Winnipeg
Audit Department
Service de vérification

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

June 2017

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Table of Contents

MANDATE OF THE CITY AUDITOR 1

OVERVIEW OF THE COUNCILLORS' WARD ALLOWANCE FUND POLICY REQUIREMENTS 1

ROLES AND RESPONSIBILITIES 2

SUMMARY 3

OBSERVATIONS AND RECOMMENDATIONS 4

INDEPENDENCE 8

ACKNOWLEDGEMENT 8

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*.
- The adopted budgets for the Councillors' Ward Allowance Fund in 2016 were $1,213,860 ($80,924 per ward) and $79,000 (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, guidance 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 accounting and financial support to Councillors, including on the handling of 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 City Clerk's Department can also bring forward policy amendments 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 brought to their attention. The Committee also reviews policy amendments brought forward by the City Clerk's Department, 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 2016 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 Improvements from the Previous Year

- The *Councillors' Ward Allowance Fund Policy Report to Governance Committee of Council, May 2016* included several recommendations on control mechanisms that could be improved.
- We noted the following recommendations were implemented through conversations with the City Clerk's Department, audit work performed, and enhancements to the Policy adopted by Council in October 2016:

Official Receipts for Tax Purposes for Charitable Donations

- The City Clerk's Department provided additional training to staff on payments that qualify for charitable receipting.

Other Operating Supplies

- The City Clerk's Department ensured that invoices for expenditures made through accounts under the CWA Policy were made available and provided to the Corporate Finance Department for posting in the monthly online reports.

Online Disclosure of Monthly Expenditures

- The City Clerk's Department worked with the Corporate Finance Department to create a process to ensure that original vendors were disclosed when reimbursements to Councillors were posted in the online expenditure reports under the Policy.
- Council amended the Policy to include the recommendation made by the Governance Committee of Council to include original vendors in the online disclosures for reimbursements to Councillors.

Use of the City's Purchasing Card Program

- Council amended the Policy to include the recommendation made by the Governance Committee of Council to disallow personal purchases to be made on the City purchasing cards.

1.2 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 if 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 City Clerk's Department propose a policy amendment to the Governance Committee of Council to remove the provisions that allow expenses to be charged against following year allowances 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. *We also recommend that the City Clerk's Department consult with the Corporate Finance Department to develop accounting procedures to accommodate the changes to the Policy.*

MANAGEMENT RESPONSE	
The City Clerk's Department will ensure that the issue is brought to the attention of the Governance Committee, under whose authority changes to the CWA policy lie. City Clerk's will meet with Corporate Finance to discuss potential policy changes if requested by the Governance Committee and to develop accounting procedures should any changes be made.	
IMPLEMENTATION DATE	Q4 2017

1.3 Councillors' Assistants' Phone Allowances

- The Policy contains provisions relating to telephone and communication expenses made from the fund. These provisions include that payments can be made to cover Councillors' phone expenses such as monthly fees, fees for conference calls and business related long distance charges.
- The Policy provides no specific guidance relating to phones for Councillors' assistants; it also does not consider assistants' phone bills as an ineligible expense. Any amounts reimbursed by Councillors to their assistants for phone charges are done at the Councillors' discretion.
- Some Councillors provide their assistants with cell phones to carry out their work duties, while others allow their assistants to use their existing personal phones and provide a monthly allowance to cover costs related to business use.

- Canada Revenue Agency's "Employers' Guide: Taxable Benefits and Allowances" states that if an employee is given a phone to help carry out his or her duties, the costs of the phone are not considered a taxable benefit unless personal usage results in charges above the basic plan cost. However, if an allowance is provided for a cell phone or internet services, the allowance must be included in the employee's taxable income unless a tax form, *Declaration of Conditions of Employment*, is filled out. The form certifies that the assistant requires a phone as a condition of employment, at which point the allowance will no longer be considered a taxable benefit.
- Based on the analysis of the Councillors' ward expenses, we noted that some Councillors provided a monthly phone allowance to their assistants but these allowances were not included on the assistants' T4s as taxable benefits, and *Declaration of Conditions of Employment* forms were not on file for these employees.
- The amounts paid to Councillors' assistants for phone allowances were significant enough for us to discuss the matter in this report to the Governance Committee, but were not enough for us to note in any of the Councillors' individual audit reports.

RECOMMENDATION 2
We recommend that the City Clerk's Department work with the Payroll Branch of the Corporate Finance Department to ensure that phone allowances are included as taxable benefits in Councillors' assistants' T4 slips, or that Declaration of Conditions of Employment forms are filled out for the phone allowances.

MANAGEMENT RESPONSE	
The City Clerk's Department will work with the Payroll Branch to identify any applicable Councillors' assistants' phone allowances, so the proper tax treatment can be applied according to CRA rules.	
IMPLEMENTATION DATE	Q3 2017

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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