

The City of Winnipeg

Councillors' Ward Allowance Fund Policy Report

Audit Findings Report to the Governance Committee of Council

For the year ended December 31, 2017

KPMG LLP

Prepared as of June 18, 2018 for a meeting to be held on June 27, 2018

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Executive summary

Purpose of this report*

The purpose of this Audit Findings Report is to assist you, as a member of the Governance Committee of Council, in your review of the results of our compliance audit of the expenditures with the Councillors' Ward Allowance Fund Policy of The City of Winnipeg (the City) as at and for the year ended December 31, 2017.

Finalizing the audit

As of May 18, 2018, we have completed the compliance audits of the respective councillors, with the exception of certain remaining procedures, which include:

- updating our subsequent event procedures to the date of our audit report;
- completing our discussions with the Governance Committee of Council;
- obtaining evidence of the Governance Committee of Council's approval of the auditors' report on compliance.

We will update the Governance Committee of Council (as required by professional standards), on significant matters, *if any*, arising from the completion of the audit, including the completion of the above procedures. Our auditors' reports will be dated upon the completion of any remaining procedures.

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 2017 were $1,228,860 ($81,924 per ward) and $70,100 (either $4,500 or $6,200) 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.

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Executive summary (continued)

Independence

We are independent and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services and follow Audit Committee approved protocols.

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 or arranging for 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 auditor is also responsible for assessing the control systems relating to the Policy, and providing recommendations on control mechanisms that can be improved.

Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting (ICFR) except for the qualifications related to the expense statement for Councillor Wyatt.

We identified control deficiencies, as listed in the Observation and Recommendation section, that we determined to be other control deficiencies that have not been communicated to management by other parties and that, in our professional judgment, are of sufficient importance to merit management's attention and action.

Refer to Appendix 1 for the definitions of the various control deficiencies.

Control observations and recommendations

Other control deficiencies may be identified during the audit that do not rise to the level of significant deficiency.

Other control deficiencies – Prior year update

Description and potential effect

1.0 PREVIOUS YEAR IMPROVEMENTS FOLLOW-UP

The *Councillors' Ward Allowance Fund Policy Report to Governance Committee of Council*, June 2017 included two 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 2017:

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 if receipts are not submitted for processing on time.

Description and potential effect

– 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

2017 Update:

Council amended the policy to allow authorized expenditures submitted after January 15 for which a liability has not been established, to be charged to the carry over funds established or referred to the Governance Committee for consideration as a charge to the current year's expenses. Although this allows for impact by the Governance Committee of Council, the amendment is not consistent with accrual accounting.

1.2 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.

Description and potential effect

- 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.

IMPLEMENTATION DATE

Q3 2017

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.

2017 Update:

The City Clerk's Department worked with the Payroll Branch of the Corporate Finance Department and ensured that phone allowances are included as taxable benefits in Councillors' assistants' T4 slips.

Description and potential effect

Other control deficiencies – Current year

2.0 CURRENT YEAR OBSERVATIONS AND IMPROVEMENTS

2.1 CARRY OVER MONIES NOT TRANSFERRED TO THE GENERAL REVENUE

As per The Councillors' Ward Allowance (CWA) Fund Policy "There shall be no carryover of monies, other than the 10% carry over noted above, from year to year. Monies not expended in the calendar year shall be returned to General Revenues at the end of the calendar year, unless specifically authorized by the Governance Committee for special projects. Funds appropriated for special projects shall be disclosed in the Auditor's Annual Report".

Contrary to the above instructions we noted that the 2016 carry over unused monies in 2017 for two Councillors Chairmanships amounting in total to $1,082.46 were not returned to General Revenues instead they were retained in the General Reserve.

It is worth noting that the Councillors won't have access to those funds as they were transferred to the General Reserve Account, however we still believe that the point is valid and that the funds should be transferred to the General Revenues Account.

Non Compliance with "The Councillors' Ward Allowance (CWA) Fund Policy" might negatively affect the control environment and the public image.

RECOMMENDATION 1

We believe that the funds should be returned to General Revenue Account, and if management believes that the policy is unclear in this regard, then the policy should be clarified in order to reduce ambiguity.

MANAGEMENT RESPONSE – CITY CLERK'S DEPARTMENT

The City Clerk's Department agrees that the funds described above should be returned to General Revenue. We believe the intent of the policy is clear in that it indicates on page 6 under the Year End section that "Carried over funds must be expensed prior to December 31 of the next budget year, with no further carry over allowed." As such, we believe these unexpended funds should have been returned to General Revenue on December 31, 2017. City Clerk's will work with Corporate Finance and / or take the appropriate steps, such as clarifying the policy, to ensure unexpended carry-over funds more than 1 year old are returned to General Revenue for 2016 and future years.

IMPLEMENTATION DATE

Q3/Q4 - 2018

Description and potential effect

2.2 COUNCILLOR EXECUTIVE ASSISTANT

- As per The Councillors' Ward Allowance (CWA) Fund Policy *"An assistant cannot be any person employed or contracted by the City of Winnipeg".*

  During our course of audit we noted that a City of Winnipeg employee was acting in as an Executive Assistant (EA) for Councillor Russ Wyatt for a portion of the year. The expenses that were allocated to the Councillors' Fund for that particular employee's salary was $4,007.

  It is worth noting that the arrangements were made in discussion with City Clerk management.
- Additionally, as per the CWA policy *"Councillors may engage staff to assist them on a fulltime or part-time basis" "All assistants shall be employed pursuant to the CWA policy and shall execute the employment contract prior to commencement of employment".*

  Contrary to the above instructions, we noted that an amount of $7,575 was charged to Non Professional Services for duties that an EA can perform. Also, there was no contract between Councillor Wyatt and the service provider.

  Non Compliance with "The Councillors' Ward Allowance (CWA) Fund Policy" might negatively affect the control environment and the public image.

RECOMMENDATION 2

Compliance with "The Councillors' Ward Allowance (CWA) Fund Policy" should be ensured. Unusual expenditures or circumstances should be brought to the Governance Committee of Council for direction.

In regards to the first point, it is worth noting that we have obtained a trail of reviews performed by the City Clerk and the Councillor's Liaison Coordinator on the Salary Cost allocation. However we still believe that the matter should have been brought to the Governance Committee of Council for direction.

MANAGEMENT RESPONSE – CITY CLERK'S DEPARTMENT

The City Clerk's Department agrees that compliance with the policy should be ensured and that unusual expenditures should be brought to the Governance Committee. An employee of the City Clerk's Department did act as a part time Executive Assistant when the Councillor was unable to secure an assistant. Chargeback was done to cover salary paid to the employee for acting in this position. This was done with the knowledge of the City Clerk in an effort to assist the Councillor and best serve the citizens of the ward. This was an error by the City Clerk's Department in not recognizing that this was a contravention of the policy that should have been brought to Governance Committee for approval. The Department will ensure compliance with the policy in the future.

The Department will also ensure that all future contract staff will enter into an agreement with Councillors. In this circumstance, the service provider acted as an executive assistant for the Councillor and was paid via invoice that indicated services provided, hours worked and hourly rate. Expenditures were posted to the Council Members Expense website.

IMPLEMENTATION DATE

Ongoing & Q3/Q4 – 2018 for any changes in process or policy.

Description and potential effect

2.3 POTENTIAL CUT-OFF ERROR

During our course of audit we noted some expenses Cut-off errors (i.e. expenses were recorded in the wrong accounting period). The cut-off errors were mainly related to the following expenses accounts:

1. 526030 – Advertisement
2. 526020 – Telephone
3. 526010 – Printing, Binding, Photocopying

The recording of expenses in the incorrect period might negatively affect the reasonableness of the expense statements.

RECOMMENDATION 3

The City Clerk & the Corporate Finance department should ensure the recording of the expenditures in the proper period.

In situations where an invoice has not been received at year-end an accrued payable should be recorded. In situations where an invoice is received prior to the service being received (i.e. advertisement), a prepaid expense should be recorded and the expenditure should be recorded when the services is received.

MANAGEMENT RESPONSE – CITY CLERK'S DEPARTMENT

The City Clerk's Department agrees that compliance with the policy should be ensured. The policy states that "Expenses must be charged to the year in which they occurred". The Department concurs with this statement and works with the Corporate Finance Department to identify which year an expense should be charged to and take the appropriate actions. In this case, bills identified as cut-off errors included a monthly advertising bill that covered advertisements for a one month period crossing the City's financial year end (December 31), for example covering the month running from December 15, 2017 to January 15, 2018. The Department has not typically split these bills in the past, rather charging the entire amount to one year or another. The Department will continue to work with the Corporate Finance Department to ensure the policy is complied with in the future.

IMPLEMENTATION DATE

Ongoing & Q3/Q4 – 2018 for any changes in process or policy.

Description and potential effect

2.4 CLASSIFICATION ERROR & OTHER POLICY COMPLIANCE ISSUES

During our course of audit we noted some issues related to "The Councillors' Ward Allowance (CWA) Fund" Policy compliance and some classification errors.

- An expense that should have been allocated to "528090 – Conferences" was incorrectly allocated to "528080 Training, Workshop and Tuition".
- An expense that should have been allocated to "521015 – Legal services" was incorrectly allocated to "521020 – Non Professional Services".

Additionally, as per the "The Councillors' Ward Allowance (CWA) Fund" Policy: "To be reimbursed for tuition fees, Councillors and their staff must provide proof that they have completed the course or program, and submit an original fee receipt from the college / university".

Contrary to the above instructions we noted that the tuition was paid for an incomplete course.

It is worth noting that prompt action was taken by the Councillor when we brought up this matter to the City Clerk and the tuition fee was subsequently repaid by the Councillor on 19 April 2018.

Non Compliance with "The Councillors' Ward Allowance (CWA) Fund Policy" might negatively affect the control environment and the public image. Additionally classification error might negatively affect the presentation of the expense statements.

RECOMMENDATION 4

Compliance with "The Councillors' Ward Allowance (CWA) Fund Policy" should be ensured. Additionally the City Clerk and the Corporate Finance Department should ensure proper classification of the expenses.

Additionally, as stated in the policy in order to be reimbursed for the tuition fees, the Councillor should complete the course or the program.

MANAGEMENT RESPONSE – CITY CLERK'S DEPARTMENT

Agreed. The City Clerk's Department will continue to work with the Corporate Finance Department to ensure expenses are classified correctly and assigned to the proper account to ensure public transparency. The Department will ensure a process is set up to ensure follow-up occurs on any tuition expense to ensure the course was completed. If a course was not completed, repayment of any expenses incurred would be required by the Councillor, which is what occurred in this case.

IMPLEMENTATION DATE

Ongoing & Q3/Q4 – 2018 for any changes in process or policy.

Appendix

Appendix 1: Background and professional standards

Appendix 1: Background and professional standards

Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the compliance with the CWA Fund Policy, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

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