Winnipeg
Audit Department
Service de vérification

Councillors' Ward Allowance Fund Policy Report to Governance Committee of Council

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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' Ward Allowance (CWA) Fund Policy*, the City Auditor provides an annual audit of CWA fund and chairperson expenditures to Council through the Governance Committee of Council.

OVERVIEW OF THE COUNCILLORS' WARD ALLOWANCE FUND POLICY

- The Councillors' Ward Allowance 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.
- Chairmanship funds are received by elected officials in recognition of extra duties and expenses incurred by virtue of acting as a chairperson of a committee, or other additional Council roles. Chairperson expenditures are required to follow the provisions of the *Councillors' Ward Allowance (CWA) Fund Policy* as of January 1, 2015.
- The adopted budgets for the Councillors' Ward Allowance Fund in 2015 were $1,198,860 ($79,924 per ward) and $77,000 (either $5,000 or $7,000) for other Council roles.
- The *Councillors' Ward Allowance (CWA) Fund Policy* ("the Policy") provides direction on the guiding principles for the funds, 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 funds.
- The provisions of the Policy also apply to additional funds provided to chairpersons of committees of Council and for other Council roles.
- 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 CWA 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.
- The Corporate Finance Department is responsible for processing payment for CWA expenditures at the direction of the City Clerk's Department, and for the monthly posting of CWA expenditures for each ward and chairperson account on the City's website.
- The Governance Committee of Council makes decisions on the appropriateness of expenditures. 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 2015 Councillors' Ward Allowance Fund and chairperson expenditure 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

- The City of Winnipeg adheres to the generally accepted accounting principles issued by the Public Standards Accounting Board of Canada.
- Many of the accounting principles prescribed in the *Councillors' Ward Allowance (CWA) 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 accounting 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 latter provisions allow for expenses to be carried forward to future years, which conflicts with the former 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 a policy amendment to Council to remove the provisions that allow expenses to be charged against the following year allowance when invoices are not provided to the City Clerk by January 15, and when accounts payable have not been properly set up for expenses at year end.

1.2 Official Receipts for Tax Purposes for Charitable Donations

- The *Councillors' Ward Allowance (CWA) Fund Policy* contains several provisions relating to charitable donations made from the fund. These provision 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.
- The Policy states that making sure that expenditures conform with the CWA Policy is the responsibility of the City Clerk's Department; we interpret as meaning that the design of any related processes or controls to ensure conformance is also the responsibility of the City Clerk's Department.
- To ensure that Official Receipts for Tax Purposes have been forwarded to the City Clerk's Department, a log for transactions that could generate such receipts has been created. City Clerk's staff will record transactions that may generate receipts on the log, and will review Canada Revenue Agency's website to determine whether the organizations are able to issue Official Receipts. City Clerk's staff provided us with the log and a folder of Official Receipts for Tax Purposes that had been submitted by Councillors over the year. We reviewed the 2015 log, the folder, and the financial records kept in the City's PeopleSoft system, and noted the following issues:

Issue	Transactions	Total ($)
Payment to not-for-profit was observed in PeopleSoft but not recorded in log	141	25,311.59
Payment was noted as "not to a registered charity" in log that actually was	50	10,857.44
Payment was recorded in log without noting a receipt had been received but receipt was included in receipts folder	10	4,055.00
Receipt was in receipts folder but payment was not recorded in log	5	2,423.00
Receipt was in receipts folder but payment was not recorded in log or PeopleSoft	14	7,482.84

- The issues noted above may be resolved through additional training on what types of payments can qualify for receipting from registered charities, how to determine if a not-for-profit organization is a registered charity, and by reconciling the receipts submitted by Councillors to the receipt log at year end.

RECOMMENDATION 2

We recommend that the City Clerk's Department provide additional training to staff on payments that qualify for charitable receipting, and also reconcile receipts to the log at year end.

1.3 Other Operating Supplies

- A prescribed amount is charged against each chairperson and other Council roles budget every year to cover the costs of general supplies for the Council building (such as coffee and water). These prescribed charges totaled $8,650 in 2015.
- The Policy requires that proper documentation, including receipts showing detailed tax breakdowns for all expense claims, must be kept for expenses incurred. These prescribed charges, however, are made through journal entries to committee accounts to provide a general fund for supplies when they are needed. No reconciliation of the general supplies fund was provided to us and we could not, therefore, reconcile the journal entries made to the actual operating supply expenses that originated in other fund accounts. This is not in compliance with the requirement to keep proper receipts for expenses charged to account under the CWA Policy.
- Further, the Policy states that the City Clerk's Department will assist the Corporate Finance Department to disclose expenditures under the Policy on the City's website on a monthly basis. We noted, however, that these operating supply expenses were not disclosed online. Non-disclosure of the expenditures does not comply with the Policy.
- The impact for this matter was not enough to include reservations on any one of our individual audit reports. It was, however, enough in aggregate for us to bring the matter to the attention of the Governance Committee of Council.

RECOMMENDATION 3

We recommend that the City Clerk's Department ensure that invoices for all expenditures made through accounts that are under the CWA Policy be reconciled and made available for those accounts, and ensure that the expenses are also provided to the Corporate Finance Department for posting in the monthly online reports.

1.4 Online Disclosure of Monthly Expenditures

- On June 25, 2014, a motion was adopted by Council to update online disclosure of expenditures. It read:

> *Council concurred in the recommendation of the Governance Committee of Council, as amended, that the following changes be enacted to the Councillors' Representation Allowance Policy… that the City Clerk's Department work with the Corporate Finance Department to ensure as much clarity as possible in the online posting of transactions including identifying the original vendor…*

- This wording of the Policy, however, was not updated to include the requirement to identify the original vendor for expenditures.
- Of the thirty-one reimbursements to Councillors that we tested, only one of the payments identified the original vendor for the expenditure in the online expenditure reports. The remaining thirty reimbursements were not in compliance with the requirement to identify the original vendor online.
- Updating the Policy language will help to more clearly outline the responsibilities of the departments relating to the online disclosure of CWA expenditures.

RECOMMENDATION 4

We recommend that the City Clerk's Department work with the Corporate Finance Department to create a process to ensure that original vendors are disclosed when reimbursements to Councillors are posted in the online expenditure reports under the Councillors' Ward Allowance (CWA) Fund Policy*.*

RECOMMENDATION 5

We recommend that the Governance Committee of Council recommend a policy amendment to Council to include original vendors in the online disclosures for reimbursements to Councillors.

1.5 Use of the City's Purchasing Card Program

- There was a significant number of purchasing card transactions in the financial records that noted the expenses had been reimbursed to the City by Councillors. The City Clerk's Department informed us that these transactions were personal purchases made by Councillors that were paid back to the City because the purchases would not qualify as CWA expenses. The wording in the Policy and the related appendices leaves room for interpretation as to whether these types of purchases should be reported as violations of the Policy in our audit report.
- The CWA Policy states that non-compliant expenditures shall be paid back to the City within thirty days of Councillors being notified of non-compliance. The City Clerk's Department has interpreted that this as meaning that non-compliant expenditures may be made by Councillors as long as those funds are paid back within 30 days of notification. Other sections of the Policy, however, present a different intent for how purchasing cards should be used and the treatment of personal expenditures.
- The CWA Policy states that Councillors "must comply *fully* with the terms of the [purchasing card] agreement and the purchasing card program procedures [document]," and that "the Deputy Clerk must suspend purchasing card privileges if a Councillor fails to comply with *any portion* of the purchasing card or CWA Policy" (emphasis ours). These statements show that all of the rules and principles of the purchasing card procedures document are to be followed when the cards are used. The purchasing card program procedures document states that cardholders are responsible for "ensuring that the card is not used to make personal purchases", and that "intentional misuse includes… purchasing items not considered business in nature". Further, the purchasing card agreement attached to the procedures document states that cards may be cancelled when the cardholders use them for purchases that are not for the business purposes of the City. (This outcome is similar to the required suspension of card use in the CWA Policy in the case of non-compliance with the Policy.) This language in the purchasing card procedures and agreement strongly suggests that personal purchases on purchasing cards are inappropriate and should not be made. While considering the strength of this language, we also see that there was room for interpretation of the treatment of personal purchases based on the general non-compliant expenditure language in the CWA Policy.

- Given the potential alternative interpretations for personal purchases made on purchasing cards, clarification is required for us to form future opinions on compliance with the Policy.

RECOMMENDATION 6

We recommend that the Governance Committee of Council recommend a policy amendment to Council to disallow personal purchases to be made on City purchasing cards.

- 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 $35,522 of reimbursements to Councillors during the year in total. Using City purchasing cards could decrease this amount and reduce administrative costs.

RECOMMENDATION 7

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

INDEPENDENCE

The team members selected for this engagement did not have any conflicts of 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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Date