CITY OF HAMILTON

CITY MANAGER’S OFFICE
Audit Services

TO: Chair and Members
Audit, Finance and Administration Committee

WARD(S) AFFECTED: CITY WIDE

COMMITTEE DATE: January 19, 2011

SUBJECT/REPORT NO:
Audit Report 2010-03 - Hamilton Police Service – Cash Accounts & Revenue Processes (AUD11003) (City Wide)

SUBMITTED BY:
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PREPARED BY:
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SIGNATURE:

RECOMMENDATION:

That Report AUD11003 respecting Audit Report 2010-03, Hamilton Police Service – Cash Accounts and Revenue Processes, be received.

EXECUTIVE SUMMARY

The 2010 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 AUD11003.

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 June 2010. The report was received by the Police Services Board on September 10, 2010.

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 $2.55 million in 2009. 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 collection of long overdue paid duty accounts and the charging of interest on any overdue accounts (this item has been carried forward from the prior year);
- the use of automated software for tracking Paid Duty revenues and receivables;
- the appointment of an alternate ISD Operating Fund custodian to ensure authorized access to the fund at all times and timely accounting of transactions;
- the use of a single set of customized receipts for the ISD Operating Fund to accommodate the entire “sign off process for receipt of funds and informant signatures;
- adequate supporting documentation for all procurement card purchases (this item has been carried forward from the prior year, although there has been improvement);
- the obligation to use approved suppliers and abide by the Purchasing Policy for disallowed commodities; and
- a reminder of the proper use and storage of petty cash funds in the Court Security area.

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 and will be followed up at the next annual audit. All recommendations made in the prior year other than the collection of overdue paid duty accounts and the charging of interest have been acted upon.

**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 AUD11003

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

Internal Audit performed a review of the Hamilton Police Reserve Account for the period February 27, 2009 to March 31, 2010. 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) **RECORDS**

The review of the Records section focused on the following: access security to the 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; and the validity of voided and cancelled transactions.

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

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 continued use of the collection agency and the write off of some uncollectible accounts has reduced the receivables outstanding at the end of 2009 by almost 50% from the prior year.

A policy allowing only the current year plus two additional past years to be held as outstanding in the accounts has resulted in older items being written off. Receivables that are greater than 90 days old as at December 31, 2009 totaled $13,572.00, down from $61,156.00 at December 31, 2008. Staff should be encouraged to continue their write off efforts.

During testing, it was noted that staff in the False Alarms section were not aware of the written procedure for the closing of delinquent accounts that was in effect. There had been a staffing change since our 2009 review and the procedure had not been included in the new staff member’s training.

**It is recommended:**

*That procedures be provided to new staff members upon commencement of their duties and as part of their training.*

**Management Response:**

*Agreed. The new employee has now been trained on the written procedure. There is very little employee turnover in this section which led to the training gap.*
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 2009, the receivable balance of $16,470.00 is almost all current. The procedures and controls appear satisfactory. No errors or omissions were noted.

5) **PAID DUTY FEES**

Outstanding receivables for this section have increased over the prior year to approximately $78,500.00 (2009 Review – approx. $43,700.00). The establishments at Hess Village are responsible for $59,600.00 (2009 Review - $38,250.00) with some amounts owing for over one year.

**It is recommended:**

*That management pursue a means of collecting long overdue accounts from the Hess Village establishments. (Repeat recommendation)*

**Management Response:**

*Agreed. Most of the outstanding receivables were due to one bar that had appealed their special duty assessment. The appeal was unsuccessful and the amount has now been paid.*

As noted on each of the last three audit reports, interest should be charged on outstanding balances greater than 30 days old as per the paid duty contracts. In all three 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:**

*Agreed. The collection of Hess Village account receivables has now been turned over to the City who will charge the appropriate interest.*

During the review of several Paid Duty contract files, it was noted that required documentation was not completed. There were several instances of RVPD (Request for Voluntary Paid Duty) forms not being included in event packages or, if they were included, they were not being adequately filled out. Several Paid Duty contracts were not completed in entirety (particularly, “Part C-Staffing”). Also, in 25% of the cases tested, the Paid Duty contract was not approved by the Paid Duty Officer, as required by the form.

**It is recommended:**

*That management ensure that all documentation is adequately completed for Paid Duty events and that all Paid Duty events are approved.*
Management Response:
Alternative Considered / Implemented. The Part-C Staffing section is not completed due to the fact that an invoice is created electronically through the Paid Duty system. The computer is able to calculate and create an accurate invoice. Completing the Part-C Staffing section would allow room for human error. The Part-C simply provides a charging guide (i.e. hourly fees, minimum hours charged, equipment fees, administration fees, taxes, etc.) for the person/agency requesting our services.

Requests made from the City in regard to traffic details, parades, Ti-Cat games as well as funeral and wide-load escorts do not require a supervisor signature. A new system has been created for the contracts that do require supervisory approval. The Paid Duty Office has created a file folder that all applicable contracts are placed in and then given to the Inspector daily for review/approval.

During testing, it was noted that an accounting software system for Paid Duty revenues is not currently being used by Hamilton Police Service.

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.

Management Response:
Agreed. The Chief Accountant is looking into the feasibility of installing an accounting program. Hess Village specials have been turned over to the City to allow their programs to control revenue and receivables.

6) INVESTIGATIVE SERVICES OPERATING FUND
The review of Investigative Services Division’s (ISD) operating fund covered the period March 2, 2009 to June 4, 2010. The cash on hand was counted and compared to the ledger balance, expenditures were traced to invoices, receipts or other supporting documents and fund replenishments were confirmed through reports from the Accounts Payable division of the City of Hamilton.

During this testing, it was noted that a sum of cash originally received from this fund had been returned to a superintendent. Although there appears to be adequate custodianship over the funds, they were not recorded in the ledger.

It is recommended:
That all funds be turned over to the authorized fund custodian and recorded in the ISD ledger immediately upon receipt.

Management Response:
Agreed. There are now two custodians to record funds in the ISD ledger. They are rarely off at the same time, eliminating the delay in ledger recording.
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 as recommended in prior year’s audit report. 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.

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.

It is recommended:
That consideration be given to 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.

Management Response:
Agreed. The Inspector of ISD will look into the feasibility of developing a carbon copy form.

During our review, the designated fund custodian was unavailable for a considerable period of time due to a long-term training commitment. During his absence, a block of funds was assigned to another staff member in order to meet operational needs. However, neither access to the complete set of funds was appropriately delegated nor was the funds monitoring system made available to him. A manual sub-ledger system kept by the staff member did not provide the same level of detail as the original ledger system and forced the use of another series of receipts. A complete cash count was initially difficult to complete (ultimately completed). The counted cash on hand exceeded the ledger balance by $0.93.

It is recommended:
That authority is appropriately delegated when the ISD Operating Fund custodian is away for an extended period of time. The same level of detailed records should be kept by the custodian’s delegate with cash counts occurring at both ends of the turnover of funds.

Management Response:
Agreed. As mentioned earlier, this problem has been corrected by creating a second Operating Fund custodian.

Last year’s recommendation for regular periodic reconciliations of cash replenishments was implemented with quarterly reviews which started in December 2009.

7) PROCUREMENT CARD USAGE
A review of the October 2009 procurement card charges made by all ISD officers and four randomly selected civilian staff and March 2009, October 2009 and January 2010 procurement card (P-card) charges made by all senior officers and senior staff 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.
Supporting Documentation
While the majority of transactions were supported by receipts, there were two instances where cardholders did not provide any receipts. In five other instances, while receipts were not provided, cardholders submitted other supporting documentation which, however, did not clearly indicate the business purpose or validate the amounts spent.

It is recommended:
That cardholders be reminded of their responsibilities to provide a purchase receipt which indicates item descriptions and the business purpose if not evident from the receipt.

Management Response:
Agreed. The Chief Accountant brought this problem to the attention of all P-card supervisors. They were advised to ensure they address this issue upon approving expenditures. This issue was also brought directly to the attention of the individuals identified in the audit.

During testing, it was discovered that an individual owed reimbursement for personal use of his procurement card as a refund was not processed for a P-card transaction as expected. The individual believed the amount had been completely refunded. When notified by Internal Audit, the individual immediately repaid the amount owing to HPS.

It is recommended:
That a more diligent review of P-card charges, statements and receipts be performed by the cardholder and their supervisor who reviews the summary and attached receipts.

Management Response:
Agreed. This issue was brought to the attention of all P-card supervisors and will be checked during monthly reviews.

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

(a) Computer hardware/software (unless pre-authorized in writing by the Manager of Purchasing). There was one case of a computer equipment purchase on a P-card with no pre-authorization evident.

(b) Any good or service for which a contract is in effect (unless pre-authorized in writing by the Manager of Purchasing). The City’s contracts for office supplies and toner include references to HPS and thus two such purchases should have been with the contracted suppliers.

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

Management Response:
Agreed. This issue was also brought to the attention of all P-card supervisors and the individuals identified in the audit.
Tracking Asset Purchases
It was noted that assets acquired using P-cards are not recorded or tracked in an Asset Management system by HPS. There is currently no way to effectively track assets purchased. This could lead to unnecessary purchases, which divert budgeted funds from other uses or a lack of accountability for the assets.

It is recommended:
That the Hamilton Police Service consider a tracking mechanism for minor assets, especially those bought through P-cards.

Management Response:
Agreed. The Manager of Fleet, Facilities and Supply will be creating a system to track minor assets.

Last year’s recommendation regarding the timely submission of cardholder statements has been implemented.

8) PETTY CASH
Internal Audit carried out a review of six selected petty cash accounts. The review involved comparing the sums of the cash on hand and any receipts to the imprest balances. It was also ensured that the expenditures were supported by proper receipts.

8.1. Finance
The actual petty cash (cash on hand plus receipts) in this section exceeded the imprest balance of $2,500.00 by $4.04.

8.2. Division 3-Mountain Station
The actual petty cash (cash on hand) in this section exceeded the imprest balance of $400.00 by $11.28.

This section’s petty cash fund has been over by approximately $11.00 since 2008, per review of the section’s petty cash records.

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

Management Response:
Agreed. The Chief Accountant has advised all petty cash custodians of this issue and instructed them to turn in excess cash when requesting petty cash reimbursements, thereby balancing the funds periodically.

8.3. Police Services Board
The actual petty cash (cash on hand plus receipts) in this section amounted to $400.00 and was equal to the imprest balance of $400.00.

Unlike the rest of the petty cash funds that were selected for testing in the current year, petty cash vouchers were not used for the Police Services Board petty cash fund. One parking receipt was missing but supporting details were provided.
It is recommended:
That petty cash vouchers be used by the Police Services Board petty cash custodian.

Management Response:
Agreed. The Police Services Board petty cash custodian is now using this system.

8.4. Investigative Services Division (ISD)
The actual petty cash (cash on hand plus receipts) in this section exceeded the imprest balance of $800.00 by $18.33.

No reason was provided for the storage of $16.66 of the overage in the bottom portion of the cash box.

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

Management Response:
Agreed. The Chief Accountant has advised all petty cash custodians of this issue and instructed them to turn in excess cash after routine reviews.

8.5. Division 1-Central Station
The actual petty cash (cash on hand plus receipts) in this section amounted to $500.00 and was equal to the imprest balance of $500.00.

8.6. Court Services
The actual petty cash (cash on hand plus receipts) in this section amounted to $470.10 and exceeded the imprest balance of $400.00 by $70.10.

Of the cash overage, $70.00 was stored separately in an envelope in the bottom of the cash box. Upon requesting an explanation, it was noted that the $70.00 was due to a charity collection and was not actually part of petty cash.

It is recommended:
That the petty cash lock box be used strictly for the storage of petty cash. Any other funds should be stored separately.

Management Response:
Agreed. The Chief Accountant has advised all petty cash custodians of this issue and the issue was brought directly to the attention of the custodian at Court Services.

It was found that petty cash funds were often used for office supplies for which the City (including HPS) has a contracted supplier, providing deeply discounted rates for on-line ordering.

It is recommended:
That the custodian be made aware that office supplies should be ordered through the corporate contracted supplier.

Management Response:
Agreed. The Chief Accountant has advised all petty cash custodians of this issue and the issue was brought to the attention of the custodian at Court Services.