

AUDIT COMMITTEE - JUNE, 20, 2006

INTERNAL AUDIT REPORT OF THE RECREATION AND CULTURE DEPARTMENT

Recommendation

The City Auditor recommends:

That the Internal Audit Report of the Recreation and Culture Department, completed in March 2006, be received.

Economic Impact

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The value added by Internal Audit has economic impact, some of which is measurable while others are not. Internal Audit has a positive impact on all areas of City activity which are audited.

Purpose

To present to the Audit Committee the Internal Audit Report of the Recreation and Culture Department.

Background - Analysis and Options

The audit was part of the Internal Audit Plan for 2006.

The internal audit report is provided as Attachment 1 and Attachment 2 (Strictly Confidential). The report explains the definition and objective of auditing as well as the scope of audit work. The report includes the observations of the auditor, the implications, the auditor's recommendations, the commissioner's responses for corrective actions and the auditor's response to the corrective actions.

Relationship to Vaughan Vision 2007

This report is consistent with the priorities previously set by Council and the necessary resources have been allocated and approved.

Conclusion

1. The commissioner and director of the department/operation audited, have responded favourably to all findings and recommendations in the Internal Audit Report.
2. When all corrective actions have been implemented, internal controls will be improved, the quality of performance in carrying out assigned responsibilities will be enhanced, the department will operate more effectively and efficiently and the Internal Audit department will have added value to the organization and assisted members of the organization in the effective discharge of their responsibilities.

Attachments

Attachment 1 – Internal Audit of Recreation and Culture
Attachment 2 – Internal Audit of Recreation and Culture (Strictly Confidential)

Report prepared by:

Michael Tupchong, CA, CIA, CPA, CFE
City Auditor

Respectfully submitted,

Michael Tupchong, CA, CIA, CPA, CFE
City Auditor

Attachment 1

May 19, 2006

Michael DeAngelis
City Manager
City Of Vaughan
2141 Major Mackenzie Drive
Vaughan, Ontario
Canada L6A 1T1

Dear Michael DeAngelis,

Re: Internal Audit of Recreation and Culture

I have completed the audit of Recreation and Culture as of March 13, 2006. This audit was conducted in accordance with the 2006 Audit plan.

A follow-up letter will be sent to the auditee, 30 days from the date of this audit report, requesting the status of Corrective Actions on deficiency items noted in this Audit report. Subsequent follow-up letters may be sent until all Corrective Actions have been satisfactorily implemented.

The Recreation and Culture department underwent a re-organization on October 17, 2005 and the audit commenced on January 16, 2006, approximately 3 months later. I would like to thank Commissioner Marlon Kallideen, Director Diane Lapointe-Kay, and their staff for accommodating me and providing me with unrestricted access to all staff and information during my audit.

I have exercised independence, objectivity and due professional care in accordance with the Standards for the Professional Practice of Auditing.

The Internal Audit Department is committed to adding value, providing continuous improvement recommendations and professional service to the whole organization.

Sincerely,

Michael Tupchong CA, CIA, CPA, CFE
City Auditor

cc: M. Kallideen C. Harris D. Lapointe-Kay M. Reali

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DEFINITION, OBJECTIVE AND SCOPE

1. Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
2. The **objective** of Auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, Auditing furnishes them with analyses, recommendations, counsel, and information concerning the activities reviewed. The audit objective includes promoting effective control at reasonable cost. In the end, Audit is focussed on continuous improvement of the organization.
3. The **scope** of Auditing encompasses the examination and evaluation of the adequacy and effectiveness of the organization's system of control and the quality of performance in carrying out assigned responsibilities. The Auditors are concerned with any phase of City activity. The scope of Auditing includes:
 - Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
 - Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations, which could have a significant impact on operations and reports, and should determine whether the organization is in compliance.
 - Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
 - Appraising the economy and efficiency with which resources are employed.
 - Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
 - Reviewing the identification of risk exposures and the use of effective strategies to control them.
 - Reviewing specific operations at the request of the Audit Committee or City Manager, as appropriate.

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DEFICIENCY RATING

1. To assist readers in the interpretation of Internal Audit's opinion of the gravity of the reported deficiencies, we have categorized our findings into 5 groups:-

High (5*); Medium High (4*); Medium(3*); Medium Low(2*); Low(1*).

2. In **summary**, there are 1 (5*), 2 (4*), 6 (3*), 5 (2*), 5 (1*) reported in this Internal Audit Report.
3. Included in the above summary, some deficiency items may be outside the control of the audited department/operation.
4. At the discretion of the commissioner and director, this report may be distributed to the appropriate staff members under their jurisdiction. Deficient items which could be common across the organization should be globally addressed. Further consideration should be given to revise/update current policies and procedures, as deemed necessary.

End of Field Work: March 30, 2006

Auditor(s): Michael Tupchong.....

Approved:

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Credit Card Rejection (5*)

Observations:

1. When registration and payment is done in "Class"(application software used by the department), it is not immediately known whether the credit card payment will be declined or not by the banks. This is because the current method is to batch process all credit card payments together (limited to 500 per batch), usually done daily but at busy times it could be delayed up to 3 days. It takes up to one hour for the batch to go through. Once the batch of payments have been transmitted electronically to a clearing house for the banks, the department has to print out a report "Summary by Payment Status Report" which will show the credit card declines and those credit cards which have gone through.
2. The Recreation department clerk now has to call back all those registrants whose credit cards were declined and ask for alternative means of payment.
3. The total declines were in excess of \$3,000,000 for 2005. Virtually 100% was recovered through alternative means of payment.
4. The Recreation department has a project charter with the Information Technology Management(ITM) department going back up to 2 years, to implement this same recommendation of the auditor. Because of resources, this was not a priority with the ITM department.

Implications:

1. There is a delay between the registration date of payment in "Class", the batch processing of payments and the feedback of the decline.
2. Batch processing involves much administrative work. Calling all the declines is very time consuming
3. Program spaces are taken up by registrants with declined payments.

Recommendations:

It is recommended that the "Class" system should be integrated with the banks as soon as possible, so that credit card payments are on a real-time system (payment processor) with immediate feedback and response as to whether payments have been accepted or

declined. If a credit card payment is declined, the registration clerk would know immediately and would inform the customer of the status and ask them to pay through

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alternative means or the customer would not be registered. This would also ensure that all taken up spaces have been pre-paid. This will also reduce administration time to call all registrants with declined payments.

Corrective Actions(Commissioner Marlon Kallideen's Response)

The department is in agreement and has been actively pursuing this recommendation since 2004. The initiative requires the ITM department's lead as it is a software / hardware change and they have incorporated this project onto their work plan for June 2006.

Auditor's Response to Corrective Actions :

The issues will be satisfactorily addressed this year.

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Transit Tickets(4*)

Observations

1. The total recorded revenue from transit ticket sales for 2005 was approximately \$684,129. The City receives a commission of 2% of the value of the tickets sold.
2. It was observed that the general ledger account showed an original net deficit of approximately "\$65,371" up to December 31, 2005. On a further review of the detailed transactions, it was discovered that purchase transactions totalling \$73,831.92 were duplicated. The same invoices were set up under a different Purchase Order number by the Purchasing department. This error was reported to the appropriate staff member and was subsequently rectified. The new corrected deficit is approximately \$13,100 as a result of a \$21,560 accrual expense.
3. A review of the "Daily Inventory Count" sheets which were maintained at the community centres prior to the re-organization, had multiple errors. The sheets may have a number of manual adjustments. The "In" and "Out" rows of the "Daily Inventory Count" sheets, are not always filled in satisfactorily. It appears that these sheets may have been adjusted to agree with the "Group Item Sales Report" produced by "Class".
4. Adjustments were made in "Class" to record the overs and unders. One underage adjustment was observed for 100 tickets. There was also an overage adjustment of 76 tickets. These were most likely data entry errors.
5. The Point of Sale Inventory Adjustment Report is not reviewed and signed by a supervisor.
6. The POS Inventory Received Report showed incorrect total costs, as the quantities and unit costs for tickets were incorrectly entered. Duplication of quantities entered were also observed. This report is also not reviewed and signed by a supervisor.
7. Since the re-organization on October 17, 2005, the Recreation and Culture department had new personnel in the community centres. They were not adequately trained on some procedures one of which was the maintenance of the "Daily Inventory Count" sheets. As a result this was for the most part not done until its discovery during the audit.

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Implications

Controls over the inventory of transit tickets need improvement.

Recommendations

1. At the beginning of each day, the inventory of tickets should be counted and verified by the lead clerk. Any discrepancies should be explained and signed.
2. The "Daily Inventory Count" sheet should be initialled daily by a supervisor. All adjustments should be investigated.
3. The duplication of \$73,831.92 should be rectified before the year-end close. This was rectified during the audit.
4. The "POS Inventory Adjustment Report" should be reviewed weekly for accuracy and should be initialled by the supervisor. This report should not show what was received. It should only show adjustments of overage and underage.
5. The detailed invoice from York Region Transit, should be checked to the "POS Inventory Received Report" for accuracy and should be reviewed and signed weekly by the supervisor.
6. Staff at community centres should be provided further training as to what is required of them and what function should be done by whom.

Corrective Actions(Commissioner Marlon Kallideen's Response)

The transit inventory system has been amended to include daily counts by the clerical staff and weekly audits by the Supervisor. Additional training has been provided to staff.

With respect to the required year end adjustment in the People Soft system of \$73,831.92, this was a data entry error in Purchasing that did not pose any risk to the corporation.

Auditor's Response to Corrective Actions :

Controls have been improved to minimize risk to an acceptable level.

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Credit Card Charges(4*)

Observations

1. A number of customers pay for programs with their credit cards.
2. It was observed that revenue transactions for the year 2005 were as follows:

<u>3. Card Type</u>	<u>\$ Processed</u>	<u>Bank Charges</u>
Mastercard	\$2,054,000	2.7% service charge
Visa	\$4,705,600	1.7% service charge
Amex	\$120,000	1.95% service charge

4. Amex only came into operation on September 2005, hence the low dollar processed for 2005.
5. It was also observed that approximately \$38,592 of lockbox charges were charged to the department in error. These charges belonged to the Taxation department.

Implications:

1. Mastercard(Moneris) which is the service provider for Recreation and Culture, is charging 1% higher service charges than Visa and .75% more than Amex.
2. Mastercard(First Data Loan) which is the service provider for the remainder of the City, charges 2.10%. This is still higher than Visa and Amex.
3. Bank charges for the department, were inflated by charges which belonged to another department.

Recommendations:

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1. The City should negotiate with Mastercard to reduce service charges to 1.7% to be competitive with Visa and Amex. This would result in savings to the Recreation department of approximately **\$20,500 per year** based on 2005. This would also impact all other City departments which use Mastercard. So savings to the City as a whole would be greater than \$20,500 per annum.
2. The Finance department should rectify the errors made regarding the incorrect posting of bank charges. This was done when the error was pointed out during the audit.

Corrective Actions(Commissioner Marlon Kallideen's Response)

The department agrees with the recommendations, will advise the Finance and the Purchasing departments accordingly and provide any assistance possible to them as they pursue this recommendation.

Auditor's Response to Corrective Actions:

The Recreation and Culture department has agreed to pursue this with the Finance and Purchasing departments.

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Class and Peoplesoft(3*)

Observations

1. On a monthly basis, the department prints out two reports from "Class" viz., "GL Report" and "Accounts Receivable Aged Report". The "GL Report" shows the revenues, expenses, bank and accounts receivable information. The "Accounts Receivable Aged Report" shows names of debtors with their aged balances. These reports are then sent to the Finance department to enter information into Peoplesoft. Once entered, the department can then receive details of general ledger accounts in Peoplesoft for their analysis work. This usually happens after the end of the month.
2. The "Class" system is not interphased with the Peoplesoft system. This project is on the Information & Technology Management Departments's list of projects requested by the Recreation department.

Implications

The department is reliant on the Finance department inputting financial information into Peoplesoft monthly, before they are able to get their financial numbers to do their review and analysis. There could be errors in the manual data input of information. This process may not be the most efficient method of obtaining general ledger information.

Recommendations

The "Class" software should be interfaced with Peoplesoft, so that there is an automatic transfer of revenues, bank, accounts receivable and other information from "Class" to the general ledger at a keystroke (controlled by a password) weekly, instead of the Finance department keying in the information into Peoplesoft monthly. The Recreation department will then obtain its financial numbers sooner than monthly and need not be reliant on the Finance department. This will also ease the workload at the Finance department. This will allow the Recreation department to review financial information quicker, to review for errors, to do analysis work and to take corrective action more quickly.

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Corrective Action (Commissioner Marlon Kallideen's Response)

This recommendation will streamline the process between the Recreation and Finance departments and ease the workload of the Finance department staff.

This initiative requires assistance and co-ordination between the Recreation, ITM and Finance departments. This initiative will be investigated further.

Auditor's Response to Corrective Actions:

A regular follow-up process will be done to determine the status of this initiative.

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Accounts Receivable Balance at 31 December, 2005(3*)

Observations:

The Recreation and Culture department received approximately in excess of \$11 million in revenue for all programs and facilities in 2005.

- 1) As of 31 December 2005, approximately \$381,000 was owed to the City by individuals and organizations in debit balances and are aged as follows:-

Current	\$285,000
Over 30 days	\$46,000
Over 60 days	\$24,000
Over 90 days	\$10,000
Over 120 days	\$16,000

- 2) For the "over 60/90/120 days", these totalled approximately \$50,000. Amounts were owed for summer courses 2005, spring camp 2005, community festival 2005, bingo 2004/2005, basketball, kids club, fall events 2005.
- 3) Currently, registration is accepted and registrants are allowed to attend the program even though payment may still be owing on commencement.

Implications:

1. Some people were registered in programs while their credit cards and cheques were still being cleared.
2. Amounts may not be collectible after a program has ended and have to be forwarded to a collection agency.
3. It may also be time consuming and difficult to collect what is owed after a program has ended

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Recommendations:

In order to reduce "bad debts", it is recommended that three days before the commencement of a program, those who have not paid in full should be contacted and informed that their names will be removed from the list if payment is not received on the commencement of the program. To collect money after a program has ended is time consuming and may be uncollectible.

Corrective Actions(Commissioner Marlon Kallideen's Response)

While the department agrees with the recommendation in theory, not all registrations occur three days before the program (many occur during the first few weeks of the program) and NSF cheques may not come back from the bank for up to three weeks. As a result, there will be occasions when staff are pursuing payment(s) well into the program. However, these are not the majority and every effort is made to collect the monies within one week of the bank advisement. If the course is over the account will be sent to a collection agency.

Staff are prohibited from processing registrations without full payment. This security provision is imbedded in the software system and cannot be overridden by the registration staff. Additionally, if a cheque is returned NSF and/or a credit cards payment is rejected, alerts are placed in the client file and no new registrations can be processed without full payment of the overdue amount.

With respect to the year end receivables, approximately \$14,000 related to summer camp subsidies from York Region and the transfer payment has since been received.

In the case of permits, organizations are invoiced and interest is charged on all overdue accounts. In 2005 over \$13,000 was earned in interest from overdue accounts.

Auditor's Response to Corrective Actions:

Controls have been improved to mitigate the risk.

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Refund at Point of Sale (3*)

Observations:

1. It was observed that a "Refund Report Sheet" is maintained by each community centre. The sheet gives details of the refunds given out for the month.
2. The staff name portion on the sheet, is not always written out in full. Sometimes the name may be abbreviated with initials.
3. The recipient of the money refund, does not sign the form to acknowledge the receipt of the money.
4. The "Refund Report Sheet" is not signed by a supervisor to verify its accuracy.
5. The "Refunds Processed Report" which is printed from "Class", and shows refunds processed for the month, is not signed by a supervisor/manager.
6. There was a written procedure which was not adequately followed by some staff.

Implications

Controls over the refund process need improvement.

Recommendations:

It is recommended that:-

1. The "Refund Report Sheet" at the community centre, should include an additional column to show signature of the recipient for the refund money received.
2. The staff name who issued the refund, should be completed in full and not be abbreviated with initials.
3. The "Refund Report Sheet" should be approved (signed) by a supervisor to indicate his/her review and approval.
4. The "Refunds Processed Report", should be printed out monthly at a minimum from "Class", and should be signed by the supervisor/manager to indicate his agreement of the content.

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Corrective Actions(Commissioner Marlon Kallideen's Response)

The current procedure requires that a customer sign all POS refunds to verify receipt of cash. POS Refund Reports are printed daily by each centre for auditing purposes.

Requesting that staff issuing the refund sign their complete name on the receipt and that the Supervisor sign the POS Refund Reports on a weekly basis will be added to the procedure effective immediately.

Auditor's Response to Corrective Actions:

Controls will be improved.

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Notice of NSF cheques(3*)

Observations

1. A payment cheque from a registrant was dated December 16, 2005 for a swim registration. On January 5, 2006, the Finance department received the cheque as NSF from the bank. The Recreation department received the NSF notice and NSF cheque from the Finance Department on January 16, 2006(11 days later). Total time from the date of the cheque to the time the Recreation department learnt of the NSF, took approximately 1 month.
2. The swim program started on Saturday January 7, 2006 with 2 out of the 10 lessons already done.
3. The registrant was informed to pay by January 20, 2006 or the children would be withdrawn. The registrant was charged an additional \$30 to cover administration fee. Payment was finally received on February 25, 2006 (8 lessons later).
4. There were 61 NSF cheques totalling approximately \$19,000 for 2005.
5. The "Class" screen for the administrative fee charge has not been updated to show \$30. It still reads \$25.

Implications

1. There is a lengthy delay in informing the Recreation department of the NSF cheque.
2. Some people may still be attending class even though their payments may not have been received.

Recommendations

- 1) The process should be such that registrants should be notified the moment the department is aware of the NSF cheque and asked to make payment (certified cheque, cash or debit/credit card) within 48 hours failing which they would be de-registered and withdrawn. An alert note is made in Class. When new payment is eventually received, then the registrant is re-registered.

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- 2) The Finance department should inform the Recreation department of NSF cheques sooner than 11 days, so that the department can act more quickly. Notice of all NSF cheques should be faxed to the Recreation department as soon as notice is received from the bank. The hard copy NSF cheques can then be sent by inter-office mail to the Recreation department.
- 3) The use of cash, debit card and then credit card should be encouraged in that order over cheques, to pay for registrations.
- 4) For all NSF cheques, cash, debit or credit card payments should be accepted instead of another replacement cheque which may "bounce" again..
- 5) The "Class" screen for the administration fee should be updated to show \$30 instead of \$25.

Corrective Actions (Commissioner Marlon Kallideen's Response)

The department is in agreement with the recommendations. The recommendations relating to the Recreation department are already in place and the recommendations relating to the Finance department will be brought to their attention immediately.

Auditor's Response to Corrective Actions

The implementation of the recommendations will improve controls.

Recreational Skate(3*)

Observations

- 1) Recreational skate is considered a basic City service to the community.
- 2) Currently, an inventory of different coloured tickets are given to the sales clerk before the start of the recreational skate event. Tickets are issued based on the age group of the skaters, for example, colour ticket for a youth is red; colour ticket for an adult is green, colour ticket for a family is orange and colour ticket for a senior is grey. Once the tickets of any colour are all sold, then the sales clerk stamps the hands of the skaters as there are no more tickets of the depleted colour to issue. If a family ticket is sold, then the hands of all the family skaters are stamped. The skate patrol at the ice entrance, collects tickets from the skaters.
- 3) The number of tickets sold multiplied by the selling price per ticket equals the cash sales. This does not take into account hands which were stamped due to sold out tickets.

Implications

Controls over cash sales could be improved.

Recommendations

1. It is recommended that pre-numbered coloured tickets should be used.
2. A roll of tickets of each colour should be given to the sales clerk. The start number of each colour should be recorded on the skate sheet and should be checked and signed by the sales clerk and supervisor. Coloured tickets should be issued as before, depending on the age group of the skater. The skater's hand should also be stamped. The stamp colour should vary from one event to another. The skate Patrol would continue to collect tickets as before for safety reasons as well as check the handstamp. The last number of each coloured ticket sold should be entered on the skate sheet. This should be checked and signed by the sales clerk and supervisor. The difference in numbers will be the number of tickets sold. Multiply this number for each colour by the selling price per ticket will be the cash sales.

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3. The "Skate Cashier Procedure" should be altered to reflect the change in procedures.
4. The "Recreational Skating Attendance and Cash Report" should be changed to include ticket numbers used to calculate tickets sold for each colour.
5. Relevant Staff should be trained on the new procedures.

Corrective Actions(Commissioner Marlon Kallideen's Response)

Although the current tickets are pre-numbered and the inventory is recorded, the individual ticket numbers are not. Therefore this is a simple and reasonable change to make to the existing procedures to further enhance controls in place.

The procedures will be amended to coincide with the start of the fall 2006 skating season and staff will be trained accordingly.

Auditor's Response to Corrective Actions

The implementation of the recommendations will improve controls.

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Recreational Swim(3*)

Observations

- 1) Recreational swim is considered a basic City service to the community.
- 2) In the summer, when a swimmer pays the entrance fee, his/her hand is stamped. A receipt is given. Lifeguards also act as a form of control and can check whether someone has paid by noticing the stamp on the hand.
- 3) During the fall, spring or winter, no stamp is used to handstamp. A receipt is still given.

Implications:

The stamp showing proof of payment, is used inconsistently.

Recommendations:

It is recommended that all swimmers should have their hands stamped no matter what season it is. Stamp colour should vary from day to day. This will be visible as a check at all times. Lifeguards should look out for the hand stamp. The receipt should still be given.

Corrective Actions(Commissioner Marlon Kallideen's Response)

The department is in agreement with the recommendations and will implement them immediately.

Auditor's Response to Corrective Actions

The implementation of the recommendations will improve controls.

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Accounts Receivable Combined Accounts and Balances(2*)

Observations

- 1) It was observed that the "Accounts Receivable Combined Accounts and Balances" report for December 31, 2005, totalled 78 pages.
- 2) The report included many credit balances in the "over 120 days" column ranging in value from \$0.01 to \$3,325.33(Vaughan Panthers/Coaches).
- 3) As of December 31, 2005, the total credit balance for "over 120 days", totalled approximately (\$180,443). The grand total of all credit balances, irrespective of days old, is approximately (\$255,291).

Implications

"Inactive" customers may be unaware of the credit balances.

Recommendations

1. It is recommended that a list of inactive accounts with credit balances over 18 months should be printed off. These people should be contacted by phone and informed of the credit balances which could be (1) claimed, (2) donated to the City for the benefit of children or (3) left as a credit balance to be used against future programs.. If they cannot be contacted at the known address, a decision should be made to transfer the balances to revenue to offset other programs with deficits.
2. Those accounts with small credit balances less than \$2 should be cleared out.
3. A written procedure should be developed regarding credit balances.

Corrective Actions(Commissioner Marlon Kallideen's Response)

The department agrees that credits should have an expiry date and will develop a written procedures for future credits. A plan to clear inactive credits older than 18 months will also be enacted by year end.

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Auditor's Response to Corrective Actions

The auditor agrees with the corrective actions as stated.

Babysitting(2*)

Observations

- 1) The cost of childcare is \$7 per hour. The auditor was informed that babysitting supports the fitness centres for those parents who have little kids and who participate in the fitness centres.
- 2) It was observed that some patrons are allowed to owe "hours" for babysitting services I.E., daycare services were provided without the patron paying up front for the services. Up to 6 hours owing, were observed in the manual book maintained at the babysitting site. The patrons would eventually purchase the "hours" to pay for the services owed. The owing of "hours" was fairly common among regular patrons..

Implications

There is no assurance that service "hours" provided, will always be paid.

Recommendations

It is recommended that no owing of "hours" should be allowed. All daycare services should be paid for up front or in advance.

Corrective Actions(Commissioner Marlon Kallideen's Response)

The department is in agreement with the recommendation and will implement the change immediately.

Auditor's Response to Corrective Actions

The implementation of the recommendation will improve controls.

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Fitness Gift Certificates (2*)

Observations

1. A review of the Fitness Gift Certificate Register for Garnet A. Williams Fitness Centre, showed that the following certificates were voided, namely, #2, 6, 11, 47. Only 2,6,47 were available for verification. Number 11 was not available for review. The Register book did not show the staff member who voided them. The "Staff" column in the Register was left blank. Number 47 was not even shown on the Register.
2. The physical inventory of unused gift certificates on hand, were numbers 35 and 49. Number 17 and number 50 were missing. They were supposed to be on hand as indicated on the register. There was no explanation as to the reason why they were not available.
3. When a certificate is issued, a cash register mark is imprinted on the certificate for the amount paid. This validates the certificate. The certificate can be redeemed for any program/membership. The "Staff" section of the Register was not filled out for numbers 7,8,9,10,31 which were sold.
4. On presentation of the certificate for payment of say a fitness membership, the amount of the imprint is credited towards the payment of the program. The gift certificate is collected from the redeemer.
5. The gift certificates are pre-numbered.

Implications

Controls over gift certificates can be improved.

Recommendations

1. All voided certificates should be marked "void" across the face of the certificate and should be kept on file for audit purposes.
2. The Gift Certificate Register should record in numerical sequence order, all gift certificates on hand, sold, including those which were voided with a reason why. The staff member who voided the certificate should fill in all the required fields of the register including the "Staff" column.

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3. Inventory on hand should be counted and reconciled to the register on a regular basis by the supervisor. There should be a Gift Certificate Reconciliation Form to reconcile by numeric control (1) Opening Inventory on Hand (2) Certificates Sold (3) Closing Inventory on Hand
4. Consideration should be given whether "Class" should be programmed to control by number, all gift certificates issued, voided and redeemed.

Corrective Actions(Commissioner Marlon Kallideen's Response)

The department is in agreement with the recommendations and will adopt the changes upon receipt of the printed pre-numbered gift certificates anticipated to be done by mid to late June 2006.

Auditor's Response to Corrective Actions

The implementation of recommendations will improve controls.

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Training(2*)

Observations

- 1) It was observed that since the re-organization on October 17, 2005, a number of staff were put in new positions. The impact of this was that some staff may not have been adequately trained in the first few months, on what was required of them and how things should be done.
- 2) As one example, this was evident regarding the control of transit tickets. The daily inventory count of transit tickets was not done since the re-organization started, for Garnet William Community Centre, Maple Community Centre and Al Pallidini Community Centre.

Implications

Due to the short time span between the re-organization and the audit, not all the training might have taken place.

Recommendations

Additional training should be given to all staff in new positions(customer service, part-time clerical, front line etc on cash handling, transit tickets, refunds etc) so that all required controls can be maintained.

Corrective Actions(Commissioner Marlon Kallideen's Response)

Extensive, multi-level training programs are in place in Recreation including those for aquatics, fitness, camps, general programs and administration.

During the departmental reorganization some staff were assigned new roles and/or were moved to new centres that resulted in a need for orientation/training. The re-organization was implemented on October 17th, 2005 and the audit was conducted less than 12 weeks later.

The department is in agreement that staff in new roles require initial as well as ongoing training. Initial training for staff in new roles is now complete and any changes that evolve as a result of the audit will be addressed as part of the ongoing training.

Auditor's Response to Corrective Actions

The auditor is satisfied that the corrective actions will address the issues satisfactorily.

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Figure Skating-Ticket Ice(2*)

Observations

- 1) The City provides the Figure Skating Clubs ice time on Monday-Friday between 7-9am and 2-4 pm at the Al Palladini Community Centre(Woodbridge Figure Skating Club) and the Rosemount Arena(Thornhill Figure Skating Club). The cost per ticket hour is approximately \$3.25.
- 2) The "honour system" is used whereby the figure skater is assumed to have paid before s(he) goes onto the ice. If the skater stays on for the second hour, s(he) is also assumed to have paid for the second hour.

Implications

Controls over ticket ice could be improved.

Recommendations

- 1) There should be a schedule showing the (1) date and (2) list of names (regular skaters of the Figure Skating Club) at the entrance of the ice rink.
- 2) Regular skaters should check off alongside his/her name, the date and the hours s(he) is skating.
- 3) An ice supervisor/coach should check the number of skaters on the ice for each session, to the number of names ticked off on the scheduled list. These should agree, except for the irregular skater who should show proof of payment with the handstamp and receipt. Irregular, infrequent skaters should pay at the front desk and have his/her hand stamped and be issued with a register receipt.
- 4) At the end of the month, the Recreation department should then bill the Figure Skating Club for the number of skaters checked off on the list. It would be up to the Figure Skating Club to bill the regular individual skaters and collect payment from them.

Corrective Actions(Commissioner Marlon Kallideen's Response)

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The department is meeting with the figure skating clubs in May and will present the recommendations relating to the monthly billing process.

Regardless of this component, the ongoing check by staff on site will be begin in the fall of 2006.

Auditor's Response to Corrective Actions

The implementation of corrective actions will improve controls.

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Retail Store Credit Cards(1*)

Observations

- 1) At the department's head office, an assistant controls the issuance and return of credit cards using a "Credit Card Log". When a card is borrowed, information is entered on the log which is signed by the borrower. When the card is returned, the return is also signed.
- 2) Primarily four credit cards are used I.E., 1) Canadian Tire 2) Staples Business Depot 3) Home Depot 4) Rona
- 3) Store receipts are presented to the assistant for safekeeping and forwarding to the Finance department at the end of the month. Store receipts are not signed by the manager/supervisor displaying his/her approval of the purchase.

Implications

The established procedures in the department regarding signing authority is not consistently followed.

Recommendations

- 1) All store receipts should be approved and signed by the supervisor/manager of the purchaser who used the card or approved and signed by a head office manager.
- 2) The receipt should also show the reason for the purchase which may not always be self evident..
- 3) The "Credit Card Log" should also show the Requesting Location which borrowed the card and made the purchase.

Corrective Actions(Commissioner Marlon Kallideen's Response)

Managers and Supervisors will review the use of the Retail Store Credit Card with staff who have the authority to use the cards to ensure they use the FPO and obtain the appropriate authorization on the form.

The department agrees with adding the description to the receipt and the requesting location to the log.

Auditor's Response to Corrective Actions

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The implementation of the corrective actions will improve controls.

Refund Policy Wording(1*)

Observations

- 1) The Refund Policy wording in the Recreation and Culture booklet which is distributed to every household in Vaughan reads as follows:-

“ An administrative fee is 20% of the full program fee (minimum \$5, maximum \$20). Let us hold your credit and the administrative fee is waived. Allow 4-6 weeks for processing.”
- 2) The auditor noted that there is no time limit mentioned for the length of the credit hold. It is possible that a refund can be requested after X number of weeks, without the administration fee penalty being deducted.

Implications

The Refund Policy wording can be improved.

Recommendations

- 1) It is recommended that the wording be more specific as to the length of time the credit is to be held, before any request for a refund would result in a 20% administration fee.
- 2) A recommended suggested wording could be as follows:-
- 3) “ An administrative fee is 20% of the full program fee (minimum \$5, maximum \$20). If we hold your credit, the administrative fee will be waived. The credit may be applied against any future charges for future programs. Any requested refund at any time, will bear the administrative fee. Allow 4-6 weeks for refund processing.”

Corrective Actions(Commissioner Marlon Kallideen's Response)

The suggested wording has been adopted in the new brochure for 2006.

Auditor's Response to Corrective Actions

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The recommendation has been implemented.

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Program Commencement Date Change(1*)

Observations

- 1) The "Class" system records revenue on the commencement date of the program, not when the registrants registered or when they paid.
- 2) "Rush Hour" program #69298 had an original commencement date of September 26, 2005 which was changed to October 17, 2005. Revenues were incorrectly recorded on September 26, 2005 for 7 registrants who registered on September 7, 2005.
- 3) Two registrants who registered on September 23, 2005 and one who registered on September 21, 2005 had their revenues correctly shown on the new commencement date of October 17, 2005.
- 4) One registrant on November 8, 2005 had his/her revenue correctly recorded on November 8, 2005 as the program was already in progress.

Implications

On a change of commencement date, "Class" may not be recognizing all revenue on the new changed commencement date as it is supposed to do.

Recommendations

The department should bring the above observation to the attention of the "Class" software providers to determine if the software could be programmed such that if a commencement date has been changed, that all revenues will be recognized on the new commencement date and not the original commencement date as observed above.

Corrective Actions(Commissioner Marlon Kallideen's Response)

Although this will be raised with Class, staff are of the opinion that no risk is posed by the current process as revenue is still recognized within the program session if not on the start date.

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Auditor's Response to Corrective Actions

A follow up will be done 30 days from the issuance of this report to determine Class's position of the software program.

GL Report-Detail(1*)

Observations

- 1) On reviewing the "GL Report-Detail", it was observed that calendar dates were interspersed throughout the report, for example, transactions dated the 1st of the month may appear anywhere in the report between the first and last pages.
- 2) Also a particular program starting on a particular date would not be grouped together but would also be interspersed on the report.

Implications

- 1) There is no systematic order of dates or programs in the report.
- 2) To find particular information in the report could be time consuming which is also inefficient.

Recommendations

- 1) It is recommended that calendar dates should be grouped together in date order in the report, starting with the earliest date and ending with the latest date of the month.
- 2) A particular program with a particular start date should be grouped together. This would organize the programs in date order of the start dates on the report. This would also simplify the review of the report for analysis and information purposes. This would save time and be more efficient.

Corrective Actions(Commissioner Marlon Kallideen's Response)

This report is a "canned" report within the Class software and there could be a cost to customize the report according to the auditor's recommendations.

The order of the data, while not user friendly, is accurate and has only ever been needed by the auditor. Therefore recognizing the above, this item does not justify any expenditure.

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Auditor's Response to Corrective Actions

The response is acceptable to the auditor.

Collection Agency (1*)

Observations

- 1) Global Collection Agency was working on approximately \$10,000 of old accounts (going back to 2001) on behalf of the Recreation department. On October 4, 2005, they informed the department that they would not accept new accounts for collection, but would continue to work on old accounts.
- 2) Two accounts, namely:-

B L \$479.67 and AR \$115.43 were sent to Global on September 27, 2005 but were not included on Global's list of active accounts.
- 3) A new collection agency D & A has been retained by the department effective October 2005. New accounts are being sent to D and A for collection.

Implications

Two accounts were inadvertently missed through the transfer between the two agencies.

Recommendations

The two accounts above should be sent to the new collection agency D and A for collection.

Corrective Actions(Commissioner Marlon Kallideen's Response)

The two accounts have been sent to the D and A Collection agency.

Auditor's Response to Corrective Actions

The issue has been addressed.

Conclusion

1. The commissioner and director have responded favourably to all findings and recommendations in the Internal Audit Report.
2. When all corrective actions have been implemented, internal controls will be improved, the quality of performance in carrying out assigned responsibilities will be enhanced, the department will operate more effectively and efficiently and the Internal Audit department will have added value to the organization and assisted members of the organization in the effective discharge of their responsibilities.