

# ***Corporation of the City of Windsor***

## ***User Fee Revenue Management***

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*Final Internal Audit Report*

**11 April 2016**

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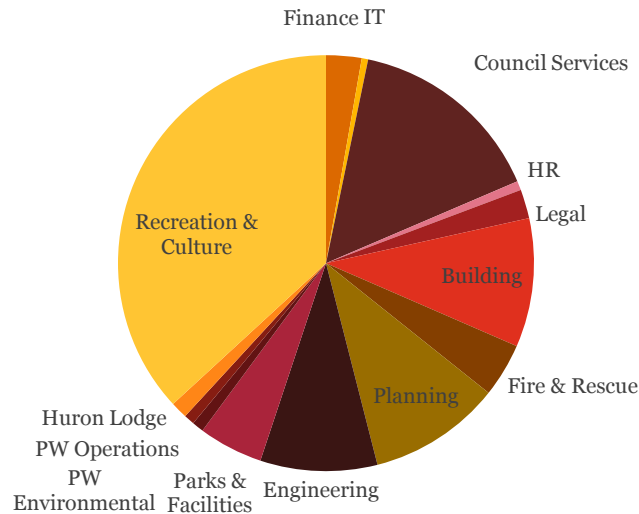
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# Summary of Internal Audit Results

This internal audit focused on reviewing processes and controls for ensuring that program fees and revenue are reasonable and maximized in an efficient and effective manner. There are over 900 individual user fees across 14 department areas as noted in the chart below.



Source: City of Windsor Operating Budget – Section 12 - Appendix c - 2014 user fee schedule

Internal Audit focused the review on the User Fees applicable to the Recreation & Culture (R&C) department given the number of user fees, services are offered across various locations within the City, higher volume of participation relative to the other department areas and small dollar individual sales (i.e. swimming). For comparison purposes, internal audit also considered some aspects of user fee management processes for the other categories/departments. The internal audit considered four (4) review areas as they pertain to User Fees, as summarized below:

## **User Fee Framework**

User fees are appropriately determined across the City and the process for determining rates follows established policies and procedures. A systematic approach, based on guiding principles including cost recovery, has been developed in the area of R&C. For the other thirteen (13) departments where user fees are collected, a formal policy or framework has not been developed.

## **Determination of User Fees**

There is an appropriate level of analysis, review and approval over modification of user fees. A consolidated listing of User Fees is maintained (current and historical) centrally. User fee rates are reviewed annually as part of the budget process or more frequently if there are changes to economic factors. Increases to user fees are typically driven by inflation, negotiated contractual increases or because of an increase in cost of energy. Community consultation was performed in 2006 for R&C user fees to identify community values and guiding principles to determine what activities/programs should be subsidized.

## **Application of User Fees**

Controls are in place to ensure that established rates are collected and/or discounts are approved in accordance with established policies. Underlying IT systems/applications such as CLASS for Recreational programs and AMANDA for most other user fee categories are utilized. These applications support customers, revenue and attendance. User fee rates are stored within these applications and the ability to change rates is restricted to a limited number of individuals.

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### ***Monitoring of User Fees***

Effective monitoring activities are in place that are designed to reduce revenue slippage. Attendance is taken at recreational classes and compared to the registration list. There are a number of procedural guides and manuals which assist employees in carrying out the operations in a consistent manner, such as (i) Parks and Recreation - Financial Procedures Manual and (ii) Supervisor and Desk Manual.

As it pertains to other categories of user fees (i.e. Council Services), it was noted that physical movement of renumbered licenses (e.g. dog tags, marriage licenses etc.) is tracked and reconciled at least annually to identify for any discrepancies in licenses/tags sold against the number of tags/licenses issued.

### ***Recreation System Upgrade***

Subsequent to this review, management has initiated a project to implement new Recreation system/software with the objective of improving functionality to meet future business needs of the Recreation and Culture department. This initiative is considered necessary because the current version of CLASS will not be supported beyond 2017.

The engagement has been performed in accordance with the scope of work per Appendix A.

### ***Report Classification***

In general there are several preventative, detective and corrective controls in place to manage user fee revenue. A framework for determining user fees and recovering costs has been developed. Training and procedural manuals have been developed and there is an accountability structure with supervisors and managers periodically monitoring and overseeing front line staff and transactions. Procedures for minimizing revenue slippage have evolved which include monitoring of financial results by facility and by program to detect anomalies or trends as well as daily attendance tracking for recreational programs and activities. Management has the ability to configure minimum registration levels when there are changes in demand or costs. Furthermore, management can cancel or replace unpopular activities/programs to minimize incremental instruction costs or to better leverage committed costs (i.e. facility costs).



The nature of the business is one that relies on temporary and part time employees as well as contracted instructors or program coordinators who may not be as familiar with City policies and procedures as full time staff. Accordingly, there needs to be a high level of supervision and a need for more regular spot checks to ensure that transactions are processed appropriately and there is no intentional or unintentional slippage in user fee revenue.

There are a number of recommendations for improving the current design and strengthening oversight and monitoring processes. Management has started to develop a Supervisor Checklist with the objective of improving oversight and formalizing spot checks.

### ***Scope Limitation***

Internal audit identified a scope limitation because we could not inspect documentation to verify the completeness or eligibility of rate adjustments or discounts offered to customers/residents as part of discount or subsidy programs. This is due to the fact that the support for such adjustments is shredded after it is reviewed, due to privacy reasons. Internal audit has recommended that management retain a record to show that a review has been performed of all rate adjustments/discounts/subsidies (refer to finding #5). Management has accepted the recommendation and Internal Audit expects to validate the new process once implemented, during the quarterly findings follow-up process, in order to validate that only eligible residents/customers receive the discounts.

Based on the controls identified and tested as part of the Internal Audit of the City’s User Fee Revenue management processes and controls we have determined that there is reasonable evidence to indicate that:

	No or limited scope improvements	No Major Concerns Noted	Cause for Concern	Cause for Considerable Concern
Controls over the process are designed in such a manner that there are:				
Sample tests indicated that process controls were operating such that there are:				

See Appendix B for Basis of Finding Rating and Report Classification. Management has provided comprehensive action plans, which we believe will address the deficiencies noted.

### Summary of Positive Themes

#### User Fee Framework

- A documented policy for establishing user fees (Parks and Recreation only), including a systematic model for cost recovery/subsidizing services offered.

#### Determination of User Fees

- Integrated systems for reservations (i.e. CLASS) and revenue tracking (i.e. AMANDA) with appropriate access restriction rules/profiles;
- Relevant legislative requirements are considered during the review of applicable user fees;
- Minimum registration levels for recreational programs are adjusted for changes in demand or costs (i.e. change in minimum wage);
- Early detection and corrective actions for a decline in revenues or increase in expenses are managed during periodic review of financial results. Generally, actions are documented and reviewed by the ED of Recreation & Culture;
- Changes to user fees are subject to review by department owners with the assistance of financial planning administrators before being raised as a ‘budget issue’ and formally approved by Council.

#### Application of User Fees

- Scanning system at larger recreational facility to control customer in/out access;
- Staff are made aware of user fees and discounts/subsidies which should be applied;
- Discount programs, cancellation policies and registration processes are documented in the Windsor Activity Guide, which is available to public and employees;
- Reporting capabilities in CLASS offer management a standard repository of reports to use for monitoring and overseeing operations. These include, but are not limited to:
  - A listing of accounts with credits and/or when credit balances will expire in order to notify customers;
  - A listing of Point of Sale (“POS”) sales and details report used to reconcile POS transactions;
  - A listing of members that scanned into the facility (and the time) for a particular date range;
  - A report that gives us the total number of times a specified adjustment is used within a given period; and
  - Program Status Report shows revenue by user fee category which can be used to compare against expenses on a monthly basis.
- Part time Desk Clerks cannot process a transaction with an open receivable without an override by a Supervisor/Manager or designated full time staff person, ensuring that only paying customers are enrolled into activities/programs.

### Monitoring of User Fees

- Financial Planning Analysts periodically monitor/track costs and revenues incurred;
- User fees are publicized in the annual operating budget and available online for the public;
- The Aquatics centre was re-designed in a manner which provided better monitoring of customer traffic flow in/out of the facilities; and
- Staff are typically long time employees and very knowledgeable in regards to offered services, fees, operations, policies at each location.

### Summary of Findings

A summary of the five (5) internal audit findings, corresponding ratings and summary of agreed upon actions by Management are provided in the following table. The “Detailed Observations” section of this report provides additional information about each finding and proposed action plans. In addition to the findings noted below, two (2) considerations for improvement have also been noted on page 13 of the report.

Finding #	Topic	Rating <sup>1</sup>			Management Action
		Significant	Moderate	Low	
<b>User Fee Framework</b>					
<b>Policies and Procedures</b>					
1	Refresh the User Fee Policy			X	a) Update of the User Fee policies – Executive Director of Recreation & Culture – 2018 Q2 b) Creation of project plan for developing a new City-wide User Fee methodology – Deputy Treasurer – Financial Planning – 2017 Q2
<b>Application of User Fees</b>					
2	System access and shared IDs in CLASS		X		CLASS security enhancements – Recreation Systems Coordinator - Complete
3	Attendance and customer traffic monitoring	X			a) Enhancements of instructor attendance sheets – Recreation Systems Coordinator – 2016 Q3 b) Improved staff training for managing transfers – Manager of Community Programming – 2016 Q2 c) Recreation & Culture and Facility Operations to meet to discuss means of expediting repairs of cameras – Executive Director of Recreation & Culture – 2016 Q3 d) Enhancement of photos on membership cards – Recreation Systems Coordinator – 2016 Q3
4	Customer refunds and credits	X			a) Improve security measures for refunds – Recreation Supervisors – 2016 Q3 b) Enhance documentation for lock rentals at Adventure Bay – Assistant Manager, Adventure Bay, 2016 Q3 c) Enhance Supervisor Checklist – Manager of Community Programming – Complete d) Periodic monitoring of refund activity – Recreation Supervisors – 2016 Q3
5	Discount and Subsidy Programs			X	Enhancement of log sheets for tracking aggregate P2P activity – Recreation Systems Coordinator – 2016 Q3
<b>Total</b>		<b>2</b>	<b>1</b>	<b>2</b>	

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### *Summary of Significant Findings*

Internal audit has identified deficiencies in the design or operating effectiveness of controls, two (2) of which have been classified as significant:

- Recommended improvements to the process for tracking and reconciling attendance to revenue collected, documenting exceptions and ensuring independent review of explanations for variances.
- Although not uncommon for areas/facilities that process transactions in high volume and low dollar transactions, there is an inherent segregation of duties conflict among facility desk staff over processing of refunds or credits.

### *Management Comments*

Based on the feedback provided by the internal auditors, it is evident that the vast majority of processes and controls in place are being implemented appropriately and effectively. This can be challenging due to the very large number of part time staff employed to provide services across multiple facilities in a cost efficient way, and is a testament to the oversight and training by the on-site supervisors. The staff attempt to provide excellent and responsive customer service within the framework of corporate policies and procedures, as well as best practices. Management is committed to making improvements through enhanced documentation, and oversight where required, within the constraints of existing resources. In addition, it is anticipated that the replacement of the existing software scheduled for 2017 will provide opportunities for enhanced security measures and controls.

Name: Jan Wilson  
Title: Executive Director, Recreation and Culture  
Date: 6/04/2016

## Related findings from IT Security Audit

A summary of internal audit findings pertaining to the IT Systems relevant to User Fees and the status of remediation by management are as follows:

Reference	Details and impact on User Fee Review	Status of Remediation
<p><b>Finding #2 – Password Parameters for CLASS</b></p> <p>Finding Rating: Low</p>	<p>Password settings for the Amanda and CLASS applications are below recommended control practices. The following password settings are not maximized for CLASS:</p> <ul style="list-style-type: none"> <li>• Minimum password length,</li> <li>• Password complexity, and</li> <li>• Account lockout.</li> </ul>	<p>Closed – new password parameters have been implemented as of November 2014.</p>
<p><b>Finding #3; Control of Privileged Shared IDs</b></p> <p>Finding Rating: Low</p>	<p>Shared IDs are used by a limited number of authorized individuals for privileged access to the CLASS systems however there is no monitoring of the use of these shared privileges. Examples of the shared privileged IDs are as follows:</p> <ul style="list-style-type: none"> <li>• Administrators in CLASS and AMANDA application uses shared user IDs for administrating access.</li> </ul> <p><u>Impact on current review area:</u> The shared privileged ID's are used by three (3) individuals that are not involved in day-to-day operations or processing of transactions at facilities.</p>	<p>Closed – changes and additional tools required to monitor shared ID's was cost prohibitive.</p>
<p><b>Finding #6 Periodic access review of key systems</b></p> <p>Finding Rating: Low</p>	<p>Periodic access review was not performed for the CLASS application.</p> <p>Periodic access review is a monitoring control designed to ensure that the right people have the right access to the right information and to identify and act on unauthorized users with access.</p> <p><u>Impact on current review area:</u> Given the nature of business and the level of turnover in facility attendants or desk staff with access to CLASS, user access reviews are performed daily by the Recreation Systems Coordinator to remove access of departing employees. A complete review of access and permissions is performed on an annual basis.</p>	<p>Upon IA's validation attempt, it was noted that the intended action plan has been designed, with an email provided to supervisors of CLASS users, determining if current access privileges were appropriate. However, it was learned that this had not been performed in 2015. When a sample of terminated employees were tested, it was noted that some were still active in CLASS. IA has drafted a subsequent finding regarding this and will follow up in the coming quarters.</p>

Source: Oct 29, 2014 Internal Audit Report– Manage Information Security.

The above noted findings did not affect the overall report classification for this particular review given the low risk ratings.



# Detailed Observations

## Findings & Action Plans

Finding	Rating <sup>1</sup>	Recommendation & Action Plan
<b>1. Refresh of the User Fee Policy – Recreation &amp; Culture</b>		
<p><b>Observation</b> The 2006 User Fee policy provides a framework and methodology that is to be applied by all Recreation &amp; Culture areas when determining user fee categories and rates.</p> <p>On an annual basis, the City will evaluate costs as well as survey the market to ensure that rates are competitive and programs offered are in demand. However, the policy and underlying methodologies have not been evaluated or updated in 10 years. At the time the policy was developed, the City hired a consultant and engaged the public for direction on the methodology.</p> <p>A City-wide framework for determining user fees across all departments has not been implemented in the form of a User Fee procedure or methodology, applicable to all user fee categories.</p> <p>However, based on a review of a sample of user fees in the areas of Council Services and Planning, user fees are reviewed at least annually. Internal audit was informed that the Licensing department conducted a “time study” in 2007 to determine how long assigned staff spent on issuing certain types of licenses.</p>	<p><b>Overall</b> Low</p> <hr/> <p><b>Impact</b> Low</p> <hr/> <p><b>Likelihood</b> Likely</p>	<p><b>Recommendation</b></p> <p>a) Management should update the current policy and guiding principles. The frequency of review of the policy should be aligned to the City’s guideline of 5 years or sooner. Community consultations may need to be held however, it is possible that the majority to the Activity Based Costing analysis can be updated without significant effort. Management should seek council approval of the updated policy.</p> <p>b) Management should consider developing guiding principles in the form of a City-wide methodology/procedure for determining User Fees. Certain factors or principles applied for Recreation &amp; Culture, such as market competitiveness, may also be applied to other categories/departments. Among other things, the policy or procedure should address:</p> <ul style="list-style-type: none"> <li>• Direct cost recovery model for most programs and full cost recovery model for certain user fee categories;</li> <li>• Determination of break-even sales, if possible;</li> <li>• Legislated rates;</li> <li>• Inflationary increases, labour legislation and utilities; and</li> <li>• Activity Based Costing for indirect cost pools (i.e. Supervisors and Managers time).</li> </ul>
<p><b>Implication</b> The guiding principles for the policy and framework for determining user fees may be outdated and not reflect current values of the Windsor community.</p>		<p><b>Management Action Plan</b></p> <p>a) Management agrees with the finding and recommendation. The Recreation and Culture Department, with the assistance of the Finance and Communication Departments, will undertake public consultations to update the policy with respect to the community values and guiding principles. This work can be completed in house. Due to significant events, projects, and upcoming technology changes, it is recommended that this work be completed after the upgrade to the software system.</p>

<sup>1</sup> See Appendix B for Basis of Finding Rating and Report Classification

	<ul style="list-style-type: none"> <li>b) Management agrees with the finding and recommendation and will develop a project plan for the development of a new City-wide User Fee methodology. The planning process will include the definition of the project scope and objectives, the identification of required human and financial resources and the required timelines to complete the project.</li> </ul>
<p><b>Root Cause</b> The review cycle for the User Fee Policy has not been set.</p>	<p><b>Responsibility</b></p> <ul style="list-style-type: none"> <li>a) Executive Director, Recreation and Culture</li> <li>b) Deputy Treasurer – Financial Planning</li> </ul> <p><b>Due Date</b></p> <ul style="list-style-type: none"> <li>a) 2018 Q2</li> <li>b) 2017 Q2</li> </ul>

Finding	Rating	Recommendation & Action Plan
<b>2. System access and shared IDs in CLASS</b>		
<p><b>Observation</b> A limited number of authorized individuals (when staff are locked out of the system) use shared IDs on a temporary basis. These accounts are managed by the Recreational System Coordinator and provided to recreation staff for temporary use when users are having difficulty logging onto CLASS and support from IT department is not available (i.e. after IT business hours, while Recreation facilities are still open).</p> <p>Access to override specific rental fees in CLASS (where rates are managed) was given to full-time front-line Recreation Clerks, some of which may also collect revenue, resulting in a potential segregation of duties conflict. However, upon confirming this observation with management, the access available to Recreational Assistants and Recreation Centre Clerks in CLASS allowing them to modify user fee rates had been removed, as of November 30<sup>th</sup>, 2015.</p>	<p><b>Overall</b> Moderate</p> <hr/> <p><b>Impact</b> Medium</p>	<p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>a) Users that require temporary access using a shared/generic login should ensure that requests are sent to their supervisor (via email) before the Recreation System Coordinator provides the log in information. Supervisors should monitor repeat requests by employees. Management should also consider implementing a periodic review of transactions processed by temporary IDs. Passwords for generic/shared user IDs should be reset as soon as the help desk ticket is for resetting password is resolved or within 48 hours of access being given, whichever is sooner.</li> <li>b) The access available to full-time Recreation Assistants and Recreation Centre Clerks in CLASS allowing them to override user fee rates has been removed as of November 30<sup>th</sup>, 2015.</li> </ul>
<p><b>Implication</b> Inadvertent or intentional modifications to system configurations (i.e. minimum registration size) may cause inaccurate reporting of user fee revenue. Use of shared/generic user ID limits management from holding specific individuals responsible in the event of a discrepancy or issue.</p>	<p><b>Likelihood</b> Likely</p>	<p><b>Management Action Plan</b></p> <ul style="list-style-type: none"> <li>a) Management agrees with the finding and a portion of the recommendation. The Recreation Systems Coordinator will copy the employee(s)' Supervisor on requests for temporary ID's and will follow up to ensure that the passwords for the temporary ID's are changed and that IT resets the individual ID password on the next possible business day. The supervisor will monitor and follow up with repeat requests to determine if there are technical or other issues. This procedure has been put in place and instructions circulated as of April 4, 2016.</li> <li>b) Management agrees with the finding and recommendation. Although there are some unique instances where the full time staff have amended fees due to unexpected circumstances (e.g. a power failure affecting the amenities available to a rental group on a weekend), adjustments will be made by the centre Supervisor/Manager or the System Administrator, or if necessary, the on-call supervisor.</li> </ul>

<p><b>Root Cause</b>  The current version of CLASS is limited in the ability to restrict permissions. Generic IDs are used as a temporary solution only. Recreational assistants required access to adjust user fees in some unique instances without a workaround solution.</p>		<p><b>Responsibility</b>  a) Recreation Systems Coordinator  b) Recreation Systems Coordinator</p> <p><b>Due Date</b>  a) Complete  b) Complete</p>
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Finding	Rating	Recommendation & Action Plan
<p><b>3. Attendance and customer traffic monitoring</b></p> <p><b>Observation</b>  <u>Attendance Sheets:</u> April 2015, recreation facilities that offered instructional classes (such as swimming, yoga, fitness activities etc.) standardized a process for taking attendance, a process which is designed to ensure that only paid customers were attending these activities. The following procedures were formally added to the previous practice:</p> <p>Prior to a class, instructors receive an attendance sheet from the front desk and are responsible for taking attendance at the beginning of each class. Desk staff are to provide an updated attendance sheet if there are changes to the enrollment. Instructors, at the end of each session, hand in the sheet to the desk staff. Attendance sheets are to be kept on file for the current year plus 6 years. Supervisors are required to perform occasional spot check.</p> <p>In a sample of 25 events, the following exceptions were noted:</p> <ul style="list-style-type: none"> <li>Two (2) attendance sheets were not available/provided; and</li> <li>One (1) instance, a customer transferred from a fitness class to a sculpting class; however, the credit that was obtained from the fitness class was not applied to the sculpting class.</li> </ul> <p>The revised procedures do not require the instructor to sign-off on the attendance sheets. In a sample of twenty-five (25) attendance sheets, fifteen (15) sheets did not have the instructor's name or was not signed.</p> <p><u>Security Cameras not operational:</u> Consistent across three (3) sites visited, where security cameras were in place, the facilities were experiencing issues recording the footage or the recording itself was not available due to technical issues.</p> <p><u>Membership cards:</u> Membership cards are issued at four (4) facilities. It was noted that at two (2) facilities, cards are issued without a photograph of the customer on file or on the card itself – due to cameras not functioning properly.</p>	<p><b>Overall</b> Significant</p> <hr/> <p><b>Impact</b> Moderate</p> <hr/> <p><b>Likelihood</b> Highly Likely</p>	<p><b>Recommendation</b></p> <p>a) As part of the procedure/guidelines for attendance tracking, staff/instructors should clearly mark the attendance sheet with the physical head count for each date along with detailed explanation of variances after reconciling to the CLASS attendance records.</p> <p>Management should explore whether attendance sheets can be configured to automatically have a place for comments and instructor name/signature. The explanation of the variances should be provided on each date where a difference was noted.</p> <p>b) A process for managing transfers should be developed and communicated.</p> <p>c) The facilities department should address security cameras that are not functioning properly as soon as possible.</p> <p>d) Management should consider whether CLASS can be configured to prevent the printing of a membership pass without a photograph. Cameras should be provided to the two (2) facilities that currently do not have a functioning camera for membership cards.</p> <p><b>Management Action Plan</b></p> <p>a) Management agrees with the finding and recommendation. The attendance sheet template can add a field for the instructor's name and signature. The instructor will attach a copy of the verification of the payment for drop in participants to the attendance. Also updated attendance sheets are provided to instructors when there have been changes to the</p>

<p><b>Implication</b>  Perception that attendance is not taken consistently may lead to abuse or customers attending activities without payment, intentionally or unintentionally. Potential lost revenue if customers share their fitness membership cards.</p>	
<p><b>Root Cause</b>  Due to the small class sizes, instructors may feel they can recognize customers and bypass attendance process. Attendance tracking is a manual process. Some fitness facilities are not equipped with cameras for ensuring membership cards contain customer photographs and the CLASS system allows the 'photograph' field to be blank.</p>	<p>registrations.</p> <ul style="list-style-type: none"> <li>b) Management agrees with the finding and a portion of the recommendation. There is a process already in place for managing transfers, i.e., when a participant requests a transfer, the staff are to apply an existing credit, or process a payment. In this incident, the proper process was not used, and follow-up has taken place. Management will ensure this process is included in staff training.</li> <li>c) Management agrees with the finding and recommendation. Recreation &amp; Culture will meet with Facility Operations to determine a means to expediting repairs to cameras that are not functioning.</li> <li>d) Management agrees with the finding and a portion of the recommendation. For customer service, staff must have the ability to issue memberships without a photo, particularly if there is a technical issue. The two locations that currently do not have cameras to take photos of members are Windsor Water World and Adie Knox Herman Recreation Centres. Barring any technical difficulties, cameras for membership cards will be installed at these two remaining locations.</li> </ul> <p><b>Responsibility</b></p> <ul style="list-style-type: none"> <li>a) Recreation Systems Coordinator</li> <li>b) Manager, Community Programming</li> <li>c) Senior Manager of Facility Operations</li> <li>d) Recreation Systems Coordinator</li> </ul> <p><b>Due Date</b></p> <ul style="list-style-type: none"> <li>a) 2016 Q3</li> <li>b) 2016 Q2</li> <li>c) 2016 Q3</li> <li>d) 2016 Q3</li> </ul>

Finding	Rating	Recommendation & Action Plan
<p><b>4. Customer refunds and credits</b></p> <p><b>Observation</b></p> <p>As part of obtaining an understanding over refund policies, internal audit noted the following:</p> <ul style="list-style-type: none"> <li>- Front desk staff have the ability to perform refund and credit transactions without a required independent review. In regards to credits, a customer may be eligible to receive a credit toward a future course/activity if they decide to cancel a previous registration.</li> <li>- Lock rental deposit refunds: Based on a review of a refund transaction listing during the scope period, approximately \$50,000 of refunds took place that were not assigned a specific customer. Upon follow-up with process participants, it was noted that these refund transactions relate to the return of deposits (i.e. \$15 per transaction) to customers for lock rentals at specific recreational facilities.</li> <li>- In a population of about 3,600 ‘cash’ refunds processed during the period under review, 45 transactions individually over \$50 were noted to have no documented approval (i.e. verbal approval potentially given by supervisor). Desk staff are required to obtain approval from the Supervisor on duty before issuing the refunds and refunds over \$50 should be processed by cheque.</li> </ul> <p>It should be noted that in organizations that process refunds in a decentralized environment and with low per transaction dollar value, an independent review for all refunds is not always feasible. Thus spot checks or periodic monitoring controls are implemented to manage the risk exposure.</p> <p>During a review of a sample of refunds and credits, the documented explanation in CLASS supported that the transaction was eligible for a refund or credit.</p> <p>No procedures/protocols for supervisors on how spot checks are to be performed and documented were noted. Discussions</p>	<p><b>Overall Significant</b></p> <hr/> <p><b>Impact Medium</b></p>	<p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>a) Customers should be required to sign receipts (one for them and one for the City) to acknowledge that the refund was processed accurately and funds were returned. Supervisors should perform an independent review/approval, with a signature, of refunds/credits over a defined threshold (i.e. \$50), particularly for cash refunds. Management should remind staff of this requirement and periodically perform spot checks to ensure compliance.</li> <li>b) Management should implement a mechanism/control to track and record outgoing locker pad locks. This could include a sign-out sheet or issuing a pre-numbered ballet/chit. Supervisors should oversee the process for a periodic reconciliation of payments to/from customers and the number of ballets issued.</li> <li>c) Management should implement a Supervisor Checklist for supervisors/managers to complete routinely as they make their rounds. For instance, the checklist could include the following elements: cash counts, attendance taken in accordance with guidelines, drop-in fees are recorded appropriately in CLASS, refund receipts are retained with customer acknowledgement. Subsequent to the review, management has implemented a “Supervisor Checklist” which will be incorporated into training manuals in March 2016.</li> <li>d) Management should also perform periodic monitoring of refund activity, using the Refund Process Report, by employee/site/program to identify potential trends/anomalies by employee or by customer and by amount. Supervisors should perform routine spot checks based on analysis of trends and to ensure that the customer signature and contact information is present and/or credits are applied correctly.</li> </ul>

<p>indicated that Supervisors would periodically perform spot checks over cash, attendance, drop in fees etc. Evidence of such spot checks was not detected.</p>		
<p><b>Implication</b> Unauthorized or ineligible refund or credit transactions are processed to benefit employees or customers. Risk that cash collected for lock rental are not recorded or misappropriated.</p>	<p><b>Likelihood</b> Highly Likely</p>	<p><b>Management Action Plan</b></p> <ul style="list-style-type: none"> <li>a) Management agrees with the finding and a portion of the recommendation. Management agrees that customers should be required to sign receipts for cash refunds. These are done in person, and there is a current refund form that can be generated by the CLASS system and be used to obtain the signature. Credits and other types of refunds (e.g. by cheque) are typically processed without the presence of the customer. In the interest of customer service, it is not recommended that individuals be required to come to the centre personally for a credit or refund in all circumstances, especially if the reason for the cancellation is outside of the customer's control, or the customer is unavailable to come in. Supervisors do sign-off the Daily Cash Balance Reports and can review cash refunds to ensure the policy is followed with respect to the \$50 limits. It is recommended that the \$50 limit be reviewed in light of new businesses and processes (i.e. Adventure Bay) and the need to provide refunds greater than \$50 in special circumstances such as injury to a participant, or the return of a damage deposit for rentals. Regarding the requirement for the Supervisor to sign off, it is not feasible due to the extensive operating hours for each facility. The Recreation Systems Coordinator does sign off all requests for refunds by check, which is then signed off by the Manager of Administration. Management ensures staff are trained on the criteria for credits and refunds, and will do periodic reviews to ensure process is followed.</li> <li>b) Management agrees with the finding and recommendation. Locks are made available for rent at Adventure Bay, with a deposit which is returned to the customer when the lock is returned. A pre-numbered ticket will be provided to the customer and will be recorded as part of the deposit refund when the lock is returned.</li> <li>c) Management agrees with the finding and recommendation. Each community centre has a Supervisor's manual which is also available electronically on the G Drive. A checklist has been added which outlines several items to be completed on a daily, weekly, monthly or annual basis. The checklist includes a notation on who is responsible to complete the task so that information is available to other management staff when the supervisor is absent. The checklist is extensive and includes</li> </ul>



items relating to financial oversight, as well as health and safety, human resources, administration, fire code regulations, maintenance, and programming.

- d) Management agrees with the finding and recommendation. A weekly Credit/Refund report can be generated by location which outlines the credit and refund activity by transaction. The Recreation Systems Coordinator will send a reminder to the supervisors to review the report, at least once per month. It should be noted that supervisors or their designate are also reviewing the Daily Cash Balance report, and can review cash refunds processed on a daily basis, and can reconcile with cash refund confirmation refunds. The supervisor will assess the credit and refund activity to look for trends and anomalies.

**Responsibility**

- a) Recreation Supervisors
- b) Assistant Manager, WIATC/Adventure Bay and Recreation Business Development
- c) Manager, Community Programming
- d) Recreation Supervisors

**Due Date**

- a) 2016 Q3
- b) 2016 Q3
- c) Complete
- d) 2016 Q3

**Root Cause**

Limited resources do not permit an independent review of refund transactions. Reports are available to monitor refunds however are not reviewed.

Finding	Rating	Recommendation & Action Plan
<b>5. Discount and Subsidy Programs</b>		
<p><b>Observation</b>            Patrons meeting specific criteria for recreational programs are eligible for the following subsidies/discounts: Pathway to Potential (P2P), senior and family (3 or more people who live in the same house). Subsidies for low income participants are typically 90% off the quoted user fee rate. Pathway to potential requires financial paperwork brought to the front desk as evidence that customers are eligible. Forms are filled out and submitted to a central office for review.</p> <p>There currently is no process to compare the actual number of discounts or rate adjustments from the system to the forms received by facilities for the P2P subsidies. Furthermore, the paperwork received from facilities for such adjustments is shredded after it is reviewed by the central office. Please refer to scope limitation above.</p>	<p><b>Overall</b> Low</p>	<p><b>Recommendation</b>            Management should retain a record (i.e. log sheet) to show that a review has been performed of all rate adjustments/discounts/subsidies, by generating a report from CLASS on a monthly basis, to ensure only eligible residents/customers receive the benefits.</p>
<p><b>Implication</b>            Documented evidence is not available to support discounts/subsidies to customers.</p>	<p><b>Impact</b> Low</p>	<p><b>Management Action Plan</b>            Management agrees with the finding and a portion of the recommendation. Only the P2P subsidy requires that forms to provide proof of eligibility be submitted and reviewed centrally to ensure compliance with the subsidy agreement for the funding. These forms are then shredded as they contain personal financial information. Other discounts and adjustments (such as seniors discounts and family discounts) do not require participants to submit forms – seniors would provide proof of age when registering, and the family discount is applied when registering three (3) or more family members at the same time. These discounts are small (10%) and it would be impractical to create log sheets with a central review. As there are no forms that are shredded as part of these discounts, supervisors can follow up as required.</p>
<p><b>Root Cause</b>            Information collected is shredded due to the confidential nature (income) of the information collected on the required forms.</p>	<p><b>Likelihood</b> Unlikely</p>	<p>For the forms submitted for P2P subsidies, the reviewer will generate a report Program Adjustments Report to ensure subsidies that have been allocated have the appropriate forms submitted by location. A log sheet will be created for the reviewer to record the verification process at least once per month.</p> <p><b>Responsibility</b>            Recreation Systems Coordinator</p> <p><b>Due Date</b>            2016 Q3</p>

## ***Considerations for Improvement***

The observations noted below are intended for Management's consideration to further improve or strengthen current controls or processes. These considerations were identified as opportunities to improve areas where the level of risk associated with achieving the control objective is lowered by controls already operating effectively.

### **1 - Efficiencies in automated interfaces between systems**

The processes for entering information into AMANDA from CLASS is manual and as a result may not provide management with timely information (i.e. revenue). Data rekeying also increases error rates in data integrity.

At least weekly, information from the CLASS system is transferred manually to AMANDA based on daily reports received from recreation facilities. As there is no interface between the CLASS system and AMANDA and therefore, daily revenue reports from CLASS must be manually inputted into AMANDA. Departments have three (3) days to submit daily paperwork to the bank and three (3) days to submit to the administrative office for manual inputting, for a total maximum of six (6) business days. This procedure has recently been changed to three (3) days for the entire process.

The timely entry of revenue into AMANDA ensures that financial results are available for review by management in a timely manner.

Management should consider whether the New Recreation Software would allow for automated interfacing of revenue information to AMANDA.

Furthermore, attendance tracking in CLASS could be integrated with financial reporting from PeopleSoft to provide management with more meaningful insight into performance (i.e. Revenue or Cost per guest), and enable management to monitor and detect potential trends or patterns in key performance indicators.

It was noted through inquiry with Recreation System Coordinator that the new recreation system may provide more user-friendly and useable statistics. Current vendors have expressed the ability to offer dashboards that give market/client-driven statistics. This will allow management to identify key performance indicators.

## 2 – Considerations for the planned implementation of new Recreation System

Currently there are features that are available in CLASS which are not being utilized relating to attendance tracking. For example, there is an “Attendance Batch” entry module, which allows attendance information to be entered and tracked. Currently, attendance is tracked manually on attendance sheets and monitoring of revenue recorded in AMANDA and PeopleSoft is not at the customer/guest or transaction level. Management currently has to leverage information from various sources to monitor the drivers, which affect revenue fluctuations.

Management is in the process of selecting a new recreation software that may have the potential to embed additional features.

There currently is no mechanism to monitor the number of times an employee hits “NO SALE” to open the cash register.

Management should update their training and operating manuals once the new recreation system has been implemented and include such provisions as the use of the attendance-tracking module.

There is an opportunity to improve recording of attendance for drop-in customers using certain facilities (i.e. outdoor pools, skating arenas during public skate times). For the public swims, staff take the money from each participant and enter into CLASS by point of sale, which tracks the number of swimmers for each session of public swimming. In the outdoor pools the same procedures exist, however patrons pass by the reception area before entering the pool area. In regards to public skating in arenas, there currently is no mechanism to track actual attendance against revenue collected in the system.

To utilize the attendance functionality, underlying attendance management processes may need to be updated to include participation in skating and outdoor pools. The benefit of such system is improved oversight and monitoring over the completeness of revenue collected. Consideration should also be given to the revenue collected by participation in these programs relative to the costs for monitoring attendance.

By tracking attendance by customer demographic, management may be able to determine the drivers of participation and address changes in demand with advertising or programming type changes.

The attendance information can allow management to make more informed (evidence based) decisions about user fees which are based on demand, break even sales point by program/activity, and better track revenue per unit/guest from an overall monitoring perspective.

Per discussion with Recreation Systems Coordinator, the possibility of automated attendance tracking will be investigated for the new recreation system

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# **Appendix A: Background & Scope**

## ***Linkage to Internal Audit Plan***

The User Fee audit was part of the risk based 2015-2016 City of Windsor Audit Plan approved by City Council on July 27, 2015. As part of the internal audit plan development, this business process area has processes and controls associated with mitigating and managing the corporate risk surrounding change in strategy, Planning and Resource Allocation, Legislative & Regulatory, Budget Breach, Economic Factors and Funding.

The objectives of this review were:

- Assess how user fees across the City are determined and whether the process for determining rates are appropriate or in compliance with established policies and procedures.
- Evaluate controls in place to ensure that established rates are actually collected and/or discounts are approved in accordance with established policies.
- Evaluate effectiveness of monitoring activities that are designed to reduce revenue slippage.
- Review the effectiveness and efficiency of the processes/controls to determine user with consideration for past performance and recovery of costs (direct and indirect costs).

## **Scope**

### ***Overview of the business/process to be reviewed***

As part of internal audit of the business processes and controls in effect internal audit considered:

1. User Fee Framework/Policy
2. Determination of User Fees
3. Application of User Fees
4. Monitoring of User Fees

Internal Audit identify the controls designed and implemented by management to address the control objectives. Where the controls are sufficiently designed Internal Audit will test the operating effectiveness (implementation over a period of time) thereof.

The scope of this audit includes an assessment of the User Fees program and activities related to the most recent 12 month period (i.e. October 1, 2014 to September 30, 2015).

### ***Scope Exclusions***

- Inputs to detailed calculations performed to determine or update user fees will not be an area of focus for this audit
- Facility Use Agreements/Lease Agreements with other departments or organizations
- The review areas noted above will exclude cash collection and handling of user fees and internal service fees (i.e. fees charged to departments by purchasing for preparing tenders)
- User fees charged and collected by ABC's are not in scope
- Implementation of NEW user fees are not in scope
- Options available to users to apply for reductions or waivers in user fees are not in scope

The design, implementation and operation of the Information and Technology (IT) environment and IT general controls (i.e. applicable to Amanda, CLASS and other applications used to record and monitor user fee revenue.)

# Appendix B: Basis of Finding Rating and Report Classification

## Findings Rating Matrix

Audit Findings Rating		Impact		
		Low	Medium	High
Likelihood	Highly Likely	Moderate	Significant	Significant
	Likely	Low	Moderate	Significant
	Unlikely	Low	Low	Moderate

## Likelihood Consideration

Rating	Description
Highly Likely	<ul style="list-style-type: none"> <li>History of regular occurrence of the event.</li> <li>The event is expected to occur in most circumstances.</li> </ul>
Likely	<ul style="list-style-type: none"> <li>History of occasional occurrence of the event.</li> <li>The event could occur at some time.</li> </ul>
Unlikely	<ul style="list-style-type: none"> <li>History of no or seldom occurrence of the event.</li> <li>The event may occur only in exceptional circumstances.</li> </ul>

## Impact Consideration

Rating	Basis	Description
HIGH	Dollar Value <sup>2</sup>	Financial impact likely to exceed \$250,000 in terms of direct loss or opportunity cost.
	Judgemental Assessment	<p><b>Internal Control</b> Significant control weaknesses, which would lead to financial or fraud loss.</p> <p><b>An issue that requires a significant amount of senior management/Board effort to manage such as:</b></p> <ul style="list-style-type: none"> <li>• Failure to meet key strategic objectives/major impact on strategy and objectives.</li> <li>• Loss of ability to sustain ongoing operations: <ul style="list-style-type: none"> <li>- Loss of key competitive advantage / opportunity</li> <li>- Loss of supply of key process inputs</li> </ul> </li> <li>• A major reputational sensitivity e.g., Market share, earnings per share, credibility with stakeholders and brand name/reputation building.</li> </ul> <p><b>Legal / Regulatory</b> Large scale action, major breach of legislation with very significant financial or reputational consequences.</p>
MEDIUM	Dollar Value	Financial impact likely to be between \$75,000 to \$250,000 in terms of direct loss or opportunity cost.
	Judgemental Assessment	<p><b>Internal Control</b> Control weaknesses, which could result in potential loss resulting from inefficiencies, wastage, and cumbersome workflow procedures.</p> <p><b>An issue that requires some amount of senior management/Board effort to manage such as:</b></p> <ul style="list-style-type: none"> <li>• No material or moderate impact on strategy and objectives.</li> <li>• Disruption to normal operation with a limited effect on achievement of corporate strategy and objectives</li> <li>• Moderate reputational sensitivity.</li> </ul> <p><b>Legal / Regulatory</b> Regulatory breach with material financial consequences including fines.</p>
LOW	Dollar Value	Financial impact likely to be less than \$75,000 in terms of direct loss or opportunity cost.
	Judgemental Assessment	<p><b>Internal Control</b> Control weaknesses, which could result in potential insignificant loss resulting from workflow and operational inefficiencies.</p> <p><b>An issue that requires no or minimal amount of senior management/Board effort to manage such as:</b></p> <ul style="list-style-type: none"> <li>• Minimal impact on strategy</li> <li>• Disruption to normal operations with no effect on achievement of corporate strategy and objectives</li> <li>• Minimal reputational sensitivity.</li> </ul> <p><b>Legal / Regulatory</b> Regulatory breach with minimal consequences.</p>

<sup>2</sup> Dollar value amounts are agreed with the client prior to execution of fieldwork.

## Audit Report Classification

Report Classification	The internal audit identified one or more of the following:
Cause for considerable concern	<ul style="list-style-type: none"> <li>• Significant control design improvements identified to ensure that risk of material loss is minimized and functional objectives are met.</li> <li>• An unacceptable number of controls (including a selection of both significant and minor) identified as not operating for which sufficient mitigating back-up controls could not be identified.</li> <li>• Material losses have occurred as a result of control environment deficiencies.</li> <li>• Instances of fraud or significant contravention of corporate policy detected.</li> <li>• No action taken on previous significant audit findings to resolve the item on a timely basis.</li> </ul>
Cause for concern	<ul style="list-style-type: none"> <li>• Control design improvements identified to ensure that risk of material loss is minimized and functional objectives are met.</li> <li>• A number of significant controls identified as not operating for which sufficient mitigating back-up controls could not be identified.</li> <li>• Losses have occurred as a result of control environment deficiencies.</li> <li>• Little action taken on previous significant audit findings to resolve the item on a timely basis.</li> </ul>
No major concerns noted	<ul style="list-style-type: none"> <li>• Control design improvements identified, however, the risk of loss is immaterial.</li> <li>• Isolated or “one-off” significant controls identified as not operating for which sufficient mitigating back-up controls could not be identified.</li> <li>• Numerous instances of minor controls not operating for which sufficient mitigating back-up controls could not be identified.</li> <li>• Some previous significant audit action items have not been resolved on a timely basis.</li> </ul>
No or limited scope for improvement	<ul style="list-style-type: none"> <li>• No control design improvements identified.</li> <li>• Only minor instances of controls identified as not operating which have mitigating back-up controls, or the risk of loss is immaterial.</li> <li>• All previous significant audit action items have been closed.</li> </ul>