SUBJECT: Audit Report 2008-03 – Police Service Accounts and Revenue Processes (CM08027) (City Wide)

RECOMMENDATION:

That Report CM08027 respecting Audit Report 2008-03, Police Service Accounts and Revenue Processes, be received.

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EXECUTIVE SUMMARY:

The 2008 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” to Report CM08027.

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 April 2008. The report was received by the Police Services Board on October 20, 2008.

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 $2.9 million (2007) 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: charging interest on overdue paid duty fees (this is carried forward from the prior year); and the recording of overages and shortages in the Records Section’s deposits in the general ledger with regular review of these differences. Collection of receivables for tow fees has improved considerably with all amounts current as at April, 2008. Also, as recommended in last year’s report, the processing of suspensions for repeated false alarm status or non-payment of invoices has improved. An exercise to review long outstanding amounts resulted in some write offs and staff are encouraged to continue such efforts.

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. Minor differences were reported. A review of the Investigative Services operating fund indicated the need to tighten cash controls, especially the tracking of cash reimbursement to the fund. A periodic reconciliation would ensure that all such amounts had been noted in the database.

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: adequate supporting documentation for all card purchases; adherence to restrictions placed on transaction limits; and no use of cards for personal purchases even with reimbursement.

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

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 – Appendix “A”
1) REVIEW OF RESERVE ACCOUNT
Internal Audit performed a review of the Hamilton Police Reserve Account for the period February 13, 2007 to April 7, 2008. 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 April 24, 2008, Internal Audit reviewed the operating fund for Investigative Services Division (ISD) for the period February 14, 2007 to April 24, 2008. 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. Two fund replenishments traced to Accounts Payable and reconciled in the PeopleSoft system (i.e. cheques cashed) were not recorded in the ISD fund spreadsheet.

In one instance, the funds from the reimbursement were placed in the safe for recording by the custodian at a later time. The funds were pushed to the back of the safe, unbeknownst to the appointed custodian and never recorded as received in the database. Only upon inquiry by the Internal Auditor was the safe searched and the funds found.

The other instance involved the recording of only a portion of the reimbursement in the ISD database, the balance going to an officer who used his own funds due to inaccessibility to the operating funds. Receipts to account for this incident were provided only when Internal Audit requested them.

Poor cash controls provide the potential for the improper use of funds due to the absence of accountability mechanisms.

The counted cash on hand (prior to the discovery of the amount noted above) exceeded the ledger balance by $0.96, an amount that was carried forward from the prior year.

It is recommended:
That the section be more vigilant in tracking all cash reimbursements of the ISD fund. Considerations should be given to performing a periodic reconciliation (i.e. quarterly) to ensure that all such amounts have been captured in the database.

Management Response:
Agreed. The Inspector of Investigative Services Division has been tasked with researching best practices in the Province and will submit a report to the Deputy Chief of Community Policing with recommendations by December 31, 2008. The Chief Accountant will cause a quarterly reconciliation to be conducted and the report will be forwarded to the Quality Assurance Inspector for review.
3) RECORDS
An adjustment account was set up in the Point of Sale (POS) system last year to address the accumulation of shortages/overages in actual funds collected and deposited versus the values in the records. This account was meant to highlight such discrepancies and provide an avenue for supervisory review. Even though the entries in this account are of minimal dollar value, the account itself is not being used to record differences in the general ledger. For example, the total of collected funds was reduced by $100 (recorded as a shortage through the adjustment account) to increase the value of the float where, more appropriately, the monies collected should have been deposited in tact and a request to Accounts Payable for the increase would have resulted in the proper accounting in the general ledger.

The general ledger should reflect all overages and shortages.

It is recommended:
That adjustments related to overages and shortages in the Records section’s deposits be properly journalled in a general ledger account. This account should be reviewed regularly and differences investigated, where necessary.

Management Response:
Agreed. This recommendation has been adopted and implemented.

4) PAID DUTY FEES
Outstanding receivables in this area have improved considerably over the last year (April 2008 – $1,134 representing two accounts; March 2007 - $38,949). However, even though payments are required within 30 days of the completion of the event, over 80% of the payments are made beyond this time. Last year’s report noted that management had indicated that interest would be charged on outstanding balances greater than 30 days old. This 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:
Agreed. The recommendation has been adopted and interest will be applied to all outstanding accounts.

5) FALSE ALARM FEES
The processing of suspensions for repeated false alarm status or non-payment of invoices has improved. The practice of issuing unsolicited registration invoices (negative billing) has been discontinued.

A review of long outstanding balances in regard to false alarm fees in an effort to write off amounts deemed uncollectible was recommended last year by Internal Audit. Staff have undertaken such an exercise and written off $10,210. As approximately $113,000 of the $141,000 outstanding at April 2008 is over 90 days old, staff should be encouraged to continue write off efforts.

6) PROCUREMENT CARD USAGE
A review of September 2007 procurement card charges made by all ISD officers, all senior officers (where no activity was noted in September, another month was selected) and 10 civilian staff selected at random 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.
6.1. **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 contrary to City and HPS procurement card procedures.

*It is recommended:*

*That cardholders be reminded of their responsibilities in regard to supporting documentation for all procurement card purchases, especially as they relate to the purchase of meals (i.e. detailed receipt(s), the nature of the expenditure(s), and the name of any person(s) for which a meal was purchased). Charge slips with no detail are inadequate. Supervisors should ensure that staff statements and all necessary documentation are submitted for review and approval on a monthly basis and that procurement card usage is in compliance in all respects with the HPS procurement card policy.*

*Management Response:*

*Agreed. The recommendation has been adopted and direction has been given to all cardholders on proper policy requirements. If breaches occur, discipline will be administered in accordance with Policy and Procedure 3.09.*

6.2. **Bypass of Pre-determined Single Transaction Limit**

In the review of procurement card usage, two (2) instances were noted in which two (2) different cardholders “split” the amount of the purchase to bypass the single transaction limit. This practice is contrary to HPS’ General Purchase Procedure (1.24, A.1, 4).

*It is recommended:*

*That cardholders be reminded of the purchasing policy procedures in place to govern the proper use of procurement cards. Single transaction limits should not be circumvented as they were implemented to limit 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 HPS’ Chief Accountant. Cardholders who continue to not comply with the procedure should have privileges revoked.*

*Management Response:*

*Agreed. The recommendation has been adopted and direction has been given to all cardholders referencing this issue. If breaches occur, discipline will be administered in accordance with Policy and Procedure 3.09.*

6.3. **Use of P-Card for Personal Purchases**

In the review of procurement card usage, four (4) cases (three (3) for dollar values less than $50 and one for $304) of corporate procurement card usage for personal purchases were noted. This is contrary to City and HPS procedures. In all instances, reimbursement was made to the Service.

*It is recommended:*

*That cardholders be reminded of the purchasing policy procedures in place to govern the proper use of Procurement Cards. Procurement Cards should not be used to make personal purchases. Repayment is not an option. Staff who continue to not comply with the procedures should have privileges revoked.*

*Management Response:*

*Agreed. The recommendation has been adopted and direction given to all cardholders regarding this issue. If breaches occur, discipline will be administered in accordance with Policy and Procedure 3.09.*
7) **PETTY CASH**

Internal Audit carried out a review of six petty cash accounts. For the selected accounts, the review involved comparing the sum of the cash on hand and any receipts to the imprest balances. It was also ensured that expenditures were supported by proper receipts.

7.1. **Court Security**

The actual petty cash (cash on hand plus receipts) in this section amounted to $400 and was equal to the imprest balance of $400.

7.2. **Mountain Station**

The actual petty cash (cash on hand plus receipts) in this section amounted to $411.33 and exceeded the imprest balance of $400 by $11.33.

7.3. **Supply Services**

The actual petty cash (cash on hand plus receipts) in this section amounted to $350.01 and exceeded the imprest balance of $350 by $.01.

7.4. **Finance**

The actual petty cash (cash on hand plus receipts) in this section exceeded the imprest balance of $2,500 by $0.15.

7.5. **Victim Services**

The actual petty cash (cash on hand) in this section amounted to $300 and was equal to the imprest balance of $300.

7.6. **Central Station**

The actual petty cash (cash on hand plus receipts) in this section amounted to $800 and was equal to the imprest balance of $800.

The cash account was only reimbursed three times in all of 2007. In discussions with the custodian, it was determined that the $800 amount is greater than required.

*It is recommended:*

*That the petty cash amount for Central Station be reduced to an amount more appropriate to the activity level requirements.*

*Management Response:*

*Agreed. The recommendation has been adopted and the petty cash amount reduced to $500.00.*

8) **TOW FEES**

Collection of receivables has improved considerably. At April 2008, all amounts are current.

The procedures and controls appear satisfactory. No errors or omissions were noted.