Report to:  Mayor and Members
Strategic Planning & Budgets Committee

Submitted by:  Ann Pekaruk
Director, Audit Services
City Manager's Office

Date:  April 12, 2006
Prepared by:  Ann Pekaruk
905-546-2424 x4469

SUBJECT:  Follow Up of Audit Report 2004-01 - Provincial Offences Act (POA) - Revenue and Cash Handling (CM06010) (City Wide)

RECOMMENDATION:

That Report CM06010 respecting the follow up of Audit Report 2004-01, Provincial Offences Act (POA) – Revenue and Cash Handling, be received.

Ann Pekaruk
Director, Audit Services
City Manager’s Office

EXECUTIVE SUMMARY:

Audit report 2004-01, Provincial Offences Act (POA) – Revenue and Cash Handling, was originally issued in April, 2004 and management action plans with implementation dates were included in the report. In March, 2006, Internal Audit followed up the report to determine that appropriate and timely actions had been taken. Of the five (5) individual recommendations made in the original report and two (2) recommendations made in the Addendum, four (4) have been completed, two (2) are in progress and one (1) has been initiated.
BACKGROUND:

Audit report 2004-01, Provincial Offences Act (POA) – Revenue and Cash Handling and an Addendum, were originally issued in April, 2004. A number of recommendations were made to strengthen internal controls and enhance program accountability and efficiency.

It is normal practice for Internal Audit to conduct follow up reviews within a 12-18 month period following issuance of the original report in order to determine whether action plans committed to by departmental management have been implemented. In March, 2006, Internal Audit followed up the report to confirm appropriate and timely actions had been taken.

ANALYSIS/RATIONALE:

The report attached as Appendix “A” contains the first three (3) columns as originally reported in Audit Report 2004-01 along with an added fourth column indicating Internal Audit’s follow up comments. Appendix “A” also includes the Addendum originally issued with follow up comments noted in italics.

Four (4) of the seven (7) individual recommendations have been fully implemented. One (1) recommendation has been initiated but requires Ministry action on the ICON system. Two (2) are in progress, one (1) with an expected completion by second quarter, 2006 and the other one (1) requiring a longer term implementation of technology.

ALTERNATIVES FOR CONSIDERATION:

Not applicable.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

Financial
None.

Staffing
None.

Legal
None.
POLICIES AFFECTING PROPOSAL:

None.

RELEVANT CONSULTATION:

The results of the follow up were discussed with the staff of the Provincial Offences Act office whose responsibilities include the administration and management of the revenue and cash handling for this section.

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 – Appendix “A”
# | OBSERVATIONS OF EXISTING SYSTEM | RECOMMENDATION FOR STRENGTHENING SYSTEM | MANAGEMENT ACTION PLAN | FOLLOW UP (March 2006) |
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<td>1.</td>
<td>Approximately 30% of the ticket payments received are by way of mail. Such payments, usually in the form of a cheque or money order, are opened by a student and forwarded to the Cashier Supervisor. The latter ensures the cheque is in order and forwards it to one of the cashiers for processing. The cheques are not restrictively endorsed until the end of the day. Such endorsement should be placed on the cheques as soon as they are received to make it more difficult for some person to negotiate the cheque should other circumstances permit its misappropriation.</td>
<td>That all cheques received in the mail be restrictively endorsed by the student immediately upon being opened.</td>
<td>Agreed. A change was implemented upon suggestion of the Internal Auditor and prior to completion of this audit. The student or court administration clerk opens the mail and the Co-ordinator of Court Services reviews for post-dated cheques and cheques with no signature. Once convinced that the cheque will pass through the banking process with no difficulty, she stamps the back of the cheque with “For Deposit Only” to the City of Hamilton and gives the cheques to the cashiers to process.</td>
<td>Completed. The Clerk opening the mail stamps “For Deposit Only” on all cheques once he/she identifies that the cheque has been completed properly. The cheque and the accompanying ticket are then forwarded to the Clerk/Cashier for processing. Also note that cheques that have not been properly completed are returned to the issuer with an explanation why they were not accepted.</td>
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<td>2.</td>
<td>While reviewing access rights awarded to employees for various ICON screens, it was noted that certain positions (i.e. Court Administration Clerk) have differing ICON screen accesses even though the same duties are performed. In addition, the access listing supplied by the system indicated six “spare” user ID numbers which give access to various ICON screens without specifically identifying particular users. This would provide the opportunity for someone to access ICON under the guise of an unidentified employee. The control is intended to ensure that the transactions may be traced back to individual staff and the integrity of ICON system access is maintained.</td>
<td>That access rights to the various ICON system screens be reassessed. Staff access to ICON screens should be granted on the basis of what is necessary in the performance of the duties assigned to particular staff. That the number of spare user ID numbers be reduced. Use of the remaining spare ID numbers should be strictly controlled.</td>
<td>Agreed. The Co-ordinator of Court Services is currently reviewing this issue with the Ministry of the Attorney General (MAG). It should be noted that the court administration clerks rotate on seven (7) different jobs that may require access to different screens according to the job function. It often takes two weeks or more to alter an icon ID which is controlled by MAG. All court administration staff currently rotate through these seven (7) positions and all have access to the necessary screens.</td>
<td>Agreed. Currently, five (5) spare ID’s are under the control of the Co-ordinator of Court Services. These ID’s cannot be used unless the MAG is specifically asked to activate them under a new password. We will, however, endeavour to reduce the number of space ID’s to three (3). In Progress. The number of spare user ID’s has been reduced to two. These user ID’s are needed as they are issued to students who may be working for the POA. Further, there is a set of user ID’s controlled by the Co-ordinator of Court Services and used to clear unmatched accounts for tickets paid over the internet. By the end of the second quarter, 2006, one of these ID’s will be transferred to the Supervisor to back up the Co-ordinator in her absence.</td>
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## Observations of Existing System

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<tr>
<th>#</th>
<th>Observations of Existing System</th>
<th>Recommendation for Strengthening System</th>
<th>Management Action Plan</th>
<th>Follow Up (March 2006)</th>
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<td>3</td>
<td>The various procedures followed by the POA Administration Finance Officer have not been documented. Such documentation is beneficial as a training tool and as a reference source for others that need clarification or guidance.</td>
<td>That the processes and procedures carried out by the Finance Officer in the POA section be documented and maintained as current. Month-end and year-end procedures particular to this functional area should be highlighted.</td>
<td>Agreed. The Finance Officer has been asked to create a job manual for her position. This will occur after the completion of the 2003 year end audit.</td>
<td>Completed. The Finance Officer has created a manual outlining the processes and procedures performed in the course of her duties. The manual is available in both hardcopy and electronic format.</td>
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<td>4</td>
<td>An outside keying agency is used to input information into ICON for approximately half of the tickets. A rudimentary log (a pad of paper) lists the total number of tickets sent, a confirmation number issued by the keying agency, the period of time covered by the tickets and the date the tickets were sent and returned by the agency. However, no balancing routine is carried out to ensure that all the tickets sent have actually been inputted. There is a risk that tickets may not be entered which could potentially lead to lost revenue. In addition, the accuracy of the billing from the keying agency (paid at a rate/1,000) is not verified.</td>
<td>That a reconciliation process be developed to ensure, at a minimum, that the number of tickets sent for outside keying actually have been entered into the ICON system.</td>
<td>Agreed. A chart has been created in the shared “N” drive that includes ticket numbers sent to the keying agency, confirmation number from the courier and a reconciliation once returned. The tickets are counted when sent out, counted upon return from the keying agency and reconciled with the Icon Report Rico #2100 new offence register.</td>
<td>Completed. Only one part of the two part copy of the tickets is sent to the outside agency for keying. The tickets are counted before being sent and the Court Administration Clerk updates a spreadsheet that lists the number of tickets and the dates that they were sent. The keying agency returns the tickets keyed in as well as a summary listing. The Clerk counts the returned tickets and updates the spreadsheet. She also reconciles the number of tickets keyed in to ICON RICO Report #2100. This report lists the individual tickets and the operator that keyed them in.</td>
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The following items were noted during the course of the audit. Although they do not present internal control deficiencies, they are indicated in this Addendum so management is aware of the errors/issues and can address them.

1. ICON is an old system developed in 1988 by the Province. It is not possible to integrate it with PeopleSoft. As such, the monthly reconciliation process of ICON and the bank statements is labour intensive and results in voluminous amounts of paper. Storage of the data can be burdensome and expensive.

**It is recommended:**
That POA Administration consider the storage of the large volumes of reconciliation data on microfiche or CD-ROM.

That, in the long term, the City of Hamilton’s POA Administration, along with the POA Administration from other jurisdictions, approach the Province to update and/or replace ICON to allow for a more user friendly and easily integrated system.

**Management Response:**
City of Hamilton IT is currently reviewing our need for an electronic filing system that would allow storage of ICON Rico reports instead of printing huge volumes of paper. The Municipal Court Managers Association (MCMA) Sub-committee – IT has compiled a list of requested upgrade to ICON and they are working with the Province (MAG) to implement these enhancements. However, as POA is not the Province’s main focus (criminal court matters are) and ICON is more widely used in the POA administration, it is difficult to press for action. The IT Sub-committee of MCMA previously brought the issue of ICON replacement to the table with MAG with no progress to date.

**Follow Up:**
In Progress. A new server dedicated to POA’s needs is expected to be in place by mid 2006. At the time, IT will be able to inform the POA office whether an RFP will be issued to acquire the electronic storage equipment necessary to enable electronic filing. Therefore, the POA Supervisor of Court Administration expects electronic filing to be possible by late 2007. This is expected to reduce the POA office’s reliance on large volumes of paper.

The POA’s office reliance on paper will decrease even further when digital court recording equipment will replace the analog court recording equipment that is no longer manufactured and is difficult to service. This also is expected in late 2007, provided funding is approved.

There are no further developments in the MCMA Sub-committee’s negotiations with the MAG.
2. Currently, $32.1 million is indicated in ICON as outstanding type I and type III fines more than 45 days old (the maximum number of days an offence remains outstanding before it is placed on a court docket). Approximately a quarter of that total, some $8.2 million, is unlikely to ever be collected as the fines are more than eight years old.

**It is recommended:**
That the ICON system be cleared of extremely old outstanding fines (in particular, the $8.2 million which represents fines over eight years old). The system should be reflective of amounts that are expected to be realized.

That a process be put in place to periodically and regularly review outstanding fines on the ICON system and delete those that are unlikely to be collected due to their aging.

**Management Response:**
The POA office intends for this type of review to be an annual function.

**Follow-Up:**
Completed. In June 2004, Council approved a recommendation to write off $8.2 million in POA fines (those more than eight years old).

In 2005, the POA office wrote off fines totalling approximately a half million dollars (those that had reached the eight year threshold in that year and had been deemed uncollectible). In the coming years, the POA office also intends to continue the practice of writing off fines that have reached the eight year aging and are deemed uncollectible.