

CITY OF VAUGHAN

**EXTRACT FROM COUNCIL MEETING MINUTES OF MARCH 24, 2015**

Item 4, Report No. 7, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on March 24, 2015.

**4                    INTERNAL AUDIT REPORT – RECREATION & CULTURE REVENUE**

**The Finance, Administration and Audit Committee recommends:**

- 1)        That the recommendation contained in the following report of the Director of Internal Audit, dated March 9, 2015, be approved; and**
- 2)        That Communication C1 from Mr. Tony Furiato, President, Mentana Group of Companies, Rutherford Road, Vaughan, dated March 5, 2015, be received.**

**Recommendation**

The Director of Internal Audit recommends:

1.    That the Internal Audit Report on Recreation & Culture Revenue be received.

**Contribution to Sustainability**

Internal Audit activities and reports contribute to the sustainability of the City by providing advice and assurance that controls supporting the effective delivery of services and programs are effective. Longer term sustainability needs the support of good, efficient risk mitigation strategies. Internal Audit can provide support for that sustainability by providing independent advice and assurance.

**Economic Impact**

There are no direct economic impacts associated with this report.

**Communications Plan**

Not applicable.

**Purpose**

To present the Finance, Administration and Audit Committee the Internal Audit Report on Recreation & Culture Revenue and to provide an evaluation of operational and process controls, as well as opportunities for improvement.

**Background - Analysis and Options**

This audit was done to evaluate the effectiveness of controls, processes and procedures in place to mitigate risks that could affect the proper approval and processing of Recreation & Culture revenue for the City of Vaughan.

The audit was part of the 2012 to 2014 Revised Risk Based Internal Audit Plan previously approved by the Finance, Administration and Audit Committee.

**Relationship to Vaughan Vision 2020/Strategic Plan**

This report is consistent with the priorities previously set by Council and supports the strategic goal of management excellence through financial stability and effective governance.

CITY OF VAUGHAN

**EXTRACT FROM COUNCIL MEETING MINUTES OF MARCH 24, 2015**

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**Regional Implications**

Not applicable.

**Conclusion**

The audit did not find any evidence of inappropriate or irregular transactions for the period under review. The Audit did, however, identify opportunities to improve controls by:

- Improving monitoring and oversight activities over several processes including the management of 3rd party concession vendors, inventory control, issuance of rental contracts and client account adjustments.
- Developing corporate wide cash handling and corporate collection policies and providing more clarity on roles, responsibilities and expectations of various staff in procedure documents.
- Improving processes related to the safety and security of City staff and assets.
- Leveraging advances in technology to assist with service delivery, data analytics, management reporting and automation of additional processes.

**Attachments**

1. Internal Audit Report – Recreation and Culture Revenue

**Report prepared by:**

Paul Wallis, CPA, CMA CIA CISA CRMA  
Director of Internal Audit

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)



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	COMMUNICATION	
FAA -	MAR 9/15	
ITEM -	4	

VIA EMAIL

March 5, 2015

Mr. Jeffrey A. Abrams  
City Clerk,  
The Corporation of the City of Vaughan  
2141 Major Mackenzie Drive  
Vaughan, Ontario L6A 1T1

Dear Mr. Abrams,

I have read the Internal Audit Report dated March 9th and have the following comments:

In the interest of clarity, *The Sports Village* is a wholly owned company of the Mentana Group Inc. and whereby a variable rent is a component of a long-term land lease with the City of Vaughan (the "City") within the broader context of a successful public/private partnership.

With respect to the Auditor's report, it is first important to note that The Sports Village, in accordance with its accounting practice and policies, discharges all amounts on its payable ledger relating to "buy-back" of ice allocation based on the applicable permits. The City and The Sports Village maintain excellent controls and fluid payables and receivables to and from one another. However, as a consequence of different internal processes between the parties, the outstanding receivable referenced by the auditor's report is not itemized or acknowledged historically in a manner that can be corroborated by The Sports Village.

It is important to point out that the collaborative approach to our successful partnership is the basis for which the spirit of our agreement continues to evolve. On that basis, The Sports Village and the City have collectively reconciled the disputed fees, interest and adjustments. Full payment has been issued for the remaining balance as reconciled and in keeping with our excellent working relationship.

Respectfully Yours,  
MENTANA GROUP INC.

Tony Furiato  
President

**MENTANA GROUP OF COMPANIES**

2600 Rutherford Road, Vaughan, Ontario Canada L4K 5R1

**INTERNAL AUDIT REPORT – RECREATION & CULTURE REVENUE**

**Recommendation**

The Director of Internal Audit recommends:

1. That the Internal Audit Report on Recreation & Culture Revenue be received.

**Contribution to Sustainability**

Internal Audit activities and reports contribute to the sustainability of the City by providing advice and assurance that controls supporting the effective delivery of services and programs are effective. Longer term sustainability needs the support of good, efficient risk mitigation strategies. Internal Audit can provide support for that sustainability by providing independent advice and assurance.

**Economic Impact**

There are no direct economic impacts associated with this report.

**Communications Plan**

Not applicable.

**Purpose**

To present the Finance, Administration and Audit Committee the Internal Audit Report on Recreation & Culture Revenue and to provide an evaluation of operational and process controls, as well as opportunities for improvement.

**Background - Analysis and Options**

This audit was done to evaluate the effectiveness of controls, processes and procedures in place to mitigate risks that could affect the proper approval and processing of Recreation & Culture revenue for the City of Vaughan.

The audit was part of the 2012 to 2014 Revised Risk Based Internal Audit Plan previously approved by the Finance, Administration and Audit Committee.

**Relationship to Vaughan Vision 2020/Strategic Plan**

This report is consistent with the priorities previously set by Council and supports the strategic goal of management excellence through financial stability and effective governance.

**Regional Implications**

Not applicable.

## **Conclusion**

The audit did not find any evidence of inappropriate or irregular transactions for the period under review. The Audit did, however, identify opportunities to improve controls by:

- Improving monitoring and oversight activities over several processes including the management of 3rd party concession vendors, inventory control, issuance of rental contracts and client account adjustments.
- Developing corporate wide cash handling and corporate collection policies and providing more clarity on roles, responsibilities and expectations of various staff in procedure documents.
- Improving processes related to the safety and security of City staff and assets.
- Leveraging advances in technology to assist with service delivery, data analytics, management reporting and automation of additional processes.

## **Attachments**

1. Internal Audit Report – Recreation and Culture Revenue

### **Report prepared by:**

Paul Wallis, CPA, CMA CIA CISA CRMA  
Director of Internal Audit

Respectfully submitted,

Paul Wallis, CPA, CMA CIA CISA CRMA  
Director of Internal Audit



# INTERNAL AUDIT REPORT

## Recreation and Culture Revenue Audit

November 2014

## **INTERNAL AUDIT REPORT**

### **AUDIT OF RECREATION AND CULTURE REVENUE**

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#### **CONCLUSION AND SUMMARY**

We did not find any evidence of inappropriate or irregular transactions for the period under review. We did, however, conclude that improvements to controls are required to ensure risks related to Recreation & Culture's revenue processes are efficiently and effectively mitigated. The following were identified as opportunities for improvement:

- Improving monitoring and oversight activities over several processes including the management of 3<sup>rd</sup> party concession vendors, inventory control, issuance of rental contracts and client account adjustments.
- Developing corporate wide cash handling and corporate collection policies and providing more clarity on roles, responsibilities and expectations of various staff in procedure documents.
- Improving processes related to the safety and security of City staff and assets.
- Leveraging advances in technology to assist with service delivery, data analytics, management reporting and automation of additional processes.

Management oversight is an important element of the City's overall governance framework. As the City continues to grow, management will need to continually assess whether the City has the right controls in place to mitigate the most crucial risks facing the organization. There are increased strategic, operational, financial and reputational risks to the City when management oversight is absent or focused on activities that are not crucial to meeting the City's organizational objectives. Enhancing oversight activities related to revenue processes and management of 3<sup>rd</sup> party concession contracts will help mitigate these risks.

Clarity and guidance is required from a City wide perspective as it relates to cash handling and corporate collections. The Department of Financial Services and the Senior Management Team needs to define and communicate what is an acceptable level of control for cash handling and collection activities including the purpose, roles, responsibilities and appropriate security measures required for processing payments to ensure operational, financial and security risks are mitigated.

Providing a secure and safe environment for facility visitors and staff is a top priority for the City. Implementing appropriate security controls over physical cash access and ensuring staff receives mandatory cash handling training with a robbery prevention component will help mitigate cash handling risks.

It is expected that the City's current Recreation & Culture software solution will become unsupported in 2017 and a new software solution will be required. Further work will be required to mitigate risks associated with manual processes and the use of outdated technology that can negatively impact on the way we deliver services to the public. Several of the risk issues identified in this audit could potentially be mitigated with an updated and responsive software solution combined with enhanced business processes to reflect technological advancements. Management, with Council support, should continue to explore how integrating technology with

## **INTERNAL AUDIT REPORT**

### **AUDIT OF RECREATION AND CULTURE REVENUE**

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business processes can improve the way we deliver service and enhance our ability to obtain usable data for analysis and management reporting, while giving equal consideration to the appropriate controls that may be required to mitigate both current and emerging risks.

We will follow-up on the status of outstanding Management Action Plans related to this audit and will report the status to the Finance, Administration and Audit Committee.

#### **BACKGROUND**

The current Internal Audit Risk Based Work Plan included an audit of Recreation & Culture Revenue.

The Recreation & Culture Department is committed to providing quality recreation and cultural programs and services in an accessible, equitable and efficient manner so as to ensure that all Vaughan citizens have the opportunity to enhance their quality of life and physical well-being. Not including management and part-time staff, approximately 30% of the 86 full-time staff in Recreation work directly or indirectly with revenue transactions. The remaining staff work in the program and service delivery modules including fitness, aquatics, general programs, camps, community development, arts and the Community Service Organization (CSO) portfolio to name a few.

The department processes approximately 60,000 registrations annually and offers approximately 9,500 general programming, camp and aquatics courses to the public. Within the six fitness centres more than 20,000 memberships are sold and through the ten centres 94,000 point of sale transactions are processed annually. More than 100,000 facility rental bookings for both outdoor and indoor facilities are issued to more than 300 CSO's and thousands of private groups. Revenue generation for 2015 is expected to be close to \$19 million.

The department hires approximately 900 part-time staff throughout the year for seasonal programs and recreational services.

Recreation & Culture continually strives to recover 95% of its direct operating costs. This is being achieved through operational efficiencies and revenue generating initiatives despite challenges such as rising costs, inflationary pressures, demographic changes and growing levels of competition from the private sector.

## INTERNAL AUDIT REPORT

### AUDIT OF RECREATION AND CULTURE REVENUE

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#### OBJECTIVES AND SCOPE

The objective of the audit was to evaluate the adequacy and effectiveness of the internal controls, processes and procedures in place to mitigate the business risks associated with Recreation & Culture revenue processing.

The audit approach included data analyses of the various revenue streams, physical sampling of revenue records, review of City policies and procedures and interviews with staff and management.

The audit scope included revenue earned between January 1 2013 and September 30 2014 of approximately \$31 million.

The audit scope did not include a review of the efficiency and effectiveness of Recreation & Culture program offerings, service delivery or the appropriateness of user fees.

**Auditor and Author: Kevin Shapiro CIA, CFE, CRMA**

**Director: Paul Wallis CPA, CMA, CIA, CISA, CRMA**

# INTERNAL AUDIT REPORT

## AUDIT OF RECREATION AND CULTURE REVENUE

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### DETAILED REPORT

#### 1. *Improve Monitoring and Oversight over the Vaughan Bocce and Recreation Centre and Concession Contract Management*

The Vaughan Bocce and Recreation Centre is an unmanned facility that is primarily used by rental groups. In 2013, a new 3<sup>rd</sup> party vendor was sourced to manage the concessions and operations of this facility on the City's behalf.

Our review of this concession agreement identified several issues as it relates to the monitoring, oversight and overall performance of the Vaughan Bocce and Recreation Centre.

Based on our analysis, the Vaughan Bocce and Recreation Centre is underutilized and is losing approximately \$100,000 a year since 2008. The lease on this facility does not expire until 2022.

Incidents of vendor non-compliance to the concessions agreement were identified. Examples include leaving the facility open, but unattended, allowing rental groups to play longer than the time allotted per their permit and operating outside of contracted business hours.

In addition, two unauthorized organizations were using space in the facility without the City's consent. As a result, the City was not receiving rental income from these organizations for use of this space.

From an administrative perspective, although postdated cheques were collected from 3<sup>rd</sup> party vendors on an annual basis as per contractual obligations, scheduling of payments is not consistently handled in the point of sale (CLASS) system, and no formal procedures exist outlining the process.

Without improved oversight and monitoring over facility and vendor performance, the site poses strategic, operational, financial and reputational risks to the City.

#### **Recommendation**

We recommend that management:

- Investigate the feasibility of renegotiating the lease at Vaughan Bocce and Recreation Centre or at minimum, investigate whether there are alternatives to better use the Vaughan Bocce and Recreation Centre.
- Provide resources to better manage and control leases.
- Improve monitoring and oversight controls over this facility and vendor performance.

## INTERNAL AUDIT REPORT

### AUDIT OF RECREATION AND CULTURE REVENUE

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- Remove the unauthorized organizations from the Vaughan Bocce and Recreation Centre or arrange appropriate agreements for use of the space.
- Develop a formal process for setting up concession vendor payments.

#### **Management Action Plan**

Management agrees with the recommendations.

Discussions regarding alternative uses for the Vaughan Bocce and Recreation Centre are ongoing. Recreation and Culture Management, in consultation with the Legal Department, is in the process of preparing a report to Council outlining recommendations for the future use of this facility.

As part of the current budget submissions, a Property Manager position is being requested that would allow for better oversight and control over City leased and licensed properties.

In the interim, several actions have been taken to improve monitoring and oversight as it relates to the performance of the 3rd party vendor.

In consultation with the Legal Department, a letter of notice was issued to the vendor noting the incidents of non-compliance and consequences if further incidents are noted.

Staff will continue to monitor the usage of the facility by conducting monthly site visits, meetings with vendor staff and through increased security patrols. Any incidents of non-compliance or unauthorized use may result in escalated actions against the vendor.

The unauthorized organizations that were using space in the facility have been removed.

Processes for setting up concession vendor payments are in the process of being developed by Recreation and Culture Management and will be communicated to staff upon completion.

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#### **2. *Inventory Management***

To provide multi-service options to citizens, Recreation & Culture offers several items for sale at most recreation centres including transit tickets/passes, stamps, garbage tags, blue/green bins, towels, squash balls, yoga mats and swimwear. Annual sales for these items total approximately \$2 million, with approximately 95% falling under the transit category. Several procedures related to inventory management have been documented and are included as part of Recreation & Culture's Administration Manual.

Our review of Recreation & Culture's inventory management practices confirmed that several saleable items such as blue/green bins, swimmers diapers, speed water equipment (shampoo, bathing caps), squash balls, swim goggles, towels and yoga mats are not consistently entered as inventory in the CLASS system and those that are entered are not always processed correctly. In addition, a process is not in place to ensure that all inventory items received per the invoice are entered into the CLASS system.

While reviewing system generated inventory reports, large inventory variances were identified for several items including the transit inventory category. Although the absence of appropriate inventory reconciliation controls may partially explain these variances, it may also be due to a known system software error which is expected to be fixed by the software developer in the next system upgrade scheduled for the fourth quarter in 2015. As a result, we cannot validate or investigate the source of these variances.

When inventory is not entered into the system, reconciliation controls are absent and system data may not be reliable, there is an increased risk of error, potential stock overages/shortages and loss or misappropriation of inventory, which all have a direct impact on net revenue.

#### **Recommendation**

We recommend that:

- All saleable items are inventoried in the CLASS system.
- An inventory reconciliation process is developed including appropriate monitoring controls to ensure all inventory transactions per invoices are accounted for correctly in CLASS. Inventory procedures should be updated to reflect these process improvements.
- The CLASS system upgrade is implemented to remedy the inventory system error. In addition, a full inventory count should be conducted and verified so that the correct inventory totals can be confirmed in CLASS. Then, management can use this as a starting point to monitor and investigate discrepancies in the CLASS system going forward.

## INTERNAL AUDIT REPORT

### AUDIT OF RECREATION AND CULTURE REVENUE

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#### **Management Action Plan**

Management agrees with the recommendations.

All saleable items are now being inventoried and processed through CLASS.

An inventory reconciliation process and updated procedures are being developed and are expected to be implemented by the end of the first quarter, 2015.

The CLASS upgrade is expected to be implemented in the fourth quarter of 2015 which is expected to remedy the inventory software errors.

## INTERNAL AUDIT REPORT

### AUDIT OF RECREATION AND CULTURE REVENUE

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#### **3. Accounts Receivable**

Recreation & Culture is responsible for managing their own accounts receivable, including invoicing, receiving and applying payment and administering account adjustments, such as discounts, applying interest and writing off delinquent balances.

Our review noted the following:

- There is no overall responsibility at the City for collection agency use and there is no corporate wide collections policy and procedures. Multiple collection agencies are being used by different departments. Collection agency commission fees range from 25% to 56% depending on the agency used by a City department. As a result, there is a risk that collection processes are not being performed in a consistent manner in the organization and the City may not be getting the best price for collection agency services.
- There is an absence of appropriate segregation of duties within Client Services as the same individuals who have access to receive and apply payments also have the ability to perform account adjustments. Concentrating incompatible duties with one person increases the risk of potential misappropriation. Although the number of staff with these conflicting duties is limited and no misappropriation was identified, the risk is still present.
- Due to limitations with the CLASS system, the process of tracking account adjustments and applying interest to client accounts is manual which increases the risk of errors or omissions. In addition, there is a risk that account adjustments may not have been formally reviewed for reasonableness or approved as supervisory staff do not cross reference the adjustments brought to their attention by staff to the CLASS Customer Account Adjustment Report. As a result, there is a risk that account balances may be inappropriately adjusted.
- Two organizations have been carrying large receivable balances for several years. As of October 1, Fontana Gardens owes approximately \$54,000 while The Sports Village owes approximately \$180,000.
- There is no formal process at the City for reporting the annual amount of Recreation & Culture's write-offs, which could cause reputational risk due to a perceived absence of transparency.

Enhancing controls over the receivables process will help mitigate the risk of misappropriation of City assets and reduce negative reputational risks to the City.

## INTERNAL AUDIT REPORT

### AUDIT OF RECREATION AND CULTURE REVENUE

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#### Recommendation

We recommend that:

- Financial Services management take ownership over the management of collection agency usage for the City including tendering for a corporate collection agency and establishing policy and procedures for appropriate collection agency use.
- The incompatible duties of receiving and applying payments be segregated from the duties of applying account adjustments or management implement appropriate compensating controls to address this risk.
- Management investigate the feasibility of automating the process of applying interest to outstanding account balances.
- Account adjustments are appropriately monitored, reviewed and approved.
- Management develops a plan for dealing with Fontana Gardens and Sports Village's outstanding receivables.
- A process is developed for appropriate disclosure of the City's annual write-off activity.

#### Management Action Plan

Management agrees with the recommendations.

In order to ensure a comprehensive collections strategy for the entire organization Finance management will work with ICI once they have completed the Revenue Management Review for the entire City. In the meantime Finance will work with Purchasing and Recreation and Culture to identify a single collections vendor or obtain reduced and consistent fees. Finance and Recreation and Culture will review collection efforts in conjunction with a quarterly review of outstanding accounts receivable.

Recreation and Culture Management is currently assessing business practices to determine the feasibility of segregating the incompatible duties. Due to limited staffing resources, it may not be practical to segregate the incompatible duties. Concurrently, management is investigating alternative compensating controls to address the risk, such as enhanced monitoring of these activities and the sampling of individual transactions for reasonableness.

The Recreation and Culture Department with ITM and Finance consultation, has determined that automating the process of applying interest to outstanding account balances is not possible with our current software solution. We acknowledge that this feature should be considered a priority when replacement software is required by the end of 2017. In the meantime, Recreation Management will continue to verify that interest charges are being calculated and applied correctly to account balances.

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Management is in the process of revamping and formalizing processes for account adjustments and interest charges including the clarification of roles and responsibilities as it relates to processing, monitoring and approvals.

There is a payment plan in place for the Fontana Gardens accounts receivable. However, in the event that Fontana Gardens does not comply with the payment plan, management is consulting with the Legal Department for further remedies and actions.

The Sports Village, for all intents and purposes, is owned by the City and the City is entitled to 80% of the net cash flow profit arising from its operations. Charging interest and penalties on the receivable would only eventually result in detriment to the City itself. As long as there is consistent activity on the receivable (e.g. decreases and increases) then the City is not at major financial risk. The financial activities and positions of Sports Village are also monitored closely by City staff through its partnership and agreements.

The amount owing by The Sports Village is down to approximately \$147,000 of which \$118,000 is accrued interest. At the time of the arrangement in 2000, the contract for purchasing of ice by the Sports Village was dealt with as a straight rental with standard terms including the addition of interest on overdue accounts. The Sports Village receives a monthly statement with a breakdown of fees and remits payments on a regular basis. The Sports Village interest has been reversed and will not be charged on a go forward basis. A letter will be sent to the Sports Village advising of the requirement to remit full payments monthly in accordance with the rental permit conditions.

The CLASS system does not link in with the JDE financial system. As a result, Finance does not have visibility into the detailed financial data in CLASS, as only G/L balances are uploaded from CLASS into JDE. Until a technology solution becomes available (replacement of the CLASS system is slated for 2017), Finance and Recreation & Culture have agreed to layer in the Recreation & Culture receivables with the corporate receivables annually and apply the same corporate methodology with respect to write-offs and bad debts. Further, Finance and Recreation and Culture will review outstanding accounts receivable quarterly to assess collectability.

## INTERNAL AUDIT REPORT

### AUDIT OF RECREATION AND CULTURE REVENUE

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#### **4. Complimentary Fitness Memberships, Complimentary Activity Passes and Gift Certificates**

Complimentary fitness memberships [1-month, 3-month, and 1-year], complimentary activity passes [1-time fitness, skate, sport, or swim], and gift certificates [purchased at a specified dollar value] are three separate programs offered by Recreation & Culture.

Complimentary fitness membership and activity passes are used to raise awareness and promote active living in the City. Activity passes are also used for customer service reasons, as well as being an alternate method to provide a refund, such as when a pool fouling occurs.

Complimentary passes presented to organizations and individuals are part of a departmental donation program which was streamlined in 2006. These passes have no monetary value and are not refundable or transferable to other City of Vaughan fee programs and are limited in use by an expiry date. Organizations requesting a donation must complete a Request for Donation form which is then approved or declined based on the department's donation program.

The issuance of all complimentary passes is tracked manually using Microsoft Excel. The redemption of complimentary one time activity passes has also been tracked manually using Microsoft Excel; however, the redemption of all complimentary fitness memberships has been tracked through CLASS at the community centres.

Gift Certificates are another method used to promote the City's brand and provides an alternative payment method. Gift Certificate sales were approximately \$16,000 in 2013.

The current process for managing the issuance and redemption of gift certificates, complimentary fitness and complimentary activity passes is inefficient and ineffective. The following was observed:

- The CLASS system does not process the sale, redemption and inventory of gift certificates in a manner that would allow management to properly account for the program. In addition, the current physical gift certificate design does not have anti-counterfeiting measures. As a result, there is an increased risk of loss or misappropriation and the business risks associated with managing the current program may outweigh the benefits of the offering.
- A manual process for managing gift certificate inventory is in place but additional controls are needed for designating accountability and responsibility for tracking inventory on hand, access to stock and authority to order a stock reprint. As a result, there is increased risk of loss or misappropriation.

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### AUDIT OF RECREATION AND CULTURE REVENUE

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- Revenue is being overstated by the value of all complimentary fitness membership redemptions as each has been assigned a dollar value and is processed as gift certificate redemptions in CLASS. In addition to the overstated revenue, management cannot easily differentiate between complimentary fitness membership pass redemptions and gift certificate redemptions, which increases the risk that overall outstanding gift certificate liability is not accurate.
- Analysis of issuance and redemption patterns of complimentary fitness passes is based solely on redeemed coupons that have been returned to the Recreation & Culture City Hall offices, not on redemptions through CLASS. As a result, there is a risk that redemption analysis of these passes may not be accurate, which can potentially impact decision making. In addition, analysis of issuance and redemption patterns of complimentary activity passes is not performed. As a result, there is increased risk that management may not be able to determine the success of the program objective to raise awareness and promote active living in the City.
- Procedures related to gift certificates and complimentary passes do not provide sufficient detail for several of the steps involved in the process including approving requests, tracking requests, redemption processes or inventory control. In addition, roles and responsibilities are not clearly defined. This may cause confusion for new and existing staff, which increases the risk to service delivery.

#### Recommendation

We recommend that management:

- Investigate the feasibility from both a risk and cost perspective of continuing to offer a gift certificate program.
- In the interim, develop an inventory control process for managing the current physical gift certificate stock.
- Ensure that the redemption of complimentary fitness memberships is tracked separately from gift certificate redemptions and redeem complimentary passes at \$0.
- Investigate the feasibility of automating the redemption of all complimentary passes through the CLASS system.
- Analyze and monitor issuance and redemption trends to determine whether the goals and objectives of the complimentary pass programs are being achieved.
- Update the content of the gift certificate and complimentary pass procedures to provide more clarity on roles, responsibilities and expectations of various staff.

## INTERNAL AUDIT REPORT

### AUDIT OF RECREATION AND CULTURE REVENUE

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#### **Management Action Plan**

Management agrees with the recommendations.

Working collaboratively with ITM, Recreation and Culture Management is currently investigating alternative service delivery methods which will allow better control over the gift certificate program while enhancing the service aspect for our users. In the interim, controls over the current manual process for managing the gift certificate inventory will be developed and implemented.

Working collaboratively with ITM, the Recreation & Culture Department is also investigating the feasibility of separating the redemption of complimentary fitness memberships from gift certificate redemptions, as well as the possibility of automating the redemption of all free activity passes through the CLASS system.

Concurrently, the Recreation & Culture Department has reviewed the issuance and redemption tracking of complimentary passes to better analyze trends and has streamlined the complimentary fitness memberships and free activity pass procedures to provide more clarity on roles, responsibilities and expectations of various staff.

## INTERNAL AUDIT REPORT

### AUDIT OF RECREATION AND CULTURE REVENUE

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#### **5. Security of Staff, Cash and Cash Handling Areas**

The City does not have a corporate wide cash handling policy that defines the acceptable level of control for cash handling operations including the purpose, roles and responsibilities and appropriate security measures required for processing payments. As a result, appropriate security and safety precautions are not in place to restrict unauthorized access to cash and cash handling areas in the City's Recreation Centres.

In some locations, access cannot be appropriately restricted due to the physical design of the cash handling areas, such as the absence of a physical door to the cash handling area and/or counters that can easily be climbed over to access the cash handling areas. Where the physical design of a cash handling area includes lockable doors, they remain unlocked during regular business hours to allow staff access.

All locations have safes, but they were not always located in areas outside of public view and are not always being locked during business hours. Although the Recreation & Culture Administration Manual Safe procedure outlines provisions for when the safe combinations are to be changed, none of the locations could provide evidence to support that safe combinations are being changed as per procedure.

Human Resources offer robbery prevention training. However, the frequency and timing of these courses are not always convenient for Recreation & Culture's part time front desk staff as many are students who cannot attend during regular City Hall business hours. In addition, Recreation & Culture does not incorporate robbery prevention training as part of their new employee orientation. As a result, there is increased risk that staff who are most in need of training may not receive it, which increases potential security and safety risks to staff.

The absence of a corporate wide cash handling policy, ineffective controls to restrict access to cash and cash handling areas and the absence of mandatory robbery prevention training further increases safety and security risk to staff and visitors and increases the risk of loss/theft of City assets.

#### **Recommendation**

We recommend that:

- Financial Services management establish a corporate wide cash handling policy.
- Management investigates the feasibility of improving the physical design of cash handling areas to mitigate the risk of unauthorized entry. This should include an assessment of the optimal balance between public accessibility requirements and safety of staff and visitors. In locations where appropriate physical barriers do exist, management should ensure that appropriate precautions are taken to ensure only authorized individuals access these areas.
- Safes are relocated to areas outside of public view.

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- Staff comply with the Recreation & Culture Administration Manual Safe procedure provisions related to securing the safe and changing the safe combinations.
- All City staff with cash handling responsibilities are provided mandatory cash handling training which should include a component on robbery prevention. Management should ensure that the delivery of the training is coordinated appropriately with the user departments to ensure user needs are met.

#### **Management Action Plan**

Management agrees with the recommendations, although design factors of the customer service counters may limit the ability to implement all the recommendations at every location. It should be noted that counters were renovated to meet accessibility standards in 2011.

Financial Services has developed a corporate wide cash handling policy which will be tabled in the 1st quarter for Council approval.

Recreation and Culture Management will investigate the feasibility of improving the physical design of cash handling areas and ensure that appropriate precautions are taken to ensure only authorized individuals access these areas. An assessment of the optimal balance between public accessibility requirements and safety of staff and visitors will be considered as the cost to make physical changes to these areas may be significant.

Where feasible, safes will be relocated or obscured from view.

Recreation and Culture Management will ensure that safe procedures are complied with.

For training purposes a list of all City positions that require cash handling responsibilities will be developed. In addition to specific job training provided by the specific department, Human Resources will provide Robbery Prevention Training. The Robbery Prevention Training will be provided based on a flexible / blended training model including either in-class and/or e-learning training approaches to meet the training delivery needs of each department. New staff designated with cash handling responsibilities will be provided Robbery Prevention training as part of their orientation within the first month of joining the City. Existing employees will be provided with an initial training (if not already done so in the last 12 months) plus yearly refresher training through an e-learning on-demand training module. The Robbery prevention training curriculum has been developed and is ready for delivery for in-class training. The e-learning Robbery Prevention training is now being developed and will be ready on an on-demand electronic basis by January 30, 2015. All existing staff with cash handling responsibilities will have received Robbery Prevention Training by end of Q1 2015.

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#### **6. Cash Verification and Deposit Analysis**

We reviewed processes related to balancing and verification of cash, cheques, credit and debit payments, daily revenue and preparation of bank deposits. We observed that counterfeit bill detection training is not provided to staff. In addition, current practices, such as sharing of cash floats and system user identifications, infrequent balancing of secondary floats and the verification of deposits without the presence of the preparer compromises accountability and increases the risk of loss or misappropriation of funds.

According to management, increasing the amount of float funds and obtaining additional point-of-sale stations at the recreation centres would give them greater flexibility in reducing the need to share floats. Limited float funds also require frequent trips to the bank to obtain change. In addition, staff scheduling makes it difficult to always have a second person present to verify revenue and float balances at the end of the business day. However, having a second person present to validate the previous night's deposit and verification of floats funds the following morning may be possible.

The armoured car pickup schedule may not be appropriate as criteria have not been established to determine the appropriate pickup frequency. As a result, there is a risk that the pickup schedule does not reflect cash payment trends.

#### **Recommendation**

We recommend that management:

- Determine the appropriate amount of operating funds required at each recreation centre to ensure that residents and visitors can be served efficiently and effectively while ensuring appropriate accountability over funds can be maintained (i.e. no sharing of cash floats and/or system login credentials).
- Ensure the verification of revenue and deposits is performed in pairs.
- Develop and implement counterfeit bill detection training for staff.
- Develop criteria for determining an appropriate armoured car pickup schedule.

#### **Management Action Plan**

Management agrees with the recommendations.

Financial Services and Recreation & Culture will review the amount of operating funds required at each recreation centre for appropriateness in conjunction with the issuance of the new Cash Float Policy. The handling of cash and its accountability will be according to the new cash policies.

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Recreation and Culture Management will strive to ensure that the verification of revenue and deposit is performed in pairs, recognizing that current resources may limit the ability to implement consistently at all locations. In those circumstances, other mitigating controls will be developed.

Counterfeit bill detection training materials are in the process of being developed and all relevant staff will receive training.

Recreation and Culture Management, with the assistance of Financial Services will develop a formal process for monitoring cash payment trends and make adjustments to the armoured car pickup schedule as required.

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#### **7. System Access**

CLASS system users are assigned to a user group based on their job titles. A review of the security permissions within the CLASS system identified that system administration duties are currently assigned to individuals with active operational system duties including the Client Services management team. Recreation & Culture does not have any compensating controls in place to monitor these conflicting duties. When duties of system administration are not adequately segregated from operational duties and compensating controls are not in place, there is an increased risk of inappropriate access and/or misappropriation of revenue.

Incompatible functions are also being assigned within specific user groups, such as providing staff the ability to process a payment, refund a payment and update account balances. Some employees have been assigned access to multiple user groups. The use of generic user identifications and the sharing of user identifications and passwords are also common practices.

The absence of adequate systems access controls may increase the risk of inappropriate activities and undetected errors in the processing of customer payments, refunds, account adjustments, and related journal entries.

#### **Recommendation**

We recommend that management:

- Remove the system administration duties/access from those with active operational duties or if not feasible due to resource constraints, implement appropriate monitoring controls.
- Segregate the incompatible duties within the system user groups or if not feasible due to resource constraints, implement appropriate mitigating controls.
- Ensure users are only assigned system access for areas under their immediate day-to-day responsibilities.
- Eliminate all generic user identifications and ensure each user is provided with a unique username and password.

#### **Management Action Plan**

Management agrees with the recommendations.

A System Analyst was hired in the ITM Department in Q3, 2013 to assist with creating controls, analysis, etc. System Access was revamped in Q4, 2013 and is still undergoing review and adjustment.

Discussions will take place between ITM and Recreation & Culture to transfer duties regarding System Access to the System Analyst position.

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Recreation and Culture Management is currently assessing business practices to determine the feasibility of segregating the incompatible duties. Due to limited staffing resources, it may not be practical to segregate the incompatible duties. Concurrently, management is investigating alternative compensating controls to address the risk, such as enhanced monitoring of these activities and the sampling of individual transactions for reasonableness.

Generic user identifications and the sharing of login credentials will be eliminated.

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#### **8. Technology**

Recreation & Culture's current software solution (CLASS) offers several modules which support service delivery such as program registration and facility rentals. However, management has reported several challenges with the current system including the absence of system integration between this software and the City's financial system, challenges with obtaining data for reporting and dashboard analysis and the absence of capabilities to implement new initiatives such as endless lines of registration and on-line membership renewal.

CLASS will become unsupported in December 2017 and a new software solution will be required to meet business requirements and to mitigate the business risks associated with using an unsupported solution.

A working group comprised of Recreation & Culture peers has already been established with other local municipalities who use the same software to develop a list of requirements that a new solution must have to ensure the goals and objectives of each respective municipal recreation & culture program can be achieved.

Several of the risk issues identified in this audit could potentially be mitigated with an updated and responsive software solution combined with enhanced business processes to reflect technological advancements.

Not investing and implementing technological advances could result in unrecognized and/or unrealized opportunities for processing and tracking revenue, improvement in efficiency, data accuracy and service delivery.

#### **Recommendation**

We recommend that management, with the support of Council, continue to explore how leveraging new technology can improve efficiency and effectiveness in service delivery with consideration given to the appropriate controls that may be required to mitigate both current and emerging risks.

#### **Management Action Plan**

Management agrees with the recommendations.

Procuring a new software solution is a priority requirement for Recreation & Culture. Management will continue to explore options and requirements for procuring a new software solution.

It is expected that a Capital Budget request will be submitted in 2016 for the replacement of the CLASS software.

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#### **9. Rental Contracts**

Recreation & Culture's Client Services is responsible for issuing rental contracts for the use of City facilities, parks and services-in-kind. The City Playhouse and Aquatics issue rental contracts for City Playhouse rentals and pool parties, respectively. Rental contracts may be issued for a one-time event, such as a birthday party, or for a recurring event such as the weekly use of a baseball diamond.

Our review of the rental contract issuing process confirmed that staff do not track the status of unreturned signed contracts. As a result, signed agreements are not always returned by the rental contract holder prior to the event. When signed agreements are not returned, there is an increased risk that users may not understand or agree to the terms and conditions of the agreement, which increases liability risks to the City.

In reviewing the process for amending a rental contract agreement, it was discovered that staff have the ability to retroactively amend contract details even after the event has concluded. According to management, this may be necessary to adjust for rain dates or resolving issues with dissatisfied clients. Each amendment overwrites the previous version of the contract and staff do not always enter the reason why an amendment was required. As a result, there is increased risk that contract details may be amended inappropriately.

#### **Recommendation**

We recommend that management:

- Ensure signed rental contract agreements are received prior to the start of the event.
- Investigate the feasibility of either removing access to amend completed contracts or develop appropriate compensating controls that would flag all retroactive amendments for management review and approval.

#### **Management Action Plan**

Management agrees with the recommendations.

Due to limited staffing resources, it may not be practical to track clients that have not returned a signed agreement prior to the start of their event. Recreation and Culture Management is investigating alternative solutions with our Legal Department that may mitigate this risk, such as disclaimers or online acknowledgement of the rental contract terms and conditions.

Recreation and Culture Management will work with ITM to investigate whether system reports can be developed that will flag retroactive contract amendments for management review and approval or other compensating controls will be developed to manage this risk.

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#### **10. Refunds**

The Recreation and Culture Department processes refunds directly related to their programs, rental contracts and fitness memberships for a variety of reasons including program withdrawals, rental contract amendments, and to return facility key and security deposits. Our review of the refund process revealed that a formal written approval process for refunds is not in place. Although exceptions to policy can be made, the reason for doing so and the person who authorized the refund are not always documented.

Implementing a formal management oversight process to review and approve refunds may help mitigate the risk of undetected errors, non-compliance with refund policies and potential loss of revenue.

#### **Recommendation**

We recommend that management document and implement a formal oversight process to review and approve all refunds.

#### **Management Action Plan**

Management agrees with the recommendation.

Recreation and Culture Management is in the process of documenting and implementing a formal oversight process to review and approve all refunds. The process will specifically outline the appropriate roles, responsibilities and accountabilities of those involved in the refund process.

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#### **11. Policies & Procedures**

Recreation and Culture maintains an Administration Manual which contains general information, guidelines and procedures. A review of the Administration Manual content revealed that sections outlining staff accountability and responsibilities were absent from most procedures. As a result, it is not always clear who the information and procedures are targeted to and who is accountable and responsible for performing and ensuring the duties are completed. In addition, there were several different procedures related to the same topic, such as inventory, cash management and daily cash balancing.

As Recreation & Culture continues to struggle with the challenges faced with high turnover in the Front Desk staff position, which is mostly filled by part time students, there is increased risk to service delivery and cash control, especially if the manual content is overloaded or inconsistent.

Opportunities exist to update the content of the Administration Manual to provide more clarity on roles, responsibilities and expectations of various staff. In addition, opportunities exist to streamline procedure content to minimize duplication and ensure consistency.

#### **Recommendation**

We recommend that management:

- Update the content of the Administration Manual to provide more clarity on roles, responsibilities and staff expectations.
- Streamline procedure content to minimize duplication.

#### **Management Action Plan**

Management agrees with the recommendations.

At the commencement of this audit, Recreation & Culture staff were in the process of finalizing the amalgamation of procedures for Point of Sale items such as blue boxes, green bins, garbage tags, Canada Post stamp booklets, and York Region transit tickets. Also, in the absence of corporate policies, the Recreation & Culture Department continuously focuses on streamlining procedures such as daily cash balances, post-dated payments, and pre-authorized payment reconciliation.

Recreation & Culture staff will review all departmental procedures with a focus to provide more clarity on roles, responsibilities and staff expectations, as well as streamlining procedural content to minimize duplication.

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#### **12. Allowance For Doubtful Accounts**

An allowance for doubtful accounts is not maintained for Recreation & Culture and City Playhouse receivables. In addition, the amount budgeted for City Playhouse bad debt has not been reflective of actual historic receivable write-offs. The average annual combined write-offs for Recreation & Culture and the City Playhouse over the past 7 years is approximately \$5,000 per year. Although immaterial with respect to the annual revenue generated over the same period, there is a risk that these trends could change over time.

#### **Recommendation**

We recommend that management examine the current budgeting process for City Playhouse bad debt expense and to evaluate whether an allowance for doubtful accounts should be created for Recreation & Culture and City Playhouse receivables.

#### **Management Action Plan**

Management agrees with the recommendation.

The CLASS system does not link in with the JDE financial system. As a result, Finance does not have visibility into the detailed financial data in CLASS, as only G/L balances are uploaded from CLASS into JDE. Until a technology solution becomes available (replacement of the CLASS system is slated for 2017), Finance and Recreation & Culture have agreed to layer in the Recreation & Culture receivables with the corporate receivables annually and apply the same corporate methodology with respect to write-offs and bad debts. Further, Finance and Recreation and Culture will review outstanding accounts receivable quarterly to assess collectability.

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#### **13. Credit Balances in Family and Organization Accounts**

Recreation & Culture clients are permitted to maintain a credit balance with the City. In some instances, a credit balance may represent a deposit for a future rental. In other instances, it may be the result of an unprocessed refund, as the strategy of Recreation & Culture's refund policy is to encourage clients to keep their credits with the City in an attempt to have the client register in a future offering. Otherwise the client would be subject to an administration fee to process the refund.

Annually, members with credit balances of \$15 or less are contacted by mail to ask their permission to donate their credit balance to the Rec Assist program. However, a process for managing credit balances greater than \$15 had not been established. As of June 2 2014, there was a total credit balance of approximately \$560,000. 82% of this (\$425,000) is greater than 120 days old. 43% (\$239,000) is greater than 24 months old. The older the credit, the greater the risk that the client may have moved, may have forgotten about the credit or no longer requires services.

Since this issue was discussed, management, in conjunction with Legal and Finance staff has taken action by establishing criteria for how long the City will hold on to a credit balance on a going forward basis, establishing procedures for monitoring existing balances and implementing an appropriate course of action for existing credit balances older than 2 years, which was communicated in the Fall 2014 & Winter 2015 Recreation Guide and on the City's website.

We are satisfied with the actions management has already taken to address this observation and have no further recommendations.