**CITY OF HAMILTON**

**CITY MANAGER’S OFFICE**  
*Audit Services Division*

| TO: | Chair and Members  
Audit, Finance and Administration Committee |
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| COMMITTEE DATE: | December 7, 2011 |

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<tr>
<th>SUBJECT/REPORT NO:</th>
<th>Follow Up of Audit Report 2009-11 - Parking Revenues (AUD11032) (City Wide)</th>
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| SUBMITTED BY: | Ann Pekaruk  
Director, Audit Services  
City Manager’s Office |
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<td>PREPARED BY:</td>
<td>Ann Pekaruk 905-546-2424 x4469</td>
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| SIGNATURE: | |

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**RECOMMENDATION**

That Report AUD11032, respecting the follow up of Audit Report 2009-11, Parking Revenues, be received.

**EXECUTIVE SUMMARY**

Audit Report 2009-11, Parking Revenues, was originally issued in February, 2010 and management action plans with implementation timelines were included in the Report. In October, 2011, Internal Audit conducted a follow up exercise to determine that appropriate and timely actions had been taken. Of the 18 recommendations made in the original Report and Addendum, 11 have been completed, one alternative was implemented, five are in progress and one has not been completed.

*Alternatives for Consideration – Not Applicable*

**FINANCIAL / STAFFING / LEGAL IMPLICATIONS** (for Recommendation(s) only)

**Financial:** Properly securing and balancing parking permit revenues collected along with oversight by management reduce the risk and possibility of the misappropriation of funds.

**Staffing:** None.

**Legal:** None.
HISTORICAL BACKGROUND  (Chronology of events)

Audit Report 2009-11, Parking Revenues, was originally issued in February, 2010. The Report provided 18 recommendations identifying areas for improvement with respect to the processes for collection, deposit, recording and monitoring of parking fees from meters, pay and display and pay on foot machines and longer term parking permits.

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 department management have been implemented.

POLICY IMPLICATIONS

None.

RELEVANT CONSULTATION

The results of the follow up were provided to management responsible for the administration of the parking revenues in the Planning and Economic Development Department.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

The report attached as Appendix “A” to Report AUD11032 contains the first three columns as originally reported in Report 2009-11 along with an added fourth column indicating Internal Audit’s comments as a result of the follow up work. The original Addendum section that contained five recommendations also indicates follow up comments.

Eleven of the 18 recommendations have been fully implemented. Among them are: cheques that are post-dated are restrictively endorsed at the time they are received; the development of a bank deposits daily tracking sheet helps to trace bank deposits to the bank statement; reports are generated to ensure the accuracy of the bank deposits and the validity of waived parking fees; a security assessment regarding cardholder information for PCIDSS compliance was conducted; staff/user access granted to the MAPPS system was examined; user password changes are required on a regular and timely basis; and the volume of post-dated cheques for monthly parking permits has significantly decreased through the activation of a pre-authorized debit system.

For the one recommendation where an alternative was implemented, credit cardholder information is no longer stored on the MAPPS computer application because Parking Services stopped accepting pre-authorized credit card payments.
The in progress recommendations include: balancing of permit revenues received and recorded in the Class point-of-sale system to amounts recorded in the MAPPS application; review of voided transactions in the Class point-of-sale system; the distribution of the final cash handling and administrative procedures to staff; filing of declined credit card payment information in a secure area; and the review and approval of bank deposit matching.

One recommendation whose status is not completed concerns the lack of a detailed reconciliation of the cash clearing account on a quarterly basis by the Supervisor of Parking Revenues.

**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 AUD11032: Audit Report 2009-11

ap:tk
### OBSERVATIONS OF EXISTING SYSTEM

1. **Restrictive Endorsement of Post-dated Cheques**
   - Post-dated cheques received from customers in respect of monthly parking permits are not restrictively endorsed upon initial receipt. The cheques are kept in a safe, sometimes for several months, and are only restrictively endorsed on the day that the cheques are processed for deposit.
   
   The risk of cheques being fraudulently negotiated is increased when they are kept for lengthy periods without being restrictively endorsed. While the existing physical security over the custody of post dated cheques may be sufficiently strong, the restrictive endorsement of cheques at the time of initial receipt is a vital preventive control that provides added security.

### RECOMMENDATION FOR STRENGTHENING SYSTEM

- That post-dated cheques be restrictively endorsed by Customer Service Representatives at the time that they are initially received from the customer.

### MANAGEMENT ACTION PLAN

- Agreed. Post-dated cheques are now restrictively endorsed at the time they are received.

### FOLLOW UP (OCTOBER 2011)

- Completed. Customer Service Representatives restrictively endorse post-dated cheques at the time they are received from the customer.
## 2. Parking Permit Revenues/Voided Transactions

Monthly parking permit revenues are processed through the Municipal Automated Parking Permit System (MAPPS). A significant portion of the revenue is received by Customer Service Representatives (CSR) in the form of cheques and cash.

It was noted that daily permit revenues are not balanced to a report generated from MAPPS that provides a listing of permits processed as well as a summary of funds received. Although the MAPPS system has the functionality to produce such a report, daily permit revenues are only balanced to a Drawer Balance Report produced from the Class point-of-sale system and to a printed batch of MAPPS invoices that are not sequentially pre-numbered and thus are not adequately accounted for. As such, there is no assurance regarding the completeness and accuracy of amounts banked or revenues recorded in the general ledger.

The above risk is compounded by the fact that payments from customers are accepted and receipted by a Customer Service Representative who also prints the permit, updates the Class system and balances daily proceeds to Class reports. Neither the CSR nor the Revenue Control Clerk, who checks the CSR’s work, verifies the daily proceeds against a report from MAPPS before depositing the funds.

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<td>2</td>
<td>Parking Permit Revenues/Voided Transactions</td>
<td>That, to ensure completeness and accuracy of permit revenues, daily permit revenues recorded in the Class point-of-sale system be balanced back to a report generated from the MAPPS system summarizing the funds collected for the permits.</td>
<td>Agreed. Procedures will be amended pending modifications to the MAPPS system. Expected completion date – 4th quarter 2009.</td>
<td>In Progress. A MAPPS Daily Payments Report is generated and used as part of the daily reconciliation process. However, staff are not adequately documenting the numerical reconciliation between Class and MAPPS revenues and corresponding variance descriptions.</td>
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## OBSERVATIONS OF EXISTING SYSTEM

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<td>2.</td>
<td><strong>Parking Permit Revenues/Voided Transactions (Cont'd)</strong>&lt;br&gt;Further, it is also possible that a transaction processed in Class could be voided without detection as nobody reviews the Class system for voided transactions.&lt;br&gt;The combination of all the issues identified above can result in a high risk of misappropriation of funds.</td>
<td>That a Revenue Control Clerk periodically review the voided transactions in the Class system for frequency, legitimacy of reason and staff responsible.</td>
<td>Agreed. The Revenue Control Clerk now reviews voided transactions as part of the current procedures.</td>
<td>In Progress. The reason for a voided transaction was documented. However, the voided transaction was not factored into the reconciliation between Class and MAPPS. There was a difference in the three Class reports printed to support the daily transactions.</td>
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### PARKING REVENUES
**FOLLOW UP – OCTOBER 2011**

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<td>3.</td>
<td><strong>Daily Tracking of Bank Deposits</strong>&lt;br&gt;A significant portion of revenues handled by the Hamilton Municipal Parking Service’s (HMPS) is in the form of cash and cheques. Daily, after HMPS staff has counted and balanced cash collected from permits, parking meters, pay-and-display and pay-on-foot machines, a contracted armoured car carrier picks up the funds for deposit into the City’s bank account. The armoured car carrier is required to deposit the funds within four (4) business days. It is, therefore, vital that the bank statement be checked frequently to verify that funds are being deposited within the stipulated time and to identify and address any discrepancies. It was observed that bank deposits are only traced to the bank statement at the end of the month. As such, there is a risk that missing deposits, banking errors and other discrepancies may not be detected in a timely manner.</td>
<td>That the Supervisor of Parking Revenues develop a bank deposits daily tracking sheet and assign a member of her staff to trace bank deposits to the bank statement on a daily basis.</td>
<td>Agreed. The tracking sheet and tracing of the bank deposits to the bank statement will be implemented immediately.</td>
<td>Completed. A Revenue Control Clerk maintains a Deposit Slips tracking sheet which records the bank deposits picked up by the armoured car carrier, the date the deposit cleared the bank and whether the original stamped deposit slip was returned by the bank. Bank deposits are traced to the bank statement on a daily basis.</td>
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### Daily Tracking of Bank Deposits (Cont’d)

Bank deposit slips collected by the carrier are recorded in a log book and later matched with bank-stamped deposit slips as confirmation that the funds were delivered to the bank. This method of tracking deposits however does not verify that the correct amounts were credited to the City’s bank. In addition, because boxed coins, which are the bulk of coin room deposits, are not physically deposited to the bank (carrier directs account credit), there is no bank-stamped deposit slip or other form of bank documentation confirming that funds were credited. Without tracing the deposit slips to the bank statement, there is no assurance that the funds were credited in a timely manner or in the correct amounts.

Ensuring that funds had been deposited in tact and in a timely manner through daily scrutiny should be considered a best practice based on the City’s past experience with coin deposits.

A review of several deposits made in 2009 indicated that funds picked up by the armoured car carrier are generally being credited within the stipulated 4 business days.

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<td>3.</td>
<td>Daily Tracking of Bank Deposits (Cont’d)</td>
<td>That, at the end of each month, the Supervisor of Parking Revenues review and approve, in writing, the bank deposit tracking sheet.</td>
<td>Agreed. The review and approval in writing of the bank deposit tracking sheet by the Supervisor of Parking Revenues will be implemented immediately.</td>
<td>In Progress. The Supervisor of Parking Revenues has indicated that, alternatively, she reviews a monthly package containing the banking Transaction Statement which symbolically indicates staff matching deposits to the Deposit Slip tracking sheet. However, neither the statement nor the package bears a signature or initials as proof of review.</td>
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4. Reconciliation of the Cash Clearing Account

Although cash and cheque deposits are traced to the bank statement once every month, the general ledger cash clearing account is only reconciled at the end of the year. The cash clearing account is the general ledger account through which the HMPS records daily revenues to clear all the bank deposits made during the month. When the cash clearing account is only reconciled once annually, accounting errors and misallocations may not be discovered for several months and the task of reconciliation/clearing to zero becomes more onerous and time consuming.

For example, at the end of April and May 2009, the cash clearing account had unreconciled credit balances arising from unrecorded revenues amounting to $516,796 and $310,383 respectively. The revenues have however since been recorded.

That, on a quarterly basis, the Supervisor of Parking Revenues perform a reconciliation of the cash clearing account to provide a breakdown of the reconciling items.

Agreed. The Supervisor of Parking Revenues will perform a reconciliation of the cash clearing account on a quarterly basis. To be implemented in 2010.

Not Completed. The Supervisor does not provide an adequately detailed breakdown of the balance in the general ledger cash clearing account.
### PARKING REVENUES
### FOLLOW UP – OCTOBER 2011

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<td>5.</td>
<td><strong>Written Procedures</strong>&lt;br&gt;Management is in the process of developing procedures that provide guidance to staff on Hamilton Municipal Parking Service’s various processes including cash handling and administration. As at the end of August 2009, of the sixty-five (65) procedures that were under development, only four (4) had been completed and approved by the Manager of Parking Operations.&lt;br&gt;Without documented procedures there is a risk of inconsistencies and errors in the processing of transactions. In addition, should the experienced members of staff leave employment, it may be difficult to ensure uninterrupted and consistent service delivery.</td>
<td>That the Manager of Parking Operations ensure that procedures are finalized and communicated to staff within a reasonable time.</td>
<td>Agreed. The finalization of the procedures is ongoing project with no final deadline.</td>
<td>In Progress. Procedures are in draft form and have not yet been distributed to staff. Additional work is required with respect to editing the procedures’ content and assigning responsibility for each procedure to the appropriate area. Expected implementation date – end of 2012.</td>
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### Review and Oversight

While the several parking information systems in use at the HMPS have the functionality to generate management reports for use in reviewing exceptions and monitoring performance, such reports are generally not produced for review by management. For example, reports from MAPPS, a system from which parking permits are generated, that show the number of permits printed and funds received are not reviewed by management to ensure the accuracy of amounts deposited to the bank. As well, reports from the ZEAG parking system that provide information about waived parking fees and unmatched credit cards are not printed for regular review by management.

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<td>6.</td>
<td><strong>Review and Oversight</strong></td>
<td>That management review (and initial as written evidence of such review) pertinent reports to monitor key performance indicators and exceptions.</td>
<td>Agreed. First, a review to determine the necessity or benefit of this recommendation will be completed by 2nd quarter 2010. Although some reports are periodically used when irregularities are identified in order to resolve issues, there has not been an issue of oversight to make this a practice. Workloads will dictate the necessity of adding this to the procedures.</td>
<td>Completed. System reports are generated and used to ensure the accuracy of amounts deposited in the bank and assess the validity of waived parking fees. Management continues to generate other system reports periodically when irregularities are identified and need to be resolved.</td>
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<td>7.</td>
<td>Access to the MAPPS System</td>
<td>That the Supervisor of Parking Revenues, in conjunction with Information Services, review users’ access to customers’ confidential information to ensure that access is granted only to those users whose job responsibilities require such access.</td>
<td>Agreed. A review has already resulted in some changes to access. Only 14 computers have access to MAPPS with various security levels. The details of security access will be undertaken in the new year. Currently, the system records who and when any changes are made providing a trail should the system be compromised.</td>
<td>Alternative Implemented. Parking Services no longer accepts pre-authorized credit card payments. All credit card information was removed and is no longer accessible in MAPPS.</td>
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<td>a) Of the 27 employees with access to MAPPS, 19 have level three access that enables them to view various reports including credit cardholder information. While level three access does not automatically grant users access to cardholder information without special permission, it is important that management ensures that the privacy of cardholders’ information is protected. This is particularly important given the new Payment Card Industry Data Security Standards (PCIDSS) which require organizations to guarantee the privacy of cardholder information that they collect. Specifically, PCIDSS require data such as customers’ credit card numbers, expiry dates and cardholders’ names to be protected from unauthorized access. The standards also require organizations to do an annual assessment to evaluate their level of compliance.</td>
<td>That Information Services or a designate carry out a security assessment to evaluate HMPS’ level of compliance with PCIDSS.</td>
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### 7. Access to the MAPPS System (Cont’d)

b) Eight (8) of the 27 users have administrator access which allows them unlimited access, enabling them to grant and modify users’ accesses, override transactions and define reports. Usually, such access is restricted to a minimal number of selected people in management and technical support staff in Information Services.

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<td>7</td>
<td>Access to the MAPPS System (Cont’d)</td>
<td>That the Supervisor of Parking Revenues review staff access privileges to ensure that administrator access is only granted to members of staff whose responsibilities require them to manage the system.</td>
<td>Agreed. This matter will be reviewed by the Manager and Supervisor of Parking Revenues by the 4&lt;sup&gt;th&lt;/sup&gt; quarter 2009.</td>
<td>Completed. Testing performed by Internal Audit provided proof of restricted access. Several individuals who had administrator access during the original audit now have reduced access commensurate with their duties.</td>
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### PARKING REVENUES
#### FOLLOW UP – OCTOBER 2011

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<td>7.</td>
<td><strong>Access to the MAPPS System (Cont’d)</strong>&lt;br&gt;c) Two (2) Revenue Control Clerks (RCCs) responsible for processing monthly credit card payments and post dated cheques from reports generated from the MAPPS system are also able to create, add and modify customers’ records. The two RCCs also have administrator privileges that enable them to override records and re-define system codes. Such broad access granted to individuals who also process payments weakens the system on internal control. Considering that over $50,000 is processed as post-dated cheques and pre authorized credit card payments every month, it is important that responsibilities be adequately segregated and access levels be matched with staff’s levels of responsibility.</td>
<td>That management, in conjunction with Information Services, review staff access levels to the MAPPS system to ensure that access is commensurate with each user’s job responsibilities.</td>
<td>Agreed. A review of staff access levels will commence immediately.</td>
<td>Completed. RCCs responsible for processing monthly credit card payments and post-dated cheques no longer have administrator rights. Testing performed by Internal Audit provided proof of restricted access. Several individuals who had administrator access during the original audit now have reduced access commensurate with their duties.</td>
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<td>d) The MAPPS system does not periodically prompt users for password changes. As a result, passwords have remained unchanged since 2007 when the system was first installed. Password security could be compromised if passwords are not changed on a regular basis potentially leading to unauthorized access to the system and processing of fraudulent or improper transactions.</td>
<td>That the Supervisor of Parking Revenues ensure that user passwords are changed on a regular and timely basis.</td>
<td>Agreed. Staff have been instructed to change their passwords until a formal policy is written and adopted. The intent is to build the system to automatically prompt staff to change their passwords.</td>
<td>Completed. The MAPPS system automatically prompts users to change their password every 60 days.</td>
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ADDENDUM

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 issues, risks and inefficiencies and can address them appropriately.

1. Mechanical Condition of the Coin Sorter
   The coin sorter which is used to sort and count over $3 million in coin revenues received from the City's parking meters, pay-and-display and pay-on-foot machines appears to have a mechanical defect. Ten cent coins (dimes) are directed to the pennies bag without being counted, resulting in artificial cash surpluses. It is believed that the mechanical defect might be due to the age of the coin sorter whose continued use has resulted in some calibrations shifting from the original factory specifications. There is therefore a risk that as the machine continues to age, the mechanical defects will worsen and the magnitude of errors might increase. Presently, the counting errors amount to less than $500 a month or 0.20% of monthly coin revenues and are accounted for as cash surpluses.

   It is recommended:
   That management continue to track cash surpluses arising from missorted coins and closely monitor the coin sorter's mechanical condition. Depending on its condition, management should make a decision to repair or replace the coin sorter.

   Management Response:
   Agreed. The process to purchase a new sorter is currently being conducted.

   Follow Up Comment:
   Completed. Parking Services received and is currently using a new coin sorter.

   That, should management decide to replace the coin sorter, consultations be had with other City departments and divisions regarding the possibility of centralizing cash counting operations and purchasing a higher capacity coin sorter and wrapper capable of handling larger volumes.

   Management Response:
   Agreed. Previously, other City departments/divisions were consulted and there was no interest expressed for their cash counting. Further, there are physical space and staff workload limitations. As well, adding larger volumes of money may increase the risk for misappropriation of theft.

   Follow Up Comment:
   Completed. Parking Services held discussions with the Hamilton Street Railway and the Library but centralized coin counting operations did not result.
2. Payment for Monthly Parking Permits

Customers wishing to purchase monthly parking permits may pay for the following months’ permits by post-dated cheques or by pre-authorizing charges to their credit cards. Although the MAPPS system has the capability to process pre-authorized debits to a customer’s chequing account, this functionality has not been activated. A pre-authorized debit system would be an added convenience for the customers and a more efficient method of payment processing for staff. In addition, provided there is adequate security over customers’ information, the risk associated with keeping post-dated cheques would be eliminated.

**It is recommended:**

*That management activate the pre-authorized debit system in MAPPS and eliminate the acceptance of post-dated cheques.*

**Management Response:**

*Agreed. This process is currently under review for consideration of implementation in 2010.*

**Follow Up Comment:**

*Completed. Management has activated and is currently using the pre-authorized bank payments module in MAPPS. The pre-authorized bank payment option is being recommended to new clients and those renewing yearly parking permits. The acceptance of post-dated cheques cannot be eliminated entirely as some customers do not want the City to have access to their bank account information. Therefore, management has taken steps to significantly decrease the volume of post-dated cheques accepted.*

3. Declined Credit Card Payments at Parking Garages

At the Convention Center and York Boulevard parking garages, when a credit card customer uses an invalid card to enter the garage, the card is only declined upon exit necessitating the customer to pay cash or use a different credit card. Declined credit card numbers are recorded by the cashier in a Special Occurrence Report which is used by a Revenue Control Clerk to clear the declined card from the ZEAG system. Upon clearing the credit card from the ZEAG system, the Special Occurrence Report is immediately shredded, eliminating both the electronic record in ZEAG as well as the hard copy supporting document. With no trail left of the transaction, it is no longer possible to review the transaction for validity.

**It is recommended:**

*That the Special Occurrence Report be retained as supporting documentation. It should be filed in a secure room where other credit card information is kept.*

**Management Response:**

*Agreed. This recommendation will be implemented immediately.*

**Follow Up Comment:**

*In Progress. The Revenue Control Clerk retains the Special Occurrence Report. However, it is not stored in a secure location and the cardholder’s credit card number written on the Report is not rendered unreadable to be PCIDSS compliant. Management will be reviewing the process of how unmatched credit card payments are cleared from the Zeag system and what documentation is retained in order to become PCIDSS compliant.*
PARKING REVENUES
FOLLOW UP – OCTOBER 2011

3. Declined Credit Card Payments at Parking Garages (Cont’d)
   That management investigate the cost, benefits and efficiency issues in making payment of parking fees available by credit card in surface lots where volume and value of transactions warrant such action. Technology with instantaneous real time (on line) processing of credit cards is recommended to reduce the risk of declined credit card payments.

   Management Response:
   Agreed, in principle. Although this matter has been reviewed and it has been determined that there is no business case to implement the recommendation at this time due to the capital cost, additional work and the potential increase in staffing outweighing the benefit, the option will continue to be reviewed from time to time.

   Follow Up Comment:
   Completed. In December 2010, staff presented a report to Council recommending the availability of credit card payments for parking fees at the City Hall lot which was not approved.