

# *The Corporation of the City of Windsor*

## Review of Cash Control Procedures

*Internal Audit Report*

*June 28, 2017*

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# Summary of Internal Audit Results

## Background Information

The Corporation of the City of Windsor (“the City”) has a diverse range of operations throughout the geographical borders of the City. Ranging from Parks and Forestry and Public Works to Parking Enforcement and Provincial Offences with the addition of a few Agencies, Boards and Commissions, the City has an inflow of Cash from different streams which are required to be deposited to a central bank account.

The central Finance Department is tasked with overseeing the management of Cash across the City and implementing controls where risks are elevated. With that in mind, it has articulated a set of policies and procedures to address the specific risks faced by the City in its day-to-day operations.

Cash receipts, bank deposits, reconciliations, and transportation of Cash is governed by a policy called the Cash Receipts Control Policy (“the Policy”), which applies to all employees of the City and its departments.

Petty Cash is governed by the Petty Cash Procedures (“the Procedure”), which applies to all City employees and departments. The set of procedures is for the physical security and safeguarding procedures over the Petty Cash funds at each location. It also states the permitted uses of Petty Cash funds. Cash receipts from all sites or locations are deposited into one central account on a regular basis to minimize excessive Cash on hand.

Please refer to *Appendix 2: Summary of Cash Statistics for Fiscal 2016* for an overview of the Cash deposited and Cash spent by each department and particular Agencies, Boards and Commissions within the City for the scope period of January 1, 2016 to December 31, 2016.

We selected six sites which handle Cash and/or Petty Cash funds to assess controls and compliance with policies or procedures.

## Internal Audit Objectives

In conducting this Internal Audit, we considered the process and control mechanisms management has in effect to achieve the following control objectives:

- Cash is controlled in accordance with procedures and policies;
- Cash Controls consider segregation of duties or risk mitigation procedures where segregation is not possible;
- Cash is collected and recorded in an accurate, complete, and timely manner;
- Cash is physically secured until deposits are made;
- Controls are in effect when Cash is removed/secured prior to depositing amounts to reduce loss and misappropriation risk;
- Petty Cash is administered in accordance with policies and procedures;
- Cash is completely and accurately deposited at approved institutions in a timely manner; and
- Management has designed and implemented controls to monitor Cash Control and Policy/Procedure adherence.

We considered the controls in effect for Cash transactions between January and December 2016.

## Scope Exclusions

The following areas were not included within the scope of this Internal Audit:

- Investment activities using Cash available;
- Cash-like tenders (i.e. gift cards, parking tokens, transit passes, etc.);
- Controls managed by third party service providers (i.e. GARDA);

- Cash refunds;
- Logical access management to key systems used in Cash tracking processes;
- Agencies, Boards and Commissions (except for the Library), including those where the City has City employees involved in Cash Control processes;
- Transit Windsor;
- The effective design, implementation and operation of the residence system and application controls related to the capture, processing, storage, reporting/presentation, and exporting of information and data; and
- Controls over the completeness, accuracy, reliability, and validity of the evidence, information and data provided by management during the course of this review.

### *Linkage to the Internal Audit Plan*

The Cash Control Internal Audit is part of the risk based 2016-2017 City of Windsor Internal Audit Plan approved by the Executive Committee of Council on May 30, 2016. As part of the Internal Audit Plan development, this business process area has processes and controls associated with mitigating and managing the following corporate risks: Substandard Service Delivery, Economic Factors, Funding, Planning and Resource Allocation, Fraud and Corruption, Compliance, Transparency, Accounting and Reporting, and Treasury and Liquidity.

# Report Classification

For the scope period, between January 1, 2016 and December 31, 2016, management has designed and implemented controls in areas of Cash management which generally provide complete, accurate, and timely reporting of financial performance related to the Cash Controls selected. Training and site specific procedural manuals are created and passed on to Supervisors and Managers in charge of the different sites to further train and guide the Cash handling employees. There is an accountability structure with Supervisors and Managers which allows for periodic monitoring of front line staff handling Cash.

Our testing indicated that in the majority of cases, controls were operating as designed, in areas such as recording of Cash, safeguarding and transportation of Cash, bank reconciliations, and bank deposits. However, there were a few design and operating deficiencies noted during the Internal Audit, which are discussed below.

## Control Environment

The activities surrounding Cash handling and Petty Cash at the City are governed by the overarching Policy and Procedure, which are available to all employees.

The Policy provides the employees, especially staff handling Cash, an understanding of the procedures to be followed regarding: 1) handling Cash receipts, 2) preparing daily Cash reports, 3) daily reconciliations, 4) important factors for implementing segregation of duties, 5) enabling completeness in Cash receipts recording systems (CLASS, AMANDA, ICON), and 6) effective and timely preparation of bank reconciliations.

There were some weaknesses around Cash recording and handling at some of the sites. It was noted that there is a weak control at one of the sites which practices the use of one ID to record multiple transactions from all cashiers in one shift. In addition to this, there were sites which were not prepared to detect counterfeit bills.

The Procedure provides all employees, especially the custodians and administrators of the Petty Cash funds, an understanding of the following: 1) claiming a reimbursement, 2) appropriate signatories for a reimbursement, 3) documentation and approvals required for the replenishment of the fund, and 4) situations requiring substitute signatories.

Both the Policy and the Procedure provide guidance and assign responsibilities to specific individuals for reviewing and updating the contents periodically, implementation, and communication and distribution to all service areas and the Agencies, Boards and Commissions, as applicable.

## Risk Assessment

The City has performed a Fraud Risk Assessment Exercise in December 2015, along with an Enterprise Risk Management initiative in April 2016 which considered the risk surrounding Cash and Petty Cash Control. While this process is not formally defined and documented, the outcomes of our review indicated that the key risks faced by the City through all its operations, were analyzed by the central Finance Department and incorporated into the Policy and the Procedure. Given the City's diverse nature of operations, we understand that additional and department specific procedures may be implemented, as required.

## Control Activities

There are certain controls in place which further enhance the strong control environment tone created by the Policy and the Procedure. The City has implemented a central bank reconciliation performed by the Finance Department. All Cash receipts recorded as revenue from each of the sites are matched with the bank deposits every month on a central basis. This enables the central Finance Department to verify if the sites are actually depositing the Cash received and recorded as revenue. Subsequently, for the monthly bank reconciliations prepared, a review and sign-off is performed by an appropriate and authorized member of the management.

The City has contracted GardaWorld to safely transport Cash deposits to the bank from sites (for example - Provincial Offences Office and On/Off Street Parking Division) that deal with high Cash volumes. This adds an extra layer of safety and accountability to the deposit process.

The sampled sites have a safe that is used to store Cash, regardless of the amount held. This control exceeds the Policy requirement which does not necessitate the use of safes for Cash amounts below \$2,500. However, it was noted that some of the sites did not mandate the change of combinations for safes at the respective sites.

The Petty Cash reimbursement and replenishments follow the established protocol outlined in the Procedure. The reimbursement form is stamped by the site Supervisor, or a Manager. In rare circumstances, an exception is granted to allow site Supervisors to approve Petty Cash reimbursements without an AP stamp - this is based on the staffing mix and specific needs for the respective location. There were two instances found during our testing where the appropriate documentation was not used to claim a reimbursement from the Petty Cash funds.

### *Information and Communication*

When the Policy and the Procedure are updated, the City holds presentations for all Cash handling employees at the different locations operated by the City. The updates to the Policy are communicated to the personnel attending the meetings where they have a chance to gain a better understanding of what they should be adhering to moving forward.

Updated policies are made available to City employees. However, this can be improved as there was one instance noted where the updated Policy was not available at one of the sites visited.

### *Monitoring*

Site Supervisors are in place, in addition to Managers, to oversee the day-to-day activities related to Cash handling. The Supervisors perform daily reviews of the Cash receipts and deposit reports created by staff handling Cash to ensure they are in compliance with the Policy. Random spot checks are also performed over the Cash float available to each cashier to ensure that the balance is as expected. Some improvements could be made, related to Supervisor reviews, to ensure that the daily reports are independently reviewed in a timely manner by an appropriate level of management.

Sites under the Parks and Recreation Department use a mandatory site Supervisor checklist. This checklist defines the items that need to be complete on a daily, weekly, and monthly basis. This enables the respective Supervisors to monitor the status and completion of these tasks. There was an instance where the Supervisor was not aware of this department specific checklist.

Petty Cash replenishments are tested monthly by the central Finance Department, with 70% (at a minimum), of monthly replenishments covered as part of the samples to ensure compliance with the Procedure.

Based on the controls identified and tested as part of the Internal Audit of the City's Cash handling processes, we have determined that there is reasonable evidence to indicate that:

	No or limited scope improvement	No major concerns noted	Cause for concern	Cause for considerable concern
<b>For the objectives related to Policy Compliance</b>				
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:				
<b>For the objectives related to Segregation of Duties over Cash Handling</b>				
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:				
<b>For the objectives related to Cash Receipts and Deposits</b>				
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:				
<b>For the objectives related to Physical Security over Cash</b>				
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:				
<b>For the objectives related to Petty Cash</b>				
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:				
<b>For the objectives related to Cash Review and Reconciliation</b>				
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:				

Management has provided comprehensive action plans, which we believe will address the deficiencies noted.

## *Summary of Positive Themes*

### *Policy Compliance*

- Employees, new and continuing, go through compliance training on an annual basis for the CLASS system and the operating policies and procedures. This acts as a refresher for existing employees.
- Site Supervisors, Managers, and Administrative Assistants go through a training session conducted by the central Finance Department when the Policy is updated.
- The presence of a Hotline Policy allows for misappropriations made by employees to be safely and anonymously reported.
- The presence of a City wide Fraud Policy acts as a deterrent to misappropriations of assets to take place, and provides guidance on the course of action if and when they do take place.

### *Segregation of Duties*

- The central bank reconciliation process, adopted by the City, matches all the deposits made by each site with the listings generated from the AMANDA and CLASS systems. This makes it possible to track the deposits made by each cashier from each site as they are individually identifiable.

### *Physical Security*

- GardaWorld, which provides armored car service to transport Cash deposits for some sites, and the site Supervisor, signs-off on the deposit book per pick up.
- The City has mandated the use of safes to safeguard deposits and Cash floats at its sites. This makes the funds accessible to only Cash handling front line staff and the respective site Supervisors.

### *Cash Receipts and Deposits*

- A Point of Sale system is in place, for the sites visited, enabling real-time recording of the Cash received.

### *Petty Cash*

- Petty Cash funds have a designated Custodian and Administrator for safekeeping and proper authorizations of reimbursements from the fund.
- Reimbursement forms are independently reviewed and initialed by an appropriate level of management before the funds are disbursed to the requestor.

### *Management Review and Reconciliation*

- Site Supervisors are required to review and sign-off on the daily Cash receipts and deposit reports prepared by Cash handling staff. They also sign-off when Cash is transferred from one cashier to another.
- Periodic ad hoc audits at different locations by the central Finance Department or management of the area.

## Summary of Findings

Finding #	Topic	Rating <sup>1</sup>			Management Action Plan
		Significant	Moderate	Low	
<b>Policy Compliance</b>					
1	<b>Provide Policy Updates to Service Areas</b> (Operating Effectiveness)			X	Management will review and update the Cash Receipts Control Policy to include guidance and direction to Cash handling staff on the detection of counterfeit bills. Management will also begin sending an annual email reminder of the Policy and its location on the Corporate Dashboard to all Cash handling staff in the Corporation.
<b>Cash Receipts and Deposits</b>					
2	<b>Improve User Access Controls</b> (Design Effectiveness)			X	Departmental Financial Procedures will be updated to provide greater clarity and ensure compliance by Cash handling staff and Supervisors.
3	<b>Capture all Details from the Daily Reports Prepared by Cash Handling Staff</b> (Operating Effectiveness)		X		Administration will continue to maintain a log of deposit bags with the dates they were received from the Finance Department. Financial procedures will also be updated to require the completion of the Daily Banking Sig- Off Sheet by every applicable Cash handling staff person.
<b>Physical Security over Cash</b>					
4	<b>Strengthen Physical Security Around Cash Handling and Storage</b> (Operating Effectiveness)		X		Administration will work with the Facilities Division to consider a cost benefit analysis on the installation and use of cameras at recreation facilities. Procedures will also be strengthened around the security of cash registers and safe combinations.

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

Petty Cash					
5	<b>Improve Documentation Around Petty Cash Reimbursement Requests</b> (Operating Effectiveness)			X	Management will create a Petty Cash Operations Guide that provides petty cash administrators and custodians with a summary of all key issues and requirements for compliance with the Petty Cash Procedure.
Cash Review and Reconciliation					
6	<b>Improve Oversight on Cash Handling Activities</b> (Design Effectiveness)			X	Departmental Financial Procedures will be updated to improve clarity, ensure compliance by Cash handling staff and Supervisors, and perform checks to ensure such compliance.
<b>Total Audit Findings</b>		<b>0</b>	<b>3</b>	<b>3</b>	

## Summary of Significant Findings:

*There were no significant findings noted as part of our Internal Audit.*

## Management Comments

Management is pleased that the controls identified and tested as part of the Internal Audit of the City's Cash handling processes by PwC has concluded that there are "no major concerns" or that there are "no or limited scope improvement opportunities" for the various controls tested. These findings affirm management's ongoing commitment to ensuring that appropriate internal controls, policies, and procedures are in place across the entire corporation relative to Cash. The report also references a number of positive themes that have been identified as part of this review covering key areas including Policy Compliance, Segregation of Duties, Physical Securities, Cash Receipts and Deposits, Petty Cash and Management Review and Reconciliation all which contribute to strong internal control environment relative to cash.

Notwithstanding these positive results, the review does identify some opportunities for further improvement and offers recommendations for further enhancements to the existing corporate cash controls. Management has considered each of the noted findings and recommendations individually and provided below are various Management Action Plans to address the findings noted.

Name: Joseph Mancina

Title: CFO and City Treasurer

Date: June 28, 2017

# Detailed Observations

1. Provide Policy Updates to Service Areas (Operating Effectiveness)		Overall Rating: Low	
<b>Impact:</b>	Low	<b>Likelihood:</b>	Unlikely
<p><b>Observation:</b></p> <p><u>Awareness of Policy:</u> At one of the six sites, while inquiring about the Cash handling staff's knowledge and understanding of the City wide Policy, a prior version of the Policy was available to the front line Cash handling staff. The employees on site were unaware of the updates made to the Policy in January of 2013.</p> <p><u>Policy Silent on Counterfeit Bills:</u> The current City wide Policy is silent on the requirement to have sufficient procedures to detect counterfeit bills. At a departmental/site level, two of the six sites visited, there were no specific procedures in place to detect counterfeit bills.</p>			
<p><b>Implication:</b></p> <p><u>Awareness of Policy:</u> Operations may be hampered as a result of improper procedures being followed, along with improper documentation being kept for review and reconciliation by management.</p> <p><u>Counterfeit Bills:</u> Loss of revenue or Cash.</p>			
<p><b>Possible root cause:</b></p> <p><u>Awareness of Policy:</u> Lack of communication from central Finance regarding an updated Policy caused the new Policy not being received by relevant levels of employees.</p> <p><u>Counterfeit Bills:</u> Staff are not trained nor made aware of techniques to watch out for and detect counterfeit notes.</p>			
<p><b>Recommendation:</b></p> <p><u>Awareness of Policy:</u> The City should ensure that an annual reminder is sent to all site Supervisors and Managers regarding the version of the Policy that should be followed and communicated to any frontline staff.</p> <p>In addition, a reminder to Cash handling employees to periodically check the central repository (City Dashboard) should be sent out annually. Any updates made to the Policy should be immediately communicated in an email, along with notifications of the specific update being sent to any user upon log in to the City of Windsor Dashboard. If there are some departmental procedures which relate to Cash handling or reference the Policy, the City should consider moving these to a single authoritative repository for all final copies to be accessible by staff. In addition, the City should implement a periodic training program to educate the Cash handling staff in regards to the Policy and any relevant updates.</p> <p><u>Counterfeit Bills:</u> A standard for counterfeit detection techniques should be clarified in the current Policy. In addition, the City may wish to provide and require attendance at training programs which deal with counterfeit bills and how to recognize them. Management should also consider having regular communications with site Supervisors and staff if there are updates to approach for detecting counterfeit bills which may require new measures to be taken by the Cash handling employees.</p>			

<b>Management Action Plan</b>		
<b>Action Plan:</b> Management agrees with the findings and recommendations. Management will review and update the Cash Receipts Control Policy to include guidance and direction to Cash handling staff on the detection of counterfeit bills. Management will also begin sending an annual email reminder of the Policy and its location on the Corporate Dashboard to all Cash handling staff in the Corporation.	<b>Responsible Party:</b>	Manager of Financial Accounting
	<b>Due Date:</b>	2018 Q1

<b>2. Improve User Access Controls</b> <i>(Design Effectiveness)</i>		<b>Overall Rating:</b> Low	
<b>Impact:</b>	Low	<b>Likelihood:</b>	Likely
<p><b>Observation:</b> We reviewed the process whereby Cash receipts are input into the appropriate financial system. For one of the sites sampled, we noted through inquiry, that the two employees working in a shift tend to use one ID for the CLASS system to record Cash transactions. This is not a generic ID but rather the ID of one of the cashiers on duty in that shift. While the site personnel indicated that the user passwords are not shared, there is no reasonable mechanism Internal Audit can use to test that this is true. We were also informed that the CLASS system will log out if there has been no activity by the user for ten minutes. Lastly, we were also informed that double counts of Cash are performed and logged in a Cash count sheet by the outgoing cashiers and incoming cashiers when shift change occurs, which are then reviewed by the site Supervisor.</p> <p>With the sale of goods being one of the main sources of revenue for this particular site, it requires multiple employees to serve customers outside and then bring them inside to receive Cash which are all recorded through one Point-of-Sale Terminal with the CLASS system.</p>			
<p><b>Implication:</b> No accountability in the event of a shortage and therefore, misappropriations cannot be tracked.</p>			
<p><b>Possible root cause:</b> The internet connection being slow, which is required to connect to the CLASS system to record Cash receipts, and the existence of only one Point-of-Sale Terminal at this site has resulted in the practice to use one CLASS ID to record transactions. The slow internet makes it tedious to log in and out of different user accounts in CLASS.</p>			
<p><b>Recommendation:</b> The City should look into improving the internet connectivity at this location.</p> <p>In addition, the City should continue to ensure that all cashiers are signing-off on the Cash balance at the end of their shift which would be double counted by the next cashier with a sign-off, with the last review done by the site Supervisor. The City should further ensure that these sheets are submitted to the central Parks and Recreation site as evidence.</p> <p>In circumstances where unique user IDs are not feasible, management should prepare a memo that states the situation, quantifies the assumed risk with not being able to assign responsibility to a specific user, and document the acceptance of this memo.</p>			
<b>Management Action Plan</b>			
<p><b>Action Plan:</b> Management agrees with the findings and recommendations.</p> <p>a) The Recreation Systems Coordinator will update the Departmental Financial Procedures Manual to provide greater clarity and ensure compliance by Cash handling staff and Supervisors. These changes will be communicated to all affected staff.</p>		<p><b>Responsible Party:</b></p> <p>a) Recreation Systems Coordinator</p> <p>b) Coordinator of Sports Services</p> <p>c) Executive Director of Recreation and Culture</p>	
		<p><b>Due Date:</b></p> <p>a) 2017 Q4 b) 2017 Q4</p>	

<p>b) Where and when circumstances occur that unique user IDs are not feasible, the Coordinator of Community Sports Services will issue a memo to affected staff. Said memo will indicate the risks and responsibilities of each and all staff and will require their signatures confirming their understanding.</p> <p>c) The Executive Director of Recreation and Culture will work with Information Technology to consider improving the internet connectivity at the Lakeview Park Marina.</p>		<p>c) 2017 Q4</p>
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<b>3. Capture all Details from the Daily Reports Prepared by Cash Handling Staff (Operating Effectiveness)</b>		<b>Overall Rating:</b> Moderate
<b>Impact:</b>	Medium	<b>Likelihood:</b> Likely
<p><b>Observation:</b> There were four instances in a sample of 66 daily Cash receipts and deposit reports created by the Cash handling staff across the six sites where we noted the following:</p> <p>In two of the sites visited, there was an instance in each where we were unable to verify which deposit bag was used in preparation of the Cash deposits for the day in question since the deposit bag number was not noted on the deposit slip or any part of the daily receipts and deposits report.</p> <p>For one of the two above-mentioned sites, there were two instances in the sample of ten, where the deposit bag numbers for two days, December 1 and December 6 were noted to be the same. These two deposit slips were prepared by two different cashiers, but the same deposit bag was used.</p>		
<p><b>Implication:</b></p> <ol style="list-style-type: none"> <li>1. Possible mismatch while reconciling the amount to be deposited and the amount ultimately deposited in the bank.</li> <li>2. Holding on to Cash to be deposited over a prolonged period of time increases the risk of loss or misappropriation of assets.</li> <li>3. Reduces the accountability of each cashier in the event assets are lost or misappropriated.</li> </ol>		
<p><b>Possible root cause:</b> Lack of employee training led to the deposit bag numbers not being noted down and the use of the same deposit bag for two days.</p>		
<p><b>Recommendation:</b></p> <ol style="list-style-type: none"> <li>1. The City should continue to maintain a log of deposit bag numbers with the name of the staff who used the deposit bag to prepare the deposit, along with the date when it was prepared.</li> <li>2. Train staff to sign-off and date the daily Cash receipts and deposit report, and ensure that all information, including the deposit bag number on an individual basis, is captured.</li> </ol>		
<b>Management Action Plan</b>		
<p><b>Action Plan:</b></p> <p>Management agrees with the findings and recommendations.</p> <ol style="list-style-type: none"> <li>a) The Administration Division of Recreation and Culture Department will continue to maintain a log of deposit bags with the dates they were received from the Finance Department along with the bag numbers, dates and the recreation location/facility that they were issued. Financial procedures will also be updated to require the completion of the Daily Banking Sign-Off Sheet by every applicable Cash handling staff person.</li> <li>b) The Recreation Systems Coordinator will</li> </ol>	<b>Responsible Party:</b>	<ol style="list-style-type: none"> <li>a) Manager of Administration</li> <li>b) Recreation Systems Coordinator</li> </ol>
	<b>Due Date:</b>	<ol style="list-style-type: none"> <li>a) Complete</li> <li>b) 2017 Q4</li> </ol>

<p>update the Departmental Financial Procedures Manual to provide greater clarity and ensure compliance by Cash handling staff and Supervisors. These changes will be communicated to all affected staff.</p>		
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4. Strengthen Physical Security around Cash Handling and Storage (Operating Effectiveness)			Overall Rating: Moderate
<b>Impact:</b>	Medium	<b>Likelihood:</b>	Likely
<p><b>Observation:</b> For the sites sampled, Internal Audit observed the physical security elements present around the Cash handling and storage area to ensure adherence to the Policy. During these visits, we noted:</p> <p><u>Cash Register:</u> Two out of two Cash registers in use at one of the sites were not secured when we performed the site visit as the registers did not have keys yet. We were informed by the site Supervisor that the keys were currently being made.</p> <p><u>Safes:</u> During site visits, we noted the following regarding the safes where Cash floats are stored for safekeeping overnight:</p> <ol style="list-style-type: none"> <li>1. One site does not make it mandatory for all the safe users to change their key codes.</li> <li>2. At one of the sites, the combinations to the safe was not changed as and when required.</li> </ol> <p><u>Security Cameras:</u> Two out of six of the sites did not have cameras monitoring the area where Cash is handled, counted, and stored.</p>			
<p><b>Implication:</b> Assets may be misappropriated as they are stored in the Cash registers and safes. In addition, it may be hard to trace and check how the funds were misappropriated, and by whom.</p>			
<p><b>Possible root cause:</b> Defined minimum standards around safe keeping, storage or monitoring of Cash have not been formalized or communicated.</p>			
<p><b>Recommendation:</b> Management should implement the following to be fully compliant with the Policy and to further strengthen security elements around Cash handling and storage:</p> <p><u>Cash Register:</u> The City should have keys made, in a timely manner, for all Cash registers on site and ensure that the staff are trained to consistently lock them when stepping away from the Cash register.</p> <p><u>Safes:</u> The City should mandate and monitor the practice of changing the combinations/key codes at a predetermined frequency or earlier if any staff with access to the safe leaves or transfers out of his/her position. To achieve this, the City should consider adding the following recommended practices to the Policy and in their process:</p> <ol style="list-style-type: none"> <li>1. Update the Policy to include a requirement for all departments to develop their own procedures, based on the nature of their operations, to change the passwords/combinations to safes at a predetermined frequency or when staffing change occurs among staff who knew the password/combo, whichever comes earlier. This will provide all sites with clear guidance as to when the passwords/combinations should be changed.</li> <li>2. Recreation and Culture Administration should perform checks to keep track of passwords/combinations of the safe that are being changed as required by the Policy and/or department specific procedures. This will allow the City to have oversight over the safeguarding of its assets.</li> </ol> <p><u>Security Cameras:</u> The City should consider a cost benefit analysis on the installation and use of cameras at locations to determine if the level of risk justifies the cost of implementation.</p>			

<b>Management Action Plan</b>		
<p><b>Action Plan:</b></p> <p>Recreation and Culture: Management agrees with the findings and recommendations.</p> <ul style="list-style-type: none"> <li>a) Management has included as part of its Supervisor's Checklist, the requisite changing of each facility's safe combination "every 2 years or when staff with access leaves the current facility."</li> <li>b) Management will work with the Facilities Division to consider a cost benefit analysis on the installation and use of cameras at recreation facilities</li> <li>c) As noted in the report, keys for cash registers were being made while PwC was on site. On a go forward basis, procedures will be put in place to ensure cash register keys are made and given to new staff. Staff will be trained on the securing of the cash register drawers. Keys will be changed as needed when staff change.</li> <li>d) Safe combinations will be changed when staff change, or as required by corporate policy.</li> </ul>	<p><b>Responsible Party:</b></p> <ul style="list-style-type: none"> <li>a) Manager of Administration</li> <li>b) Executive Director of Recreation and Culture</li> <li>c) Senior Manager - Traffic Operations, Parking and Transportation Planning</li> <li>d) Senior Manager - Traffic Operations, Parking and Transportation Planning</li> </ul>	
	<p><b>Due Date:</b></p> <ul style="list-style-type: none"> <li>a) Complete</li> <li>b) 2017 Q4</li> <li>c) 2017 Q4</li> <li>d) 2017 Q4</li> </ul>	

<b>5. Improve Documentation around Petty Cash Reimbursement Requests (Operating Effectiveness)</b>		<b>Overall Rating: Low</b>	
<b>Impact:</b>	Low	<b>Likelihood:</b>	Unlikely
<p><b>Observation:</b> In a sample of 20 Petty Cash replenishments requested by the different sites, we noted the following two exceptions:</p> <ol style="list-style-type: none"> <li>1. An alternative form, rather than the approved form, was used to claim reimbursement for one replenishment.</li> <li>2. There was no reimbursement form used to claim the reimbursement. Therefore the details, such as the person claiming the reimbursement and the reason for the purchased items, were missing from the replenishment package. The receipts were directly submitted and approved with the replenishment form for this sample to replenish the Petty Cash fund.</li> </ol> <p>The first site in question, which used the alternative form, had just adopted the Procedure at the time of the testing, and was not expected to be in full compliance.</p>			
<p><b>Implication:</b></p> <ol style="list-style-type: none"> <li>1. Using improper forms may lead to mistakes and potential fraud not being detected in a timely manner.</li> <li>2. Inconsistent documentation will cause inefficiencies in the testing conducted by central Finance Department with the added risk of errors being unidentified.</li> </ol>			
<p><b>Possible root cause:</b></p> <ol style="list-style-type: none"> <li>1. Lack of implementation and adherence of the Procedures.</li> <li>2. Lack of training and knowledge of the Procedures.</li> </ol>			
<p><b>Recommendation:</b> Management should train all employees to use the proper forms when claiming reimbursements. Custodians and site Supervisors should be trained to only approve reimbursements requested using the correct forms, along with all required information.</p>			
<b>Management Action Plan</b>			
<p><b>Action Plan:</b> It is Management's position that the noted exceptions are isolated in nature. In 2015, the City's Finance Department rolled out a new Corporate Petty Cash Procedure, standardized forms and guidelines to the entire organization. This included an extended program of training for all areas with Petty Cash funds. The Finance Department continues to sample and test for compliance on an ongoing basis, including necessary follow-up for any instances of non-compliance that may arise.</p> <p>Notwithstanding these efforts, Management will work to further enhance Petty Cash controls and training materials. Specifically, Management will create a Petty Cash Operations Guide that provides Petty Cash administrators and custodians with a summary of all key issues and requirements for compliance with the Petty Cash Procedure. The guide will be distributed during the first quarter of</p>		<p><b>Responsible Party:</b> Manager of Financial Accounting</p>	
		<p><b>Due Date:</b> 2018 Q1</p>	

<p>each year when Financial Accounting performs its annual confirmation of Petty Cash funds, administrators and custodians. This annual communication will also make field personnel aware of the availability of on-site Petty Cash training by Financial Accounting staff.</p>		
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<b>6. Improve Oversight on Cash Handling Activities</b> <i>(Design Effectiveness)</i>			<b>Overall Rating:</b> Moderate
<b>Impact:</b>	Medium	<b>Likelihood:</b>	Likely
<p><b>Observation:</b> During site visits at six locations, we sampled a total of 66 daily Cash Control packages and noted 28 exceptions which related to three of the six sites. The nature of the exceptions were:</p> <ul style="list-style-type: none"> <li>a) Missing evidence of Supervisor review (seven instances) of the daily Cash receipts and deposit reports (report was only signed-off by Cash handling staff) as required by the Policy; and</li> <li>b) Timeliness of Supervisor reviews could not be determined as the date of review had not been documented (21 instances).</li> </ul> <p><i>Supervisor checklist:</i> In addition, one of the six sites were unaware of the department wide Supervisor checklist, although individuals at this site were able to identify some of the items on the checklist during inquiry procedures.</p>			
<p><b>Implication:</b> Increased potential for loss, errors or misappropriation of Cash.</p>			
<p><b>Possible root cause:</b> Lack of clarity provided within the Policy in regards to the required timeliness of reviews performed by an appropriate level of management.</p>			
<p><b>Recommendation:</b> <i>Missing Supervisor reviews:</i> Provide further training to staff at each of the sites to ensure that the daily Cash receipts and deposit reports are appropriately reviewed by the Supervisors. Furthermore, the City should update the Policy to provide clarity to have an appropriate level of management review the daily Cash receipts and deposit reports.</p> <p>The City should consider training the Cash handling employees and the site Supervisors regarding the purpose of the signatures which prove that a review has been performed and to ensure that the signature is always identifiable or legible. In addition to this, the City should perform checks on the daily receipts and deposit reports to ensure that a site Supervisor has reviewed them.</p> <p><i>Timeliness of Supervisor reviews:</i> The City should update the Policy to include a timeliness requirement for an appropriate level of management to review the daily Cash receipts and deposit reports. The individual performing the review should also include a date with their signature which would evidence the timeliness criteria. Timely reviews and reconciliations performed by site Supervisors will identify or decrease the likelihood of misappropriation of assets.</p> <p><i>Supervisor checklist:</i> Management should send periodic reminders regarding the Supervisor checklist to ensure all sites are following the checklist. In addition to this, the Supervisors should sign an acknowledgement when the checklist is updated, revised, or when they assume supervisor duties. This would resolve future concerns of people not being aware of the checklist. Furthermore, site Supervisors should make it a practice to mark off the individual items as they come due, and have a periodic review to ensure that they were completed. This will result in a greater level of oversight and accountability over the duties laid out in the checklist.</p>			
<b>Management Action Plan</b>			
<p><b>Action Plan:</b> Recreation and Culture: Management agrees with the findings and recommendations.</p> <ul style="list-style-type: none"> <li>a) The Recreation Systems Coordinator will</li> </ul>		<p><b>Responsible Party:</b></p>	<ul style="list-style-type: none"> <li>a) Recreation Systems Coordinator and Manager of Administration</li> <li>b) Executive Director of</li> </ul>

<p>update the Departmental Financial Procedures Manual to improve clarity, ensure compliance by Cash handling staff and Supervisors, and perform checks to ensure such compliance. These changes will be communicated to all affected staff.</p> <p>b) Management has updated the Supervisor's Checklist to help ensure a greater level of oversight.</p> <p>c) At the periodic meetings (approximately six times during the year) between the Executive Director of Recreation and Culture and Managers and Supervisors, the Supervisors Checklist and compliance with periodic action items will be a regular agenda item.</p> <p>d) A procedure will be put in place to ensure all staff are informed of changes to the Cash handling policy. Staff will sign an acknowledgement sheet indicating they have been informed of the updated policy.</p> <p>e) Procedures will be put in place to ensure the Supervisor reviews and signs daily Cash receipts and reports.</p>		<p>Recreation &amp; Culture</p> <p>c) Executive Director of Recreation &amp; Culture</p> <p>d) Senior Manager - Traffic Operations, Parking and Transportation Planning</p> <p>e) Senior Manager - Traffic Operations, Parking and Transportation Planning</p>
	<p><b>Due Date:</b></p>	<p>a) 2017 Q4</p> <p>b) Complete</p> <p>c) 2017 Q4</p> <p>d) 2017 Q4</p> <p>e) 2017 Q4</p>

## *Considerations for Improvement*

No additional considerations for improvement.

# Appendix 1: Basis of Findings 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
<b>Highly Likely</b>	<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>
<b>Likely</b>	<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>
<b>Unlikely</b>	<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
<b>HIGH</b>	Dollar Value <sup>2</sup>	Financial impact likely to exceed \$250,000 in terms of direct loss or opportunity cost.
	Judgmental 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. <ul style="list-style-type: none"> <li>· Loss of ability to sustain ongoing operations: <ul style="list-style-type: none"> <li>- Loss of key competitive advantage/opportunity <ul style="list-style-type: none"> <li>- Loss of supply of key process inputs</li> </ul> </li> </ul> </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>
<b>MEDIUM</b>	Dollar Value	Financial impact likely to be between \$75,000 to \$250,000 in terms of direct loss or opportunity cost.
	Judgmental 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. <ul style="list-style-type: none"> <li>· Moderate reputational sensitivity.</li> </ul> </li> </ul> <p><b>Legal/Regulatory</b> Regulatory breach with material financial consequences, including fines.</p>
<b>LOW</b>	Dollar Value	Financial impact likely to be less than \$75,000 in terms of direct loss or opportunity cost.
	Judgmental 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. <ul style="list-style-type: none"> <li>· Minimal reputational sensitivity.</li> </ul> </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:
<b>Cause for considerable concern</b>	<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>
<b>Cause for concern</b>	<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>
<b>No major concerns noted</b>	<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>
<b>No or limited scope for improvement</b>	<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>

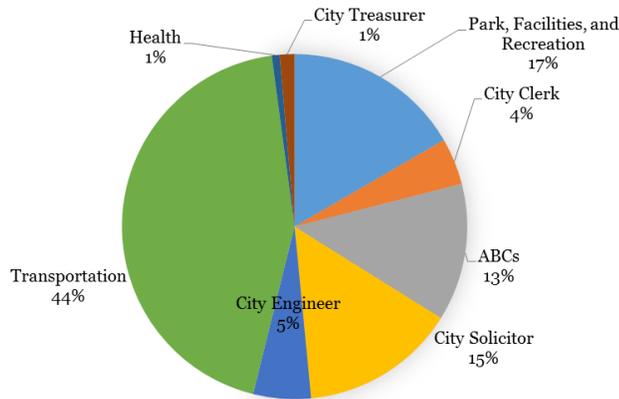
# Appendix 2: Summary of Cash Statistics for Fiscal 2016

## Summary of Cash Deposits in 2016

Through our testing, we have gained coverage over the three areas - Parks, Facilities and Recreation, Office of the City Solicitor, and Office of the City Engineer.

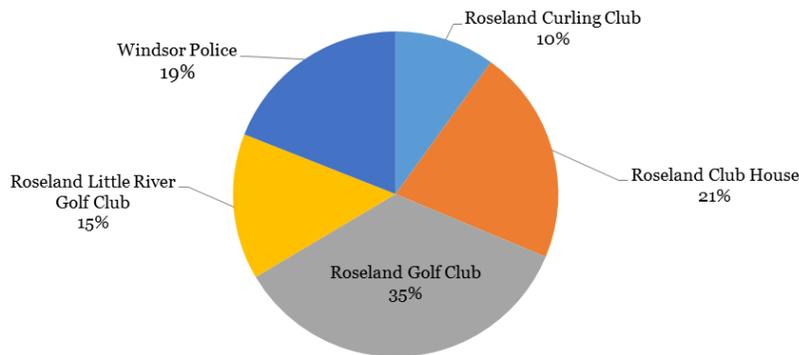
With data from reports generated by the AMANDA system and extrapolation methods used by Internal Audit, the following diagram shows the amount of Cash deposited into the bank by all departments under the City of Windsor from January 1, 2016 to December 31, 2016. The total amount of Cash deposited was \$10,667,559.

### Overview of Cash Deposits in 2016



The following diagram shows a breakdown of the Cash deposited by the different Agencies, Boards and Commissions (ABCs) which amounted to \$1,374,869.

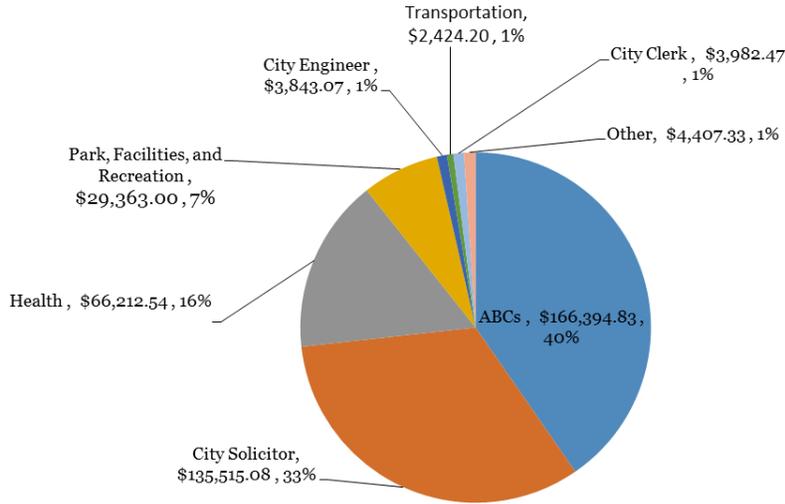
### Cash Deposits in 2016 by Agencies, Boards & Commissions



## Summary of Petty Cash Used in 2016

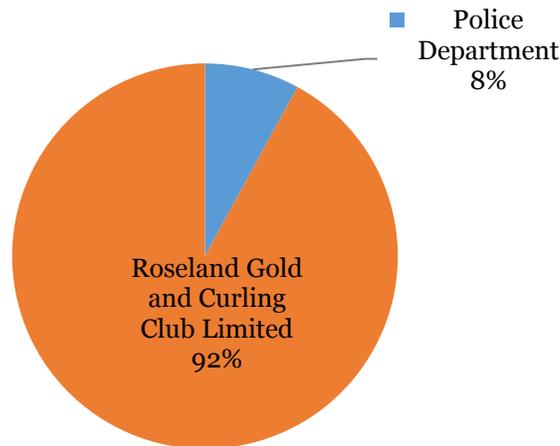
The following diagram is an overview of the Cash spent by each department, from January 1, 2016 to December 31, 2016, with data from a listing of all Petty Cash fund replenishments. The total amount of Cash spent in 2016 was \$412,142.

### Overview of Cash Spent in 2016



The following diagram shows a breakdown of the Cash spent by the Agencies, Boards and Commissions which amounted to \$166,394.83.

### Cash Spent in 2016 by Agencies, Boards & Commissions



## ***Appendix 3: Limitations and Responsibilities***

### ***Limitations inherent to the Internal Auditor's work***

We have undertaken the review of Cash Handling Controls, subject to the limitations outlined below.

#### ***Internal control***

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls, and the occurrence of unforeseeable circumstances.

#### ***Future periods***

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

### ***Responsibilities of Management and Internal Auditors***

It is Management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for Management's responsibilities for the design and operation of these systems.

We endeavor to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as Internal Auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.



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