

Vision: *The City of Greater Sudbury is a growing, world-class community bringing talent, technology and a great northern lifestyle together.*



Agenda

Audit Committee

meeting to be held

Monday, August 9th, 2010

at 4:00 pm

Committee Room C-11, Tom Davies Square

AUDIT COMMITTEE AGENDA

For the 6th Audit Committee Meeting
to be held on **Monday, August 9, 2010**
Committee Room C-11, Tom Davies Square at 4:00 pm

COUNCILLOR FRANCES CALDARELLI, CHAIR

Claude Berthiaume, Vice-Chair

- 3:00 p.m. CLOSED AUDIT COMMITTEE MEETING
COMMITTEE ROOM C-11, TOM DAVIES SQUARE
*To deal with: one Security Matter regarding Audit of Cash Handling - Transit and Parking
Operations and one Litigation or Potential Litigation Matter regarding Amendment to the Annual
Audit Plan*
- 4:00 p.m. REGULAR AUDIT COMMITTEE MEETING
COMMITTEE ROOM C-11, TOM DAVIES SQUARE

DECLARATIONS OF PECUNIARY INTEREST AND THE GENERAL NATURE THEREOF

MATTERS ARISING FROM THE CLOSED MEETING

At this point in the meeting, Councillor Berthiaume will rise and report any matters discussed during the Closed Meeting. Council will then consider any resolutions or by-laws.

PRESENTATIONS

1. Report dated August 3, 2010 from the Auditor General regarding Cash Handling Audit For Transit and Parking Services - Final Audit Report Summary. **4 - 16**
(ELECTRONIC PRESENTATION) (RECOMMENDATION PREPARED)
 - Brian Bigger, Auditor General

(A summary of the observations, findings, and recommendations made by the Auditors in the audit of cash handling for Transit and Parking Services.)

MANAGERS' REPORTS

2. Report dated August 5, 2010 from the Auditor General regarding Auditor General's Request For Amendment of Purchasing By-law 2006-270 4.(3). **17 - 17**
(VERBAL PRESENTATION) (RECOMMENDATION PREPARED)

(The Auditor General is requesting authority to procure legal services.)

Adjournment (Resolution Prepared)

ANGIE HACHÉ, CITY CLERK

FRANCA BORTOLUSSI, COUNCIL SECRETARY

Request for Decision

Cash Handling Audit For Transit and Parking Services - Final Audit Report Summary

Presented To:	Audit Committee
Presented:	Monday, Aug 09, 2010
Report Date	Tuesday, Aug 03, 2010
Type:	Presentations
File Number:	2010GRTH04

Recommendation

That the Audit Committee accept the report dated June 28, 2010 from the Auditor General identifying audit issues and the steps taken by Staff to resolve them, including the adequacy of management responses to audit concerns.

Signed By

Auditor General

Brian Bigger

Auditor General

Digitally Signed Aug 5, 10

2010

AUDIT OF CASH HANDLING – TRANSIT AND PARKING



Office of the Auditor General
Bureau du vérificateur général

June 28-2010 FINAL Report# 2010GRTH04

This audit was performed in accordance with generally accepted government auditing standards.

June 28, 2010

To: Roger Sauve, Director of Transit

Subject: Cash Handling – Transit and Parking - #2010GRTH04

Attached is the executive summary for our audit of Cash Handling for the City's Transit and Parking division (referred to hereafter as Transit and Parking). This report documents our evaluation of the adequacy and effectiveness of controls for transit and parking and the quality of stewardship related to the cash handling activities for four functional locations/areas. The audit was part of the Auditor General's 2010 Work Plan.

With due consideration for the safeguarding of city assets, and for workplace safety, a detailed final audit report containing our specific observations of weaknesses, risks, recommendations and your detailed action plans has been provided under separate and confidential cover. A related but separate detailed confidential memo has been issued to the Director of Citizen Services dealing with our findings, recommendations and management responses for two additional locations that were audited; the New Sudbury library and Valley East Citizen Service Centre.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide 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.

Overall Audit Rating: Fair

In the Auditor General's opinion, the overall audit rating for the audit is "Fair" as the audit contains several medium and a few high impact findings for this area. Weaknesses in controls were identified impacting the segregation of duties within cash handling functions and safeguards over assets. The audit also identified opportunities to enhance the City of Greater Sudbury's robbery prevention strategy.

This conclusion is only applicable to the function/area of this audit.

Our findings and conclusions are based on a comparison of the conditions, as they existed at the time of the audit, against pre-established audit criteria and as identified in the scope of the audit, for the audit period of April and May 2010.

The original time frame for this audit was set in accordance with our normal expectations as follows:

Planning	April 15, 2010
Fieldwork	April 28, 2010
Draft Report to Auditor General	May 21, 2010
Draft Report to Client	May 31, 2010
Audit Committee Meeting	June 2010

We will follow-up with management on our recommendations, according to the time frame established for implementing the recommendations. The audit committee will be kept apprised of the status of the recommendations on a regular basis.

We sincerely wish to express our appreciation for the cooperation and assistance provided to the audit team by all staff involved in this process.

Sincerely,

Brian Bigger
Auditor General

Audit Staff: Carolyn Jodouin, Senior Auditor

CC: William Lautenbach, General Manager, Growth & Development
 Doug Nadorozny, CAO
 Lorella Hayes, Chief Financial Officer/ City Treasurer
 Jamie Canapini, City Solicitor

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EXECUTIVE SUMMARY

INTRODUCTION

The audit was conducted as part of the Auditor General's 2010 Work Plan, which includes a review of cash handling processes. The audit focused on the adequacy of internal controls and the quality of stewardship related to the cash handling process. Cash is accepted by various departments at locations throughout the City of Greater Sudbury. As a result, the cash handling audit for each department will be conducted separately. The first cash handling audit reviewed the policies and procedures for cash handling within Transit and Parking.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide 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.

BACKGROUND

Cash is highly susceptible to misappropriation. As Transit and Parking handle large amounts of cash on a daily basis, internal controls are necessary to prevent mishandling of funds and to safeguard against loss and/or theft. Strong internal controls also protect employees by defining specific responsibilities in the cash handling process.

In 2007, and again in 2009 this division experienced losses related to cash handling and receivables. In response to the issues in 2007, an outside consultant was hired to review and assist with the development of cash handling procedures. The consultant provided management with a summary of their findings and recommendations. As part of the current cash handling audit, we also reviewed the consultant's report to determine whether the recommendations within the report had been implemented.

Transit passes are currently sold through the kiosk located at the downtown transit terminal, through the City's Citizen Service Centers (CSC) and libraries, and also through a variety of third party vendors located throughout the City of Greater Sudbury. Although transit passes are widely available, the majority (54 percent), of the Transit and Parking revenue is from cash received in the fare boxes.

Parking revenue comes from a variety of sources. There is metered parking, pay and display lots, special event parking, as well as manned booths at Tom Davies Square and the YMCA parking

lot. Parking revenue also comes from parking tickets, as well as the sale of monthly parking passes.

SCOPE

The audit reviewed and evaluated the internal controls around the collecting, transporting, storing, depositing, recording, and reconciling of cash within the various revenue streams within Transit and Parking. The revenue streams audited included the cash handling process of the following functional locations: the transit depot, the transit kiosk, one library, one CSC, one parking lot and metered parking.

The scope of the audit included a review of the cash handling procedures at the sample of locations on selected dates within April and May, 2010.

OBJECTIVES

The primary objective of this audit was to evaluate the adequacy and effectiveness of controls over the cash handling process. The audit included an evaluation of the following:

- The physical safeguarding of cash assets;
- The current cash handling policies and procedures;
- The inventory controls and physical safeguarding of transit passes;
- Robbery prevention.

METHODOLOGY

The audit methodology included the following:

- Reviewed the consulting report from 2008;
- Interviewed staff within Transit, Parking, libraries and CSC regarding cash handling procedures and inventory controls;
- Observed cash handling procedures within Transit, Parking, libraries and CSC;
- Observed inventory control and physical safeguarding of transit passes at various locations;
- Reviewed documentation used for the sale of transit passes and cash deposits;
- Reviewed other best practices for cash handling;
- Reviewed and discussed findings with management.

SUMMARY OF REVENUE

Revenue from parking and transit fares for 2009 was just over \$6.9 million. Just over half of this revenue (\$3.7 million) was from fare box revenue, just over \$1.8 million was from the sale of monthly and special transit passes, while approximately \$1.4 million was from parking (parking lots and meters).

Of the total revenue collected, approximately 88 percent was cash.

KEY ISSUES

The following five categories of controls were generally rated as high for the four locations/areas reviewed in this audit report:

1. Policies and Procedures for Cash Handling

There are currently no formally documented policies and procedures for cash handling. Having documented policies and procedures are a key part of a management control framework. As a result, roles and responsibilities are not clearly defined. Not having documented policies and procedures will make employee training difficult. Furthermore, when an employee is absent, the replacement employee may not know how to perform all the tasks and errors can be made, or controls circumvented, as there is currently no reference manual for performing cash handling functions.

2. Segregation of Duties

There was a lack of segregation of duties within key functions at both the transit depot and kiosk which allowed individuals access to transit passes, cash and the control records for the numerical sequence of transit passes. Segregation of duties is an important preventative measure to reduce the opportunity for wrongdoing and to protect the organization and employees against perceptions of misconduct. When segregation of duties are compromised, there is an increased risk of theft.

3. Safeguards Over Keys and Changing the Combinations to Safes/Vaults

Combinations to vaults and safes were not being changed on a periodic basis. It is best practice to change the combinations periodically (e.g. annually), when a safe is transferred from another location, when it is suspected that someone who should not know the combination has knowledge of it, when there are personnel changes, or when an employee no longer requires the combination because of a change in job duties. Furthermore, keys to various secured locations were not marked "Do Not Duplicate". This will reduce the risk of unauthorized duplication of the keys and reduce the risk of theft.

4. Safeguarding of Transit Passes and Cash

Transit passes were not kept in a secured location with access limited to authorized employees. Ensuring transit passes were secured was also a recommendation in the consultant's report in 2008. Since the passes do have a cash value, and are equivalent to cash, they should be treated with the same precautions as handling cash. Furthermore, due to the high inventory of transit passes, if passes were misappropriated, the theft could go undetected for years. The auditors found vaults and/or safes containing cash were also not locked when not being accessed which increases the risk of theft.

5. Reducing Quantity of Cash Handling

Transit kiosk sales of transit passes were on a "cash only" basis. Accepting cash only unnecessarily increases the risk of theft and/or fraud versus other forms of payment, for example, credit or debit card. Most other departments within the City accept these other forms of payment for goods and services, continuing the trend to a cashless society.

SUMMARY OF AUDIT FINDINGS & IMPACT (MEASURE OF RESIDUAL RISK)

Category	Total Number of Findings	Number of Findings Considered			
		High (Red)	Medium (Yellow)	Low (Green)	Nominal
Policies and Procedures for Cash Handling	1	1			
Segregation of Duties	4	4			
Safeguards Over Keys and Changing the Combinations to Safes/Vaults	5	3	1	1	
Safeguarding of Transit Passes and Cash	3	3			
Reducing Quantity of Cash Handling	1	1			
Inventory Controls	4		4		
Employee Compensation and Policies	2		2		
Vendor Agreements and Receivables	3			3	
Deposit Preparation	4			2	2
Ergonomic Assessment	1				1
Total	28	12	7	6	3
Confidential Appendix – Security and Robbery Prevention	16		13	3	
Total	44	12	20	9	3

Note: These findings relate to cash handling at the transit kiosk, transit depot, parking garages and meter parking only.

Audit findings are classified according to the following severity scale:

Impact	Details
High	<ul style="list-style-type: none"> • Key control does not exist, is poorly designed or is not operating as intended • Serious non-compliance to policy or regulation • May result in immediate or material loss/misuse of assets, legal/regulatory action, material financial statement misstatements, etc. • Indicates a serious business control weakness/deficiency requiring immediate action
Medium	<ul style="list-style-type: none"> • Key controls are partially in place and/or are operating only somewhat effectively • Some non-compliance to policy or regulation • May negatively affect the efficiency and effectiveness of operations and/or financial reporting accuracy. • Indicates a business control concern requiring near-term action be taken
Low	<ul style="list-style-type: none"> • Key controls are in place, but procedures and/or operations could be enhanced. • Minor non-compliance to policy or regulation • May result in minor impact to operations. • Indicates a business control improvement opportunity for which longer-term action may be acceptable
Nominal	<ul style="list-style-type: none"> • Housekeeping

FOLLOW-UP

A summary of outstanding audit issues requiring follow up will be sent to the Director of Transit according to the timelines established below. The Director is accountable for ensuring management updates are made to the relevant status and the information is returned to the Auditor General within the two week timeframe. Follow-up of outstanding issues will be conducted as follows:

Impact of Finding	Timing of Follow-up
High	Quarterly
Medium	Semi Annually
Low	Annually
Nominal	Not Applicable

OVERALL AUDIT RATING

In the Auditor General's opinion the overall audit rating for the audit is: Fair

This conclusion is only applicable to the function locations/areas reviewed through this audit. It reflects the professional judgment of the Office of the Auditor General based on a comparison of situations as they existed at the time against audit criteria as identified in the scope of the audit. This conclusion is extended to provide reasonable assurance regarding controls. There are inherent limitations in any controls, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective controls may provide only reasonable assurance with respect to City operations.

An overall audit rating is a micro opinion based on the severity of the findings for the function audited. It is a positive assurance opinion based on the evidence found during the audit.

The overall audit rating scale is as follows:

Rating	Description
Excellent	<ul style="list-style-type: none"> No internal control weaknesses noted. Good adherence to laws, regulations, and policies. Good control environment. Operations are considered efficient and effective.
Good	<ul style="list-style-type: none"> Several low and/or one or two medium findings. Minor contraventions of policies and procedures with compensating controls in place. No violation of laws. Minor opportunities for improvement in efficiency and effectiveness.
Fair	<ul style="list-style-type: none"> Many medium findings and/or one or two high findings. Several contraventions to policy. Minor violations of regulations/laws with minimal impact to City. Moderate opportunities for improvement in efficiency and effectiveness.
Weak	<ul style="list-style-type: none"> Several high findings and some medium and/or low findings Controls weak in one or more areas. Non-compliance with policies put the City at risk. Violation of law/regulation put the City at risk. Substantial opportunities for improvement. Operations are considered consistently inefficient and/or ineffective

ACKNOWLEDGEMENT

The original time frame was set in accordance with our normal expectations as follows:

Planning	April 15, 2010
Fieldwork	April 28, 2010
Draft Report to Auditor General	May 21, 2010
Draft Report to Client	May 31, 2010
Audit Committee Meeting	June 2010

We sincerely wish to express our appreciation for the cooperation and assistance provided to the audit team by all staff involved in this process.

OVERALL MANAGEMENT RESPONSE

We are very pleased that we were able to take advantage of the audit process at this time. Over the past few years the Transit section has been overhauling its cash handling policies/procedures and overall security. The audit process completed our work by dotting the “T”s and crossing the “T”s.

Transit/Parking had initiated several changes to ensure that all cash was secure and accounted for. Some of the initiatives undertaken included the purchase of new fareboxes, change of locks

on all parking meters, change of keys on all cash collecting devices, restructuring of departments, change of personnel, overall security analysis, review of contracts, added security and security devices.

With many of these initiatives in place it was important to assess the changes and determine if anything had been missed. The audit process was the right tool at the right time.

We have taken all recommendations very seriously and have either implemented them or are in the process of doing so.

When reviewing the findings I can say that some of the items in the high category were short term requirements in order to complete the overhaul of the cash handling in both Transit and Parking.

At the completion of this process I believe that Transit/Parking will have achieved an Excellent rating and will be the standard for best practices within municipal operations.

Roger Sauve

Director of Transit Services

Request for Decision

Auditor General's Request For Amendment of Purchasing By-law 2006-270 4.(3)

Presented To:	Audit Committee
Presented:	Monday, Aug 09, 2010
Report Date	Thursday, Aug 05, 2010
Type:	Managers' Reports
File Number:	OAG2010-3

Recommendation

That the Audit Committee recommend to Council that the Purchasing By-Law and Delegation By-law be amended so as to allow the Auditor General to retain independent legal counsel, on behalf of Council, and in support of the Auditor General's Mandate and Workplan, as described in the Report from the Auditor General dated August 05, 2010.

Signed By

Auditor General
Brian Bigger
Auditor General
Digitally Signed Aug 5, 10

BACKGROUND

Currently, only certain individuals are permitted to retain outside legal counsel. In order to preserve the independence and integrity of the Office of the Auditor General, and to avoid any potential conflicts of interest, the Auditor General needs the authority to retain legal counsel. Further for these same reasons, the Auditor General will not use any law firms retained by the Corporation.

In accordance with corporate practice, a retainer letter or agreement will be issued for all legal work to be performed.

Also in accordance with corporate practice, monthly invoices will be requested. These invoices will be reviewed by the Auditor General and will be charged to the Auditor General's Purchased Service Account having a budget of \$17,861. Should legal services of significant value be required, which exceed the operating budget for purchased services, the Auditor General will report to the Audit Committee to request authority to charge those fees to the Auditor General's Reserve, which has a current balance of \$285,000.

Since Council is the Auditor General's client, the Auditor General will retain legal counsel on behalf of Council, and in accordance with the Auditor General's Mandate and approved Workplan.