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Winnipeg

Permit Revenue Audit

Final Report

April 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 received approximately $5.6 million in 2005 in revenue generated from electrical; plumbing and sewer; building and temporary building permit fees. The Planning, Property and Development Department (PPD) is responsible for the collection of these fees. Permit applications and payments are processed by PPD at 10 Fort Street.

The Audit Department selected these permit fee revenue streams for review based on the potential for control risks and exposures related to the collection of revenue. The purpose of the review is to determine whether PPD has 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 permit fee revenue, and
- To identify opportunities to improve financial and administrative controls and provide the Planning, Property and Development management with recommendations to improve the revenue collection processes for permit fees.

Audit Scope

The period of review was from January 1, 2006 to October 31, 2006. The review covered the revenue collection processes including application processing, cash handling and collection, 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. These controls were tested to determine whether they were working as intended and to identify potentially missing controls.

Acknowledgement

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

Members of the Audit Team
Brian Whiteside CA●CIA Deputy City Auditor Autumn Robbie-Draward, BSA, BA, CIA Auditor

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Shannon Hunt, CGA, CFE
City Auditor

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Date

Summary Observations

Strengths

- The Amanda system used to process permit applications and invoices includes a number of approval controls, automated calculations and restricts user access to functions corresponding to the appropriate positions.
- Adequate processes appear to be in place for ensuring that money is collected and deposited and accounted for accurately and completely.
- PP&D has implemented several effective reconciliation controls to detect potential errors.
- Management reviews revenue projections prepared six times per year.

Areas for Improvement:

The following areas for improvement were identified:

- The fee rates which are calculated annually and entered into Amanda are not reviewed to ensure accuracy and completeness. In order to ensure that the rates that are assessed are in accordance with the fees set by Council, a process needs to be put in place whereby the fee rates entered into the Amanda system are reviewed.
- Better segregation of duties should be considered. Presently, the Head Cashier collects cash, performs the reconciliation and can cancel permits. Without appropriate segregation of duties, there is greater risk of error and misappropriation of assets**.**
- PP&D allows some customers to set up trust accounts to pay for current and future permit applications. There currently are no defined policies or procedures over who is eligible to set up a trust account and there are no controls to limit trust accounts going into arrears requiring collection on these accounts. PP&D should consider developing formal policies and procedures to administer the authorization and collection of trust accounts. A formal policy will establish fair treatment and transparency to all who use the permit system and will reduce the risk of uncollectible accounts. The policy would provide formal guidelines regarding eligibility of establishing a trust account, notification of account holders in arrears and accounting procedures over inactive accounts.

Conclusion

Overall, we found a number of good controls in place over the completeness, validation, existence, safeguarding of assets and compliance with statutory requirements. There was no clear evidence of inefficient or uneconomical use of resources. However, there were a number of controls that were identified that did not have documented evidence of the performance of the control. PP&D should consistently document and retain the evidence of performance of the controls. This will allow management to more effectively monitor the performance of control activities.

We have made 20 minor recommendations to improve the system of control. The Planning Property & Development has agreed to implement these recommendations. A summary of these recommendations and management responses can be found in the next section of this report.

Summary of Recommendations and Management Responses

We provided the Planning, Property & Development Department with a detailed report that included the controls we tested, our observations on the functioning of theses 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 Planning, Property and Development Department responses to our recommendations. The recommendations are grouped by control objective.

Control Objective: All revenues and receivables are accurately and completely recorded.

Recommendation 1
We recommend that the Accounting Technician continue to perform the reconciliations on a monthly basis and retain documentation of that reconciliation. Someone other than the person performing the reconciliations should review the reconciliations to determine that they are performed and evidenced.

Management Response
A process has already been implemented to address this issue. Reconciliations of all balance sheet accounts are required on a monthly basis. Upon completion of reconciliations, the Assistant Controller is notified that they are complete. Once the Assistant Controller has reviewed same, she documents this review in the spreadsheet (i.e. by typing initials and date).

Recommendation 2
We recommend that the Head Cashier retain evidence of communication to the IT Coordinator that permit invoices have been balanced for the day. This will provide management with evidence of the performance of the control activity.

Management Response
The Head Cashier and Information Technology Coordinator will both be made aware that the upload from AMANDA to the G/L shall not occur unless an email is received by the latter from the former. Also, the Head Cashier will be instructed retain a copy of the email sent to evidence the performance of the control activity.

Recommendation 3
We recommend that the Head Cashier retain evidence that she has reconciled the trust accounts for the day. Evidence of follow-up or resolution of reconciling items should also be documented on/with the reconciliation. This will provide management with evidence of the performance of the control activity.

Management Response
The Head Cashier will be instructed to retain evidence that the trust accounts have been reconciled on a daily basis including documentation on the resolution of reconciling items.

Recommendation 4
We recommend that the Head Cashier document and retain evidence of performance of the reconciliation of Terranet internet payments to the Amanda financial report. This will provide management with evidence of the performance of the control activity.

Management Response
The Head Cashier will be instructed to retain evidence that the Terranet internet payments have been reconciled to the AMANDA financial report on a daily basis including documentation on the resolution of reconciling items.

Recommendation 5
We recommend that the user responsible for uploading the financial data into PeopleSoft retain all documentation referencing the alteration of the text

documents where adjustments are required to the extracted data.

Further, we recommend that PP&D should implement a procedure to perform supervisory review of the changes made to the upload files to ensure that corrections/alterations to the data are appropriate. Evidence of the review should be documented.

Management Response
A process will be developed to ensure that any alterations to the text documents are documented and that such changes are subject to supervisory prior to being uploaded to PeopleSoft. Evidence of this review will be documented and retained.

Recommendation 6
We recommend that PP&D develop a process whereby the Tracker is notified that all external departments have closed off on their permit approval.

Management Response
A periodic (at least semi-annual) review of "unpaid permits" is to be performed by the Accountant Technician III with appropriate follow-up with Zoning & Permits Branch staff to determine status.

Recommendation 7
We recommend that evidence of the balancing of the tills be documented and retained. This will provide management with evidence of the performance of the control activity.

Management Response
Accountant Technician III will regularly review all Batch Summary Reports to ensure that they match till tapes. Batch reports will be initialled / signed, dated and retained to evidence review.

Recommendation 8
We recommend that a senior person without access to cancel invoices should regularly review permit invoice cancellation. Evidence of the review should be documented and retained.

Management Response
A periodic (at least semi-annual) review of cancelled permit invoices is to be performed by the Accountant Technician III. For all identified cancelled permit invoices, appropriate Zoning & Permits Branch supervisory staff will sign the listing to evidence the review.

Recommendation 9
We recommend that PP&D develop procedures to regularly track outstanding permits invoices waiting to be issued in order that management may have complete and accurate information on unearned revenue.

Management Response
A periodic (at least semi-annual) review of "unpaid permits" is to be performed by the Accountant Technician III with appropriate follow-up with Zoning & Permits Branch staff to determine status.

Control Objective: Revenues recorded in the General Ledger represent valid transactions

Recommendation 10
We recommend that the Accounting Technician continue to perform the reconciliations of the revenue accounts on a monthly basis and retain documentation of that reconciliation. This will provide management with evidence of the performance of the control activity.

Management Response
A process has already been implemented to address this issue. Reconciliations of all balance sheet accounts are required on a monthly basis. Upon completion of reconciliations, the Assistant Controller is notified that they are complete. Once the Assistant Controller has reviewed same, she documents this review in the spreadsheet (i.e. by typing initials and date).

Recommendation 11
We recommend that the Head Cashier retain evidence of communication that she has balanced these accounts for the day.

This will provide management with evidence of the performance of the control activity.

Management Response
An email from the Head Cashier is to be retained as evidence that each day's reconciliation has been performed.

Recommendation 12
We recommend that the Assistant Controller document evidence of review of the monthly reconciliations. This will provide management with evidence of the performance of the control activity.

Management Response
A process has already been implemented to address this issue. Reconciliations of all balance sheet accounts are required on a monthly basis. Upon completion of reconciliations, the Assistant Controller is notified that they are complete. Once the Assistant Controller has reviewed same, she documents this review in the spreadsheet (i.e. by typing initials and date).

Recommendation 13
We recommend that the fee rates that are calculated and entered into the system annually be reviewed and approved by Manager of Zoning and Permits. Evidence of the review should be documented and retained.

Management Response
A process to ensure that fee rates calculated and entered into AMANDA are reviewed by appropriate supervisory staff each year is to be implemented and will include documentary evidence of this review.

Recommendation 14
We recommend that PP&D establish a formal policy outlining the administration of the trust accounts, which could include rules regarding eligibility of setting up a trust account, notification of account holders in arrears, and accounting procedures over inactive accounts.

Management Response
PP&D will establish a formal policy outlining the administration of the trust accounts, which will include rules regarding eligibility of setting up a trust account, notification of account holders in arrears, and accounting procedures over inactive accounts.

Control Objective: Revenue is recorded in the appropriate General Ledger accounts

Recommendation 15
We recommend that the Head Cashier retain evidence of communication that she has balanced these accounts for the day. This will provide management with evidence of the performance of the control activity.

Management Response
The Head Cashier will be instructed to retain a copy of the email sent to evidence the performance of the control activity.

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

Recommendation 16
We recommend that PP&D restrict the ability to change the final permit fee in Amanda. This would ensure that fees are invoiced at the Council approved rates.

Management Response
PP&D will investigate the potential to enhance the AMANDA system and, subject to technical feasibility and a positive cost-benefit, restrict the ability to change the final permit fee.

Recommendation 17
We recommend that the revenue information upload to PS be a responsibility of the Finance Division. In addition, we also recommend that this function be performed on a daily basis to ensure that revenue is reported in a timely fashion. Where appropriate, cross training should be implemented to allow for timely entry of the upload to PS.

Management Response
This upload is an IT function as are all other uploads into PeopleSoft. The Finance staff does not have the expertise to do this. To address issue that arose in July 2006, an additional IT staff member will be trained to do the upload when the IT Coordinator is away.

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

Recommendation 18
We recommend that the combination of the safe be changed on a yearly basis and whenever cashier staff move to positions outside of cash services.

Management Response
A process will be implemented such that the combination is changed, at minimum, one per year and whenever cashier staff move to positions outside of cash services.

Recommendation 19
We recommend that PP&D develop a formal policy regarding the threshold value of the cash over/short account. The policy should clearly indicate what amounts are considered immaterial and what amounts need to be investigated.

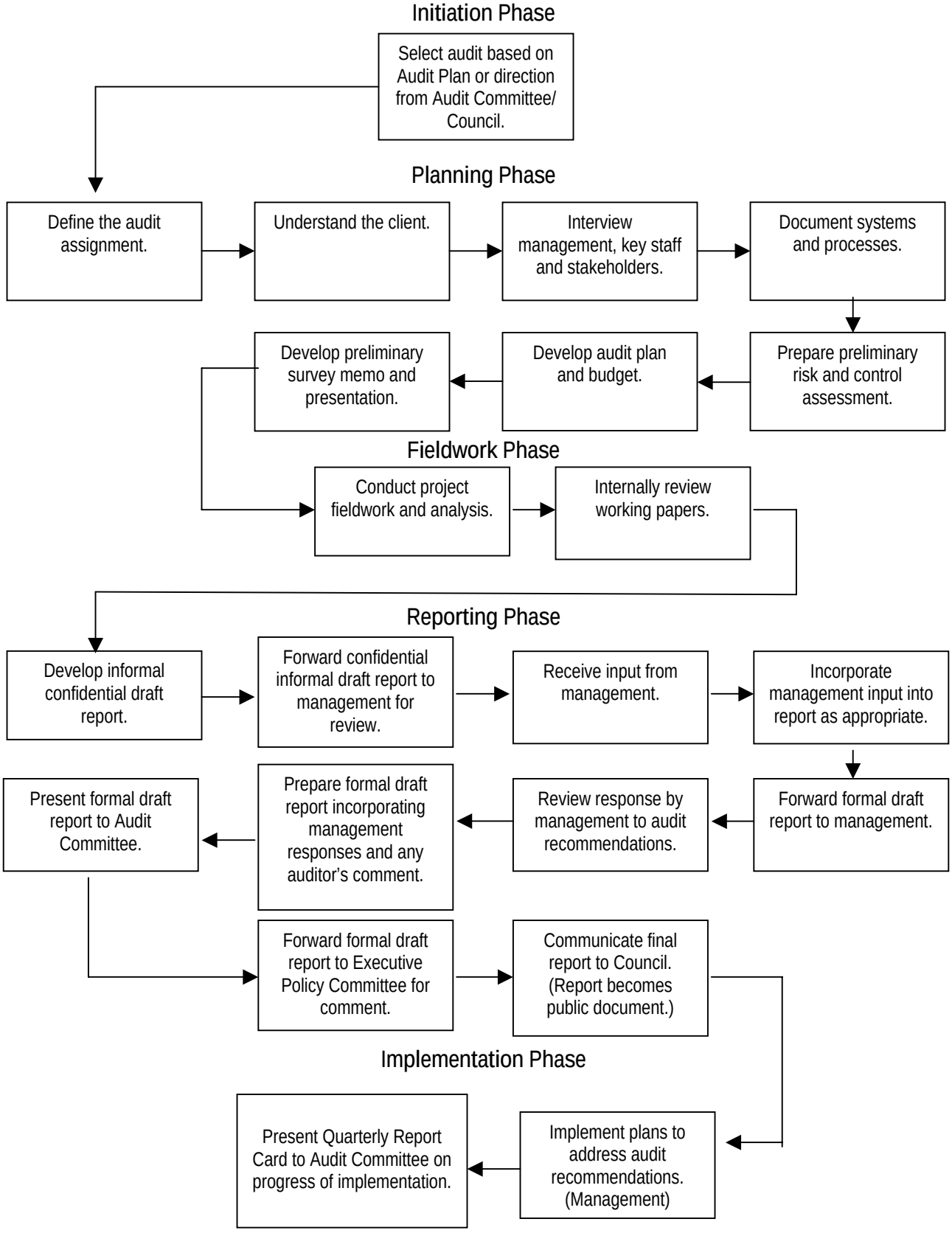
Management Response
A formal policy will be drafted.

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

Recommendation 20
We recommend that the collection of payments be performed by an employee other than the employee responsible for reconciling the payments. In addition, we recommend an employee other than the one responsible for taking payments process cancelled permit invoices. Appropriate segregation will provide stronger control over possible misappropriation of cash. Alternatively, supervisory review of reconciliation and processing of cancelled permit invoices could be implemented.

Management Response
Due to the limited number of personnel in the cash services area, a supervisory review of reconciliation and processing of cancelled permit invoices will be implemented.

Appendix 1: Audit Process



Appendix 2
Excerpt from Permits Revenue Report to Planning, Property & Development Department

Objective		Controls	Observation	Recommendation	Management Response
1	All revenue and receivables are completely and accurately recorded.	The Amanda system generates the fixed fees automatically based on the information entered from the permit application.	We observed the Permit Technician enter an application and noted that the system generated the appropriate fees based on the information entered.	None - Control is working as intended.	Agree.
		When the Accounting Technician is performing the reconciliation for the Trust Accounts, he will compare the G/L balance to the total balance on the building deposit spreadsheet, which includes each account holder and their balance.	We inspected a selection of deposit spreadsheets and noted that there was evidence of performance of the reconciliation.	None - Control is working as intended.	
		Network access is restricted by user ID and password.	We observed the Permit Technician logging onto the system and noted that user ID's and passwords are required to access the system.	None - Control is working as intended.	
		The Permit Technicians are required to fill out fields in Amanda, which determine the fees. They are unable to issue the permit invoice until these required fields are filled out.	We observed the Permit Technician attempt to issue a permit invoice which did not have the required fields filled out and noted that he was unable to issue the invoice.	None - Control is working as intended.	
		Once the Head Cashier has balanced the amounts for the day, she will send an e-mail to the Information Technology Coordinator to inform them that permits has balanced for the day.	We inspected a sample of email folders for evidence that the e-mail was sent to the Information Technology Coordinator to inform him that the permit invoices were balanced for the day, and noted that 6 out of 25 did not have evidence the e-mail was sent. As a result, management cannot be reasonably assured the control is being performed or that amounts have	We recommend that the Head Cashier retain evidence of communication to the IT Coordinator that permit invoices have been balanced for the day. This will provide management with evidence of the performance of the control activity.	The Head Cashier and Information Technology Coordinator will both be made aware that the upload from AMANDA to the G/L shall not occur unless an email is received by the latter from the former. Also, the Head Cashier will be instructed retain a copy of the email sent to evidence the performance of

Objective		Controls	Observation	Recommendation	Management Response
			been balanced and accounted for.		the control activity.