
Subject: Cash Handling Procedures

Date: Monday, September 18, 2023

To: Audit Committee

From: Hari Vemuri, Internal Audit Manager

Recommendations

1. That staff **BE DIRECTED** to implement the recommendations included in Appendix 1 to Report AC-C 15-2023.

Key Facts

- The purpose of this report is to outline the findings and recommendations of an internal audit on Cash Handling Procedures at the Region.
- The audit found that the internal control environment within the Region to handle cash is effective and no major issues were discovered.
- One opportunity for improvement was identified as a part of the continuous monitoring initiative to perform periodic risk-based review of cash deposits to further strengthen the control environment. The recommendation does not have a risk implication and is advisory in nature

Financial Considerations

There are no direct financial effects arising from this report.

Analysis

Internal Audit conducted a comprehensive review of the cash handling process within the Niagara Region as part of the 2022-24 Audit Workplan. The objective of the audit was to evaluate the effectiveness of the policies, procedures and internal controls related to cash and cash handling. The audit covered the period from May to July 2023, and used a risk-based approach to select the areas to include in the scope.

The audit found that the cash handling processes and procedures within the Niagara Region were effective, and no significant or high-risk issues were identified. Several good practices and positive attributes were noted, such as adequate segregation of duties, daily cash reconciliation controls, reduced usage of cash transactions, and standardized forms and procedures.

The audit recommended implementing a best practice of periodic review of cash deposits, to be conducted by Internal Audit and supported by Finance.

Alternatives Reviewed

No other alternatives were reviewed at this time.

Relationship to Council Strategic Priorities

Internal Audit along with related audit functions such as Value-for-money (VFM) audits and compliance reviews were identified and approved within the current Council's Strategic Priority – Sustainable and Engaging Government. The goal of this strategic initiative is a commitment to high quality, efficient, fiscally sustainable and coordinated core services through enhanced communication, partnerships, and collaborations with the community.

Other Pertinent Reports

None.

Prepared by:

Hari Vemuri
Manager, Internal Audit

Recommended by:

Todd Harrison, CPA, CMA
Commissioner/Treasurer
Corporate Services

Submitted by:

Ron Tripp, P.Eng.
Chief Administrative Officer

This report was prepared in consultation with Erin Amirault, Assistant Director, Finance Operations & System and reviewed by Helen Furtado, Director, Financial Management and Planning.



Internal Audit

Cash Handling Procedures

Operating Unit: Regional Municipality of Niagara

Date of Audit: May – July 2023

Auditors: Hari Vemuri, Manager, Internal Audit

Distributed To: Niagara Region Audit Committee
Ron Tripp, Chief Administrative Officer
Todd Harrison, Commissioner, Corporate Services
Adrienne Jugley, Commissioner, Community Services
Azim Kasmani, Commissioner, Public Health
Henriette Koning, Director, Senior Services
Phill Lambert, Director, Infrastructure Planning and Development
Engineering
Helen Furtado, Director, Financial Management & Planning/Deputy
Treasurer
Emil Prpic, Associate Director, Waste Disposal
Erin Amirault, Associate Director, Finance Operations and Systems
Melissa Montague, Manager, Accounting Services
Kim Friesen, Manager, Vaccine Preventable Diseases Program
Miranda Vink, Manager, Court Services, Corporate Services

Date Issued: August 18, 2023

EXECUTIVE SUMMARY

Background and Scope

As part of the 2022-24 Audit Workplan, Internal Audit conducted a comprehensive review of the cash handling process within the Niagara Region. The audit followed the professional standards published by the Institute of Internal Auditors.

The objective of the audit was to evaluate the effectiveness of the policies, procedures and internal controls related to cash and cash handling. The audit focused on the overall operating controls of cash handling and cash deposits, from the point of receipt to the point of deposit.

The period covered by the audit was May to July 2023.

Scope and Testing Methodology

Cash handling transactions occur in multiple functional areas across Niagara Region. Therefore, a risk-based approach was applied to select the areas to include or exclude from the audit scope. This approach considered the frequency and amount of cash transactions in each business unit, as well as the potential impact of any control deficiencies. A summary of the regional areas included in scope is presented in Appendix I.

The methodology for this audit consisted of:

- Reviewing and testing a sample of cash handling and deposit transactions for accuracy, completeness, timeliness and compliance with policies and procedures
- Interviewing key personnel involved in cash handling at various locations across the Niagara Region to understand their roles, responsibilities, processes, and challenges
- Reviewing the policies, procedures and guidelines related to cash handling and depositing to assess their adequacy, clarity, and consistency

The following processes, procedures and items were in scope:

- Review of policies, procedures, and guidelines
- End of day/shift cash reconciliation processes
- Cradle-to-grave review of a sample of transactions to observe cash handling process up to the point of bank deposits (timeliness, accuracy of deposits)
- Review of segregation of duties

In addition, the following processes and/or operating units were not in scope:

- Physical security over stored debit and credit card information
- Payment transactions accepted by self-governing organizations with the Niagara Region including:
 - Niagara Regional Housing (NRH)
 - Niagara Regional Police Service (NRPS)
 - Niagara Transit Commission (NTC)

- Niagara Peninsula Conservation Authority (NPCA)
- Payment transactions accepted by third parties on behalf of the Niagara Region including
 - Specialized Transit
 - Garbage tags

Internal Audit Findings

Overall, Internal Audit found that the cash handling processes and procedures within the Niagara Region were effective. No significant or high-risk issues were identified during the audit. We noted the following good practices:

- There is adequate segregation of duties between individuals responsible for daily operations and record keeping
- We reviewed daily cash reconciliation processes for Long Term Care Homes, landfills and Social Assistance and Employment Opportunities and noted that daily cash reconciliation controls work effectively

In addition, Internal Audit noted several positive attributes from discussions with Management and review of supporting documentation:

- There has been a strong push to reduce the amount of cash transactions and switch to pre-authorized payment, electronic funds transfer or online payments on credit cards, thereby reducing the frequency of cash transactions and mitigating the associated risks.
- Since the previous audit in 2017, Infrastructure Planning and Development and Vaccine Preventable Diseases have reduced their usage of cash in their operations.
- Various departments have implemented IT systems to aid in daily cash reconciliations, record keeping and improve efficiency of operations.
- Departments with multiple operating locations use standardized forms which are uploaded into PeopleSoft Financials. Continuous monitoring by Finance also provides adequate oversight over cash deposits.

No findings were identified during the cash handling audit. However, Internal Audit recommends implementing a best practice of periodic review of cash deposits, to be conducted by Internal Audit and supported by Finance.

Internal Audit would like to express appreciation for the assistance and cooperation from all members of the departments included in the audit, including Community Services, Public Health, Public Works, and Planning and Development.

BEST PRACTICES/ADDITIONAL OBSERVATIONS

# 1	Periodic Risk-Based Reviews of Cash Deposits
Rating	Advisory
Recommended Best Practice	To ensure the accuracy and completeness of cash deposits, Internal Audit recommends implementing a periodic review process. This process could be conducted by Internal Audit and supported by the Finance department.
Impact	Low
Likelihood	Unlikely
Rationale	Periodic review of cash deposits will help to identify any discrepancies or errors in a timely manner, allowing for prompt resolution. This will also provide an additional layer of oversight and control, reducing the risk of fraud or misappropriation of funds.
Recommendation	Internal Audit will work with Finance to periodically monitor and perform spot checks of cash deposits. Criteria used will include <ul style="list-style-type: none"> • Volume • Frequency • Dollar value • Prior period comparisons • Missed deposit schedules • Changes to staff • Compliance History • Delays in receiving supporting documents
Management Action Plan (Optional)	Accounting Services is open to working with Internal Audit to develop a process for periodically spot-checking cash deposits.
Person Responsible:	Melissa Montague, Manager Accounting Services Hari Vemuri, Manager Internal Audit
Planned Completion Date:	Q4 2024

FOLLOW-UP REPORT

In 2017, prior to the COVID pandemic, Internal Audit (then referred to as Internal Control and Organizational Performance, or ICOP) conducted a review of Cash Handling Procedures. Since then, several changes have been made to the control environment to improve the accuracy and efficiency of cash handling processes. These changes include the implementation and Region-wide adoption of PeopleSoft Financials, as well as a shift towards pre-authorized debits and cashless modes of payments and receipts. The rating below reflects the effectiveness of the cash handling procedures and controls in place on or before 2017.

# 1	VPD – Enhance reconciliation process and foster accountability
Rating	Low
Observation	<p>The Vaccine Preventable Diseases division (VPD) uses one cash float for each week of clinics. At the end of each clinic day, the float and cash payments for the day are not reconciled to the system and no cash count is performed. The only cash count is completed Friday morning of each week by the Program Assistant when the deposit for the week is being prepared.</p> <p>Internal Audit has worked with Management to develop a cash reconciliation and tracking spreadsheet to be used daily.</p>
Implication	Without a daily cash count and reconciliation, there may be instances where if cash is short, the Program Assistant and Management would be unable to determine when the shortage occurred and who was responsible for the cash on the day of the shortage.
Recommendation	Management should implement a daily cash count and reconciliation tracking sheet to ensure that all cash is accounted daily. At the end of the month, the tracking sheet should be kept with the monthly paperwork.
Management Action Plan	Management met with the Program Assistants and the Immunization Record Clerks and explained the new cash handling process where cash will be counted and balanced each day. The cash handling tracking template provided by Internal Audit was discussed and will be implemented daily starting Monday January 8, 2018. It was also decided that a separate float would be used for outer office clinics to minimize the amount of cash traveling to clinic sites. The use of a second float for external clinics will start Thursday January 10th, 2018. The weekly tracking sheets will be added to the monthly inventory reconciliation package as of January 2018.
Implementation Notes	The recommendation is no longer applicable as the Vaccine Preventable Diseases Program does not use cash as a part of its operations in 2023.
Status	Complete

Appendix I – Summary of Scope

Included in Scope	Excluded from Scope
<p>Long term care (LTC) homes</p> <p>Landfills (for a sample of 3 locations)</p> <p>Repayments made to Social Assistance and Employment Opportunities (SAEO)</p> <p>Court Services Division*</p> <p>Payments made for non-routine vaccines and immunizations at VPD clinics**</p> <p>Planning and Development fees**</p>	<p>Self-Governing Organizations</p> <p>Niagara Regional Police Service (NRPS)</p> <p>Niagara Regional Housing (NRH)</p> <p>Niagara Peninsula Conservation Authority (NPCA)</p> <p>Niagara Transit Commission (NTC)</p> <p>Low Volume/Dollar Value Transactions</p> <p>Childcare centres</p> <p>Clerk’s office</p> <p>Financial Management and Planning front counter</p> <p>Public Health – food handler certification and safety certification courses</p> <p>Mental Health offices</p> <p>Sexual Health clinics</p>

*The audit findings for the Court Services Division were reported in a separate audit report. The audit report was presented to the Joint Board of Management Niagara Region Courts at their May 8, 2023, meeting. The report was subsequently presented to the Audit Committee on May 15, 2023.

** Planning and Development and VPD clinics have minimized the use of cash in their operations.

Exhibit - Rating Scale

Each observation is ranked based on its impact on the Region and the likelihood.

Exhibit A: Likelihood Rating

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

Exhibit B: Impact Rating

Rating	Definition
CRITICAL	Requires immediate action by Senior Management to avert a severe/disastrous risk event in the near-term. Internal controls are deemed ineffective, absent, or poorly designed. Management Actions Plans (MAP's) are to be implemented immediately to mitigate risk of substantial financial losses, business interruption, loss of reputation and/or environmental, public health & safety risk.
HIGH	Requires prompt action by Management to avert, reduce or transfer a major risk event. Internal controls are deemed ineffective, absent, or poorly designed. MAPs should be implemented to mitigate the risk of financial losses, loss of reputation, address fraud issues or legal/regulatory non-compliance.
MEDIUM	Requires timely actions by Management to reduce risks to a low level. Internal controls are deemed ineffective or poorly designed. Management action is required but is not immediate. Moderate financial losses, temporary/minor reputational impairment, lesser potential for fraud or regulatory non-compliance may occur without timely MAP's.
LOW	Management actions are recommended to address the weaknesses identified. Internal controls are operating effectively or partially address the control objective; however, they may be poorly designed and/or operational inefficiencies exist which may result in an opportunity for improvement. Low risk events may cause operational inconvenience or minor financial losses.
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice. Management may or may not implement the suggested action plans.

Exhibit C: Overall Rating

Note that the impact illustrated vertically, and the likelihood is illustrated horizontally

	Low	Medium	High	Critical
Likely	Medium	High	Critical	Critical
Moderate	Low	Medium	High	Critical
Unlikely	Advisory	Low	Medium	Medium