

TORONTO STAFF REPORT

May 4, 2000

To: Audit Committee

From: City Auditor

Subject: Cash Controls Review – Parks and Recreation Division, East and West Districts

Purpose:

To review cash handling and financial procedures at various facilities to determine the adequacy of control procedures and to report, to management, any deficiencies along with recommendations for corrective action.

Financial Implications and Impact Statement:

While there are no financial implications resulting from the adoption of this report, the implementation of the recommendations in this report could reduce the risk of revenue losses.

Recommendations:

It is recommended that:

- (1) the Commissioner of Economic Development, Culture & Tourism expedite the review of cash handling and financial procedures at all Parks and Recreation facilities to ensure that effective and consistent financial policies and internal control procedures exist and are carried out by staff;
- (2) the Commissioner of Economic Development, Culture & Tourism clarify and communicate the roles and responsibilities of the Administration and Support Division and other divisional operations, with respect to administration and financial matters;
- (3) the Commissioner of Economic Development, Culture & Tourism clearly delineate the roles and responsibilities of supervisory staff, emphasize the importance of maintaining effective internal controls and provide guidelines to assist supervisors in carrying out their responsibilities. Necessary action should be taken to ensure that all sites and functions are adequately supervised;

- (4) to avoid the maintenance of separate financial records by Parks and Recreation Divisional staff, the Commissioner of Economic Development, Culture & Tourism request that the Chief Financial Officer and Treasurer provide the necessary management information in the SAP financial system at a level that facilitates timely decision making by Parks and Recreation management staff;
- (5) in order to minimize the amount of cash handled at each facility:
 - (a) debit card terminals be installed at appropriate locations and a policy be adopted that promotes payment by debit or credit card as opposed to cash and cheques; and
 - (b) the reservation of arenas and sportfields be centralized at the district level and a policy be adopted, as appropriate, requiring payment in full prior to permitting the use of the facility;
- (6) the Commissioner of Economic Development, Culture & Tourism harmonize and/or implement the following policies and procedures:
 - (a) the timely follow-up and resolution of NSF cheques and declined credit cards;
 - (b) credit procedures to protect against and reduce the risk of loss of revenue from organizations renting facilities. Such procedures could include performing credit checks, obtaining credit card imprints or collecting a reasonable deposit amount;
 - (c) the expansion of armoured car services to pick up receipts at appropriately designated facilities with significant cash balances;
 - (d) the development of an appropriate and uniform policy relating to cancellations, with particular emphasis on facility rentals;
 - (e) the timely follow-up and collection of accounts receivable;
 - (f) the timely invoicing of amounts due from customers for arena usage;
 - (g) the reconciliation and balancing of cash receipts by each cashier upon completion of each shift and the investigation and resolution by supervisory staff of any cash overages and/or underages;
 - (h) the implementation of uniform facility permit agreements and forms at all sites; and
 - (i) the review and enhancement as required of the physical security of all cashier areas;

- (7) the Commissioner of Economic Development, Culture & Tourism review the adequacy of CLASS (registration and permitting system) training offered to staff, to ensure that all staff have received the necessary training and that supervisors have the ability to access key management information;
- (8) the Commissioner of Economic Development, Culture & Tourism implement appropriate access controls on the CLASS system to restrict access and, that system identifications and passwords be reviewed and changed frequently;
- (9) the Commissioner of Economic Development, Culture & Tourism report to the Audit Committee and the Economic Development and Parks Committee by September 30, 2000, on the implementation and status of the recommendations presented in this report; and
- (10) this report be forwarded to the Economic Development and Parks Committee for information.

Background:

The Parks and Recreation Division provides a wide range of programs and services that result in the collection and handling of over \$36 million in gross revenue, relating to user fees, permits, golf courses and the island ferries. A review of cash controls within the Parks and Recreation Division of Economic Development, Culture & Tourism was identified as a priority project within Audit Services 2000 Work Plan. The objective of this review was to determine the adequacy of cash handling and financial procedures at the district and facility level and report to management any deficiencies and recommendations for corrective action.

Comments:

The first phase of the Cash Controls Review was conducted within the East and West Districts of the Parks and Recreation Division. The next phase will include a review of the department's cash handling and financial procedures in the North, Central and South Districts.

The current review included an evaluation of business processes and cash handling procedures at fourteen different sites in the East and West Districts, which included arenas, recreation centres, indoor pools and other facilities. The sites were for the most part randomly selected for review. However, consideration was given to those sites with a high volume of cash receipts and included those identified by management as warranting review.

Separate reports with detailed findings and recommended management actions have been prepared and forwarded to the Commissioner of Economic Development Culture & Tourism in this regard. District staff were receptive to our recommendations and took immediate corrective action.

Findings and Implications:

In general, financial administration policies and internal controls, with respect to the handling and recording of receipts at various Parks and Recreation facilities, were found to be inconsistent and requiring improvement. This is attributable to:

- inadequate policies and procedures that continued from the former municipalities;
- a lack of understanding of the importance of financial internal controls by many supervisory staff;
- the effects of amalgamation impacting staff relocation and exits of key people;
- delays in finalizing staffing at supervisory and clerical levels due to outstanding collective agreements;
- the aggressive implementation of the CLASS registration program and permitting software;
- inadequate planning and prioritization with respect to the implementation of financial controls and delays in the harmonization of policies and procedures; and
- the absence of any formal internal audit function in several of the former municipalities to identify weaknesses, recommend corrective action and act as a general deterrent.

Significant findings from our review are outlined below:

1. Staff at some facilities prepare journal entries to record revenue and also collect cash receipts at facilities. This lack of segregation of duties and the absence of adequate supervisory review results in errors and delays in recording revenue and increases the risk of misappropriation of receipts.
2. Some Administration and Support Services staff continue to make independent decisions within districts without regard to central organizational policy. The roles and responsibilities of Administration and Support staff and divisional staff with respect to financial procedures and controls have not been clarified. This has resulted in ineffective operations, duplication of effort and a loss of accountability and control.
3. The lack of adequate management information from the SAP financial system has resulted in the Parks and Recreation staff maintaining manual records and/or "shadow" systems of revenue and expenses in order to monitor and control their operations.
4. There are no policies and consistent procedures relating to the handling of NSF cheques. Some facilities receive details too late for corrective action and others have not received any details. This results in potential lost revenue and a lack of effective control to prevent the further registration of individuals with delinquent accounts.
5. There is no uniform policy or clear assignment of responsibility for the resolution of declined credit cards and follow up of outstanding accounts receivable. The East District aged receivables listing has over 2,500 old outstanding balances in excess of \$250,000, as at February 2000. This results in potential lost revenue and poor service, as clients are delayed or prevented from registering until the outstanding amounts are resolved.

6. There are several inconsistent practices at arenas. In some regions, clients are able to register at the facility for ice usage prior to payment and payments including cash and cheques are received locally. One region in the West District has successfully adopted central registration with full payment required prior to usage of the facility. This has minimized the amount of cash handled at these facilities. In addition, cancellation policies vary between regions. Accepting bookings on account has resulted in numerous client initiated adjustments, difficulties in collecting fees after the season ends and increases the potential for misappropriation of receipts.
7. There is a need to reconcile and balance cash receipts at the end of each cashier's shift, have supervisors investigate overages and underages, review and enhance the physical security of cashier areas, implement uniform facility permit agreements at all sites and perform appropriate credit procedures on clients to whom credit is extended.
8. At the time of our review (March 2000), invoices for rink usage by hockey leagues after November 30, 1999 had not been prepared and forwarded to approximately twenty-five clients. Staff were unclear about the responsibility for invoicing these clients. This may result in difficulties in the collection of these fees, as clients will have stopped using the facilities by the end of April 2000.
9. Many supervisors have not been trained on the CLASS system. In addition, guidelines do not exist with respect to the frequency of site visits by supervisors and the procedures to be performed in order to monitor the operation and staff activity. Many supervisors also have limited knowledge of available CLASS reports to manage their operations and do not review and authorize journal entries prepared by staff to record revenue and receipts. This results in a loss of accountability and control and could lead to undetected errors and possible misappropriation of receipts.
10. Recreation co-ordinators are able to access the program maintenance module within the CLASS system to change specific facility program parameters. This has resulted in the manipulation of certain parameters to provide preferential treatment to certain individuals/groups registering within programs.

Conclusions:

The impact of amalgamation, the process of harmonizing different business systems, policies and processes of the former municipalities and the consequent staff relocations or exits from the organization has resulted in practices that have compromised the effective application of internal controls over cash receipts.

The findings and recommendations from this review demonstrate the importance of regular management supervision and review of all locations where cash is collected to ensure that necessary control procedures exist and are carried out by staff.

Proper financial procedures and controls were evident in some of the facilities examined, particularly where supervisory staff were actively involved in the review of financial documentation and procedures. However, many of the facilities examined require improvements to financial procedures and controls.

The importance of proper supervision and adequately trained staff cannot be overemphasized. This is especially important since, in some facilities, the segregation of duties may not be financially or operationally feasible.

The operation of Parks and Recreation facilities involves the handling of significant cash transactions that by their nature increase the risk of loss or misappropriation. In addition to establishing proper internal controls and consistent financial procedures, the use of debit and credit cards as the primary means of payment should be promoted across the Division. The use of armoured car services should also be expanded to pick up receipts from all facilities where there is a significant volume of cash receipts. All of the aforementioned, as well as the implementation of appropriate credit procedures for clients, will mitigate the risk of potential cash losses in the Division.

The Commissioner of Economic Development, Culture & Tourism has received detailed reports on the East and West Districts and concurs with our recommendations. In response, certain immediate remedial action has been initiated by departmental senior management including:

- a plan to formulate a team to review and implement appropriate financial procedures and controls throughout the Parks and Recreation Division; and
- the issuance of a memorandum to all staff outlining a zero tolerance policy on financial impropriety.

Audit Services is committed to working with the Parks and Recreation staff to assist with the enhancement of policies and procedures in all aspects of the department's operation. A review of the department's cash handling and financial procedures within the other districts will also be completed in the near future.

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