



Office of the Auditor General

**Review of CSC Laurier Cash Handling Process
and Cash Discrepancies**

Executive Summary

Tabled at Audit Committee – June 20, 2016



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Executive Summary

Introduction

This review was conducted as a result of reports from management to the Fraud and Waste Hotline in July 2015 regarding two instances of missing cash from the Laurier Client Service Centre (“CSC”).

Background

The City of Ottawa has seven CSCs (four urban and three rural) that provide residents with access to a wide range of municipal services. Services include payment of property tax, parking ticket and water bills; pet registration and renewals; marriage licences and civil marriage ceremonies; building permits; fire permits; OC Transpo Presto, bus passes and ticket sales; and registration and payment for recreation and culture programs. In total, the seven CSCs have 32 full time equivalents (“FTEs”). The Laurier CSC located at Ottawa City Hall has 13 FTEs.

The following corporate policies and procedures provide the governance for cash handling and cash floats at the City:

- Cash Handling Policy
- Cash Handling Procedures
- Cash Float Policy
- Cash Float Procedures

These policies and procedures provide an overarching governance framework for all departments across the City. They provide corporate direction for proper and consistent management and administration of cash handling and change floats. They establish a system of internal controls to prevent loss, mishandling of funds, and allegations of staff misuse or misappropriation of City funds. To complement this corporate governance, individual departments or branches may develop supporting policies and procedures that meet the corporate requirements while providing direction to suit individual department or branch needs.

The Office of the Auditor General (“OAG”) is responsible for carrying out financial (excluding attestation of the City’s financial statements), compliance and performance audits of all programs, activities and functions of all City departments, and selected agencies, boards, commissions and corporations. The OAG is also responsible for the

Fraud and Waste Hotline, which is available for use by City employees and members of the public. The Fraud and Waste Hotline is a confidential and anonymous service that allows City employees and members of the general public to report suspected or witnessed cases of fraud or waste 24 hours a day, seven days a week.

The OAG received two reports from management at the Laurier CSC regarding two identified instances of cash discrepancies in the amounts of \$1,000 and \$75 respectively. In accordance with the Fraud and Waste Policy, the reports from management were reported to the Fraud and Waste Hotline.

Objectives and Scope

The OAG conducted a review of the Cash Handling Process and the two cash discrepancies that occurred at the Laurier CSC. The objectives of the review were as follows.

Objective No. 1:

To assess whether the controls over cash handling and reconciliation are adequate and functioning as intended to effectively safeguard cash assets.

Criteria:

- Policies and procedures regarding cash handling and reconciliation are adequate to effectively safeguard cash assets.
- Policies and procedures were adhered to and monitored and follow up action was taken when and as necessary.

Objective No. 2:

To investigate the causes of the cash discrepancies.

Criteria:

- Cash discrepancy documentation and other available information identifies potential causes of the cash discrepancies.

Objective No. 3:

To determine whether there is evidence of wrongdoing.

Criteria:

- Cash discrepancy documentation and other available information identifies and provides evidence of wrongdoing.

Objective No. 4:

To assess whether there are opportunities for improvement in the cash handling process at the Laurier CSC.

Criteria:

- Existing cash handling and reconciliation policies, procedures and processes have opportunities for improvement to reduce cash asset safeguarding risks.

Summary of Key Findings

A summary of the key findings under each review objective follow below:

Objective 1: To assess whether the controls over cash handling and reconciliation are adequate and functioning as intended to effectively safeguard cash assets.

- Cash errors were not consistently escalated to the appropriate levels of CSC management promptly. In one instance, there was no notification at all.
- Incident reports were not completed on a timely basis or distributed to Customer Service and Collections Unit as required by the Cash Handling Procedures.
- Cash Pickups were not performed when balances exceeded acceptable levels as required by the Cash Handling Procedures.
- CSC staff did not log out of POS terminals when the cash handling area was unattended as required by Cash Handling Procedures.
- The change float was not counted and reconciled on a daily basis as required by the Change Float Procedures.

Objective 2: To investigate the causes of the cash discrepancies.

- The \$1,000 cash discrepancy could have been caused by any of the following scenarios:

1. A keypunch error made by the Client Service Agent regarding the amount of cash received.
2. Miscount of cash received from client.
3. Misappropriation of funds.

- The \$75 cash discrepancy could have been caused by any of the following scenarios:

1. Incorrect amount of cash exchanged from the change float.
2. Misappropriation of funds.

Objective 3: To determine whether there is evidence of wrongdoing.

- At this time, it is not possible to conclude that there is evidence of wrongdoing with regard to the \$1,000 discrepancy which occurred on July 22nd. Although there were opportunities that would have allowed for the misappropriation of funds to occur, there is no conclusive supporting evidence of wrongdoing.
- It would appear unlikely that the \$75 discrepancy was an error since a cash register would have to have had an overage during the period of time the cash discrepancy was noticed between July 7th and July 15th. No cash registers were reported with an overage of the same amount during the period. Nonetheless, there is no conclusive supporting evidence of wrongdoing.

Objective 4: To assess whether there are opportunities for improvement in the cash handling process at the Laurier CSC.

- Daily cash count sheets are not being used by the Laurier CSC to record details of the closing cash count, reconciliation and deposit.
- Multiple staff use the same POS terminal and cash drawer over the course of a day.
- Client Service Agents do not disclose non arm's length transactions.
- Some Client Service Agents do not have a separate area away from POS terminals and cash handling areas to keep personal items.

Recommendations and Management Responses

Recommendation 1

That the City develop CSC policies and/or procedures to provide clear direction on CSC management notification of cash errors or suspected theft when identified by CSC staff including who within CSC management is to be notified, the timelines within which they are to be notified and the dollar value thresholds when an error is to be communicated and/or escalated. The CSC policies and/or procedures should be developed in accordance to the City's Cash Handling Policy and Procedures.

Management Response:

Management agrees with this recommendation. The City's Cash Handling Procedure states: "In the event of suspected internal theft or fraud, the operational supervisor must notify Corporate Security within 24 hours and Customer Service and Collections. The operational supervisor must complete the Incident Report – Corporate and forward a copy to each of the aforementioned units." Further to the City's Cash Handling Procedure, a Client Operations branch-specific Cash Handling procedure has been developed and was approved by the ServiceOttawa departmental management team on April 27, 2016. It provides additional direction to CSC staff which includes: the notification protocol including the dollar value thresholds for escalation for both cash discrepancies and suspected internal theft and fraud; the format for escalation; escalation roles and responsibilities and fraud and waste reporting requirements. The Finance Department is currently completing a final review of the Client Operations Cash Handling Procedure, at which point ServiceOttawa will initiate training and implementation to be completed by Q4 2016.

Recommendation 2

That the City ensure that staff understand and comply to the appropriate policy and procedures when an error or suspected theft is identified. It is suggested that this is reviewed with all CSC staff on a regular basis in adherence with the policy.

Management Response:

Management agrees with this recommendation. A Client Operations branch-specific Cash Handling Procedure has been developed and was approved by the ServiceOttawa departmental management team on April 27, 2016. The Procedure

addresses the steps to take when a cash discrepancy or suspected theft is identified. The Finance Department is currently completing a final review of the Client Operations Cash Handling Procedure, at which point ServiceOttawa will initiate training and implementation to be completed by Q4 2016.

Recommendation 4

That the City develop CSC specific procedures to require that the chain of custody of cash be adequately documented, including signatures, and that such documentation be maintained within the safe.

Management Response:

Management agrees with this recommendation. A Client Operations branch-specific Cash Handling Procedure has been developed and was approved by the ServiceOttawa departmental management team on April 27, 2016. The Procedure documents the chain of custody for cash pickups and ensures that the Cash Pickup slip is signed and maintained in a secure location at the Client Service Centre. The Finance Department is currently completing a final review of the Client Operations Cash Handling Procedure, at which point ServiceOttawa will initiate training and implementation to be completed by Q4 2016.

Recommendation 7

That the City consider assigning a lower threshold for cash transactions handled by students or other less experienced staff within the CSC's policies and/or procedures.

Management Response:

Management agrees with this recommendation. Management has considered assigning a lower threshold for cash transactions handled by students and other less experienced staff. Given the operational impacts associated with lowering the threshold, management believes the complexity of each cash transaction should dictate the level of experience and training that an agent is required to have in order to process such transactions.

Therefore, ServiceOttawa has reduced the level of complexity of transactions that students and less experienced staff are allowed to process, such as split payments and partial payments. This is reflected in the new Client Operations branch-specific Cash Handling Procedure approved by the ServiceOttawa departmental

management team on April 27, 2016. The Finance Department is currently completing a final review of the Client Operations Cash Handling Procedure, at which point ServiceOttawa will initiate training and implementation to be completed by Q4 2016.

Through the implementation of this Procedure, ServiceOttawa will implement the following measures to minimize risks associated with students and less experienced staff handling transactions:

- Management has reduced ServiceOttawa's threshold to \$1,000 for cash pickups;
- Enhancements have been made to the Client Operations cash handling training and training aids;
- Prior to receiving permission to complete any cash transactions, students and less experienced staff are required to complete the training on cash handling policies and procedures; and
- Less experienced staff are provided with additional on-the-job coaching and support until they are deemed ready to independently handle cash transactions as detailed in the Client Operations Cash Handling Procedure.

Recommendation 9

That the City ensure all staff log out of the POS terminal in adherence with the Cash Handling Policy and Procedures before stepping away from their terminal to ensure that their cash drawers are securely closed by the system.

Management Response:

Management agrees with this recommendation. A Client Operations branch-specific Cash Handling Procedure has been developed and was approved by the ServiceOttawa departmental management team on April 27, 2016. The Procedure ensures that adherence to the requirement that all staff log out of the POS terminal is monitored by supervisory staff. Issues of non-compliance will be addressed through the City's performance management or Discipline Policy and Procedures. The Finance Department is currently completing a final review of the Client Operations Cash Handling Procedure, at which point ServiceOttawa will initiate training and implementation to be completed by Q4 2016.

Recommendation 10

That the City ensure the change float is counted daily as part of the daily closing procedures in adherence with Change Float Procedures.

Management Response:

Management agrees with this recommendation. A Client Operations branch-specific Cash Handling Procedure has been developed and was approved by the ServiceOttawa departmental management team on April 27, 2016. The Procedure ensures that adherence to this requirement will be monitored by supervisory staff and issues of non-compliance will be addressed through the City's performance management or Discipline Policy and Procedures. The Finance Department is currently completing a final review of the Client Operations Cash Handling Procedure, at which point ServiceOttawa will initiate training and implementation to be completed by Q4 2016.

Recommendation 11

That the City ensure that a Change Float Cash Count Sheet is developed and prepared, documenting the date, the amount of the change float that has been counted, amount of overage or shortage of the change float, signature of the individual who counted and a second person verifier count and signature.

Management Response:

Management agrees with this recommendation. The Finance Department's Change Float Policy and Procedures will be updated to reflect this recommendation by the end of Q3 2016 at which point ServiceOttawa will initiate training and implementation.

Recommendation 12

That the City ensure the Change Float Cash Count Sheets are maintained in a secure location and available for review/audit.

Management Response:

Management agrees with this recommendation. The Finance Department's Change Float Policy and Procedures will be updated to reflect this recommendation by the end of Q3 2016 at which point ServiceOttawa will initiate training and implementation. Within ServiceOttawa, the Change Float Cash Count Sheets will

be maintained in the safe and will be filed monthly in accordance with the City's Records Management Policy and Procedures.

Recommendation 13

That the City ensure a log is maintained within the change float lockbox that logs each change float transaction.

Management Response:

Management agrees with this recommendation. The Finance Department's Change Float Policy and Procedures will be updated to reflect this recommendation by the end of Q3 2016 at which point ServiceOttawa will initiate training and implementation. Within ServiceOttawa, the transaction log will be maintained in the change float lockbox and will be filed monthly in accordance with the City's Records Management Policy and Procedures.

Recommendation 14

That the City ensure the log documents the date, the amount of cash placed into the lockbox, the amount of change removed from the lockbox and signature.

Management Response:

Management agrees with this recommendation. The Finance Department's Change Float Policy and Procedures will be updated to reflect this recommendation by the end of Q3 2016 at which point ServiceOttawa will initiate training and implementation.

Recommendation 15

That the City ensure a second person verifier also sign the log to verify the amount of the change float transaction.

Management Response:

Management agrees with this recommendation. The Finance Department's Change Float Policy and Procedures will be updated to reflect this recommendation by the end of Q3 2016 at which point ServiceOttawa will initiate training and implementation.

Recommendation 16

That the City ensure the Change Float Policy and Procedures are updated, or that the CSC develop specific procedures, to reflect these changes.

Management Response:

Management agrees with this recommendation. The Finance Department's Change Float Policy and Procedures will be updated to reflect this recommendation by the end of Q3 2016 at which point ServiceOttawa will initiate training and implementation. Within ServiceOttawa, a Client Operations branch-specific Cash Handling Procedure has been developed and was approved by the ServiceOttawa departmental management team on April 27, 2016. The Procedure addresses the handling of change floats and the exchange of money. The Finance Department is currently completing a final review of the Client Operations Cash Handling Procedure, at which point ServiceOttawa will initiate training and implementation to be completed by Q4 2016.

Recommendation 17

That the City ensure that the CSC and Finance take a risk-based approach to ensuring and monitoring compliance to the Cash Handling Policy and Procedures at the CSC and the potential risk of loss.

Management Response:

Management agrees with this recommendation.

Finance will undertake an assessment on how a risk-based approach can be implemented with existing resources. This will be completed by Q4 2016.

As part of this exercise, staff will undertake a review of the accountabilities and responsibilities of monitoring and compliance within the Cash Handling Policy. This will be completed as part of Finance's Strategic Initiative (Cash Handling Policy and Procedures Review) that is currently underway with a targeted completion date of Q1 2017.

Within ServiceOttawa, a Client Operations branch-specific Cash Handling Procedure has been developed and was approved by the ServiceOttawa departmental management team on April 27, 2016. The Procedure ensures that Coordinators' duties include monitoring compliance with the City's Cash Handling Policy and Procedures and risk mitigation. The Finance Department is currently

completing a final review of the Client Operations Cash Handling Procedure, at which point ServiceOttawa will initiate training and implementation to be completed by Q4 2016.

ServiceOttawa's Quality Assurance and Continuous Improvement branch will monitor cash handling practices within the monthly quality assurance report. This monthly report is provided to Client Operations Branch management, the Manager of Quality Assurance and Continuous Improvement and the Director of ServiceOttawa. This report will assist management in tracking frontline staff compliance with the City's and ServiceOttawa's policies and procedures.

Recommendation 18

That the City ensure that for authorized exceptions to the Cash Handling Policies and Procedures, there is a process with appropriately approved documentation to ensure that existing and new CSC staff have consistent, up-to-date reference and/or procedures.

Management Response:

Management agrees with this recommendation. The process for requesting and authorizing exceptions is currently referenced in the Segregation of Duties section of the City's Cash Handling Policy. For greater clarity, Finance will revise the policy to create a section for the Exceptions Process as it applies to more than segregation of duties. This change will be made as part of Finance's Strategic Initiative (Cash Handling Policy and Procedures Review) that is currently underway with a targeted completion date of end of Q1 2017.

Recommendation 19

That the City ensure the Laurier CSC utilizes a daily cash count sheet (or other similar control activity) which records details of the cash count, daily transactions, reconciliation and deposit information and develop CSC specific policies and/or procedures to reflect this change.

Management Response:

Management agrees with this recommendation. A Client Operations branch-specific Cash Handling Procedure has been developed and was approved by the ServiceOttawa departmental management team on April 27, 2016. The Finance Department is currently completing a final review of the Client Operations Cash

Handling Procedure, at which point ServiceOttawa will initiate training and implementation to be completed by Q4 2016. The Procedure outlines an improved process and documentation for the chain of custody for cash, the implementation of cash pickup slip assignments and provides additional cash handling controls as per Recommendation 4.

The details of the cash count, daily transactions, reconciliation and deposit information are tracked at the Laurier CSC on the ITB system-generated reports (Register Closing Report and Cash Pickup Report) Daily Sales Activity Summary and the bank deposit slip. The Register Closing Report lists the names of all employees who used the cash, the date, POS terminal number, number and type of transactions completed, any void transactions, number of cash pickups performed during the day, and the amount and breakdown of the final cash pickup. The deposit slip documents the physical count of the cash and cheques received which are then compared to the Register Closing Report to reconcile the deposit. Transcribing information from these source documents to a separate record introduces additional reconciliation processes and potential for error not previously present.

The Register Closing and Cash Pickup reports are maintained electronically in the ITB Manager system and can be retrieved in hard copy at any time. They will also be physically stored along with a hard copy of the deposit slip, in a secure location within the reconciliation room to ensure that the details of the cash count, daily transactions, reconciliation and deposit information are maintained in one place.

Recommendation 20

That the City ensure staff are provided with a designated area at which to keep personal items that is separated from cash handling areas and that Cash Handling Procedures are updated to reflect this change.

Management Response:

Management agrees with this recommendation. The City's Cash Handling Policy and Procedures will be revised to include a General Direction requiring that personal items be kept separate from the cash handling area. This change will be made as part of Finance's Strategic Initiative (Cash Handling Policy and Procedures Review) that is currently underway with a targeted completion date of end of Q1 2017.

Within ServiceOttawa, a Client Operations branch-specific Cash Handling Procedure has been developed and was approved by the ServiceOttawa departmental management team on April 27, 2016. The Procedure addresses designated areas for staff to keep personal belongings. The Finance Department is currently completing a final review of the Client Operations Cash Handling Procedure, at which point ServiceOttawa will initiate training and implementation to be completed by Q4 2016.

Recommendation 26

That the City develop a CSC-specific policy and/or procedure to require Client Service Agents to disclose any non-arm's length or other such type relationships, if the Client Service Agent personally knows the customer so that another Client Service Agent may perform the transaction.

Management Response:

Management agrees with this recommendation.

The City's Cash Handling Policy currently refers to the Code of Conduct, however a specific reference to the requirement to disclose any non-arm's length or other such type relationships between all City staff involved in cash handling and clients will be added. This change will be made as part of Finance's Strategic Initiative (Cash Handling Policy and Procedures Review) that is currently underway with a targeted completion date of end of Q1 2017.

ServiceOttawa currently provides Cash Handling Procedure and Code of Conduct training to new staff and, annual refresher training to existing staff. Once the Corporate Cash Handling Policy and Procedure review is complete, ServiceOttawa will ensure that the Client Operations Cash Handling Procedure is in alignment with the Corporate Policy and Procedure as it relates to arms-length relationships by Q1 2017.

Conclusion

Based on the review of documentation including policies, procedures and transaction information, interviews and discussions with CSC and Finance staff and direct observation, several instances of non-compliance to the policies and procedures were identified. Specific observations of non-compliance include:

- Incident reports were not completed on a timely basis or distributed to Customer Service and Collections Unit as required by the Cash Handling Procedures.
- CSC staff did not log out of POS terminals when the cash handling area was unattended as required by Cash Handling Procedures.
- The change float has not been counted and reconciled on a daily basis as required by the Change Float Procedures.

There were also business process improvements identified for the cash handling process which need to be addressed as the following weaknesses increase the risk of error and/or theft and the potential for loss. These policies and/or procedures would address the following items:

- Cash errors were not consistently escalated to the appropriate levels of CSC management promptly. In one instance, there was no notification at all.
- Daily cash count sheets are not being used by the Laurier CSC to record details of the closing cash count, reconciliation and deposit.
- Multiple staff use the same POS terminal and cash drawer over the course of a day.
- Client Service Agents do not disclose non arm's length transactions.

It should be noted that the OAG had previously identified non-compliance to Cash Handling Policies and Procedures as part of the 2012 Audit of Client Service Centres¹ and made recommendations on topics including:

- Segregation of duties issues.
- Money not counted when changing hands.
- Introduction of a quality assurance program.
- Various compliance improvement processes.
- Updating policies, procedures and processes to maximize functionality, efficiency and effectiveness of the new cash register system.

Within the 2012 Audit Report, management responded that process improvements had been made to ensure ongoing compliance.

¹ The Follow-up of the 2012 Client Service Centres is currently underway and will be presented to Audit Committee in 2016.

The recommendations made in this report should be implemented in the near future to address the risks identified in this report.

With respect to the cash discrepancies, based on the information available at this time, and as a result of the non-compliance to policy and procedures and other significant improvements recommended to CSC-specific policies and/or procedures, there is no conclusive evidence to determine whether the cash discrepancies are errors or intentional wrongdoing.

Acknowledgement

We wish to acknowledge our appreciation for the cooperation and assistance from management and staff of the Laurier CSC and the Finance Department.

In Camera Reference

In preparing this report, Legal Services and the Office of the Auditor General worked together to prepare this public version of the Executive Summary of the Review of CSC Laurier Cash Handling Process and Cash Discrepancies. This Executive Summary does not include Recommendations 3,5,6,8, and 21 to 25, as well as some other commentary which may have constituted a breach of personal privacy or put at risk the security of the property of the City in this instance.

The City Clerk and Solicitor, in consultation with the Auditor General, the City Treasurer and the City's Meeting's Investigator, has recommended that, should the Committee desire to meet in closed session to discuss the complete Audit, those matters would not be reported out. The underlying rationale for this recommended approach as it relates to two exceptions to the statutory rule that all meetings of municipal committee and councils should be open to the public. The first exemption is with regard to "personal matters about an identifiable individual including municipal or local board employees" and the second is concerning "security of the property" of the City, a statutory exemption for a closed meeting.