

APPENDIX 1

PARKS, FORESTRY AND RECREATION

Review of Internal Controls at the East York Curling Club

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Auditor General's Office

Jeffrey Griffiths, C.A., C.F.E.
Auditor General
City of Toronto

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EXECUTIVE SUMMARY

Why we did this review

Most of the projects completed by the Auditor General's office are usually Divisional in nature and encompass large scale reviews involving significant audit time and staff resources. During our review of the City's Purchasing Card program, it became evident that the use of purchasing cards not only pertained to Divisional Staff at the City but it had also been extended to entities outside the immediate day-to-day control of the City.

While we did not identify any irregularities at the East York Curling Club during our purchasing card review, we nevertheless deemed it appropriate to conduct a more detailed review of controls in order to ensure that they are appropriate and effective. A further benefit of such a review would be the probability that any recommendations resulting from this review could likely be applicable to other similar entities.

The East York Curling Facility is owned and operated by the City of Toronto

The East York Curling Club is a facility owned by the City. The Club is a volunteer organization that operates many components of the program. The Club's primary sources of income are membership fees, snack and beverage sales, and facility rentals.

The objective of this review was to assess the adequacy of the Club's system of internal control over revenues, inventory management and compliance with policies and procedures related to cash handling and purchasing.

Previous reviews of cash handling and financial procedures

The Auditor General's Office has previously reported on cash handling and financial procedures at various Parks, Forestry, and Recreation facilities across the City, including:

- Cash Controls Review – Parks and Recreation Division, East and West Districts (May 2000)
- Review of Receivables Relating to Parks and Recreation Operations and the Review of Revenue and Cash Controls Relating to the Parks and Recreation Division, North and South Districts (March 2004)
- Review of Controls Over Ferry Services Revenue (January 2010).

Audit Results in Brief

Significant operating decisions made by volunteer members

In recent years, because the core programs operated at the facility have been traditionally organized and operated by volunteer members, significant operating decisions have been delegated to volunteers that comprise the Club's Executive Board with relative autonomy from the City of Toronto.

A governance framework can be strengthened

Despite the authority of the Board, no governance framework has been put into place to formally define their role, responsibilities, and accountability to the City of Toronto. Consequently, during this audit we identified several issues relating to the lack of accountability by the Board to the City.

It is important that a clear governance and operating framework be established for community volunteers and groups involved in operating programs at the curling facility. Furthermore, without clearly defining the roles of City staff and community volunteers and groups, staff resources may not be deployed to support programs in the most efficient and effective manner.

A key recommendation included in this audit report is for management to evaluate the objectives for curling facilities within the City and their alignment with the mission and values set out by Council. The role of the City in operating programs and services at each of the City owned curling facilities should be evaluated to determine suitable models for the operation of curling programs and facilities that support community involvement.

Improved operating efficiencies in both core programs and the curling facility itself are possible by outsourcing services through lease agreements with community groups and service providers. This is an operating arrangement which should receive serious consideration in the context of defining the City's role in similar organizations.

***Report contains
five
recommendations***

Our report includes five recommendations, the primary recommendation being the need to determine a suitable operating and governance model which clarifies the role and responsibilities of the City and the Club in operating the facility. In doing so, responsibility for addressing the remaining recommendations related to strengthening internal controls and increasing accountability and oversight of curling operations at the East York Curling Club, will depend on the resulting operating arrangement and governance framework. An additional recommendation relates to a review of the recommendations contained in this report for applicability to the other Parks, Forestry and Recreation curling facilities.

***Separate letter
issued to
management
outlining less
significant issues***

The Auditor General has issued a separate letter to management outlining less significant issues that came to our attention during the audit. These issues related to the need to align Club procedures with City policies and address certain weaknesses in controls over revenue collection and inventory management processes. The Parks, Forestry and Recreation division's responsibility for implementing the recommendations would be limited to the extent that the Club activities remain integrated with the City.

BACKGROUND

***The facility is
one of three
curling facilities
owned by the
City***

The City of Toronto owns three curling facilities, two of which are operated by the Parks, Forestry and Recreation division, while the third is operated by a community club. At present, there are eight other curling facilities in Toronto which are privately-owned and operated.

The East York Curling Facility has six sheets of curling ice with leagues operating throughout the day and night during the week. An executive board, comprised of Club members, volunteer to oversee the Club and its Leagues under the oversight of the City's Community Recreation Programmer and management team. Day-to-day operations are run by a combination of staff from the City's Parks, Forestry, and Recreation division and volunteers.

***Governing
relationship with
former Borough
of East York
established in
1969***

The governing relationship between the City of Toronto and the Club was established in 1969 under By-law 322 with the former Borough of East York. This by-law provided for the Curling Rinks Board of Management and defined the responsibilities for both the Leaside Memorial Community Curling Rink and East York Sports Centre (now known as the East York Curling Club).

Over the years, the Board of Management was responsible for operating the programs (leagues) with relative autonomy from the City of Toronto. However, during the 1990s the Club was not able to generate sufficient income to cover operating expenditures and capital maintenance and repairs of the facility. In 1995, the City repealed By-Law 322, and assumed overall responsibility for operating and capital management of the Club.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

Audit objective

The objective of this review was to assess the adequacy of controls over revenues, inventory management and compliance with purchasing and cash handling policies and procedures.

The specific objectives of the review were to:

- Review the adequacy of the financial and administrative controls over revenues earned.
- Evaluate the effectiveness of controls in place over cash handling and review procedures which ensure the safeguarding of assets (cash and inventory).
- Assess compliance with purchasing policies and procedures.

Audit scope

The review covered transactions from 2009 with a focus on samples selected from October 1 to December 31, 2009.

Audit methodology

Our audit methodology included the following:

- review of departmental policies and procedures
- interviews with City of Toronto Parks, Forestry, and Recreation Division staff at the East York Curling Club
- site visits
- examination of applicable documents, management reports, records, and selected transactions
- evaluation of management controls and practices
- review of audit reports issued by various jurisdictions relating to controls at community recreation facilities
- other procedures deemed appropriate.

Compliance with generally accepted government auditing standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that provides a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

1. ALIGNMENT OF PROGRAMS AND SERVICES WITH THE OBJECTIVES OF THE CITY AND PARKS, FORESTRY AND RECREATION DIVISION

1.1 City Owned and Operated Curling Facility

City owned and operated facility

The East York Curling Club Facility is owned and operated by the City of Toronto. General maintenance activities for the facility are funded through the City's operating budget. Capital repairs and improvements are funded through the Parks, Forestry, and Recreation capital budget.

Operations intended to be self-sustaining

The City's financial operating goals for the Club include an intent for the Club to be self-sustaining with operating expenditures being funded from operating revenues generated by the Club.

Capital contribution set aside for repairs and expansion

Furthermore, in recent years, the City has implemented a requirement that the Club budget for an annual capital contribution of \$13,200 to be set aside in a discretionary reserve fund to provide funding for repair and expansion expenses of the facility. This contribution has been received for three years.

1.2 Core Programs Operating Out of the Curling Facility

Core curling programs comprise 60 per cent of revenues

The curling facility accommodates both a core membership base and rental users. According to the City's operating budget for the Club in Exhibit 1, core curling programs for members and rental users contribute approximately 60 per cent of revenues remitted.

Core programs operated by a combination of City staff and volunteers

Core programs including member league curling, inter-and intra-club tournaments, and facility rentals are operated by a combination of staff from the City's Parks, Forestry, and Recreation division and member volunteers.

The main program offered at the curling facility are the organized members-only curling leagues operated by volunteers from the various member curling leagues using the East York Curling Facility. Facility rentals are accommodated at the curling facility in residual times not used by the member-only curling leagues and Club hosted tournaments. The City's on-site Community Recreation Programmer coordinates facility rental bookings which consist of regular users such as community leagues and workplace leagues and occasional users such as corporate and school groups.

Insufficient governance framework to define the role, responsibilities and authority of the volunteer Executive Board

In recent years, because core programs have been traditionally organized and operated by volunteer members, significant operating decisions have been delegated to the volunteers that comprise the Club's Executive Board with relative autonomy from the City of Toronto.

Despite the authority of the Executive Board, since the repeal of By-law 322, an insufficient governance framework has been in place to officially define their role, responsibilities, and accountability to the City of Toronto. Consequently, during this audit we identified internal control and accountability issues that stem from the lack of clarity in roles and responsibilities of staff and volunteers.

It is important that a clear governance and operating framework be established for community volunteers and groups involved in operating the programs at the curling facility. Furthermore, without clearly defining the roles of City staff and community volunteers and groups, staff resources may not be deployed to support the programs in the most efficient and effective manner.

1.3 Ancillary Services Operating Out of the Curling Facility

Ancillary to the core programs operating out of the curling facility, additional services are operated through a combination of staff from the City's Parks, Forestry, and Recreation division and formal and informal agreements with vendors. These services include:

- Bar services
- Food concessions
- Pro shop

Bar services contribute 40 per cent of City earned revenues from the Club

City staff operate a bar service under a Liquor Sales License issued to the Corporation of the Borough of East York for the East York Curling Club. The bar regularly operates whenever league and rental programs are being run.

Bar sales comprise 40 per cent of the revenues and 19 per cent of the operating expenses in the City's operating budget for the curling facility, programs, and services.

Vendor relationships to provide food concession and Pro Shop services

At the direction of the Executive Board, the Club has entered into a food concession agreement with a vendor to use the facility's kitchen to make light meals available for purchase as required by the Liquor Sales License. Food concession services are operated by a vendor with hours of operation that coincide with league programs.

Additionally, the Executive Board was approached by a distributor for curling supplies to provide Pro Shop services. The Club advertised on the Club's website and newsletters curling equipment available for purchase through the Club.

Royalty and rental revenues for food concession and Pro Shop are not remitted to the City

Both of the vendor relationships to provide food concession and Pro Shop services were entered into outside of the City's normal competitive procurement processes. No royalty or rental revenues were remitted to the City and the City was not reimbursed for costs incurred relating to the use of the City's facilities. Rent for the food concession was submitted to the City commencing January 2010.

City staff are consequently involved in providing services relating to the operation of a bar, food concession and pro shop sales. A decision needs to be made as to whether or not City staff should be involved in these activities particularly in the context of their alignment with the objectives of the City and Parks, Forestry, and Recreation Division and the efficient and effective use of staff resources.

Recommendation:

- 1. The General Manager of Parks, Forestry and Recreation, evaluate the City's ongoing role in the management of facilities such as the East York Curling Club. The evaluation determine the most effective operating model taking into account community involvement in the facility as well as the management of core programs and other ancillary services.**

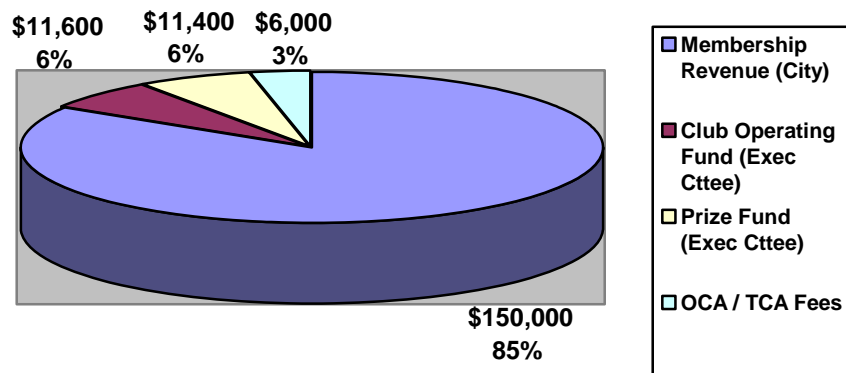
2. ACCOUNTABILITY FOR EXECUTIVE BOARD DECISION MAKING

2.1 Funds Maintenance by the Club

As part of the Club's normal operating procedures, a portion of membership fees related to the Club's Operating Fund, Prize Fund, and Ontario Curling Association (OCA) / Toronto Curling Association (TCA) fees are retained by the Executive Board. Additionally, the Executive Board also receives and retains all funds from the curling tournaments it hosts.

15 per cent of membership fees are retained in a non-City bank account

The chart below presents the distribution of membership fees between funds remitted to the City as membership revenue and funds retained by the Board:



2.2 Accountability for Expenditures Made by the Executive Board

Governance over the use of funds by the Executive Board

The governance over the use of these funds is provided by the Executive Board. The Executive Board Treasurer maintains a record of accounts and funds payable or paid by or to the Club, and completes a financial report. The financial report is presented to the Club at the Annual General Meeting.

According to the Treasurer, the money received is used exclusively to provide members with equipment that support the various curling programs within the Club. The Treasurer's Report (unaudited) for the 2008-2009 curling season stated receipts of \$20,500 and disbursements of \$19,000.

Expenditures identified in the Treasurer's Report appear to be a mixture of expenditures which would be required to operate the curling facility and core programs and other indirect expenditures.

The report did not include an accounting of funds received from membership fees for prize funds, OCA/TCA fees, or tournament entry fees.

City staff do not receive financial reports from the Executive Board Treasurer

The City's supervisory and management staff do not receive or review the Executive Board Treasurer's financial reports, nor does the City require an independent review or audit of the Executive Board's financial records regarding the use of these funds.

In the absence of a formal review of the Board's financial reports, there is an opportunity for funds to be misused for purposes other than to support the operation of the curling facility and programs.

2.3 Funds Retained by the Board in a Non-City Bank Account

The Executive Board retains over \$66,000

All funds retained by the volunteer Executive Board are maintained in a separate non-City bank account accessible to designated signing members of the Executive Board. A regular reconciliation of this bank account is not provided to the City. According to the Treasurer's Report (unaudited) for the 2008-2009 curling season, over \$66,000 was held in the Executive Board's bank accounts at the end of the 2009 curling season, with approximately \$30,000 of these funds earmarked for future replacement of curling rocks.

The Executive Board has no legal right to retain funds apart from the City

There are no provisions in City by-laws or the by-laws of the former Borough of East York that provide for the Board to retain funds outside of those remitted to the City.

Recommendations:

- 2. The General Manager of Parks, Forestry and Recreation, develop an accountability framework which includes formal operating agreements for groups operating programs at any City owned curling facility.**
- 3. The General Manager of Parks, Forestry and Recreation, until such time as a different operating model is implemented, request that the members of the Club's volunteer Executive Board:**
 - a. Provide a financial report on a periodic basis, regarding funds held in the Board's bank accounts and the expenditures made using these funds.**
 - b. Provide access, upon request, to review documents and records to substantiate the completeness of receipts and the appropriateness of expenditures.**

3. MANAGEMENT OVERSIGHT OVER CURLING CLUB OPERATIONS

3.1 Internal Control Deficiencies Related to Core Programs

City staff responsible for financial control

The City's on-site staff are responsible for collecting and recording of revenues generated from the core program areas of curling league memberships and facility rentals. As such, staff have designed and implemented certain processes and controls to ensure the accuracy and completeness of revenues remitted to both the City and the volunteer Executive Board.

Internal control deficiencies provide opportunity for theft of funds

However, issues identified during the course of the audit included the following:

- No consistent basis or criteria for establishing memberships and facility rental fees across City curling facilities. There are two operating models across the City's three curling facilities and historically decisions regarding membership criteria, fees, and rental processes have been made by each Club.

- Methods for calculating applicable fees are not always specified on the application form and not always applied consistently.
- Steps designed to ensure the accuracy and completeness of membership payments remitted to the City were not implemented in practice or were not operating effectively.
- Not all cash receipts are reconciled to cash remittance to the City.
- Processing of facility rentals are not in full compliance with City policies for facility permitting, refunds, and cancellations.

Specific deficiencies that came to our attention during the audit as well as recommendations for improving controls over revenues generated through core programs have been communicated in a letter to management separate from this report.

3.2 Internal Control Deficiencies Relating to Ancillary Services

***City staff
responsible for
financial
control***

The City's on-site staff are also responsible for collecting and recording revenue generated from the ancillary services they perform. As such, staff have designed and implemented certain processes and controls over cash handling. There is, however, a lack of sufficient processes and controls over inventory management.

The following issues, as well as recommendations for improving controls over ancillary services, have been communicated in a letter to management separate from this report:

- Inadequate segregation of duties
- Excessive use of overrides to cash register functions
- No formal reconciliation of daily credit and tab sales to weekly and monthly billings and deposits
- Coffee beverage sales are not being regularly tracked or remitted
- Inadequate record keeping of beer, wine, and liquor inventory
- Additional physical safeguards over inventory are needed
- Instances of non-compliance with City policies and procedures related to divisional purchase orders
- Entering into agreements with vendors outside of the City's normal competitive procurement processes.

Staff would have benefited from training, support, and oversight by management and compliance function

City on-site staff have attempted to design and implement their own processes to control cash handling and to comply with City policies and procedures. However, staff would have benefited from better training, support and oversight by management.

Furthermore, periodic reviews of the East York Curling Club have not been performed by the Parks, Forestry and Recreation Compliance Unit. In addition, the Internal Audit Unit within the City Manager's Office may be in a position to provide ongoing advice, training and assistance on internal control issues.

Recommendation:

- 4. The General Manager of Parks, Forestry and Recreation review the internal control deficiencies identified at the East York Curling Facility and establish a process whereby such control deficiencies are reviewed and addressed by the Parks, Forestry and Recreation Compliance Unit.**

4. RELEVANCE OF RECOMMENDATIONS TO OTHER PARKS, FORESTRY AND RECREATION FACILITIES

Although the City's two other curling clubs, Leaside Curling Club and Tam Heather Curling Club were outside the scope of this audit, it should be noted that there may be similar opportunities to improve internal controls at these facilities. Furthermore, certain recommendations may be applicable to other Parks, Forestry and Recreation facilities.

Recommendation:

- 5. The General Manager of Parks, Forestry and Recreation review the recommendations contained in this report for applicability to the other two Parks, Forestry and Recreation curling facilities, and where appropriate, such recommendations be implemented.**

CONCLUSION

This report presents the results of our review of the East York Curling Club's system of internal control over revenues, inventory management and compliance with policies and procedures related to cash handling and purchasing.

The issues identified in our review pertained to the following:

- Need for an evaluation of programs and services offered at the curling facility for alignment with City objectives
- Need for enhanced accountability by the Executive Board.
- Need for increased club management oversight.

Implementing the recommendations contained in this report, as well as in the letter issued separately to management, will strengthen controls, improve accountability and result in potential increases in revenues and cost savings.

Exhibit 1

OPERATING BUDGET FOR THE 2009-2010 CURLING SEASON

The table below shows the major categories of 2009 budgeted revenues:

Bar Revenue	\$ 150,000
Membership Revenue	\$ 152,100
Facilities Rentals	\$ 80,000
Total Revenue	\$ 382,100

The table below presents the major categories of expenditures in the 2009 budget:

Salaries	\$ 200,000
Bar Expenses	\$ 65,000
Utilities (Hydro, Gas)	\$ 46,000
Other Expenses	\$ 39,400
Total Operating Expenses	\$ 350,400

In addition, the Club budgets for an annual capital contribution of \$13,200 to be set aside to provide funding for repair and expansion expenses of the Club.

Exhibit 2

PROFIT (LOSS) AND CAPITAL CONTRIBUTIONS MADE BY THE CLUB DURING THE PAST FIVE YEARS (UNAUDITED)

<i>(in \$000s)</i>	2005	2006	2007	2008	2009
<i>Membership</i>	60	99	50	156	76
<i>Rental</i>	45	59	82	90	82
<i>Bar</i>	117	123	144	138	140
Total Revenues	222	281	276	384	298
Total Expenses	293	272	309	339	331
Profit (Loss)	(71)	9	(33)	45	(33)
Capital Contribution	0	0	(13)	(13)	(13)