Winnipeg
Audit Department
Service de vérification

Councillors' Representation Allowance Fund
Report to Governance Committee of Council

May 2015

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MANDATE OF THE CITY AUDITOR

- The City Auditor is a statutory officer appointed by City Council under *The City of Winnipeg Charter*, and is independent of the Public Service. As directed in the *Councillors' Representation Allowance (CRA) Fund Policy*, the City Auditor provides an annual audit of CRA fund expenditures to Council through the Governance Committee of Council.

OVERVIEW OF THE COUNCILLORS' REPRESENTATION ALLOWANCE FUND

- The CRA fund provides monies for City Councillors to pay for furnishings, office equipment, materials and administrative services required to operate their offices. The fund is also used for business expenses incurred by Councillors to perform their duties, communicate with their constituents, and represent their wards.
- The adopted budget for the fund in 2014 was $1,183,860 ($78,924 per ward).
- The *Councillors' Representation Allowance (CRA) Fund Policy* ("the Policy") provides direction on the guiding principles for the fund, administrative standards for spending, and detailed roles and responsibilities for fund stakeholders.

ROLES AND RESPONSIBILITIES

- The Policy establishes key controls over administration of the fund expenditures. The Policy also prescribes the roles and responsibilities of Councillors, the City Clerk's Department, the Corporate Finance Department, the Governance Committee of Council, and the Audit Department, in relation to the fund.
- All organizational stakeholders are responsible for following all accounting, audit and income tax principles and rules relating to the Policy.
- Councillors are authorized to spend funds allocated to their wards, and are responsible for ensuring that the funds spent comply with the provisions of the Policy.
- The City Clerk's Department is responsible for reviewing and processing CRA expenditures on an ongoing basis in accordance with the Policy; it is also responsible for providing advice to Councillors on handling difficult and unusual transactions. In the event that the City Clerk's Department requires policy interpretation, or guidance on the appropriateness of an expenditure, the matter is referred to the Governance Committee of Council.

ROLES AND RESPONSIBILITIES (CONTINUED)

- The Corporate Finance Department is responsible for processing payment for CRA expenditures at the direction of the City Clerk's Department, and for the monthly posting of CRA expenditures for each ward on the City's website.
- The Governance Committee of Council makes decisions on the appropriateness of expenditures brought to their attention for review. The Committee also reviews and recommends policy amendments to Council.
- The Audit Department is responsible for conducting an annual audit that provides an opinion on whether the fund expenditures comply, in all significant respects, with the provisions of the Policy. In accordance with generally accepted government audit standards for audit reports, the Audit Department is also responsible for assessing the control systems relating to the Policy, and providing recommendations on control mechanisms that can be improved.

SUMMARY

- Our opinions on the 2014 Councillors' Representation Allowance reports have been provided in the accompanying audit report submitted to the Governance Committee of Council. The purpose of this additional report is to communicate our observations on areas of the Policy, and the controls relating to the Policy, that we believe should be amended.
- The conclusions in our report are based upon information made available to us at the time of our work. In the event that significant information is brought to our attention after the completion of our audit, we reserve the right to amend the conclusions reached.

Observations and Recommendations

1.1 Conflicting Provisions on Expense Timing

- Many of the accounting principles prescribed in the *Councillors' Representation Allowance (CRA) Fund Policy* are consistent with generally accepted accounting principles. The Policy contains statements that expenses must be charged to the year in which they occur, and cannot be carried forward to other years; and that in order for an expense to be recorded in a year, the good or service must have been received from the vendor before December 31 of that year. These provisions are consistent with the generally accepted principle that expenses should be recorded when goods and services are received, regardless of when payment for the expense is made.
- There are, however, two specific statements in the Policy that are not consistent with generally accepted accounting principles:
    - The first statement is in the Accounting Procedures section, stating that payments for items that have not been properly set up as liabilities at year end will be charged against the following year's budget.
    - The second statement is in the Year End section, stating that receipts submitted for processing after January 15 of the following year will be charged against the following year's budget.
- Both of these provisions allow for expenses to be carried forward to future years, which conflicts with the provisions in the Policy that disallow expenses to be carried forward, and also conflicts with generally accepted accounting principles.
- The administrative cutoff date effectively reduces accountability to not exceed budgeted funds in a given year because the provision allows for expenses to be carried forward to future years when receipts are not submitted for processing on time.
- We have noted limited instances of expenses being carried forward due to this inconsistency of language within the Policy. The level of expenses carried forward for this audit year was insufficient to qualify any individual audit opinion; however, if the level of expenses carried forward were to increase, it may impede our ability to conclude on whether Councillors have breached the Policy due to the conflicting wording within the Policy.

RECOMMENDATION 1

We recommend that the Governance Committee of Council recommend policy amendments to Council that remove provisions that allow expenditures to be carried forward to future years.

1.2 Official Receipts for Tax Purposes for Charitable Donations

- The *Councillors' Representation Allowance (CRA) Fund Policy* contains several controls for charitable donations made from the fund. These controls include that payments to registered charities that can issue Official Receipts for Tax Purposes should be made via City of Winnipeg cheques, rather than by personal cheques; that any Official Receipts for Tax Purposes be made out to the City of Winnipeg; and that all Official Receipts for Tax Purposes be forwarded to the City Clerk's Department.
- We observed that two-thirds of the Official Receipts for Tax Purposes provided to us by the City Clerk's Department were not solely made out to the City of Winnipeg on the receipts.
- The City of Winnipeg is a not-for-profit organization that is not required to pay corporate taxes and is not able to utilize Official Receipts for Tax Purposes. Further, registered charities are not legally obliged to issue Official Receipts for Tax Purposes for donations made to them. A practice that can increase adherence to the Policy would be to design and issue standardized letters accompanying donations to registered charities requesting them not to issue Official Receipts for Tax Purposes for the donations. This would streamline administration of the Policy, and would allow for more consistent adherence to the Policy.

RECOMMENDATION 2

We recommend that the City Clerk's Department enact processes to ensure that organizations that can issue Official Receipt for Tax Purposes are specifically instructed not to issue such receipts for donations made through the Councillors' Representation Allowance Fund.

- To test the requirement that the City Clerk's office collect supporting documentation for donation receipts, we requested confirmations for a representative sample of donations made to registered charities. Of our sample, 39% of the organizations provided confirmation that donation receipts had not been issued for the donations, 18% of the organizations confirmed that a donation receipt had been issued for the donations (but the receipts were not on file with the City Clerk's office at the time our audit fieldwork), and 43% of the organizations did not reply to the request by the time our audit was complete (leaving us unable to confirm whether a donation receipt had or had not been issued for these donations). Our observations on this sample do not lead us to believe that the audit opinion should be qualified for any one Councillor's Representation Allowance Report; but rather, we came to the conclusion that there is a gap in the control systems for donation receipts that recommendations 2 and 3 of this report should remedy.

RECOMMENDATION 3

We recommend that the City Clerk's Department follow up with Councillors for expenditures to registered charities to ensure that any Official Receipts for Tax Purposes that have been issued are collected and stored in the City Clerk's records.

1.3 Use of the City's Purchasing Card Program

- The City of Winnipeg uses three major processes for payment of expenditures: direct vouchers, purchase orders, and purchasing cards. The most cost-effective process is through the use of the City's Purchasing Card Program. The purpose of the City's Purchasing Card Program is to establish an alternative method of payment for small dollar transactions where a contract in the form of a purchase order is not necessary. Purchasing cards provide significant flexibility in terms of facilitating various categories of purchases and are also a highly visible and transparent method of payment. We noted $40,208 of reimbursements to Councillors during the year in total. Using City purchasing cards could decrease this amount and reduce administrative costs.

RECOMMENDATION 4

We recommend to the Governance Committee of Council that a policy amendment be recommended to Council to require that only the City's purchasing cards be allowed for all purchases made by credit card.

1.4 Deadline for Annual Audit Report

- The Audit Department section on page 3 of the Policy states that the Audit Department will provide an annual audit to Council for its June meeting. In contrast, the Annual Report section on page 6 of the Policy states that the City Auditor will provide an annual audit to Council for its July meeting.

RECOMMENDATION 5

We request through the Governance Committee of Council that the deadline for the annual CRA audit report be clarified in the Councillors' Ward Allowance (CWA) Fund Policy *(the Policy as of January 1, 2015).*

INDEPENDENCE

The team members selected for this engagement did not have any conflicts of interest related to the audit's subject matter.

ACKNOWLEDGEMENT

The Audit Department wants to extend its appreciation to the management and staff from the City Clerk's Department and the Councillors' Office who assisted us with the audit.

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May 21, 2015
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