Winnipeg

# Aquatics Revenue Audit

## Final Report

## January 2007

Audit Department

*Leaders in building public trust in civic government*

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# Mandate of the City Auditor

The City Auditor is a statutory officer appointed by City Council under the *City of Winnipeg Charter Act*. The City Auditor reports to Council through the Audit Committee (Executive Policy Committee) and is independent of the City Administration. The City Auditor conducts examinations of the operations of the City and its affiliated bodies to assist Council in its governance role of ensuring Civic Administration's accountability for the quality of stewardship over public funds and for the achievement of value for money in City operations. Once an audit report has been communicated to Council, it becomes a public document.

# Audit Background

The City of Winnipeg receives just over $3 million annually in revenue from the *Learn to Swim* and *Public Swim* Programs. The collection of this revenue is managed by the Community Services Department at several locations throughout the City.

The Department has implemented a new registration and point-of-sale system called the CLASS system. All indoor swimming pool facilities were using the new system as of July 1, 2006. In addition, the main office of the Department also uses CLASS for serving the public at 395 Main Street and it is used at three other leisure and fitness centre locations.

The Audit Department selected the *Learn to Swim* and *Public Swim* revenue streams for review based on the potential for control risks and exposures related to revenue collection especially given that the Department has implemented this new system for the collection and reporting of revenues. This critical period of post-implementation provided a good opportunity to determine if the Department had appropriate controls in place to reduce the likelihood of revenue losses.

# Audit Objectives

The objectives of this review are

- to evaluate the effectiveness of controls in place to mitigate the risk of fraud, theft, or error for the *Learn to Swim* and *Public Swim* revenues, and

- to identify opportunities to improve financial and administrative controls and provide management with recommendations to improve the revenue collection processes.

# Audit Scope

Only the revenue collected at indoor pools were included in the review since the outdoor pools are not using the point-of-sale (POS) or the CLASS systems.

Revenues at the indoor pools for pool rentals, merchandise, and gym memberships are not included in the review. In addition, accounts receivables are not included because they were deemed immaterial.

The period of review was from July 1, 2006 to September 30, 2006. This period reflects when the POS and CLASS systems were fully operational at all indoor pool sites.

The review covers the revenue collection processes including cash handling and collection including refunds, accounting, and reporting.

The review focused on whether the controls are adequate to provide reasonable assurance that

- all revenues are collected;
- financial assets are safeguarded;
- compliance with statutory requirements and established policies and procedures is achieved; and

- systems and processes in place are efficient, economical and make effective use of resources.

## Audit Approach

The Audit Department engaged the assistance of KPMG to lead the review. A team consisting of staff from the Audit Department and KPMG performed the review.

The team conducted the review through a series of interviews with key staff to determine the processes and controls around the collection and reporting of revenue. An internal control matrix was developed against the objectives of the review. Three pools were selected to test the identified controls on site: Pan Am, St. James Centennial and Sherbrook. In addition, a number of controls involving the Finance Division and information technology systems were tested at the main office at 395 Main Street to determine whether the controls were working as intended or to identify potential missing controls.

# Acknowledgement

The Audit Department wants to extend its appreciation to the management and staff from the Community Services Department who participated in the review. In addition, we acknowledge the assistance provided by KPMG LLP.

| Members of the Audit Team |
| --- |
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City Auditor

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Date

# Summary Observations

## Strengths

The following strengths were identified:

- Adequate processes appear to be in place for ensuring that money is collected, deposited and accounted for accurately and completely.
- Segregation of duties between collecting, recording and depositing of cash appears to be appropriate.

## Areas for Improvement:

The following areas for improvement were identified:

- Controls over access to the CLASS system need to be improved. All employees have their own user IDs however, it was observed that cashiers are sharing their IDs with other cashiers to avoid signing in and out during the day. The sharing of user ID's limits the accountability of users. As well, there is no process in place to remove user access to the CLASS system once an employee is terminated or resigns.
- For a number of controls identified, although we were able to observe the performance of the control, there was no physical evidence available to test if the control operated effectively throughout the period of the review. For example, we expected to find the documentation supporting the review of account reconciliations or monthly reports to be retained by the Department. Evidence of performance of the control should be documented and retained when control activities are performed.

# Conclusion

Generally, the controls that are in place are operating as intended. However, the controls over access to the CLASS system need to be strengthened to ensure accountability of users. In addition, evidence of the performance of work, supervisory review, and authorizations should be documented and retained to provide assurance to management that the processes and controls are being performed consistently and to allow for more effective monitoring.

We have made 15 recommendations to improve the controls over Aquatics revenue. The Community Services Department has agreed to implement the recommendations. A summary of the recommendation and management responses can be found in the next section of this report.

# Summary of Recommendations and Management Responses

We provided the Community Services Department with a detailed report that included the controls we tested, our observations on the functioning of these controls and recommendations to enhance controls where we believe improvement is required. An excerpt from this report is attached as Appendix 2. Provided below are the recommendations to enhance control and the Community Services Department's responses to our recommendations. The recommendations are grouped by control objective.

**Control Objective**: All receipts are recorded in the GL correctly and completely.

**Recommendation 1**
We recommend that the evidence of the review of the CLASS upload exception reports and corrections be documented and retained.

***Management Response***
*The Community Services Department agrees. The A/R Supervisor has begun signing the reports and will retain the signed copies on file.*

**Recommendation 2**
We recommend that the reconciliations be reviewed on a regular basis by the A/R Supervisor and that evidence of the review be retained.

***Management Response***
*The Community Services Department agrees. The A/R Supervisor is now signing the reviewed reconciliations and will retain the signed copies on file.*

**Recommendation 3**
We recommend that evidence of the clerk's review of the monthly reconciliations be documented and retained.

***Management Response***
*The department agrees. This reflects a transitional step with the implementation of CLASS. Clerks will now print out e-cash reports and sign off.*

**Recommendation 4**
We recommend that the clerk responsible for processing fee waiver applications compare and sign off on the fee adjustment report by comparing to the approved fee waivers.

***Management Response***
*The department agrees. A copy of the signed letter authorizing the waiver (amount) will be sent to the pool processing the waiver. The Clerk will sign off the actual amount of waiver processed on this letter and retain as verification.*

**Recommendation 5**
We recommend that the Pool Supervisor review the void and refund transactions on a daily basis to ensure that the refunds and voids appear reasonable.

*Management Response*
*The department agrees. The Pool Supervisor will review all voids and refunds as frequently as possible, but at a minimum a weekly review will be conducted.*

**Control Objective:** All revenue is completely and accurately recorded.

**Recommendation 6**
We recommend that evidence of review of the Price Look Up (PLU) report be printed and retained daily.

***Management Response***
*The department agrees. Aquatic Branch clerks will print, review and sign, daily, a PLU report and attach to the pass sold tracking sheet. At such a time as the membership component of the CLASS system is implemented, this will no longer be necessary*.

**Recommendation 7**
We recommend that the wrist bands that are use to identify paid customers be placed out of reach from the public to prevent unauthorized access.

***Management Response***
*The department agrees. Action has been taken to ensure that the wristbands are kept out of the reach of the public.*

**Recommendation 8**
We recommend that the Recreation Aquatics Coordinator document and retain evidence of approval for all fee waivers.

***Management Response***
*The department agrees. The Aquatics Branch clerk will retain all signed fee waiver letters. A master list of fee waivers will be signed off quarterly by the Aquatics Recreation Coordinator*.

**Recommendation 9**
We recommend that Aquatics Admin Coordinator document and retain some form of evidence of review of the actual results to budget on a monthly basis. This could include saving the confirmation e-mail, printing, signing, and retaining the analysis or developing a checklist that is signed and dated to indicate performance of the review.

***Management Response***
*The department agrees. The Aquatics Admin Coordinator will retain the e-mail confirming the comparison of actual performance to budget.*

**Control Objective:** All revenue and receipts are recorded at the appropriate amounts.

**Recommendation 10**
We recommend that Aquatics Admin Coordinator document and retain some form of evidence of the review of the Pool Supervisors' projections. This could include saving the confirmation e-mail, printing, signing, and retaining the projections or developing a checklist that is signed and dated to indicate performance of the review.

***Management Response***
*The department agrees. The Admin Coordinator will retain the e-mail confirming that a review of the Branch projections has been completed. Hard copies of the level 2 and level 3 roll ups will be signed and retained. The Pool Supervisors will be asked to maintain a copy of their level 1 submissions once they have been locked.*

**Control Objective:** Revenue is recorded in the period in which the related service is provided.

**Recommendation 11**
We recommend that the ability of pool program staff to turn off CLASS controls over swim class start dates be removed or that changes to this function are monitored.

***Management Response***
*The department agrees. It was never the intention of the department that program staff would have the ability to manipulate this function. During a recent upgrade of the system, this functionality changed but has since been removed. When future upgrades are conducted to the system, the department is now aware that this function will require review and adjustment as necessary.*

**Control Objective:** Only authorized personnel can make changes to the GL and/or revenue recording system.

**Recommendation 12**
We recommend that employees safeguard their personal identification and log off whenever they are not operating the terminal. We also recommend that a system or process be put in place to immediately notify IT to remove user access to the CLASS system once an employee is terminated or resigns.

***Management Response***
*The department agrees. Management will re-communicate the City's policy of safeguarding personal user identification and logging off when not operating a terminal. The department ensures that user access is immediately removed upon the termination or resignation of an employee.*

**Recommendation 13**
We recommend that the swim programmers be restricted from setting fees in the CLASS system.

***Management Response***
*The Aquatics Branch currently restricts the number of swim programmers to approximately 20 of 300 system users. The programmers are required to data enter pre-calculated fees from a prescribed fee list. The volume of classes, ownership of programs and the need to ensure the system is always current, precludes the division from decreasing the number of programmers at this time. The department will*

*explore the possibility of a system change that would provide a drop down box with pricing options in order to minimize the risk of potentially incorrect data entry. The department will review all pricing on a monthly basis to identify any discrepancies.*

**Control Objective:** All receipts are safeguarded from misappropriation or destruction.

**Recommendation 14**
We recommend that safes be locked or armed at all times when access is not required.

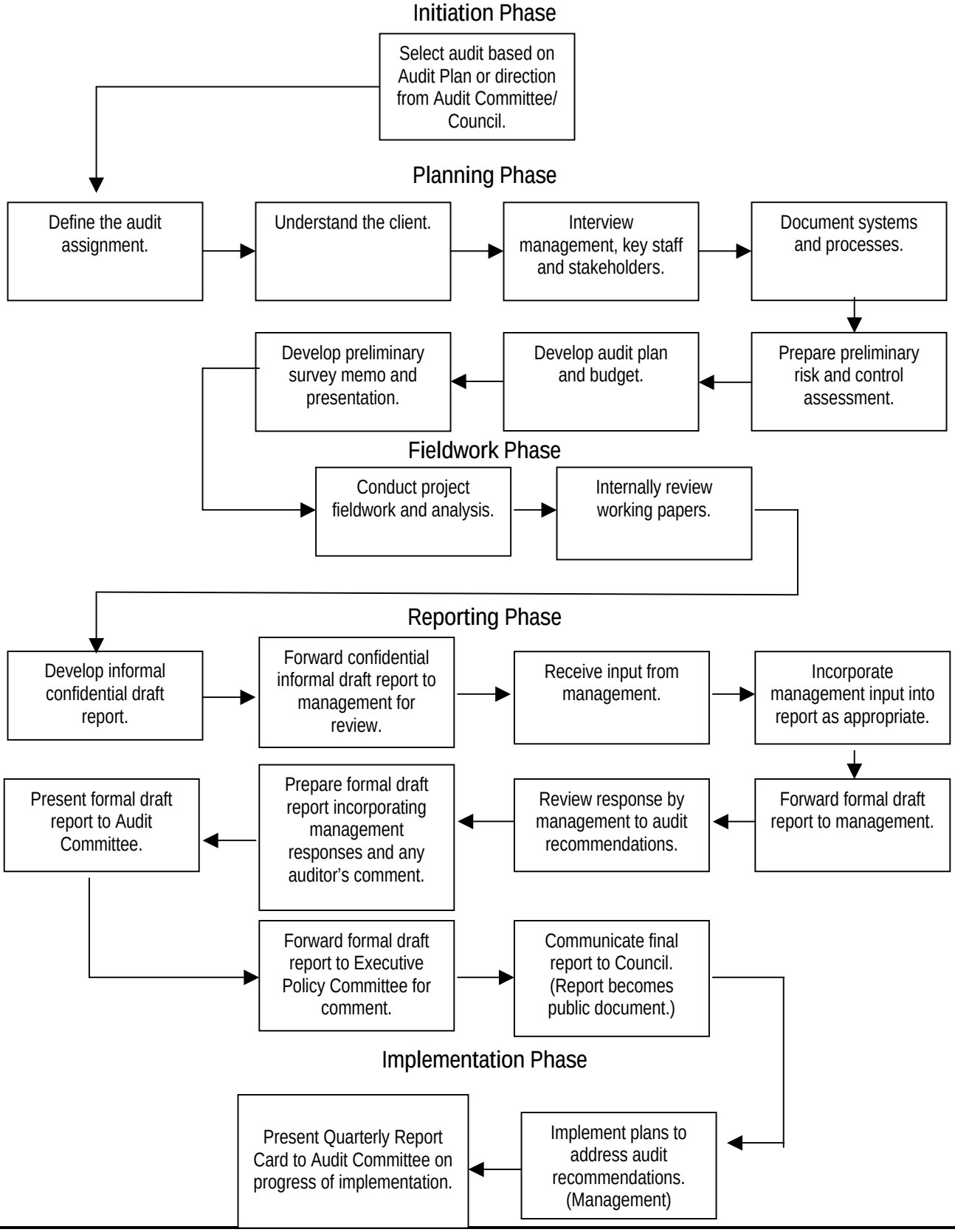
***Management Response***
*The department agrees. Safes will be kept locked when access is not required.*

**Control Objective:** Proper segregation of duties between cash collection, recording and depositing exists.

**Recommendation 15**
We recommend that the cash out be signed by both clerks/cashiers to evidence that two individuals were involved with the preparing and recording the deposit.

***Management Response***
*The department agrees. Cash out will be signed by 2 aquatic staff members (2 clerks or a clerk & IG2).*

# Appendix 1: Audit Process



# Appendix 2
# Excerpt from Aquatics Revenue Report to Community Services Department

| Objective | | Controls | Observation | Recommendation | Management Response |
|---|---|---|---|---|---|
| 1 | All receipts are recorded in the GL correctly and completely. | The clerk/cashier cannot manually enter or modify the price/rate of a service when processing cash, visa, MasterCard or debit payments as the rate is configured in the CLASS system. | We observed that the cashier does not have the ability to enter or modify prices for services using the CLASS system. | None – Control operating as intended. | None required |
| | | The CLASS system is configured so that once a payment is processed voids cannot be entered. | We observed that after a sale is entered into the system and the cash drawer opens, the system says "complete" and then the screen returns to a ready state for next transaction and no void can be entered. | None – Control operating as intended. | None required |
| | | The Finance Clerk completes a hardcopy Electronic Cash Checklist indicating that she has received and reviewed the daily cash spreadsheet. | We inspected a selection of daily cash spreadsheets and noted evidence of review. | None – Control operating as intended. | None required |
| | | The Finance Clerk completes the hardcopy e-Cash summary checklist prior to consolidation of the e-Cash summary for upload to PeopleSoft (PS) | We inspected a selection of checklists and noted that there was evidence that all the information for the e-Cash summary was received. | None – Control operating as intended. | None required |
| | | If there is an error in the e-Cash file, an exception report in text format will be generated in the Corporate Finance Folder and Corporate Finance will review the exception report and will email the e-Cash file back to the finance clerk for correction. | We inspected a selection of checklists and noted that there was evidence that the e-Cash file upload was successful. | None – Control operating as intended. | None required |
| | | The A/R Supervisor reviews the exception reports concerning the CLASS upload and makes corrections. | There was no evidence available to indicate that review of the exception reports and corrections are being performed on a consistent basis. | We recommend that the evidence of the review of exception reports and corrections be documented and retained. | The Community Services Department agrees. The A/R Supervisor has begun signing the reports and will retain the signed copies on file. |