

# TORONTO STAFF REPORT

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March 19, 2004

To: Audit Committee

From: Auditor General

Subject: Economic Development, Culture and Tourism Department – Review of Receivables Relating to Parks and Recreation Operations and the Review of Revenue and Cash Controls Relating to the Parks and Recreation Division, North and South Districts

Purpose:

To report the results of the Auditor General's review of the management of receivables relating to parks and recreation operations and cash handling procedures at various parks and recreation facilities in the North and South Districts.

Financial Implications and Impact Statement:

Certain of the receivables in the Parks and Recreation Division of the Economic Development, Culture and Tourism Department are uncollectable. The Auditor General has estimated that an allowance for uncollectable accounts should be in the range of \$1 million. This amount has been communicated to the Chief Financial Officer and Treasurer and should be considered in the final determination of a corporate-wide allowance for doubtful accounts.

The implementation of certain other recommendations in this report will improve accounts receivable collection practices and internal controls relating to cash management and will minimize the risk of revenue losses.

Recommendations:

It is recommended that:

1. The Commissioner, Economic Development, Culture and Tourism review all reports issued by the Auditor General's Office relating to cash controls and accounts receivable management and ensure that all recommendations are appropriately addressed.

2. City Council direct that those recommendations relating to the management of accounts receivable be forwarded to City Commissioners and Senior Executives of City Agencies, Boards and Commissions in order to determine whether or not the recommendations contained in this report have applicability to their respective organizations. Where appropriate, such recommendations be implemented immediately.
3. The Commissioner, Economic Development, Culture and Tourism review in detail the outstanding accounts receivable balances and ensure that:
  - (a) Efforts are directed to the collection of the outstanding accounts receivable balances. Such outstanding amounts be prioritized in terms of the extent of each receivable. Priority be given to the largest amounts and those most likely to be collected.
  - (b) Continuing services to those organizations and individuals that have outstanding receivable balances should be evaluated. Payment plans be developed and monitored. In specific circumstances where there is no agreement on payment plans, services to these organizations be discontinued.
  - (c) Where specific payments relating to outstanding receivables are identifiable and have been credited to the incorrect account, the accounting records be adjusted accordingly.
  - (d) When appropriate, and where potential gains exceed the cost, in consultation with the Chief Financial Officer and Treasurer, consideration be given to the assignment of receivables to collection agencies for collection.
  - (e) In consultation with the Chief Financial Officer and Treasurer, consideration be given to the charging of interest on accounts which have been outstanding for a pre-determined period of time.
  - (f) Management review the collectability of the receivables and determine an appropriate level of provision for uncollectable accounts. This information be communicated to the Chief Financial Officer and Treasurer and recorded in the accounting records of the City. Such a process to be conducted on an annual basis.
  - (g) Where all collection efforts have been exhausted, such accounts be forwarded to Council, in accordance with policy, for formal write-off authority. This process be conducted in consultation with the Chief Financial Officer and Treasurer and take place on an annual basis.
  - (h) Specific performance measures be developed in order to measure the effectiveness of the receivable collection process. Management reports be amended to facilitate the disclosure of receivables by District and appropriate action be taken where collection efforts are not meeting performance expectations.

4. The Commissioner, Economic Development, Culture and Tourism, in consultation with the Chief Financial Officer and Treasurer, develop accounts receivable policies and procedures in order to provide guidance for the management of accounts receivable. Specifically the policy and procedure address collection efforts, the granting of credit, routine ageing of accounts, standard time frames for sending accounts to collection agencies and the process for the determination of doubtful accounts and the write-off of uncollectable accounts.
5. The Commissioner, Economic Development, Culture and Tourism review its policies relating to the level of authority given to senior staff. Such review include a written and communicated policy relating to discounts and under no circumstances should arbitrary discounts be given which are not in compliance with policy. In particular, fees for recoverable costs, which are waived or discounted by staff in excess of a predetermined amount, should be reviewed and approved in writing by the General Manager of Parks and Recreation. The amounts of discounts and fees waived should be separately accounted for.
6. The Commissioner, Economic Development, Culture and Tourism, during its review of the Department's organizational structure, prioritize those facilities requiring the implementation of the appropriate financial modules within the CLASS permitting and registration system. A specific timetable be established for implementation of such CLASS modules at those prioritized City facilities.
7. The Commissioner, Economic Development, Culture and Tourism during its current organizational review give consideration to the re-evaluation of the mandate of the Compliance Unit within the Administrative Support Services Division. Such a review to consider the revisions of the mandate to include an independent internal audit component reporting directly to the Commissioner of Economic Development, Culture and Tourism and also consider the recent revisions to the City's audit framework.
8. The Commissioner, Economic Development, Culture and Tourism give consideration to soliciting the advice and guidance of the City's Internal Audit Division to assist the Compliance Unit in terms of:
  - (a) establishing a risk-based methodology to identify recreation facilities for review;
  - (b) the extent and frequency of audit work required, including the development of audit programs;
  - (c) standard reporting requirements;
  - (d) the extent of follow-up work; and
  - (e) a timetable for future reviews.

9. The Commissioner, Economic Development, Culture and Tourism assign the overall responsibility for the review and ongoing updating of the Cash Handling and Internal Controls Policies and Procedures manual to the Compliance Unit within the Administrative Support Services Division. The Compliance Unit be required to immediately update the manual in order to reflect current circumstances and all such changes be communicated to appropriate staff. Any updates to the manual be approved in writing by senior management.
10. The Commissioner, Economic Development, Culture and Tourism ensure that Recreation and Facilities Supervisors conduct ongoing supervisory reviews and analysis as required by the Cash Handling and Internal Controls Policies and Procedures manual. Such reviews include comprehensive assessments of cashier functions and reports. In particular, all journal entries be reviewed and approved. Evidence of such review be documented in writing. The Compliance Unit ensure that such reviews are conducted in accordance with policy.
11. The Commissioner, Economic Development, Culture and Tourism re-evaluate the 2004 business plan of the Compliance Unit to ensure that its review of recreation facilities is at a level commensurate with the risks inherent in relation to the level of cash handled.
12. The Commissioner, Economic Development, Culture and Tourism take the necessary action to ensure that staff at all recreation facilities comply with policies and procedures.
13. The Commissioner, Economic Development, Culture and Tourism take appropriate steps to ensure that initial and on-going training of cash handling procedures is provided. Such training to ensure that all cash custodians are aware of the City's policies and procedures and act in accordance with such policies and procedures.
14. The Commissioner, Economic Development, Culture and Tourism direct the Compliance Unit to evaluate the controls over the sale and accounting for memberships and passports. Such review to ensure that the inventory of memberships and passports are accounted for, the numerical sequence of all such passes is controlled, and reconciliations of cash collected with passports sold is performed on a daily basis. All reconciliations be reviewed and approved in writing by supervisory staff.
15. The Commissioner, Economic Development, Culture and Tourism, in consultation with the Chief Financial Officer and Treasurer, develop reporting facilities within the CLASS permitting and registration system and the SAP financial information system such that the need for the existence of duplicate accounting systems are eliminated. The Commissioner, Economic Development, Culture and Tourism ensure that the full reporting potential of the CLASS system is realized.
16. The Commissioner, Economic Development, Culture and Tourism review the practice of facilities setting aside revenues for specific purposes. The collection of revenue and the expenditure of funds should be a part of the annual budget process unless specifically approved otherwise by City Council.

17. The Commissioner, Economic Development, Culture and Tourism ensure that adequate supporting documentation is reviewed and retained in order to support the waiving of fees for “not for profit organizations”.
18. The Commissioner, Economic Development, Culture and Tourism, in consultation with the Chief Financial Officer and Treasurer, review the unreconciled difference in the Department’s bank account and, where appropriate, make the necessary adjusting entries to the accounting records.
19. The Commissioner, Economic Development, Culture and Tourism ensure that all cash overages and shortages are appropriately accounted for and reported at the facility level. The Financial Unit within the Administration and Support Services Division review and monitor such reports and take necessary and appropriate action.
20. The Commissioner, Economic Development, Culture and Tourism be required to report back to the July 13, 2004 Audit Committee on the implementation of the recommendations contained in this report. Such response to address each individual recommendation with a suggested timetable for implementation.

Background:

The Parks and Recreation Division is responsible for the supervision, control and operation of the parks and recreation system of the City of Toronto. Its mission is to provide residents of Toronto with full and equitable access to high quality, recreational programs, efficiently operated facilities and safe, clean parks, open spaces, ravines and forests. The Parks and Recreation Division is responsible for 1,500 parks, 115 community centres, 217 other program facilities (schools, seniors centres and churches, etc.) 211 aquatic facilities, 372 tennis courts, 121 ice surfaces, and manages approximately 8,000 hectares of parkland.

The Parks and Recreation Division is administered by a General Manager of Parks and Recreation who reports directly to the Commissioner, Economic Development, Culture and Tourism. The Parks and Recreation Division consists of a Central Services Unit and four geographical districts, North, South, East and West, each of which is the responsibility of a Director. Each District is further subdivided into regions. Staff at the various recreation facilities deliver programs on a year-round basis for City residents.

The departmental internal control framework governing accounts receivable, cash and revenue management within the Parks and Recreation Division is a joint responsibility of all management and staff. This responsibility includes staff from the individual recreation facilities along with staff of the Administration and Support Services Division, which is the administrative unit in the Department. Included in the Administration and Support Services Division are Compliance and Finance Units. The Compliance Unit is responsible for the monitoring of compliance with financial policies and procedures, while the Finance Unit is responsible for overall revenue and receivable management and the handling of refunds and collections through its accounts payable and accounts receivable functions.

The City offers approximately 54,000 programs and 3,000 community events to the public and generates gross annual budgeted revenue of approximately \$54.0 million. The Parks and Recreation Division, in managing the revenue generated by the Division, uses a financial software package called the CLASS permitting and registration system. The CLASS system administers and accounts for program registrations, facility bookings and permits and records payments, refunds and collection of receivables.

The extent of implementation and use of various modules of the CLASS system is at different stages throughout the City. The financial activity recorded in the CLASS permitting and registration system is summarized and automatically posted to the City's Corporate SAP financial information system on a daily basis. For those facilities that have not fully implemented the CLASS system, summarized financial information is prepared manually and subsequently, input to the SAP financial information system.

#### Audit Objectives

The Parks and Recreation Division provides a wide range of programs and services that result in the collection and handling of significant amounts of cash, which by its nature, is susceptible to loss and misappropriation. In response to the audit risk associated with the level of cash handled, the Auditor General's Office included in its Audit Work Plan, a review of revenue and cash controls within the Parks and Recreation Division of Economic Development, Culture and Tourism. In addition, this review also focussed on the management of accounts receivable relating to registration, memberships and permits.

The objective of this review was to ensure that appropriate levels of internal controls exist in relation to the handling of cash and that effective policies and procedures are in place in respect to the management of the City's receivables.

The Auditor General (formerly the City Auditor) issued a report dated May 4, 2000, entitled "Cash Controls Review – Parks and Recreation Division, East and West Districts". This report contained a number of recommendations in connection with internal controls relating to cash handling procedures. The Commissioner, Economic Development, Culture and Tourism responded to the Auditor General's report, dated March 12, 2001. In addition, since amalgamation, various reports have been submitted directly to the Commissioner in connection with a number of special investigations relating to cash irregularities conducted by the Auditor General. These investigations were a result of irregularities identified by both departmental staff as well as those identified by the Auditor General's Office. The reports, for the most part, provided details on each of the investigations conducted and recommended improvements to internal controls over cash.

A summary of the findings in these investigative reports are reported to the Audit Committee on an annual basis and are contained in a number of previously issued reports entitled "Annual Report on the Status of Fraud and Related Matters" prepared by the Auditor Generals Office.

## Audit Scope

Our audit work focused on a review of receivables relating to parks and recreation operations and the Review of Revenue and Cash Controls relating to the Parks and Recreation Division, North and South Districts.

Our audit work in connection with this report included the following:

- review and follow-up of our May 4, 2000 report entitled “Cash Controls Review – Parks and Recreation Division, East and West Districts” in order to determine the extent to which previous audit recommendations had been implemented;
- review of the March 12, 2001 report submitted by the Commissioner, Economic Development, Culture and Tourism to Committee and Council on the corrective action proposed and taken in response to the Auditor General’s May 4, 2000 report;
- review of various reports and correspondence forwarded to the Commissioner, Economic Development, Culture and Tourism in relation to specific investigations conducted by the Auditor General;
- interviews with senior management and staff within the Economic Development, Culture and Tourism Department;
- review of departmental policies and procedures;
- review of applicable documents, management reports, records and selected transactions; and
- review of cash control practices and standards followed and audit reports issued by Kansas City, City of Tallahassee, City of Berkeley, City of Austin, the Municipality of Anchorage, the Auditor General of Canada, and the Australian National Audit Office. This review was conducted in order to identify leading practices in the administration of cash and receivables.
- attendance at the following facilities in the North and South Districts in order to review internal controls:

Cummer Park Community Centre  
Mitchell Field Community Centre  
Douglas Snow Aquatic Centre  
East York Community Centre  
North Toronto Memorial Community Centre and Pool  
J. J. Piccininni Community Recreation Centre  
Metro Hall Fitness Centre  
Graham Enslie Fitness Centre (City Hall Fitness Centre)

- on site observation of the fall/winter registration process at the following locations:

North York Civic Centre  
Herbert H. Carnegie Centennial Centre  
J. J. Piccininni Community Recreation Centre  
Annette Community Recreation Centre  
Swansea Community Recreation Centre  
North Toronto Memorial Community Centre  
East York Community Centre

In determining which recreation facilities to review, we considered the volume of cash receipts handled by each facility, investigative work conducted by the Auditor General, and discussions with senior management from the Parks and Recreation Division.

The receivables reviewed in this report related to those applicable to the recreation facilities only and did not include other receivables administered by the Department.

#### Significant Audit Observations

A summary of significant audit observations is provided below, followed by detailed commentary on each of the observations.

1. A number of the internal control concerns identified in the Auditor General's report of May 2000 continue to exist. These are identified in the body of the report and require further attention by the Commissioner of Economic Development, Culture and Tourism.
2. There is a need to forward the recommendations relating to receivables contained in this report to all City Commissioners and Senior Executives of City Agencies, Boards and Commissions to determine whether or not they apply to their respective organizations.
3. The management of receivables relating to recreation facilities requires attention. Out of a total of \$4.486 million in outstanding receivables, approximately \$1.816 million is over 120 days old. Of the \$1.816 million, \$719,000 has been outstanding for over a year.
4. It is difficult to determine the exact age of many of the outstanding receivables as the aged receivable listing groups all of the older receivables as 120 days old and over. However, we have determined that a number of the Division's receivables date as far back as 1999. Generally, the ability to collect a debt declines as its age increases. The Auditor General of Canada, in a report on outstanding receivables, indicated that the "odds of collecting debts after one year are not much better than 25 per cent".
5. Collection efforts need to be prioritized and directed to those accounts which are the most likely to be collected. Where it is appropriate and cost effective, such receivables be forwarded to Collection Agencies.

6. No provision has been made in the accounting records for potential doubtful accounts. Management needs to determine the amount of any provision required and advise the Chief Financial Officer and Treasurer accordingly. The provision should be set up in the accounting records. The Auditor General has estimated the allowance required to be in the range of \$1 million. This estimate is based on an analysis of the aged accounts receivable listing and is in accordance with the Finance Department's policy for calculating doubtful accounts provisions.
7. Credit continues to be given to certain organizations, even though funds owing to the City by these organizations are in excess of 120 days old. For instance, permits are issued and ice time is provided to organizations even though receivable accounts remain outstanding for a significant period. While we appreciate the need for flexibility and management discretion in this regard, there is a need to balance this with financial realities.
8. The Division has unnecessarily placed certain revenues at risk. For example, one organization owes the City \$120,000, of which approximately \$44,000 has been outstanding in excess of 120 days. We have been advised that "the practice with this group is that this organization pays any outstanding amounts at the end of the season before the issuance of fall ice permits. Payment is expected in full by April or May." While we appreciate that this practice has been ongoing for many years and there may be operational reasons for continuing this practice it nevertheless requires re-evaluation.
9. Certain receivables have been set up in the accounting system in error. These should be reviewed in detail and appropriate adjustments made by the Department. We have not determined the extent of these errors.
10. Performance targets are not set in terms of the level and age of receivables. Consequently, it is not possible to measure the effectiveness of the receivable function. In addition, the level of receivables on a district-by-district basis is not available from the accounting records. As a result, it is not possible to determine and compare the performance of relevant staff in its administration of receivables.
11. The waiving of fees or the provision of discounts for recoverable costs in relation to the rental of facilities has been delegated from the Commissioner to the District Directors. We were not able to ascertain the existence of specific criteria in relation to the circumstances when discounts are permissible. While we agree that the District Directors should be afforded a certain degree of flexibility in making such decisions, the waiving of all facility fees should be documented and be subject to a review, at least on a test basis, and approval by the General Manager of Parks and Recreation. In addition, files containing information relating to the waiving of fees for "not for profit organizations" should be retained.

12. Compliance reviews of recreation facilities are inadequate. A total of 61 facilities out of 115 (53 per cent) across the City have not yet been the subject of any such review. The actual reviews conducted (54) were completed in 2002. Compliance reviews on recreation facilities since 2002 have been minimal.
13. It is not possible to determine the effectiveness of reviews conducted by the Compliance Unit due to the absence of detailed documentation relating to these reviews. In addition, it is not possible to determine what action was taken in response to any deficiencies noted.
14. The 2004 business plan for the Compliance Unit indicates that the Unit has scheduled only 20 compliance reviews out of a total of 115 facilities. This is inadequate. At the proposed rate, if it is deemed necessary to perform compliance reviews at each location it will take almost six years to conduct them. This does not take into account any follow-up reviews required as a result of problems identified during the initial reviews. The business plan should be revised.
15. There is no risk analysis conducted by Compliance Unit staff in terms of prioritizing those facilities requiring compliance reviews. Such an analysis is required to determine which facilities require immediate attention. The Internal Audit Division in the Chief Administrative Officers Department is available to provide such assistance.
16. For management information and decision making purposes an accounting should be conducted of all waived and discounted fees in order to determine the level of revenue not collected.
17. Our review indicated that a number of billings to organizations for recoverable costs are not always prepared on a timely basis. Any delay in issuing a bill impacts the timely collection of a receivable.
18. The Cash Handling and Internal Controls manual requires revision and updating.
19. The supervisory review of certain administrative functions at the recreation facilities requires improvement. The approval of accounting transactions such as the processing of journal entries is deficient.
20. Certain recreation facilities are not in compliance with policies and procedures as required under the Cash Handling and Internal Control Policies and Procedures manual.
21. Controls over the sale of memberships and passports require improvement. In the North District in particular, there is an absence of controls over the inventory of memberships and passports and a lack of an ongoing reconciliation process of cash collected with memberships and passports sold. Inventory counts of memberships and passports on hand are not conducted.

22. A number of staff have not received the appropriate level of training on the CLASS permitting and registration system.
23. The Cummer Park Community Centre has set aside a portion of its revenue to finance the future purchase of capital equipment. The revenues collected and the expenditures incurred are consequently excluded from the annual budget process.
24. Certain variance and other detailed reporting requirements at the facility level is conducted through the use of “shadow” or manual accounting systems in use at recreation centres. This is an inefficient use of resources. Neither the SAP financial accounting system nor the CLASS permitting and registration system is being effectively used. Appropriate management reports are not being produced or are not available.

### Comments

Detailed comments in relation to each of the significant audit observations are contained in the balance of this report

### Internal Control Issues Reported Previously

Our audit report dated May 4, 2000 entitled “Cash Controls Review – Parks and Recreation Division, East and West Districts” contained 10 recommendations. In general terms, these recommendations included the following:

- a need to expedite the review of cash handling and financial procedures at all Parks and Recreation facilities;
- a need to clarify the roles and responsibilities of the Administration and Support Services Division with respect to administration and financial matters;
- a need to clearly delineate the roles and responsibilities of supervisory staff;
- a need to ensure that necessary financial information is provided by the SAP financial accounting system;
- a need to minimize the amount of cash being handled at each facility by:
  - (a) installing debit card terminals at appropriate locations and a policy be adopted to promote payment by debit or credit card; and
  - (b) centralizing the reservation of arenas and sports fields and a policy be developed requiring payment in full prior to permitting the use of the facility;
- a need to implement the following policies and procedures:
  - (a) the timely follow-up and resolution of NSF cheques and declined credit cards;

- (b) credit procedures to protect against and reduce the risk of loss of revenue from organizations renting facilities. Such procedures could include performing credit checks, obtaining credit card imprints or collecting a reasonable deposit amount;
  - (c) the expansion of armoured car services to pick up receipts at appropriately designated facilities with significant cash balances;
  - (d) the development of an appropriate and uniform policy relating to cancellations, with particular emphasis on facility rentals;
  - (e) the timely follow-up and collection of accounts receivable;
  - (f) the timely invoicing of amounts due from customers for arena usage;
  - (g) the reconciliation and balancing of cash receipts by each cashier upon completion of each shift and the investigation and resolution by supervisory staff of any cash overages and/or underages;
  - (h) the implementation of uniform facility permit agreements and forms at all sites;  
and
  - (i) the review and enhancement as required of the physical security of all cashier areas;
- a need to ensure that all staff are adequately trained on the CLASS permitting and registration system; and
  - a need to implement appropriate access controls on the CLASS permitting and registration system and the requirement that passwords which allow access to the CLASS system be changed frequently.

Although the written response of the Commissioner, Economic Development, Culture and Tourism in March 2001 did not address each recommendation individually, the response did state that “the Department has taken the Auditor’s findings seriously and has made every effort to take immediate corrective action; with respect to both specific facility issues and general matters of financial control.”

In addition to the above issues, the Auditor General’s Office has conducted a number of fraud related investigations in relation to cash controls at certain locations. While many of these recommendations in these reports were specific to the facility reviewed, certain other recommendations had relevance to all locations throughout the City. These recommendations included the following:

- staff responsible for the issuance of facility permits should not be assigned any responsibilities for the collection of receipts or the recording of revenue. Segregation of duties is a key element of good internal control;

- credit checks be initiated for those organizations with no payment history;
- bank reconciliations should be conducted on a timely basis; and
- the responsibility for the follow-up of outstanding receivables should be clearly assigned.

The Commissioner has responded positively to each one of the reports and made progress regarding the implementation of recommendations in a number of areas including the following:

- the establishment of a Compliance Unit to conduct facility reviews and address issues and concerns brought to its attention by management
- the centralisation of its receivable management function within the Administration and Support Division of the Department
- the reduction of cash being handled at certain facilities
- the regular reconciliation of bank accounts

Our current review has identified a number of weaknesses that existed in 2000 and which continue to be prevalent in the North and South District at the present time. Our review was by necessity conducted on a test basis and may not have addressed all internal control weaknesses. Consequently, it is important that the Commissioner revisit recommendations made in the reports issued since amalgamation to ensure that all have been implemented.

**Recommendation:**

1. The Commissioner, Economic Development, Culture and Tourism review all reports issued by the Auditor General's Office relating to cash controls and accounts receivable management and ensure that all recommendations are appropriately addressed.

**Relevance of Recommendations to Other City Operations Including Agencies Boards and Commissions**

The recommendations in this report as well as the May 2000 report especially those relating to outstanding receivables will invariably have relevance to other City Departments, including City Agencies, Boards and Commissions. In this context, it is important that these recommendations be reviewed by appropriate staff and implemented where appropriate at all City Departments and Agencies, Boards and Commissions.

**Recommendation:**

2. City Council direct that those recommendations relating to the management of accounts receivable be forwarded to City Commissioners and Senior Executives of City Agencies, Boards and Commissions in order to determine whether or not the recommendations contained in this report have applicability to their respective organizations. Where appropriate, such recommendations be implemented immediately.

In view of the issues identified in this report, the Auditor General has amended his 2004 Annual Work Plan to accommodate a review of the receivables process on a corporate wide basis. This review will be conducted towards the end of the year in order to provide City Commissioners and Senior Executive of City Agencies, Boards and Commissions an opportunity to implement the recommendations contained in this report where appropriate.

#### Management of Receivables in the CLASS Permitting and Registration System

Minimal action has been taken to collect old outstanding accounts receivable relating to registration and membership fees and permits. The total receivable balance, as of the end of March 2004 in the CLASS permitting and registration system in relation to registration, membership and permit fees is approximately \$4.486 million, of which approximately \$1.816 million has been outstanding for over 120 days. In addition, of the \$1.816 million, approximately \$719,000 has been outstanding for at least 12 months.

It is common knowledge that the longer a receivable remains outstanding the more difficult it is to collect. The Auditor General of Canada, in a report on best practices in relation to account receivable management indicated that the “odds of collecting debts after one year are not much better than 25 per cent”.

In regard to the receivables outstanding for in excess of 120 days, 41 accounts represent an amount of approximately \$660,000 (36 per cent), each over \$5,000. In terms of collection effort, these larger accounts should be addressed as an immediate priority. Where appropriate, and where the potential gains exceed the cost, consideration be given to the assignment of such receivables to collection agencies for further action. This matter be done on a consultative basis with the City’s Finance Department.

In addition, and in order to expedite the collection of outstanding receivable accounts, consideration be given to the charging of interest on old outstanding balances. This is a common practice in the private sector and should be considered in relevant circumstances. In particular, where negotiation and time concessions are required to settle receivable accounts, the charging of interest may be appropriate.

In view of the potential for the non-recovery of certain receivables, management should determine an appropriate accounting provision for doubtful accounts. The amount of the provision determined be communicated to the City Finance Department for appropriate action and the accounting records be adjusted accordingly. We have estimated that the provision for doubtful accounts should be in the range of \$1 million. This estimate was based on an analysis of the aged accounts receivable listing.

We have been advised by management that one of the reasons for the relatively large number of outstanding receivable balances may be due to the fact that the receivable has already been paid and the amount received was inadvertently credited directly to a revenue account in the City’s financial information system and not as an offset to the receivable account. If this is the case, then the balance in the receivable account is overstated and the corresponding revenue has been double counted.

While this may be a plausible explanation, we have not investigated this possibility and suggest that management review this matter as a priority. It is important that receivables be monitored on a regular basis in order to identify and correct accounting errors such as the one noted.

Specific policies and procedures do not exist in connection with the administration of the Division's receivables. There are no written policies in terms of the responsibility for the collection of receivables, extending and approving credit to clients, supervisory review by management staff, documentation required in regard to collection activity, the determination of doubtful accounts and subsequent receivable write-off policies, etc.

Performance targets have not been established in the management of receivables, nor is there any documented evidence of ongoing supervisory review of the receivable balances. In addition, it is not possible to measure performance on a district-by-district basis, as receivables are not segregated by District

#### Recommendations:

3. The Commissioner, Economic Development, Culture and Tourism review in detail the outstanding accounts receivable balances and ensure that:
  - (a) Efforts are directed to the collection of the outstanding accounts receivable balances. Such outstanding amounts be prioritized in terms of the extent of each receivable. Priority be given to the largest amounts and those most likely to be collected.
  - (b) Continuing services to those organizations and individuals that have outstanding receivable balances should be evaluated. Payment plans be developed and monitored. In specific circumstances where there is no agreement on payment plans, services to these organizations be discontinued.
  - (c) Where specific payments relating to outstanding receivables are identifiable and have been credited to the incorrect account, the accounting records be adjusted accordingly.
  - (d) When appropriate, and where potential gains exceed the cost, in consultation with the Chief Financial Officer and Treasurer, consideration be given to the assignment of receivables to collection agencies for collection.
  - (e) In consultation with the Chief Financial Officer and Treasurer, consideration be given to the charging of interest on accounts which have been outstanding for a pre-determined period of time.
  - (f) Management review the collectability of the receivables and determine an appropriate level of provision for uncollectable accounts. This information be communicated to the Chief Financial Officer and Treasurer and recorded in the accounting records of the City. Such a process to be conducted on an annual basis.

- (g) Where all collection efforts have been exhausted, such accounts be forwarded to Council, in accordance with policy, for formal write-off authority. This process be conducted in consultation with the Chief Financial Officer and Treasurer and take place on an annual basis.
  - (h) Specific performance measures be developed in order to measure the effectiveness of the receivable collection process. Management reports be amended to facilitate the disclosure of receivables by District and appropriate action be taken where collection efforts are not meeting performance expectations.
4. The Commissioner, Economic Development, Culture and Tourism, in consultation with the Chief Financial Officer and Treasurer, develop accounts receivable policies and procedures in order to provide guidance for the management of accounts receivable. Specifically the policy and procedure address collection efforts, routine ageing of accounts, standard time frames for sending accounts to collection agencies and the process for the determination of doubtful accounts and the write-off of uncollectable accounts.

#### Additional Audit Work Required

From an audit perspective, a concern relates to the fact that the outstanding receivables may have been collected and not credited to any City account. While we have no evidence that this has happened, it is always a concern when a large number of receivable balances remain outstanding for a significant period of time. In this context, and to satisfy ourselves that this has not occurred, we have selected a random number of accounts for independent direct verification in order to confirm whether they continue to be outstanding. This is a normal audit practice, the results of which will be reported formally to the Audit Committee in July 2004.

#### The Processing of Invoices for the Recovery of Services Provided

District Directors in the Parks and Recreation Division have a certain level of authority in terms of the waiving of facility fees and the discounting of invoices for recoverable services. We appreciate that in order to provide flexibility, Directors are provided with a certain amount of discretion. While it is important that this authority only be given within the context of approved policies, it is also important that decisions regarding the waiving of fees and the discounting of invoices above certain monetary levels be approved by senior management. Documentation relating to the reasons for the waiving of fees should be maintained. One individual should not have sole authority for certain transactions, particularly in circumstances where such decisions result in a decrease of revenue to the City.

In addition for management information purposes, all revenue, which has been waived, should be separately accounted for. Also, any discounts given relating to the provision of recoverable expenses should also be separately accounted for in the accounting records.

Recommendation:

5. The Commissioner, Economic Development, Culture and Tourism review its policies relating to the level of authority given to senior staff. Such review include a written and communicated policy relating to discounts and under no circumstances should arbitrary discounts be given which are not in compliance with policy. In particular, fees for recoverable costs, which are waived or discounted by staff in excess of a predetermined amount, should be reviewed and approved in writing by the General Manager of Parks and Recreation. The amounts of discounts and fees waived should be separately accounted for.

Implementation of the CLASS Permitting and Registration System to all City-operated Facilities

The Commissioner, Economic Development, Culture and Tourism responded to the May 2000 Auditor General's report in a report to Council in March 2001. The Commissioner's report outlined the status of cash controls in the Parks and Recreation Division and contained a stated commitment towards the implementation of guidelines for cash handling and internal controls, aggressive installation of the Point of Sale module within the CLASS permitting and registration system at appropriate locations, and the centralization of permitting services at the district level in order to reduce cash handling at remote facilities. In addition, there was also a commitment to improved training in connection with the use of the CLASS permitting and registration system.

We supported the initiatives outlined in the March 12, 2001 report from the Commissioner, Economic Development, Culture and Tourism, which if implemented, would lead to the enhancement of the internal control framework for revenue, receivable and cash handling processes within the Parks and Recreation Division.

While progress had been made in a number of areas, there is still work required to address those areas identified for implementation in our May 2000 report. On a centralized basis, the policies and procedures for the handling of cash are outdated and specifically, many of the recreation facilities in the North District for instance have not implemented the Point of Sale module within the CLASS permitting and registration system. The CLASS permitting and registration system was developed for the purpose of more efficiently and effectively managing facility revenue and receivables. In our discussions with senior staff we have been advised that the review of the implementation of the CLASS permitting and registration system is a significant priority in the Department's current reorganization deliberations, particularly in the context of minimizing the levels of cash handling at various facilities.

Recommendation:

6. The Commissioner, Economic Development, Culture and Tourism, during its review of the Department's organizational structure, prioritize those facilities requiring the implementation of the appropriate financial modules within the CLASS permitting and registration system. A specific timetable be established for implementation of such CLASS modules at those prioritized City facilities.

Mandate of the Compliance Unit Including the Responsibility for Updating Policies and Procedures

Our review in 2000 identified a need for an ongoing review of cash handling at all City operated facilities. In response to our recommendations in this regard a Compliance Unit was established within the Department. This Unit consists of one individual. Our view on this Unit was essentially that it should operate as a “quasi internal audit unit” with a mandate to conduct ongoing facility reviews most of which would be conducted on a surprise basis. While the Unit has conducted certain facility reviews management has essentially operated this Unit as an advisory resource providing advice and guidance when requested as well as a resource for special projects on an as required basis. The mandate of this Unit should be re-evaluated during the current organizational review being conducted by the Department and also in the context of the City’s new audit framework.

The responsibility for updating policies and procedures relating to cash controls has not been delegated to appropriate staff . Our review of cash controls in the East and West Districts in 2000 identified a number of internal control weaknesses, particularly in regards to the absence of clearly articulated and documented policies and procedures. Policies and procedures which existed at that time were incomplete and out of date. Consequently, the focus of our recommendations centred on the need for the Commissioner to immediately expedite the development of clear, consistent and complete policies and procedures. In addition, and in view of the issues we identified during this audit, we recommended that there was an immediate need to review cash controls at all facilities across the City in order to ensure revenues and receivables were appropriately controlled.

In response to our May 2000 audit report, an Internal Control Task Force was immediately established consisting of senior Parks and Recreation staff, along with an advisory representative from the then Audit Services Department. The task force compiled a set of cash control guidelines for implementation across all programs and facilities. These guidelines were incorporated into a “Cash Handling and Internal Controls Policies and Procedures” manual which essentially summarized all departmental policies specific to cash handling and internal controls at all Economic Development, Culture and Tourism facilities. Once the manual was developed, it was determined that the task force was no longer required and accordingly, it no longer exists.

While the Cash Handling and Internal Control Policies and Procedures manual was relevant at the time of its development there invariably have been changed circumstances since that time which require the regular updating and amendment of the manual. No one person has been assigned responsibility for this process nor is there any policy in place for the approval of such changes. In addition, while the manual was initially a comprehensive document it now requires amendments, updates and additions.

Examples of areas in which the Cash Handling and Internal Controls Policies and Procedures manual requires revisions include:

- the roles and responsibilities of the Compliance Unit are not documented;

- the extent of internal reviews required at each facility in any one year by the Compliance Unit;
- the Unit's and the facilities responsibilities in following up weaknesses identified;
- the reconciliation and balancing of cash receipts by each cashier upon the completion of each shift;
- the implementation of uniform facility permit agreements and forms at all sites;
- the processing of no-fee permit groups; and
- control over membership and passports, including the need for periodic independent inventory counts.

Ongoing reviews and updates to the manual should be conducted on a regular basis. The review and updating of the manual should be the responsibility of staff within the Compliance Unit and amendments be approved by supervisory staff.

Recommendations:

7. The Commissioner, Economic Development, Culture and Tourism during its current organizational review give consideration to the re-evaluation of the mandate of the Compliance Unit within the Administrative Support Services Division. Such a review to consider the revisions of the mandate to include an independent internal audit component reporting directly to the Commissioner of Economic Development, Culture and Tourism and also consider the recent revisions to the City's audit framework.
8. The Commissioner, Economic Development, Culture and Tourism give consideration to soliciting the advice and guidance of the City's Internal Audit Division to assist the Compliance Unit in terms of:
  - (a) establishing a risk-based methodology to identify recreation facilities for review;
  - (b) the extent and frequency of audit work required, including the development of audit programs;
  - (c) standard reporting requirements;
  - (d) the extent of follow-up work; and
  - (e) a timetable for future reviews.

9. The Commissioner, Economic Development, Culture and Tourism assign the overall responsibility for the review and ongoing updating of the Cash Handling and Internal Controls Policies and Procedures manual to the Compliance Unit within the Administrative Support Services Division. The Compliance Unit be required to immediately update the manual in order to reflect current circumstances and all such changes be communicated to appropriate staff. Any updates to the manual be approved in writing by senior management.

#### Supervisory Reviews

The Cash Handling and Internal Control Policies and Procedures manual requires Recreation and Facilities Supervisors to conduct periodic reviews. However, we noted that in the various recreation facilities we visited such reviews did not always occur. Recreation and Facilities Supervisors do not regularly review cashier functions, cash receipt reports or review and authorize journal entries. This is an important process, as in current circumstances, errors or other irregularities are likely to be undetected.

#### Recommendation:

10. The Commissioner, Economic Development, Culture and Tourism ensure that Recreation and Facilities Supervisors conduct ongoing supervisory reviews and analysis as required by the Cash Handling and Internal Controls Policies and Procedures manual. Such reviews include comprehensive assessments of cashier functions and reports. In particular, all journal entries be reviewed and approved. Evidence of such review be documented in writing. The Compliance Unit ensure that such reviews are conducted in accordance with policy.

#### Compliance and Follow-up Reviews of Various Recreation Facilities

One of the roles of the Compliance Unit within the Administration and Support Services Division is to monitor compliance with financial policies and procedures. In addition, this Unit has a responsibility to ensure that internal controls relating to the administration of cash, revenues and receivables are appropriate. Subsequent to the issue of our audit report in May 2000 on the East and West Districts, the Compliance Unit was established and site visits to 54 out of the 115 City facilities were conducted. The intent of these site visits was to educate and familiarize staff with cash control procedures and ensure that controls were in place and operating effectively.

Reports relating to these site visits for the most part were not prepared. Consequently, we have been unable to verify either the extent of compliance work conducted nor are we able to evaluate the issues identified. In addition, there continues to be 61 locations which have not been subject to any external review.

Subsequent to the initial visits to the 54 facilities in 2002, compliance reviews have been minimal. The work plan of the Compliance Unit for 2004 indicates that the intent is to visit 20 locations in 2004 for the purpose of conducting compliance reviews. There is no specific and

detailed work plan or a clearly defined risk analysis, which indicates which facilities, will be reviewed. In addition, based on the anticipated number of compliance reviews, it will take almost six years to complete compliance audits at all locations. This in our view is inappropriate and leaves the City vulnerable to revenue losses.

Recommendation:

11. The Commissioner, Economic Development, Culture and Tourism re-evaluate the 2004 business plan of the Compliance Unit to ensure that its review of recreation facilities is at a level commensurate with the risks inherent in relation to the level of cash handled.

Cash Handling and Internal Control Policies and Procedures

Compliance with policies and procedures is the responsibility of each staff member in the Department. All full-time and part-time staff are required to familiarize themselves with policies and procedures. However, our review indicated that staff of recreation facilities do not always comply with the Cash Handling and Internal Control Policy and Procedures.

Our review included an evaluation of policies and procedures relating to the areas of supervisory controls, cash transactions, recreation facility operations, fitness centre operations, swimming and aquafit passes, and receivable and revenue reconciliation and reporting processes. Examples of non-compliance included the following:

- Clients were not always provided with a receipt for payments received. This was particularly prevalent in instances where individuals paid for “pay-as-you-go” admission.
- Staff at certain facilities were not making bank deposits when receipts were in excess of \$500.
- Instances where non-resident fees were not always collected.

As we have indicated previously our review is conducted on a test basis and as a result may not identify all instances of non-compliance. Consequently, there may be further instances of non-compliance. The Compliance Unit within the Administration and Services Division is responsible for the monitoring of compliance with financial policies and procedures throughout the Department. Its mandate also includes the provision of assistance and advice in relation to the implementation of new or revised internal control systems.

Recommendation:

12. The Commissioner, Economic Development, Culture and Tourism take the necessary action to ensure that staff at all recreation facilities comply with policies and procedures.

### On-going Training in Cash Handling Policies and Procedures

Staff at the recreation facilities we visited indicated that most front desk staff had received initial cash handling training. However, our review of the staff listing identifying who had received specific training indicated that there were staff members who had not received the appropriate level of training commensurate with their responsibility. This particularly applies to part-time staff who act as front line designated operators outside regular daytime hours.

#### Recommendation:

13. The Commissioner, Economic Development, Culture and Tourism take appropriate steps to ensure that initial and on-going training of cash handling procedures is provided. Such training to ensure that all cash custodians are aware of the City's policies and procedures and act in accordance with such policies and procedures.

### Accounting and Administrative Controls Relating to Memberships and Passports

Memberships and passports are currently sold at recreation facilities across the City through a variety of methods. The South District processes and accounts for sales through the CLASS permitting and registration system while the North District sells, processes and accounts for passes on a manual basis.

Internal controls in relation to the sale of memberships and passports requires improvement, particularly in the North District. There is no control over the inventory of unused passes, the logging of serial numbers for passes is not checked for numerical continuity, and the reconciliations of passes sold to cash collected is not prepared. In these circumstances, there is no independent confirmation that the City has received all of the revenue to which it is entitled. We understand that this particular issue is currently being addressed by staff.

#### Recommendation:

14. The Commissioner, Economic Development, Culture and Tourism direct the Compliance Unit to evaluate the controls over the sale and accounting for memberships and passports. Such review to ensure that the inventory of memberships and passports are accounted for, the numerical sequence of all such passes is controlled, and reconciliations of cash collected with passports sold is performed on a daily basis. All reconciliations be reviewed and approved in writing by supervisory staff.

### Management Reporting for Individual Recreation Facilities

Many of the recreation facilities, both in the North and the South District, maintain their own individual accounting systems in order to account for their actual revenues. These systems are also used to compare their actual revenues to their budgets. These systems are required and maintained because of an absence of appropriate reports available from both the CLASS system and the City's SAP financial information system. In many cases, recreation supervisors are not aware and indeed, have not been advised of the reporting capabilities of both SAP and the

CLASS system. The maintenance of separate accounting information is an inefficient use of resources and in addition, usually requires a significant time commitment in terms of reconciling these records to the City's SAP financial information system.

Recommendation:

15. The Commissioner, Economic Development, Culture and Tourism, in consultation with the Chief Financial Officer and Treasurer, develop reporting facilities within the CLASS permitting and registration system and the SAP financial information system such that the need for the existence of shadow accounting systems are eliminated. The Commissioner, Economic Development, Culture and Tourism ensure that the full reporting potential of the CLASS system is realized.

Other Issues

Our review identified that one facility, Cummer Park Community Centre, had set aside an amount of \$15,630 into a separate account for the purchase of fitness equipment. While there is no specific written policy in regard to this issue all details of revenue collected and asset acquired should be a part of the City's budget process. We have been advised by management that this process was approved by the former North York City Council. However, we have not been able to locate this specific approval.

The Department's policy is that certain organizations are provided with access to facilities on a no charge basis due to their "not for profit status". In many cases there is no documentation available to support the not for profit status. The policy requires the review and retention of supporting documentation.

While the Department is current in its reconciliation of bank accounts there continues to exist a significant unreconcilable difference in its bank account. This unreconcilable difference in the amount of approximately \$1.4 million has been in existence since amalgamation and was transferred from the City's Finance Department when the Economic Development, Culture and Tourism Department assumed responsibility for the reconciliation of its own bank account. We have been advised that this amount is currently being reviewed by staff.

Shortages and overages resulting from daily cash operations across recreation facilities are not handled in a consistent manner. While shortages and overages are a normal part of operations in any cash-handling environment, procedures to monitor and manage this activity should be clearly and uniformly established. Consistent tracking of overages and shortages would establish a history of cash handling irregularities. Overages or shortages could identify areas where additional training or other corrective action should be taken.

Recommendations:

16. The Commissioner, Economic Development, Culture and Tourism review the collection of facilities setting aside revenues for specific purposes. The collection of revenue and the expenditure of funds should be a part of the annual budget process unless specifically approved by City Council.

17. The Commissioner, Economic Development, Culture and Tourism ensure that adequate supporting documentation is reviewed and retained in order to support the waiving of fees for “not for profit organizations”.
18. The Commissioner, Economic Development, Culture and Tourism, in consultation with the Chief Financial Officer and Treasurer, review the unreconciled difference in the Department’s bank account and, where appropriate, make the necessary adjusting entries to the accounting records.
19. The Commissioner, Economic Development, Culture and Tourism ensure that all cash overages and shortages are appropriately accounted for and reported at the facility level. The Financial Unit within the Administration and Support Services Division review and monitor such reports and take necessary and appropriate action.

#### Responsibility to Report Back to the Audit Committee

An essential part of any audit process is a requirement for management to respond to audit recommendations made. The response should include a time frame for implementation.

#### Recommendation:

20. The Commissioner, Economic Development, Culture and Tourism be required to report back to the July 13, 2004 Audit Committee on the implementation of the recommendations contained in this report. Such response to address each individual recommendation with a suggested timetable for implementation.

#### Conclusions:

In response to our review of the East and West Districts in May 2000, the Commissioner, Economic Development, Culture and Tourism took action in several areas to improve the internal control over the handling and accounting for cash and receivables within the Parks and Recreation Division. These improvements included issuing a zero-tolerance policy with respect to financial impropriety and the establishment of an Internal Controls Review Team to develop, document and implement appropriate financial procedures and controls.

The Internal Control Review Team did significant and effective work in developing a Cash Handling and Internal Controls Policies and Procedures manual. Subsequent to the preparation of this manual, a Compliance Unit was established in the Administrative Support Division. The mandate of this Unit was to provide guidance and advice in relation to internal controls and ensure that all recreation facilities were in compliance with the provisions of the manual. In fulfilling its mandate, we have been advised the Unit visited 54 facilities in 2002 and provided assistance in connection with the establishment of effective cash control procedures. However, there is no documentation indicating the extent of the reviews conducted or the advice and guidance given.

Since 2002, few compliance reviews have been conducted nor have reports been prepared of such reviews. There is a need to continue these reviews and an immediate business plan needs to be developed in terms of identifying those high-risk facilities for review. In order to ensure that there is a record of such reviews, as well as an audit trail in connection with these reviews, all such reviews should be documented and approved by supervisory staff. Where significant problems are noted, follow-up reviews should be conducted.

A further role of the Compliance Unit should involve the updating of the Cash Handling and Internal Control Policies and Procedures manual. This manual has not been updated since its development in 2002. Any updates should require the approval of senior management.

The management of the receivables in the CLASS system requires significant attention. A large percentage (41 per cent) of the total receivable balance at the end of March 2004 is over 120 days old. Based on our review, it appears as if little attention has been given to the collection of these amounts. In particular, organizations or individuals that have significant outstanding balances continue to receive services from the City. This practice requires further review.

In summary, there continues to exist internal control weaknesses throughout the various facilities operated by the Parks and Recreation Division. These must be addressed immediately in order to ensure that the City receives all of the revenue to which it is entitled. The implementation of the recommendations contained in this and previous reports is a responsibility of all management in the Division.

Contact:

Ben Smid, Senior Audit Manager  
Tel: 416-392-8478  
Fax: 416-392-3754  
[Bsmid@toronto.ca](mailto:Bsmid@toronto.ca)

Gary Powell, Audit Manager  
Tel: 416-392-8437  
Fax: 416-392-3754  
[Gpowell@toronto.ca](mailto:Gpowell@toronto.ca)

Jeffrey Griffiths  
Auditor General

dl/cg/lid  
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