SUBJECT: Follow Up of Audit Report 2005-10 – Culture and Recreation – CLASS System (CM07024) (City Wide)

RECOMMENDATION:
That Report CM07024 respecting the follow up of Audit Report 2005-10, Culture and Recreation – CLASS System, be received.

Ann Pekaruk
Director, Audit Services
City Manager's Office

EXECUTIVE SUMMARY:
Audit report 2005-10, Culture and Recreation – CLASS System, was originally issued in May, 2006 and management action plans with implementation dates were included in the report. In May, 2007, Internal Audit followed up the report to determine that appropriate and timely actions had been taken. Regarding the implementation of the nine (9) recommendations made in the original report, two (2) are completed, two (2) are in progress, four (4) are incomplete and for one (1), the status could not be determined.

BACKGROUND:
Audit report 2005-10, Culture and Recreation – CLASS System, was originally issued in May, 2006. The report indicated several recommendations which dealt with: (i) system access rights and log on security; (ii) proper GST collection and remittance for specified programs; (iii) documentation and approval process for customer refunds/credits; (iv) timely reconciliation of electronic transactions; (v) Council notification of program changes especially when they directly impact the public or are different from Council's directive; and (vi) security over confidential customer information.
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 May, 2007, Internal Audit followed up the report to confirm appropriate and timely actions had been taken.

ANALYSIS/RATIONALE:

The report attached as Appendix “A” to Report CM07024 contains the first three (3) columns as originally reported in Audit Report 2005-10 along with an added fourth column indicating Internal Audit’s follow up comments.

Two (2) of the nine (9) recommendations that have been fully implemented are: (i) improved security and restricted access to customer information; and (ii) Council notification of program changes.

Implementation of two (2) recommendations is in progress. One involves the hiring of a clerk (expected in the third quarter of 2007) whose responsibilities will include monitoring system access rights. The other recommendation, whose implementation is still in progress, concerns electronic transactions. While the reconciliation of these transactions still continues to be problematic, much work has been done to try and resolve discrepancies. In mid March 2007, a CLASS system update produced improvements in the frequency and amount of identified differences.

Four of the recommendations remain incomplete. They are as follows: modifications of the CLASS system regarding password requirements which may be dealt with in part by a 2008 upgrade and three (3) recommendations dealing with program refunds, their supporting documentation and approval. The methodology recommended by Internal Audit was not agreed to. However, an alternate method has been found and the process will be implemented by the third quarter of 2007.

The status of the last of the nine (9) recommendations could not be determined. Although staff indicated that a test sample of transactions was completed for correctness of GST charges with no significant results, no documentation to support this work or the decision to not proceed further was provided after multiple requests.

ALTERNATIVES FOR CONSIDERATION:

Not applicable.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

Financial

None.

Staffing

A part time clerk is expected to be hired in the third quarter of 2007.

Legal

None.
POLICIES AFFECTING PROPOSAL:
None.

RELEVANT CONSULTATION:
The results of the follow up were discussed with the staff responsible for the use and administration of the CLASS system (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

City Council’s goal of “A Great City in Which to Live” and its commitment to providing quality community services is enhanced though the ease of registration and payment which encourages 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

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>
<th>RECOMMENDATION FOR STRENGTHENING SYSTEM</th>
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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>
<td>Completed. Customer credit card information is now accessible only to the staff that require the information for their job function.</td>
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<td>4.</td>
<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>
<td>Undetermined. The Division’s BA has indicated that she and the SA collected and reviewed selected data concerning this issue. However, no documentation to support that this review was actually carried out or the materiality of the amount owed could be provided. Upon receiving the Audit Report the SA met with members of the Power User Group (PUG) and one of the items discussed was the importance of correctly charging GST on adult programs. Since then, the SA has reviewed the Culture and Recreation programs in CLASS to verify that GST is charged to the programs primarily targeted towards adults.</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.

### RECOMMENDATION FOR STRENGTHENING SYSTEM

- 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.

- That the charging of the administration fee on refund requests be automated in the CLASS System. The program should be changed so that the administration fee is overridden only when a reason meeting predetermined criteria is noted. This reason should be clearly recorded on CLASS System’s “alert text”.

- That the refund request and approval function include the provision of information to properly evaluate the appropriateness and amount of refund and documents/data bear evidence of such review.

### MANAGEMENT ACTION PLAN

- 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.

- However, staff disagree with the use of the “alert box” on a customer account for tracking refund results as this is not an appropriate use of this text box.

### FOLLOW UP (MAY 2007)

- Incomplete. Since the SA disagreed with the use of the “alert text” box for tracking refunds, the recommendation has not been implemented. However, the SA is now aware of an alternate method of capturing a record of the withdrawal date. Therefore, it will be possible for a record of the withdrawal date to be maintained by the system and to pro-rate the refund based on that date. This process will be implemented by the third quarter of 2007.

- Incomplete. As indicated above, the SA disagreed with the use of the “alert text” box for this purpose and has not implemented the recommendation. However, she is now aware of an alternate method to capture the reason for withdrawal from the program and track whether the administration fee is to be charged. This alternative will be implemented beginning the third quarter of 2007.

- Incomplete. As above, the recommendation was not implemented because the SA disagreed with the use of the “alert text” box. However, the SA is now aware of an alternate method of capturing the reason for requesting a refund and this information will be required and captured on all refunds beginning the third quarter 2007.
### CULTURE AND RECREATION - CLASS SYSTEM
**FOLLOW UP - MAY 2007**

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<td>6.</td>
<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>
<td>Completed. The 2006 User Fee approved by Council on April 26, 2006, as By-law 06-120, informed Council of changes in the length of the swim programs. The current fees charged for the programs are consistent with those approved by Council.</td>
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<td>7.</td>
<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>
<td>In progress. Much work has been done in attempting to find the cause of the discrepancy. However, the reconciliation of electronic transactions still presents a problem. There has been marked improvement in the frequency and amount of identified differences since mid March 2007 after a CLASS system update.</td>
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