SUBJECT: Follow Up of Audit Report 2005-02 – Recreation Centre – Ancaster Rotary Centre – Cash Handling (CM06023) (City Wide)

RECOMMENDATION:
That Report CM06023 respecting the follow up of Audit Report 2005-02, Recreation Centre – Ancaster Rotary Centre – Cash Handling, be received.

Ann Pekaruk
Director, Audit Services
City Manager's Office

EXECUTIVE SUMMARY:
Audit report 2005-02, Recreation Centre – Ancaster Rotary Centre – Cash Handling, was originally issued in April, 2005 and management action plans with implementation dates were included in the report. In September, 2006, Internal Audit followed up the report to determine that appropriate and timely actions had been taken. Regarding the implementation of the three (3) recommendations made in the original report, one (1) is deemed partially completed with a portion completed and another portion remaining incomplete, one (1) is still in progress and one (1) has been initiated but without significant progress.

BACKGROUND:
Audit report 2005-02, Recreation Centre – Ancaster Rotary Centre – Cash Handling, was originally issued in April, 2005. The report indicated three (3) recommendations to strengthen the controls surrounding the passes and clip cards, to enhance the fiscal management of the facility’s leasing agreement and to streamline the fee structure to reduce confusion and errors.
BACKGROUND: (Continued)

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 actions plans committed to by departmental management have been implemented. In September, 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 2005-02 along with an added fourth column indicating Internal Audit’s follow up comments.

One (1) of the three (3) individual recommendations can be deemed partially completed as a portion of the recommendation has been completed. An electronic system to enhance the tracking of participation passes, clip cards and skate passes is being used. However, the portion of the recommendation dealing with using a system to monitor the sold passes and clip cards has not been initiated. The Class Inventory Module is expected to be set up early October 2006 and fully operational by early 2007.

One (1) of the three (3) individual recommendations is in progress. A new health club leasing agreement was signed for a five-year term beginning January 1, 2006. The terms of the agreement regarding rent owing is being monitored by the Area Supervisor along with the Business Administrator. However, there continues to be disagreement over the interpretation of clauses in the agreement with the health club proprietor. Staff expect resolution by the end of 2006.

The remaining recommendation has been initiated. Staff agreed to work towards streamlining and simplifying the fee structure used by the recreation centre. The process has just begun in the second quarter of 2006 and is anticipated to be finalized by the first quarter of 2007.

ALTERNATIVES FOR CONSIDERATION:

Not applicable.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

Financial
The resolution of the differing opinions on certain clauses of the agreement in favour of the City staff’s interpretation would result in an increase in rental income for the recreation centre.

Staffing
None.

Legal
Staff will need to work with legal counsel in resolving the interpretation differences of certain clauses in the agreement with the health club proprietor.
POLICIES AFFECTING PROPOSAL:
The full implementation of recommendation #3 will require Council approval of harmonized fee schedules for rentals of facilities.

RELEVANT CONSULTATION:
The results of the follow up were discussed with the staff responsible for the recreation centre under the 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

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 an 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”
<table>
<thead>
<tr>
<th>#</th>
<th>OBSERVATIONS OF EXISTING SYSTEM</th>
<th>RECOMMENDATION FOR STRENGTHENING SYSTEM</th>
<th>MANAGEMENT ACTION PLAN</th>
<th>FOLLOW UP (September 2006)</th>
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<tbody>
<tr>
<td>1.</td>
<td>Passes and clip cards, distributed by the Administrative Assistant to the District Manager to various recreation centres, are not always recorded as to the stock given to each centre. In limited testing carried out, several instances of unrecorded stock distribution were noted. On a similar note, serial numbers of the passes sold at the centre are to be recorded in a manual log. Review of this log during the audit indicated several serial numbers not accounted for in the sequence of stock sold. Failure to keep proper records of passes and clip cards distributed and sold leads to the potential risk that such stock could go missing and be misappropriated or sold without the recognition of the appropriate revenue.</td>
<td>That alternate methods of recording the serial numbers of passes and clip cards distributed and sold be investigated (i.e. electronic spreadsheets). In the short term, staff should be more diligent in the keeping of manual stock records.</td>
<td>Agreed. Moving from a manual system to an electronic system will enhance the tracking of participation passes, clip cards and skate passes. The Administrative Assistant to the Recreation Managers will electronically manifest the cards and distribute, as necessary, under the direction of the Managers. This will take place immediately. At the individual recreation facilities, staff will begin using the Class Inventory Module to electronically monitor inventory stock. The Inventory Module will track serial numbers and record passes that are sold. This new electronic system is scheduled for a September 2005 implementation.</td>
<td>Completed. The Administrative Assistant to the West District Manager has electronically inventoried all of the passes and clip cards distributed to the various recreation centres. This spreadsheet is updated each time clip cards and passes are issued to the recreation centres. Incomplete. The CLASS Inventory Module to electronically track the serial numbers of the passes sold has not been put in place. It is scheduled to be set up in early October 2006. The module is expected to be fully operational by early 2007.</td>
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<td>2.</td>
<td>A leasing agreement with a health club, basing the monthly rent on gross revenues and operating surplus, accounts for over 65% of the budgeted revenues for this centre. The health club submits basic financial data and calculates the amounts due to the City. There is no staff person with the responsibility of monitoring the terms of the agreement. No audited statements have been provided for staff verification as per the agreement. Recalculation of the rent due, based on 2003 submissions, indicates several minor differences resulting in an overall underpayment to the City.</td>
<td>That management ensure that the terms of the agreement regarding rent owing are monitored by a designated staff person to ensure calculations are correct.</td>
<td>Agreed. Effective May 1, 2005, the Agreement will be monitored by the Area Supervisor responsible for the Rotary Centre with assistance from the District Manager and Division’s Business Administrator. This will coincide with the Division’s ability to process credit card payments (as this agreement’s rental payments are made by credit card) directly at the Centre.</td>
<td>In progress. A leasing arrangement with the health club was renewed for another five-year term beginning January 1, 2006. The terms of the agreement regarding the calculation of rent owing is being monitored by the Area Supervisor responsible for the Recreation Centre along with the Business Administrator. There continues to be disagreement over the interpretation of clauses in the agreement and the health club proprietor remits payments calculated under his interpretation of the terms. Staff expect to resolve this matter by the end of 2006.</td>
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### # | OBSERVATIONS OF EXISTING SYSTEM | RECOMMENDATION FOR STRENGTHENING SYSTEM | MANAGEMENT ACTION PLAN | FOLLOW UP (September 2006)
---|----------------------------------|----------------------------------------|------------------------|------------------------
3. | The fee structure used by the recreation centre for the rental of the facility to different patrons is lengthy and varied. As a result, errors in the fees charged can occur. In two of the 28 rental agreement reviewed as part of the audit sample, errors of undercharging the customer were noted. | That management work towards streamlining and simplifying the fee structure used by the recreation centre. | Agreed. The Recreation Management Team have identified a review for harmonizing the rental fees for the first quarter of 2006 with a new rental rate structure ready for the second quarter of 2006. | Initiated. The process that will result in the harmonization and streamlining of the fee structure began in the second quarter of 2006. It is anticipated that the new rate structure will be finalized by the first quarter of 2007. |