



City of Markham

Report of the Auditor General Cash Handling Audit

Presented to: General Committee of Council, City of Markham

Date: April 18, 2017

AGENDA

- Background
- Objective
- Approach
- Scope
- Strengths
- Summary Findings
- Acknowledgement

BACKGROUND

- The City collects, handles and manages payments from residents at its various locations.
- The majority of payments are through cheque, debit and credit card. These three methods account for 94% of total payments made at all City locations, resulting in the remaining 6% made with cash.
- Of the 6% cash payments, 83% of cash is collected at the Civic Centre location, with 99% of cash payments made at Cash Management.
- The City's cash handling process is summarized into five sub-processes:
 - Beginning of the Day/Shift;
 - During the Day/Shift;
 - End of Day/Shift;
 - Deposit; and,
 - Monitoring and Audit.

AUDIT OBJECTIVE

The objective of the audit was to:

- 1) Evaluate the effectiveness and efficiency of policies, processes, procedures and controls for cash handling (i.e. payments received with cash, debit, credit and cheque);
- 2) Assess whether roles and responsibilities for cash handling procedures are adequately segregated; and,
- 3) Provide recommendations for improvement, ensuring they align with the City's operating environment.

AUDIT APPROACH

1. Project Planning Phase

- Define objective and scope.
- Confirm project duration and schedule.
- Assign team members and develop team structure.
- Describe deliverables.
- Create Audit Planning Memo and distribute to City staff and Council.



2. Project Execution (Information Gathering & Analysis Phase)

- Review existing process descriptions and relevant documentation.
- Conduct interviews / discussions.
- Document current state.
- Evaluate current state through process walkthroughs and detailed control testing.



3. Project Reporting (Reporting Phase)

- Identify strengths and/or weaknesses.
- Document results and improvement opportunities.
- Prepare draft report with findings and recommendations.
- Validate and present findings and recommendations.
- Issue final report.

SCOPE

- The audit focused on:
 - The processes and procedures followed, and the controls in place, to collect, handle, count, reconcile, deposit, monitor and safeguard cash and other payment types.

- Locations that were reviewed in detail are:
 - Markham Civic Centre, which includes the Cash Management Office, Planning Dept., Building Dept., Legislative Services Dept., and Contact Centre;
 - Angus Glen Community Centre and Library;
 - Milliken Mills Community Centre and Library; and,
 - Operations Dept.

OUTSIDE OF SCOPE

- The following areas were not within the scope of the audit:
 - Processes and procedures related to the Program Administration Facility Booking System (i.e. CLASS), TixHub registration system, petty cash and establishment of cash floats;
 - Powerstream utility payment process given that the City acts as an agent for these payments;
 - Processes or procedures for identifying counterfeit currency and compliance with anti-money laundering (“AML”) legislation; and,
 - Information technology general controls (“ITGC”) over databases and systems used for cash handling.

AUDIT FINDINGS – STRENGTHS:

Segregation of Duties

The Cash Management Office and the locations handling cash have adequate segregation of duties relating to recording of cash transactions and preparation of deposits.

Safeguarding of Cash

Each location maintains at least one safe (with many locations having two or three safes in different areas) that are used to hold cash, change boxes, POS cash tills, deposit amounts, and transaction records/receipts. Safes have adequate locking mechanisms (i.e. pin-pads and combination locks).

STRENGTHS CONT'D:

Surprise Audits

The City's Cash Management Office conducts routine surprise audits, on every location which handles payments, twice per year. The audits include verifying cash tills, change boxes and petty cash balances to the amounts allocated and recorded by the Cash Management Office.

Refunds

Refunds are not processed at locations which take payments and handle cash. If a customer requires a refund, it must be submitted and processed through the Finance Department, following the cheque payment cycle and policies. This reduces the types of errors and discrepancies that can occur at a cash handling location.

CONCLUSION

Findings Rating Scale

Rating	Rating Description
L = Low	The observation is not critical but should be addressed in the longer term to either improve internal controls or efficiency of the process (i.e. 6 to 12 months).
M = Medium	The observation should be addressed in the short to intermediate term to either improve internal controls or efficiency of the process (i.e. 3 to 6 months).
H = High	The observation should be given immediate attention due to the existence of either a potentially significant internal control weakness or operational improvement opportunity (i.e. 0 to 3 months).

- Overall 6 **Low** priority findings were identified.

FINDING #1:

Low

Cash Handling Policies and Procedural Documentation

Cash handling process and procedures documentation varies between the City's locations. For example, the Cash Management Office has prepared process maps; Recreation has a procedural manual; the Library has its own policy and procedures; and, Operations does not have fully documented procedures.

In addition, the City does not have a Cash Handling Policy or a Change Float Policy, to provide all departments and locations guidance and consistency on proper cash handling and security controls and protocols.

While a standard set of policies and procedures are important and would normally be rated as a medium priority, the current practices and controls in place are working effectively. The new Program Administration Facility Booking System and POS will be purchased and implemented. This observation has been rated low in order for management to develop, update and roll-out policies, processes and procedures at all locations, in conjunction with the implementation of the new system.

FINDING #1 CONT'D:

Auditor General Recommendation

To ensure consistent application of all City policies and procedures, the following should be prepared:

- Cash Handling Policy;
- Cash Handling Process and Procedures Manual; and,
- Change Float Policy and Procedures.

The procedures manual should be in sufficient detail to facilitate staff training and provide guidance over standard operating procedures outlining roles and responsibilities around key tasks.

Management should leverage the existing process maps and procedures documentation to further develop formal and consistent protocols and procedures for all City locations that handle cash.

The updated policies and process documentation should be reviewed and updated on a periodic basis by City staff and the executive leadership team, following the City's established policy review protocol in order to ensure continued accuracy, relevance and completeness of procedures performed by City staff at cash locations.

FINDING #1 CONT'D:

Management Response

Management supports the Auditor General's recommendation.

The City will develop a Corporate Cash Handling Policy in conjunction with the implementation of the new Program Administration Facility Booking System that will incorporate all items identified by the Auditor General. The Policy will promote proper and consistent cash handling practices across the organization and will ensure that cash and cash equivalents are physically safeguarded.

The Corporate Cash Handling Policy will leverage existing departmental cash handling documentation and process maps and will include the identification of roles, responsibilities, and control standards for: Cash Handling Procedures, Change Float Procedures, and Cash System Manual.

The City will continue to review and update policies and procedures every five years unless changes necessitate earlier updates.

Timeline to Implement: Q3 2018

FINDING #2:**Low****Point of Sale (POS) System Controls****Log-in ID**

In order to enter transactions into the POS system, a staff member is required to use their individual log-in ID. Staff do not log out of their individual log-in ID after each transaction. Since there are multiple staff who can be on shift on any day, only one person's log-in ID is used to conduct all of a day's transactions. This circumvents the system's security controls and tracking of user access. The terminal's time-out window is approximately 20 minutes and due to the frequent nature of transactions, the terminal would not have the opportunity to automatically log-out staff.

Cash Till

POS system cash tills at several of the City's locations open when processing non-cash transactions, such as debit or credit card payments, increasing the risk of the misappropriation of cash.

FINDING #2 CONT'D:

Auditor General Recommendation

Management should ensure that each staff uses their own unique log-in ID to process transactions. In addition, each POS terminal should have a short time-out window (i.e. five minutes or less) so that the system can automatically log-out staff.

Management should ensure that all City POS system cash tills are programmed so that they do not open for non-cash transactions.

Management Response

Management supports the Auditor General's recommendations.

Timeline to Implement: Completed

FINDING #3:**Low****Access to and Location of Safes**

Over the course of the audit, we noted that safes at two locations are kept in areas with relatively high visibility by internal staff, or are accessed by non-senior personnel.

In addition, we noted that at one location, the cash till is not locked within the safe overnight.

FINDING #3 CONT'D:

Auditor General Recommendation

Management should ensure that cash safes are physically maintained in locations with minimal visibility and accessible only to individuals requiring access.

All cash tills should be stored in a safe when not in use.

Permitted access to safes should be restricted to senior level positions, if possible. The number of non-senior level individuals having access to a safe should be kept to a minimum.

FINDING #3 CONT'D:

Management Response

Management supports the Auditor General's recommendation.

Management will undertake a review of all safe locations to support the Auditor General's recommendation.

Details are provided in the Confidential Report pertaining to the Cash Handling Audit.

Timeline to Implement: Q2 2017

FINDING #4:**Low****Inconsistent Application of Cash Handling Procedures**

We found that certain cash handling procedures are not being consistently applied for the following locations:

Angus Glen Community Centre – Public Skating

Only one staff member is present during manual cash collection for public skating. This staff also counts cash received and enters it into the POS terminal at the main desk on the same day. There is no second person verifier of the amount collected and entered into the system.

Angus Glen Community Centre – Tennis Centre

At the Tennis Centre, on a daily basis, the closing staff member places all cash deposit amounts within the safe, however does not complete and document a detailed review and cash count. The detailed review and cash count is completed on a weekly basis for preparation of the cash deposit.

FINDING #4 CONT'D:

Inconsistent Application of Cash Handling Procedures

Milne Park

At the end of each day, the Group Leader performs the cash count and prepares the deposit information; however, there is no second person verifier count or sign-off documented.

In addition, any cash pick-ups that were done during the day are not documented.

Operations

At the end of each day, the Supervisor reviews the daily transactions and performs the cash count; however, these procedures are not documented nor is there a second person verification count performed and documented.

FINDING #4 CONT'D:

Auditor General Recommendation

At least two individuals should be present throughout cash counting and verification processes for public skating.

In addition, all cash counts, cash pick-ups and reconciliation procedures performed should be documented on a daily basis along with a second person verifier sign-off.

FINDING #4 CONT'D:

Management Response

Management supports the Auditor General's recommendations.

Angus Glen Community Centre - Public Skating

Management will ensure that two staff members are present during the cash counting and verification processes for public skating. All cash counts, cash pick-ups and reconciliation procedures performed will be documented on a daily basis and have a second person verifier sign-off. **Timeline to Implement: Completed**

Management will deploy a POS terminal in the Angus Glen Arena. **Timeline to Implement: Q2 2017**

Angus Glen Community Centre - Tennis Centre

Management will ensure that two staff members are present during the cash counting and verification processes for the Tennis Centre. All cash counts, cash pick-ups and reconciliation procedures performed will be documented on a daily basis and have a second person verifier sign-off. **Timeline to Implement: Completed**

FINDING #4 CONT'D:

Management Response

Milne Park

Management will ensure that two staff members are present during the cash counting and verification process. All cash counts, cash pick-ups and reconciliation procedures performed will be documented on a daily basis and have a second person verifier sign-off.

Timeline to Implement: Procedures are in place and will be implemented in Q2 2017, which aligns with park opening.

Operations

Management will ensure that two staff members are present during the cash counting and verification process. All cash counts, cash pick-ups and reconciliation procedures performed will be documented on a daily basis and have a second person verifier sign-off.

Timeline to Implement: Completed

FINDING #5:**Low****Security Camera Placement**

Each City location accepting payments has a number of security cameras recording the surrounding area.

Auditor General Recommendation

Security camera placement should be assessed on a regular basis for optimal coverage (i.e. no obstructions and maximum coverage).

Management Response

Management supports the Auditor General's recommendation.

Management will review security camera placement and report back to senior management on action required.

Timeline to Implement: Q4 2017

FINDING #6:**Low****Reporting of Suspected Waste, Fraud or Wrongdoing**

City staff wishing to report instances of suspected waste, fraud, or wrongdoing (“whistleblowers”) are currently directed to inform either:

- a) The direct superior of the individual(s) in question; or,
- b) The Human Resources (“HR”) Department.

There is no dedicated whistleblower hotline available for City staff or members of the public.

While we did not identify any concerns or instances surrounding waste, fraud or wrongdoing, a whistleblower hotline is a best practice for public transparency.

Reporting instances of waste, fraud, or wrongdoing to an individual’s direct superior can be an adequately effective channel for staff to communicate most issues; however, is not appropriate if the individual’s superior is the one suspected of committing the wrongdoing. Furthermore, the HR Department may not be equipped to handle complaints relating to fraud which are typically received by those trained to deal with fraud related matters.

FINDING #6 CONT'D:

Auditor General Recommendation

A dedicated whistleblower hotline can improve the City's control environment by:

- a) Providing whistleblowers with a source of advice and an opportunity to report issues to an individual completely independent of management or HR.
- b) Provide an additional channel for members of the public to report potential issues they have experienced/seen.
- c) Increase the level of transparency and accountability at the City.

Protocols for the use of the whistleblower hotline should be included within the City's Cash Handling Policies and Procedures.

Management Response

Management will assess the need for the whistleblower hotline in the context of the overall risk profile and accountability and transparency framework within the City.

Timeline to Implement: Q4 2017

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