# 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, 2019**

KPMG LLP

Prepared as of June 18, 2020

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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 audits 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, 2019.

## 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 2019 were $1,258,860 ($83,924 per ward) and $72,800 (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, and the Governance Committee of Council, 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.

## 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).

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

### *1.0 PREVIOUS YEAR IMPROVEMENTS FOLLOW-UP*

The *Councillors' Ward Allowance Fund Policy Report to Governance Committee of Council*, May 2019 included 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 March 2019 & December 2019.

### *1.1 Councillor's Assistant Contracts*

- For Councillor's Assistants under eligible expenses, the Policy states "All assistants shall be employed pursuant to the CWA policy and shall execute the employment contract prior to commencement of employment."
- We noted that Councillor Sharma had engaged two Councillor's assistants / students during the year ended December 31, 2018 without having formal contracts between the two parties (i.e. Councillor and the Councillor Assistant).
- The employment terms for the two assistants included services from June 2018 to November 2018 for a total salary of $10,065.
- The requirement to have signed contracts in accordance with the CWA Policy Section 5 "Allowable Expenses" was not met in this case. Signed contracts support a strong control environment with transparency and accountability and provide clarity on benefits paid to City staff.
- We were advised that contracts were not executed at the time of initial employment due to the fact the staff were to be engaged on an hourly basis and the Policy Appendix template is structured for a salaried contract.
- We communicated the matter to City Clerk's and subsequently, the 2018 contracts were signed by the Councillor, Assistant and witnessed by an independent party in April 2019. All other procedures were followed including biweekly submission of hours to the City Clerk's Department and payment through the City's payroll system.
- According to the Policy Section 5 "Allowable Expenses", this is not in accordance with the Policy, as it does not satisfy the conditions for an eligible expense. It is important to note that the nature of the expense is aligned with identified eligible expenses; in this instance the supporting administrative process was not performed prior to commencement of employment as required by the Policy.

### RECOMMENDATION 1

We recommend that the City Clerk's Department work with the Councillors to ensure compliance with the Policy in relation to all contracts between a Councillor and Councillor assistants are signed on a timely basis and prior to the commencement of work.

### MANAGEMENT RESPONSE – CITY CLERK'S DEPARTMENT

The City Clerk's Department is in agreement that all aspects of the Councillor's Ward Allowance (CWA) Policy should be followed. The City Clerk's Department is in agreement that the CWA Policy requires that a contract be in place between Councillors and their staff.

The City Clerk's Department acknowledges full responsibility for failure to ensure a contract was in place in this case. The City Clerk's Department is responsible for creation of the contract and for ensuring it is executed.

The Councillor advised the City Clerk's Department that two new students were working with her office on a casual hourly basis. The current contract for Councillor's assistants is set up for full-time regular staff persons. The City Clerk's Department created new contract templates to match the needs of Councillors hiring hourly students, but failed to follow through and have these new templates executed in a timely matter. All other procedures were followed including submission of hours for the students to the City Clerk's Department for processing, processing of pay through the City's payroll system to ensure all CRA deductions were made and posting of payments on a monthly basis to the public Councillor's Expense website.

When the Councillor was made aware of the lack of contract as part of the 2019 audit of 2018 expenses, they contacted the City Clerk. Contracts were created in April 2019 and fully executed by the students, the Councillor and the City Clerk's Department and to the commencement date of employment. Internal Procedures have now been improved to reinforce with payroll staff that a contract must be in place prior to payment of hours for all Council staff. As well, a second City Clerk's staff member must now also sign off on all new contracts to increase oversight / ensure compliance. A revised hourly specific contract will be included in the CWA Policy at the next annual review.

#### *2019 Update*

Council amended the Policy to include the recommendation made by the Governance Committee of Council that all contracts between a Councillor and Councillor assistants are signed on a timely basis and prior to the commencement of work. Also, we have observed the two contracts that were created in April 2019 between the Councillor and the Councillor's two assistants. Additionally, we noted that the Policy has been amended and with the following wording added under the Councillor's Assistants eligible expense table:

*"All assistants must be retained under the terms of the employment contract (Appendix D) on a bi-weekly or hourly basis with the hours worked to be determined by the City Councillor".*

Our 2019 compliance audits found contracts in place for all Councillor assistants. We believe the above amendment to the Policy made in 2019 brings clarity over the need for contracts with part time councilllor assistants. We have no additional recommendations relating to this control deficiency.

# 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 – Current year

### *2.0 CURRENT YEAR OBSERVATIONS AND IMPROVEMENTS*

### *2.1 Expenses not Recorded Within the Correct Reporting Period*

As per Section Four of the Policy:

- Expenses must be charged to the year in which they occurred. Expenses cannot be carried forward to different years.
- Expenses that cover multiple years should be split to ensure that expenses are charged to the year in which the expense will be incurred.
- Each Councillor shall have until January 15 of the following year to submit all receipts for the preceding year for payment.

During our audit we found minor expenses that were not recorded within the correct period for three wards. The following table summarizes the instances by ward.

| Ward | Expense not recorded within the correct period | Supporting Document # | Comment |
|---|---|---|---|
| Daniel McIntyre | 155.56 | Journal ID 0000442205 | 2018 expense is recorded in 2019 |
| North Kildonan | 150.00 | Journal ID AP00445242 | Advertising expense for the period from Jan 14, 2019 to Jan 13, 2020 is recorded in 2019. Hence 13 days of expense that is pertaining to 2020 is recorded in 2019. |
| Transcona | 204.30 | Journal ID 0000442205 | 2018 expense is recorded in 2019 |

Through investigation, the cause of the above deficiencies was found to be administrative errors and not representative of a material control deficiency.

**RECOMMENDATION 1**

Management should ensure compliance with the Policy. Expenditures should be recorded within the reporting period that the expenditure is incurred (when the goods or service is received). When an expense is incurred over multiple years, management should ensure that the invoice is split and the expenses is recorded to the year in which the expense will be incurred. In addition, accruals should be estimated and recorded in case the invoice is not received before the year end.

KPMG notes that the findings from the audit indicate that for twelve Councillor audits, no issues were found with expenses recorded in the incorrect period, and three Councillor audits found minor expense issues. Although, we continue to recommend that ensuring proper cut-off of expenses is a focus area of management, this year's audit did not indicate a control deficiency in the majority of the Councillor audits.

**MANAGEMENT RESPONSE – CITY CLERK'S DEPARTMENT**

The City Clerk's and Corporate Finance Departments accept this recommendation and acknowledges these as human error. Scrutiny of invoice dates occurs as part of regular invoice and journal entry processes, however, on occasion an error can be made. Additional due diligence on ensuring costs are charged to the correct fiscal year will be undertaken.

**IMPLEMENTATION DATE**

Ongoing

## 2.2 Donations not Forwarded to the City Clerk and not Addressed to the City of Winnipeg.

As per Section Five of the Policy:

- Donation receipts must be addressed to the City of Winnipeg.
- Donation receipts received by Councillors must be forwarded to the City Clerk's Office.

During our audit, we found a donation receipt that was not in compliance with the Councillors' Ward Allowance (CWA) Fund Policy. The following table summarizes our finding:

| Ward | Donation amount | Charity Organization | Comment |
|---|---|---|---|
| St. Norbert - Seine River | 1,890.00 | Friends of the Canadian Museum for Human Rights organization | Donation receipt was not filed with the City Clerk's Office. We contacted the organization who informed us that a tax receipt #2024399 in the amount of $1,890 was issued to Mayor Brian Bowman rather than to the City of Winnipeg. |

**RECOMMENDATION 2**

Management should ensure compliance with the Policy in relation to donation receipts. Donation receipts should be forwarded to the City Clerk's office and must be addressed to the City of Winnipeg, not addressed to the Councillor or to the Mayor.

**MANAGEMENT RESPONSE – CITY CLERK'S DEPARTMENT**

The City Clerk's Department is in agreement that all aspects of the Councillor's Ward Allowance (CWA) Policy must be complied with. In an effort to eliminate these incidents, effective October, 2020, a letter will be included with all donation cheques advising that donation receipts must be addressed to the City of Winnipeg, as well as providing information to where the receipts may be mailed or emailed. Additionally, the City Clerk's Department will assign staff to track all donations from the CWA, to ensure that receipts are properly addressed and processed in compliance with the policy.

To address the above noted 2019 donation receipt issues, management is provided a letter to any Member of Council that may have received the donation receipts in their name to advise them of the issue and inform them that these donation receipts cannot be claimed on their personal tax returns.

**IMPLEMENTATION DATE**

October 2020

# Appendix

## Appendix 1: Background and professional standards

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## 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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