

   It is recommended:
   That accounts statements be sent to residents without arrears on a quarterly basis.

   Management Response:
   Agreed. Currently, residents and/or their Power of Attorney for Finance receive a statement on request. Commencing April 2007 and quarterly thereafter, statements for Personal Trust balances will be forwarded with billings. The BOC will be responsible for printing the statements and forwarding them to the A/R Clerk for mailing.

2. It is the homes’ policy to reconcile the cheques and cash on hand to a daily batch summary from the TFAS, namely the Monthly Balance Sheet, at the end of each day. Currently, the reconciliation is prepared by a BOC or the BOS without a supervisory review in place. Sequence numbers on the deposit and withdrawal slips generated from the TFAS are checked to ensure the completeness of the daily transactions. However, the beginning sequence number on the first deposit or withdrawal slip of the next day is not checked to ensure it is immediately following the ending number from the previous day.

   It is recommended:
   That the reconciliation of the cheques and cash on hand to the Monthly Balance Sheet from the TFAS be completed by the BOC and reviewed by the BOS. Part of the review should include the checking of the beginning sequence number of the deposit/withdrawal slips against the prior period’s ending number.

   Management Response:
   Agreed. The BOC will reconcile the cash box daily. The checking of sequence numbers will be included as part of the daily reconciliation process by the BOC. The BOS will reconcile the Monthly Balance Sheet to the imprest funds, cheques on hand and the BOC cash (boxes) weekly, including beginning sequence numbers.
3. Each home has two bank accounts, a General Cash Account and a Float Cash Account. Both residents’ deposits and cheques for extra service charges go through the Float Cash account. The home’s administration does not have direct access to the General Cash account. For control purposes, it is required that the balance of the Float Cash account be maintained at approximately $25,000. The A/R Clerk at the home is responsible for monitoring the account balance and contacting the Chief Investments Officer to transfer funds to the General Cash account when the balance of the Float Cash account is significantly over $25,000. The last transfer at Macassa was completed in January, 2006. No such transfer has been done at Wentworth in 2006. As of June 30, 2006, the Float Cash account balance at Macassa was approximately $30,000 and the balance at Wentworth was over $50,000.

It is recommended:
That the A/R Clerk review the balance of the Float Cash A/C on a quarterly basis and request a bank transfer if the balance is significantly over the threshold of $25,000.

Management Response:
Agreed. Commencing in 2007, the A/R Clerk/FA1 will review the balance of the Float Cash and request a transfer if the balance is over $25,000.

4. At the month end, interest on residents’ accounts in the TFAS is calculated using the bank’s average monthly rate and credited into the residents’ accounts accordingly. A journal entry is posted in PeopleSoft to record the total interest distributed in a deferred interest account. The actual interest earned from the bank account is also recorded in the deferred interest account. Theoretically, the interest distributed should approximate the actual interest earned, resulting in a near zero balance in the deferred interest account. However, as of June 30, 2006, Macassa had a credit balance of approximately $52,000 in this account and Wentworth had approximately $18,000. Both balances have accumulated over several years.

Discussions have revealed that this is likely caused by the timing difference between the date when a resident's account is closed in the TFAS (and thus stops earning interest) and the date when the balance is actually removed from the home's bank account (when the City seeks reimbursement of the “Due to City” balance in PeopleSoft).

It is recommended:
That the balance in the deferred interest account be reviewed and cleared annually.

Management Response:
Agreed. The current balance has been cleared and any future balances will be cleared on a monthly basis.

5. The A/R Clerk/FA1 at each home is responsible for: setting up billing rates in the TFAS for new residents; changing billing rates per the Resident Accommodation Summary; and updating billing rates annually in accordance with the Ministry of Health and Long-Term Care (MOHLTC) requirements. The monthly billing process (including balancing reports from the TFAS, A/R interface from the TFAS to PeopleSoft and posting the A/R batch in PeopleSoft) is also performed by the A/R Clerk/FA1. If there is a retro-active adjustment as a result of recent rate reductions, the A/R Clerk/FA1 is also responsible for the credit in the resident's account under A/R in PeopleSoft. All of these transactions are self-approved as there is no supervisory review in place. While it is appreciated that the optimal segregation of duties is not possible due to staff limitations, some form of supervisory review should be considered.

Management Response:
Agreed. Current practices are being reviewed. It is anticipated that a form of supervisory review will be implemented by February 2007.