

REPORT ON:

Asset Management – Phase 1

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Executive Summary and Overall Conclusion

The Government of British Columbia (Province or Government) owns assets in excess of \$100 billion, including financial assets such as public monies, accounts receivable and inventories, as well as capital assets. Each ministry is responsible for effectively managing the assets under its custody or control through robust administration, accounting, and protection measures.

Internal Audit & Advisory Services (IAAS), Ministry of Finance, is conducting a multi-phase audit of asset management practices across government. Service BC Division (Service BC or Division), within the Ministry of Citizens' Services was selected for Phase I of this audit.

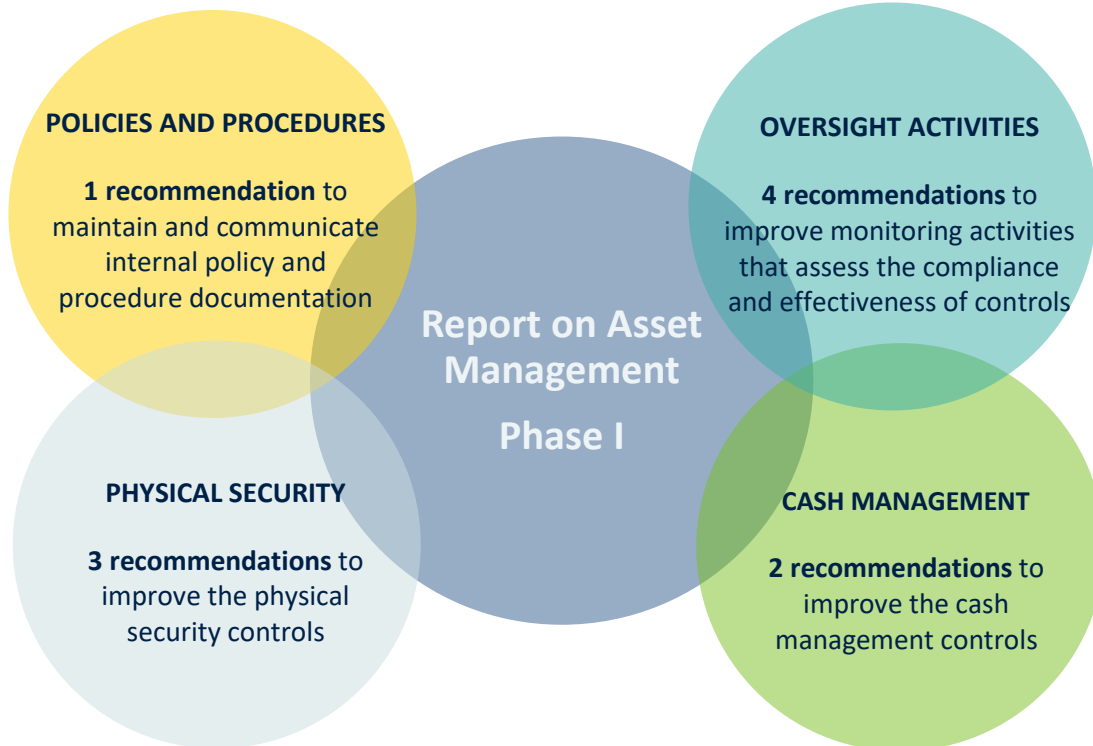
Service BC provides front line support for many programs and services such as paying property taxes, obtaining a marriage certificate, or collecting disability assistance. Services are provided via multiple channels, including online, over the phone, or in-person. There are 65 Service BC centres (or offices) throughout British Columbia where over one million transactions are conducted annually.

IAAS performed this audit to assess the policies, procedures, and internal controls of Service BC as they relate to cash management and physical security at regional offices. We selected five of Service BC's centres for our audit.

Overall, we found that Service BC has well established policies and procedures that align with Government's Core Policy and Procedures Manual, and other relevant standards. Our audit did not identify any significant deficiencies or areas of non-compliance.

In the offices we visited, most of the processes and controls for cash management and physical security were implemented and operating effectively. However, we did identify instances where current practices did not follow Government or Service BC's internal policy. Additionally, there were instances where we identified opportunities to strengthen existing controls to better align with good practice.

Key themes and recommendations of the Report on Asset Management – Phase I



While this review focused on a selection of Service BC centres, the applicability of observations and recommendations in this report should be considered by all Service BC centres. Where gaps in processes or controls are noted, centres should consider making improvements based on their offices' specific operational circumstances.

Future phases of this audit may focus on the cash management and physical security practices of other government organizations.

* * *

We would like to thank the management and staff of Service BC, who participated in and contributed to this audit, for their cooperation and assistance.

Alex Kortum, CPA, CA
Executive Director
Internal Audit & Advisory Services
Ministry of Finance

Introduction

Asset management is the process of creating, managing and sustaining assets in an effective and cost-efficient manner. For the Government of British Columbia (Province of Government), this requires each ministry to establish appropriate safeguards based on asset value and susceptibility to loss.

Many government offices handle cash as part of the services they provide to the public. Cash is an inherently high-risk asset due to its susceptibility to loss, including theft. Therefore, entities handling cash must have sufficient **internal controls** in place to mitigate these risks as part of their overall asset management practices. Internal controls for these offices may include specific cash management processes such as dividing work duties among different people to reduce the risk of error or inappropriate actions. There are also physical security controls expected in offices, related to appropriate facility design and management, to reduce exposure to accidental losses, malicious threats, and criminal acts.

Internal Controls are processes put into place by management to help an organization operate efficiently and effectively to achieve its objectives.

Government's Core Policy and Procedures Manual (CPPM) sets out broad policy principles for asset management and physical security which is supported by operational standards and guidelines. Each ministry and its staff are responsible to ensure these policies and standards are being followed.

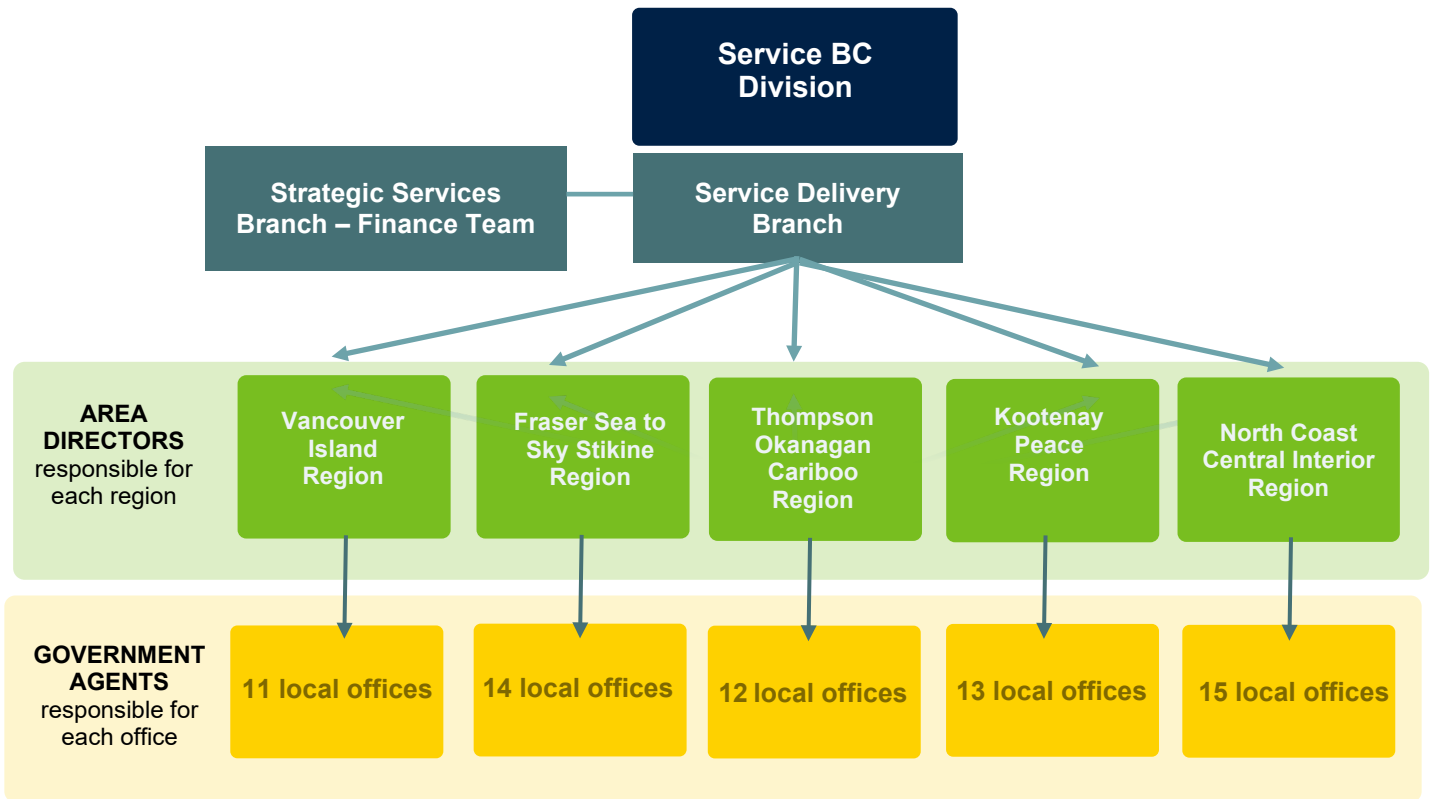
Service BC Division

Service BC Division (Service BC or Division), within the Ministry of Citizens' Services, is the Government's primary provider of services to people and businesses in British Columbia via multiple channels, including online, over the phone and in-person. While the Division is comprised of several branches, this audit focused on the activities of the Service Delivery Branch and the Strategic Services Branch's Finance Team.

The Service Delivery Branch is a team of over 400 employees, responsible for providing British Columbians access to over 300 government services on behalf of more than 40 ministries and agencies through a provincial network of 65 in-person Service BC centres (or offices). Centres collect payments on behalf of other government organizations for fees such as property taxes, marriage, hunting or driver's licenses, among many others.

As shown in Figure 1 below, each of the centres is managed by a Government Agent who is responsible for the operation of the office. Area Directors provide high-level oversight for all the offices in their region. In addition, the Division's central Finance Team provides overall governance and administrative support to the centres.

Figure 1: The Organizational Structure of Service BC Division



Source: IAAS, adapted from Service BC data

Purpose, Scope and Approach

Internal Audit & Advisory Services (IAAS) is conducting a multi-phase project to audit select asset management practices across Government. Service BC was selected for Phase I of this audit.

The purpose of our work was to determine whether Service BC has appropriate cash management and physical security controls in place to safeguard its assets. We evaluated the Division's compliance with relevant policies and standards and identified areas for improvement.

Our audit approach involved:

- reviewing government and entity-specific policies, standards and procedures;
- site visits for five of the 65 Service BC centres to interview staff and perform walkthroughs of processes and related internal controls; and
- testing a sample of internal controls.

This audit was conducted by IAAS, Ministry of Finance and fieldwork was completed in March 2022.

Service BC is required to develop and submit an action plan in response to the recommendations provided, including the timeframe for implementation. IAAS will conduct an annual follow-up process to assess Service BC's progress to address its action plan in response to the recommendations given.

1.0 Policy Administration

Government creates frameworks of policies and procedures to support the activities of ministries and organizations. Clear, principle-based policy supports government in carrying out its service objectives, contributes to effective management and assists staff in making sound decisions. Effective communication of policy sets clear expectations, creates consistency throughout the organization, and reduces organizational risk.

Service BC has established the Government Agents Revenue Policies and Procedures (GARPP) which outlines policies and procedures as they relate to revenue and cash management within Service BC Centres, in addition to aspects of office security. The GARPP is intended to reflect the underlying principles of the CPPM.

1.1 Service BC Policies and Procedures

We reviewed the GARPP to determine whether it aligns with the CPPM and assess how it is maintained and communicated to staff. Overall, we found that the content within the GARPP and the CPPM is generally consistent. However, we did identify opportunities for more effective policy management of the GARPP.

During our review of the GARPP, we noted that it outlines detailed guidance for staff to facilitate understanding and encourage adherence to policies and procedures. Service BC has also provided additional support for staff through embedding links in the GARPP for various templates, job aids, internal webpages and other relevant policies and procedures.

In some instances, we found that:

- templates were outdated;
- reference documents could not be accessed due to broken links; and
- templates did not align with the policy requirements stated within the GARPP.

These could lead to centres following inconsistent or incorrect policies and practices. To help prevent this, the GARPP, including any embedded links, should be reviewed annually for accuracy and consistency, and updated when appropriate.

Effectively notifying staff of policy changes is an important administrative practice—methods of communication may include email, intranet, and discussion. We found that Service BC typically notifies Government Agents of changes to the GARPP through verbal communication at meetings. While this is good practice as it allows for questions and open dialogue, it creates a risk that some staff may be unaware of changes and therefore may be following incorrect or outdated practices. Moreover, Government Agents we interviewed were unclear about recent GARPP updates. To enhance their communication practices, Service BC should supplement their verbal updates with written communication.

Furthermore, to support awareness of changes and reinforce their importance, Service BC should track and document policy updates within the GARPP. This could be accomplished through adding an amendments page to the GARPP that identifies policy changes and the date of revisions.

Recommendations:

(1) Service BC should:

- periodically review the GARPP to ensure it is up to date;
 - notify staff of policy updates through written communication; and
 - create a formal record and timeline of policy updates within the GARPP.
-

2.0 Cash Management

Safeguarding cash is important to reduce the risk of theft, loss and misappropriation of funds. Entities that process cash payments must have sufficient internal controls in place to reduce this risk.

Service BC centres handle cash daily. While the amount of cash processed in the centres has declined in recent years due to increased use of electronic payment methods, there is still a considerable amount of cash handled in the offices, particularly during the annual property tax season.

2.1 Cash Management Practices

We reviewed the cash management activities for five of Service BC's 65 offices¹ for 2021. Using the GARPP standards, we selected and evaluated several cash management controls.

Our sample testing focused on the effectiveness of controls in the following key areas:



Cash administration processes: Cash is properly handled, tracked, deposited, and recorded, with accountability for each step.



Segregation of duties: The physical custody of cash, the record keeping, and the authorization to acquire or dispose of cash is split among different people.



Dual custody of cash: Two individuals perform a task together, such as counting the daily collected cash amount, where applicable.



Cash security measures: Steps are taken to protect cash such as requiring a lockbox and transferring cash to a secure place at the end of day.

In small offices, it may not always be possible to ensure controls such as dual custody of cash and segregation of duties. The GARPP provides flexibility in these cases, permitting offices to vary procedures slightly for feasibility and operational effectiveness. In these cases, the GARPP requires compensating measures, such as a greater degree of presence by the Government Agent.

¹ While the Service BC internal policy establishes the operational controls for its centres, the application of policy can vary by location. As a result, our observations for the five sampled offices may not be representative and applicable to all Service BC centres.

Overall, we found that most of the processes and controls for cash management were implemented and operating effectively. In particular, Service BC's controls around the processing and refunding of cash as part of customer transactions and payments were found to be effective.

We did identify instances where current practices did not follow the GARPP. However, due to the overall strength of Service BC's control framework and other compensating measures, these instances were not deemed significant deficiencies.

Our audit also identified opportunities for Service BC to strengthen its cash management activities to better align with good practices.

Accountable Advances

Cashiers are provided a nominal amount of money (a "float") for processing transactions, collecting money from customers, and providing change.

Floats are classified more broadly as **accountable advances**. Per the GARPP, these funds must be periodically verified through unannounced counts to confirm there are no discrepancies. We noted instances in two offices where the surprise cash count was not completed as required.

Accountable advances

Accountable advances are funds issued temporarily, including petty cash and cashier floats, to facilitate operational requirements.

To maintain accountability for these funds, each float is assigned directly to a cashier who is responsible for maintaining the appropriate float balance for the duration of their employment. When staff leave the centre for either a short duration or permanently, the GARPP outlines steps for floats to be formally transferred to another employee. We found that float transfer procedures were generally completed as expected for these types of leaves.



GOOD PRACTICE

- In addition to short duration or permanent leaves, Service BC centres should complete float transfers for extended leaves, such as temporary assignments and long-term disability.
- In one office, we observed that float transfers were not completed for extended leaves. As a result, floats were not recorded in the correct staff members' names. Consistently following this practice for all types of leave will help maintain accurate records of floats and ensure accountability.

Periodically, staff need to make change for floats to ensure they contain varied denominations. To align with the practice of dual custody, a second person should review this process to reduce the risk of error or misappropriation. While we found that staff usually ensure there is a secondary review, we noted in three offices that head cashiers make change for floats on their own.

Cash Outs

Service BC centre staff must complete a daily cash out process to reconcile cash, debit, and credit transactions. This is a typical business process which properly accounts for all transactions and helps avoid discrepancies.

The GARPP requires that all cash outs are verified by a second person to ensure segregation of duties, and to reduce the risk of undetected mistakes or misappropriation. In most of the cash outs that we sampled, this control was effective. However, we observed instances in three offices where the head cashier's cash out did not receive a secondary review.



GOOD PRACTICE

- When staff conduct their cash outs, the process includes counting all the cash in their register. In one centre, we observed that cash outs are done at workstations, while the centre is open to the public. While staff made efforts to be discrete, cash outs should be done in an area not visible to the public, to minimize risk of theft.

Bank Deposits

Service BC centre staff must prepare daily bank deposits. The GARPP requires that all deposits are placed in a locked safe until taken to the bank to reduce the risk of theft or misappropriation. In most offices, we found that deposits were safely secured in lock boxes or safes within a vault room. Staff require access to this room during the day, so it is open during business hours and locked in the evening. We observed instances in one office where deposits were not appropriately secured within a lock box or safe in the vault room, creating unnecessary risk.

The GARPP requires that offices record serial numbers for a selection of bills (“bait bills”) for all floats and every deposit involving cash. This practice is important as it allows money to be traced in the event of theft. While we found that all the sampled cashier floats contained bait bills, we observed instances in two offices where bait bills were not used for all bank deposits.

Government Agents should conduct a monthly review of bank deposits to verify they were completed properly and ensure discrepancies are identified in a timely manner. We found that the monthly review was not completed consistently in three offices, as required by the GARPP.



GOOD PRACTICE

- For many Service BC centres, staff make bank deposits in-person. However, if bank deposits are placed in the financial institution's overnight box, it takes a few days for the bank to process and confirm the deposit. This creates a risk that discrepancies may not be promptly identified. To mitigate risk, high dollar value deposits should be made during regular business hours.
- After bank deposits are completed, they should be verified by a second individual to align with the segregation of duties principle. In two offices, we found that bank deposits were verified by the same individual who delivered the deposit. While not inconsistent with policy, this is an opportunity to enhance Service BC processes.

Each Service BC centre should review our observations and compare them to their current processes and controls. Where gaps are noted, centres should consider making improvements, based on their offices' specific operational circumstances. As described in Section 4, Service BC's Area Directors and Finance team also conduct annual compliance reviews. The results from this audit can help determine potential areas of focus for future compliance reviews.

Recommendations:

- (2) Service BC should ensure that centres' day-to-day cash management processes follow GARPP requirements to manage risks and maintain a high standard of financial control and operational efficiency.
 - (3) Service BC should require centres to review, and where applicable, implement the following good practices to enhance their cash management processes:
 - cash out activities should not be visible to the public;
 - high dollar value bank deposits should be made during regular bank hours (if done in-person); and
 - bank deposits should be reviewed by a second individual.
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3.0 Physical Security

Security is a continuous and integrated process that uses layered defences to help protect government assets. Physical security includes the external and internal environment of facilities, coupled with specific physical safeguards that detect and protect against unauthorized access.

Ministries are responsible for creating a comprehensive security program in accordance with the CPPM and other operational standards and guidelines. There is a collection of government security standards² available to guide ministries with the development of their programs. In addition, Service BC has developed specific physical security expectations for its centres in the GARPP.

3.1 Compliance with Physical Security Standards

Using the government and GARPP standards, we selected key physical security controls (or features) and evaluated whether centres met the stated expectations.

We tested whether Service BC centres had, for example:



building intrusion alarm systems



panic alarm systems for staff to signal for help without drawing attention



secure areas that are appropriately protected from unauthorized entry



processes for managing keys, alarm codes and safe combinations

Overall, the offices we visited met the minimum physical security requirements for the areas tested. For instance, all offices had installed panic and intrusion alarms and maintained a security log that records employee access to keys, and alarm codes.

We only noted one area where some offices did not align with a physical security requirement in the GARPP. Specifically, policy requires keys to entrance and exits, secure storage, and cashier drawers to be stamped "do not copy". This feature is designed to help prevent inappropriate copying of keys that could potentially lead to unauthorized access to buildings. While a relatively minor detail, centres should ensure this safeguard is in place. Alternatively, replacing keys with access cards is an additional step that Service BC should consider to better align with good practices.

² Physical and Environmental Security Standard; Physical Security Standards (Ministry of Citizens' Services); Security Standards and Guidelines (Ministry of Finance)

3.2 Enhancing Physical Security Processes

While we found Service BC generally compliant with the standards we tested, our review identified opportunities for the Division to enhance its physical security administration practices, as well as strengthen security features at some regional offices.

Physical Security Administration

Updating security contacts: We found that Service BC has not established a process for updating authorized contacts in the event of an alarm activation. The Division uses a third-party provider to support and respond to the activation of an intrusion or panic alarm. In two instances, we noted that the provider did not have an up to date listing of authorized contacts. As a result, we were advised that office staff were not able to nullify an accidental alarm trip. This also presents the risk that past employees may still be authorized to respond and potentially cancel valid security alarms.

Service BC should establish a policy on when contact information is required to be updated. For example, outgoing employees should be removed by their last day with the centre, while new employees should be added within a specified number of days after their start date. This policy and the process to update information should be included in the GARPP. Furthermore, Service BC should assess whether the third-party provider can support compliance with any specific timeline requirements it establishes in policy.

Training: When assessing the knowledge and training of Government Agents, we found that they are generally well-informed about physical security policies and their roles and responsibilities. However, the onboarding program does not include detailed training on the particular security features of the office under their responsibility, such as their centre's security system. This may result in security features not operating effectively or being adequately maintained. Government Agents should receive training on any security features relevant to their office and role during their onboarding program.

Enhancing Physical Security

While the Service BC centres we visited met government's broad physical security requirements, there are opportunities for enhancement.

Service BC centres have different risk profiles based on their unique location, layout and security features. For example, some centres are remotely located within older standalone buildings that use standard keys and locks, while other centres are in larger cities within modern buildings that use access passes and have building security staff.

The Division manages individual centres' security concerns on an ongoing basis through service requests and according to budget availability. Service BC is currently planning improvements to 16 locations over the next two years.

In the offices we visited, we identified features that could be added or improved during facility improvements to reduce the physical security risk, including:

- replacing the low-height "pony" gates that separate staff and customer spaces with secured access doors;
- ensuring that client and employee zones are separated when centres provide exam oversight services for the public; and
- pursuing options for video surveillance at higher risk locations.

Potential facility improvements should be assessed collectively across all offices as part of Service BC's process, with upgrades made based on budget availability and the specific risks and priorities for each centre and the Service BC organization.

Recommendations:

- (4) Service BC should include policies and procedures in the GARPP for maintaining and updating authorized contacts in the event of alarm activations.
 - (5) Service BC should ensure that Government Agents receive training on core security features as part of onboarding.
 - (6) Service BC should collectively review its service centres' security features for gaps and address areas of improvement based on risk and available budget.
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4.0 Oversight Activities

Monitoring operations across the Service BC centres helps to ensure staff understand and adhere to current policies and procedures. Providing regular and consistent oversight also allows the Division to assess whether controls are being effectively implemented.

4.1 Annual monitoring and review process

We audited Service BC's internal review activities to evaluate their monitoring controls as they relate to cash management and physical security. We found that Service BC has established a multi-level monitoring and review approach where oversight is provided by the office Government Agents, the regional Area Directors and the Division's central Finance Team.

Government Agents are required to complete periodic reviews of their operations and controls in their offices. This results in daily, monthly, quarterly, semi-annual and annual review activities.

Area Directors complete an annual financial control compliance review of each centre within their designated region. This activity includes an office visit to review the financial and security controls, discuss operations and corporate initiatives, and spot check compliance with GARPP.

To provide an additional independent review, the Finance Team completes its own compliance reviews for six offices per year. Due to the size of the Service BC Finance Team and the number of offices, it takes an average of 10 years for Service BC Finance to review each centre. To help improve the timeliness of secondary reviews, there is an opportunity for Service BC to have Area Directors complete financial control compliance reviews for a select number of centres outside their region. Alternatively, Area Directors could conduct quality assurance checks on a selection of compliance reviews for other offices to ensure completeness and accuracy. These reciprocal reviews can also allow for increased idea-sharing between offices and regions around good operational practices.

We also found that some of the annual compliance reviews were not completed in recent years, partly due to disruptions related to the COVID-19 pandemic. We were informed that these reviews have resumed and were underway during this audit.



Annual financial control compliance review

is a good practice that Service BC implemented resulting from a 2006 IAAS audit recommendation.

Review Checklist

The annual compliance reviews are completed using a checklist template with the intention of promoting uniformity in the annual review process. However, in some cases the template procedures are not sufficiently detailed to adequately guide the reviewer. For example, when confirming whether controls are in place, there are not clear instructions whether the reviewer should collect documentary evidence or whether visual or verbal confirmation is adequate. This can lead to inconsistency in office reviews or instances where the reviewer may not have gathered enough information to confirm compliance.

To strengthen the quality of the review process, Service BC should specify the procedures required to verify compliance with each item in the checklist. This may include inquiry, observation, and inspection through sample testing.

Voided Transactions

As part of their monthly process, Government Agents review voided transactions in their office to identify errors, anomalies, and indication of fraud. However, Service BC does not conduct broader analysis across all its offices. As a result, the Division may not identify broader issues or opportunities for improvement such as the need for training, or operational inefficiencies.

Service BC can improve its current process by having its Finance Team conduct analysis over voided transactions as part of its annual process. Examples can include void analysis by reason, employee, office or the type of service and transaction. Any trends can be followed up on at a staff, centre, regional or organizational level, as appropriate.

Accountable Advances

As noted in Section 2.1, it is important for accountable advances to be accurately recorded in the correct staff members' names. If accurate records are not maintained, this could limit accountability and the ability to recover missing funds.

In addition, we found that centres do not currently review float custody as part of their annual or semi-annual processes. To help support accurate record keeping and appropriate custody of funds, Service BC centres should periodically review their accountable advances to ensure they are accurate and resolve any discrepancies, as necessary.

Recommendations:

- (7) Service BC should adopt a reciprocal review process between Area Directors as part of the annual compliance review process.
 - (8) Service BC should ensure that the annual compliance review checklists require specific, risk-based procedures to verify compliance.
 - (9) Service BC Finance Team should conduct periodic analyses of voided transactions to identify trends or anomalies and provide recommendations for Area Directors to follow up.
 - (10) Service BC should require centres to periodically review their accountable advances for accuracy.
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Appendix A - Summary of Recommendations

1	<p>Service BC should:</p> <ul style="list-style-type: none"> periodically review the GARPP to ensure it is up to date; notify staff of policy updates through written communication; and create a formal record and timeline of policy updates within the GARPP.
2	<p>Service BC should ensure that centres' day-to-day cash management processes follow the GARPP requirements to manage risks and maintain a high standard of financial control and operational efficiency.</p>
3	<p>Service BC should require centres to review, and where applicable, implement the following good practices to enhance their cash management processes:</p> <ul style="list-style-type: none"> cash out activities should not be visible to the public; high dollar value bank deposits should be made during regular bank hours (if done in person); and bank deposits should be reviewed by a second individual.
4	<p>Service BC should include policies and procedures in the GARPP for maintaining and updating authorized contacts in the event of alarm activations.</p>
5	<p>Service BC should ensure that Government Agents receive training on core security features as part of onboarding.</p>
6	<p>Service BC should collectively review its service centres' security features for gaps and address areas of improvement based on risk and available budget.</p>
7	<p>Service BC should adopt a reciprocal review process between Area Directors as part of the annual compliance review process.</p>
8	<p>Service BC should ensure that the annual compliance review checklists include specific, risk-based procedures to verify compliance.</p>
9	<p>Service BC Finance Team should conduct periodic analyses of voided transactions to identify trends or anomalies and provide recommendations for Area Directors to follow-up.</p>
10	<p>Service BC should require centres to periodically review their accountable advances for accuracy.</p>

Appendix B - Abbreviations

Centre or Division

CPPM

GARPP

IAAS

Province or Government

Service BC Office

Core Policy and Procedures Manual

Government Agent Revenue Policies and Procedures

Internal Audit & Advisory Services

Government of British Columbia