Report to: Mayor and Members
Strategic Planning &
Budgets Committee

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

Date: April 5, 2006

Prepared by: Ann Pekaruk
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SUBJECT: Audit Report - 2005-10 - CLASS System (CM06005) (City Wide)

RECOMMENDATION:

Ann Pekaruk
Director, Audit Services
City Manager's Office

EXECUTIVE SUMMARY:
Council approved the 2005 Internal Audit work plan which included an audit of the CLASS System utilized by Culture and Recreation. The audit reviewed the various processes carried out through the system ensuring adequate controls were in place and the system was used in an effective and efficient manner.

BACKGROUND:
The CLASS System is used to record and track registration and permit activity including payments, refunds and collection of receivables in the Culture and Recreation Division of Public Health and Community Services. The audit work was completed in December, 2005.

The Strategic Planning and Budgets Committee receives and approves final audit reports and reviews in its capacity of serving as the Audit Committee.
ANALYSIS/RATIONALE:

In 2005, the CLASS System was used to execute over 60,000 Culture and Recreation program registrations with revenue totalling $2.89 million and to accept 65,100 facility bookings for revenues of approximately $4.9 million.

The audit documented the various processes for which the CLASS System is used as well as testing samples of transactions (registrations and facility bookings, collections, payments and refunds). Security and access rights to the system were also reviewed.

The resulting report attached as Appendix “A” contains the observations, recommendations and management responses.

The main areas noted for improvement in the audit report centre around the following: system access rights and security of customer information; proper GST collection and remittance for specified courses; documentation and approval process for customer refunds/credits; timely reconciliation of electronic transactions; and Council notification of program changes especially when they directly impact the public or are different from Council directive.

Staff have agreed to implement all but one of the recommendations with several expected to be implemented in the first quarter of 2006. The only disagreement is the use of the “alert box” for refund notes (recommendation #5(b)). Alternate processing is being considered. Specific action plans can be found in the attached report.

ALTERNATIVES FOR CONSIDERATION:

Not applicable.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

Financial
Proper remittance of GST to the federal government will eliminate penalties and interest charges.

Staffing
None.

Legal
None.
POLICIES AFFECTING PROPOSAL:

Not applicable.

RELEVANT CONSULTATION:

The attached report includes management action plans which reflect the responses of management and staff as users of the CLASS system (i.e. Culture and Recreation Division of the Community 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

Ease of registration and payment will encourage community participation in the various programs and activities offered by the City in its recreational programs.

Environmental Well-Being is enhanced. ☐ Yes ☑ No

Economic Well-Being is enhanced. ☑ Yes ☐ No

The 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
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<th>OBSERVATIONS OF EXISTING SYSTEM</th>
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<th>MANAGEMENT ACTION PLAN</th>
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<td>1.</td>
<td>A listing is maintained by the System Administrator of the employees who no longer require access to the CLASS System as part of their work duties and have had their access frozen. However, several other cases were found in which employees who had changed jobs (some more than a year earlier) or had gone on leave still had access to the system. Although various user groups have different levels of access and capabilities on the CLASS System, only users who require information stored on the system to perform their duties should be allowed active access.</td>
<td>That a process be implemented to inactivate an employee’s access rights on a more timely basis when the employee is no longer performing the duties that required him/her to have those rights.</td>
<td>Agreed. The CLASS System Administrator will review and implement, if appropriate, recommendations from Information Technology (IT) relating to their “Application Security Process”. IT’s draft recommendation is to provide all administrators of corporate applications with a weekly email indicating terminated and transferred staff within the organization. Administrators will review and disable access to the applicable application of employees indicated in these two reports. The System Administrator will also send quarterly reports to each of the Recreation Centres to review and advise if additional staff should be denied access to the CLASS System. This will commence January 30, 2006.</td>
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<td>2.</td>
<td>The password requirements as permitted by the CLASS System currently do no provide a strong barrier to unauthorized access to the system. For instance: a) the system does not remind the user to modify or personalize the password initially issued by the System Administrator; b) the system does not remind the user to change the password after a predetermined period has elapsed (e.g. 3 months); c) passwords need not be a minimum length (e.g. even passwords as short as one letter are acceptable to the system); and d) the system does not lock out users after a predetermined number of log on attempts. The lack of strong password controls could contribute to the identity theft of a legitimate system user or provide easier access to an unauthorized user.</td>
<td>That staff work with the producer of the system, CLASS Software Solutions, to modify the password requirements of the system in order to provide a deterrent against potential unauthorized access.</td>
<td>Agreed. Culture and Recreation (C&amp;R) staff contacted CLASS Software Solutions (CSS). CSS have indicated they will address login security issues in upgrade release 6.0sp1 expected out in 2006. Staff from C&amp;R and IT will review the upgrade documentation when it is released and if deemed suitable, will establish timelines for upgrade for early 2007. The only issue not addressed in this release is the lock-out of users after a pre-determined number of log-in attempts. Staff will request that this be documented as an enhancement request to CSS.</td>
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<td>3.</td>
<td>Although customer credit card numbers are encrypted for the payment approval process through Moneris, the credit card information is simply retained by the CLASS System in the payment server in the event that a refund for a prior program registration is required. During the course of this review, it was found that even users with moderate level access to CLASS could access a customer’s complete credit card information when running certain reports. This, combined with the findings in points 1 and 2 above, can potentially result in sensitive customer information being accessible to unauthorized users.</td>
<td>That a thorough review of accessibility to all sensitive customer information be conducted with the intent of ensuring that such information (i.e. credit card details) is only available to authorized staff for the performance of their job duties.</td>
<td>Agreed. At the conclusion of the audit, there were 2 reports identified out of approximately 285 reports in the system that show credit card information. Since the release of the draft audit report to C&amp;R, staff have committed to thoroughly checking all areas of security relating to credit card information. The review and implementation of changes will be complete by January 30, 2006.</td>
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<td>While it is generally understood by Culture and Recreation (C&amp;R) management that GST is to be collected and remitted only on programs specifically run for adult participants, it does not appear that this is done consistently across all such programs and across all recreation centres. Management is aware that this problem exists but has not yet been able to assess the full impact of the problem as the length of time this has been ongoing and the recreation centres affected have not been determined.</td>
<td>That a full review be conducted to determine the GST owed to the federal government. The amount so determined should be remitted as soon as possible to minimize any penalty and interest that may be charged. The problem should be corrected at the affected recreation centres and staff should be adequately trained as to which courses GST should be collected from, as well as having the CLASS System produce a report outlining the courses in the system that are being charged GST versus those that are not. From time to time, management should review course details within the CLASS System prior to the programs being offered to the public to ensure GST factors are correct.</td>
<td>Agreed. The System Administrator (SA) and the Division’s Business Administrator (BA) have started the process of collecting and reviewing information regarding this issue. Based on the analysis of the information collected, the appropriate remittance will be made to the Federal government. The SA will also provide refresher training to all staff that input information into the CLASS System as it relates to attaching applicable taxes to courses and rentals. As part of the refresher training, the importance of accurately proofing all information input into the system will be stressed. Training should be complete by early spring 2006. The SA will also do random checks of the inputting by the Recreation Centres to verify accuracy.</td>
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### Observations of Existing System

5. The C&R refund policy indicates that, should a customer wish to withdraw from a program that has already started, any refund or credits issued will be pro-rated. The effective withdrawal date is the date that the City is notified rather than the date the customer stops attending classes. However, C&R does not keep a record of when the withdrawal notice is received. On several occasions tested, a full refund was issued even though the course had begun (in some cases, almost half the course had expired). Thus, it is not possible to determine whether the customer provided a withdrawal notice before the course started and was issued a refund halfway through the course or withdrew at a later point in time and should have had his/her refund pro-rated.

In addition, the refund policy also states that when a customer withdraws from a program, a $5.50 administration fee will be charged. This fee may be waived for medical or compassionate reasons or if the customer chooses to leave the credit on their account for future use. It was found that, in practice, this fee was waived even when it did not meet the above-noted criteria.

Although several staff can initiate refunds for customers, the System Administrator or her designate actually processes the refunds. There is no indication that the necessary information required to ascertain a refund's appropriateness is provided or reviewed in the processing function. Further, there is no evidence that the Acting Manager responsible for authorizing refunds for customers is provided with adequate information to authorize the refund request.

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<td>The C&amp;R refund policy indicates that, should a customer wish to withdraw from a program that has already started, any refund or credits issued will be pro-rated. The effective withdrawal date is the date that the City is notified rather than the date the customer stops attending classes. However, C&amp;R does not keep a record of when the withdrawal notice is received. On several occasions tested, a full refund was issued even though the course had begun (in some cases, almost half the course had expired). Thus, it is not possible to determine whether the customer provided a withdrawal notice before the course started and was issued a refund halfway through the course or withdrew at a later point in time and should have had his/her refund pro-rated.</td>
<td>That staff be required to maintain accurate records of withdrawal notices by noting course number and date of notice on the “alert text” screen in CLASS or in some similar fashion. In addition, the System Administrator should request CLASS Software Solutions to develop and implement an application to automatically pro-rate refunds based on the date that the notice is received and logged into the system.</td>
<td>Agreed. Staff have reviewed the refund/credit procedures. Using this information as a base point, staff will re-visit the automated abilities of the software relating to pro-rating withdrawals and refunding of courses as well as the documentation and approvals process for refunds. To be completed prior to spring registration, March 2006.</td>
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<td>In June, 2005, Council approved the 2005 User Fees that list the charges for all C&amp;R programs. With the start of the Aquatic Instructional programs in September, C&amp;R reduced the duration of the swimming courses to nine (9) weeks instead of the usual ten (10) weeks. As management believed that the reduced program length would result in reduced expenditures for the program and this would more than offset any increase in revenue associated with increased fees, the fee increase approved by Council was not implemented and the fees for the swim programs were left at the 2004 rates. Neither Committee nor Council was informed of this decision.</td>
<td>That Council be informed of program changes and decisions of this nature, especially when they impact the public directly and are different from a Council directive.</td>
<td>Agreed. Staff will evaluate programs on a seasonal basis and, where necessary, submit a report to Council.</td>
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<td>The reconciliation of the electronic transactions (payment by debit and credit cards) between the CLASS System and the Royal Bank is about five (5) months behind. This means that any potential errors that the Royal Bank may have made in acknowledging electronic transactions involving the activities of C&amp;R have not been reviewed or corrected for the past several months. Staff offered the explanation that all of the electronic transactions for the various City recreation centres are credited to the same one (1) account set up by the Royal Bank. This makes it very difficult for the Financial Analyst reviewing the transactions at the level of the individual recreation centre to distinguish which entries are pertinent to his/her reconciliation process.</td>
<td>That, in collaboration with Financial Services, an alternative method to expedite the reconciliation of all electronic transactions recorded by CLASS and acknowledged by the Royal Bank be explored.</td>
<td>Agreed. A quick review indicated a minor difference between the Royal Bank and the CLASS System of $3,000 for the year. A detailed analysis of this difference will be done by the end of February for those months currently not reconciled.</td>
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