Winnipeg | Audit

Investigation into Osborne Village Business Improvement Zone

September 2020

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INVESTIGATION SERVICES

The Audit Department provides investigation services based on information identified in reports submitted through the Fraud and Waste Hotline, audit projects, Council, Public Service or resident's requests.

The Fraud and Waste Hotline is a confidential and anonymous service accessible to everyone to make reports 24/7/365. We review every report that is received and will investigate when appropriate supporting information is provided.

A strong anonymous fraud and waste reporting system is one of the best mechanisms available for uncovering wrongdoing. There are many benefits to the City in having an effective reporting system, most importantly being the early detection and/or prevention of harmful misconduct. Other non-quantifiable benefits are strengthened internal controls, improved policies and procedures and increased operational efficiencies.

The City Auditor takes all fraud and waste reports seriously. Comprehensive investigations help to maintain public confidence; the public needs to feel confident that the City is committed to taking appropriate steps to address the fraud and waste allegations.

BUSINESS IMPROVEMENT ZONE OVERVIEW

Business Improvement Zones are created and governed through the City's Business Improvement Zone Procedures By-law No. 8111/2002.

There are currently sixteen (16) Business Improvement Zones created by Bylaw within the City of Winnipeg. Zones are responsible for the objectives set out in the Bylaw and are able to dictate the Business Improvement Zone's Levy which is collected by the City.

While the responsibly lies with the Zone for fiscal responsibility, the City does provide some oversight and ensures certain provisions of the Bylaw are being properly adhered to by each Zone.

ALLEGATION BACKGROUND

The Public Service became aware of a number of financial issues related to the ongoing operations of the Osborne Village Business Improvement Zone (the Zone). The allegations involved:

- A lack of financial oversight of the daily operations of the Zone.
- Some vendors not being properly compensated for work performed for the Zone.
- Annual financial statements not being submitted to the City in accordance with the City's Business Improvement Zone Procedures By-law No. 8111/2002, S 21(1)(d)

INVESTIGATION SCOPE

The investigation focused primarily on the 2018 calendar year and other specific issues that were brought to the attention of the City Auditor.

The Zone received funding through a City of Winnipeg Zone Levy in the amount of $130,197 in 2018.

The investigation included a review of both hard copy and electronic records. Discussions were held with Public Service representatives, Board staff and current and past Board members. Financial documentation, Board meeting minutes, Executive Director reports and various other forms of information were reviewed to support the observations and conclusions included within this report.

INVESTIGATION CONCLUSIONS

The investigation identified there was a lack of oversight and consequently a lack of proper authorization or proper supporting documentation on several transactions.

Zone funds were expended without due regard for economy or efficiency as evidenced through the incurrence of non-sufficient fund transaction fees from their financial institution.

The Zone adopted a new policy manual which appears to address many of the internal control weaknesses evident in 2018.

As at December 31, 2018, the Zone had not submitted audited financial statements to the City, as required by the Bylaw[1], for the preceding four years (2014, 2015, 2016 and 2017).

[1] By-law NO. 8111/2002 requires via Section 21(1)(d) a complete set of audited statements be filed with the Clerk within 90 days following the Annual General Meeting. Section 15(1) states the AGM must occur within the six month period prior to the beginning of its next fiscal year.

DETAILED INVESTIGATION RESULTS

The investigation identified there was a lack of oversight and consequently a lack of proper authorization on several transactions. Board awareness of financial concerns appears to be first documented in the December 2018 Meeting Minutes, however prior reporting of financial matters was observed to be minimal.

This lack of oversight included:

1. Thirty-five (35) Non-Sufficient Fund (NSF) transactions with fees totaling $1,207.00.
2. Fifty (50) transactions without proper supporting documentation.
3. Thirty-seven (37) cheques with inadequate signatures.
4. Audited financial statements had not been submitted to the City for the preceding four years.

1. <u>NSF Cheques</u>
   - An NSF cheque is a cheque that was not honored by the bank of the entity issuing the check. This will typically occur when the entity's bank account does not contain sufficient funds to cover the full amount of the cheque.
   - Between January 18, 2018 and December 13, 2018, the Zone incurred 35 NSF charges.
   - Charges ranged from $5.00 (11 instances) to $48.00 (24 instances).
   - We did not investigate further to determine the reason for the difference in service fees charged.
   - In total, the Zone incurred service fee charges of $1,207.00

The significant number of NSF cheques supports the conclusion that there was a lack of financial oversight and that Zone funds were expended without due regard for economy or efficiency.

2. <u>Unsupported Transactions</u>
   - Detailed analysis of the bank statements, general ledger and other supporting documents identified fifty (50) transactions and expense items for which there were no support. These were divided into two categories;
     A. Canada Day Additional Personnel Expenses
     B. Other Unsupported Expenses

     A. Canada Day Additional Personnel Expenses
        - The investigation identified thirty-five (35) cheques made out to thirty-one (31) different persons and all were unsupported.
        - Cheques were dated from January 26, 2018 through to October 26, 2018.
        - The majority of the cheques (27 of the 35) were dated June 28 through to July 6, 2018.
        - The total value of the cheques was $12,007.
        - The average payment was less than $400; the lowest amount was $50.00 and the highest amount was $800.00.

B. Other Unsupported Expenses
   - The investigation also identified fifteen (15) other unsupported expense items.
   - These expenses were either paid to a company or included a very brief description of the expense but no documentation to further support.
   - Details of the other unsupported expense items are summarized below:

Expense Type	# of Cheques	Total Value	Supported
Canada Day Expenses	6	$3,694.36	No
Canada Day Vendor Refund	1	$ 250.00	No
Zone Staff Expense Report	2	$1,623.18	No
Enhanced Streetscape Renewal	2	$ 550.00	No
Storefront Improvement Grants	2	$1,000.00	No
Admin & Office	1	$ 500.00	No
Street Festivals	1	$ 120.00	No
Totals	15	$7,737.54	

The volume and total value of unsupported expenses are a cause for concern and further support the conclusion of a lack of financial oversight. The unsupported items include a wide variety of expense types that appear to be transactions that would occur in the normal course of business. The conclusion of the investigation is that the transactions are not likely unauthorized use of Zone funds.

3. Cheques with inadequate signatures

An entity such as the Zone will typically require at least two signatures on each cheque from a listing of authorized individuals. The investigation identified thirty-seven (37) instances of cheques with less than two signatures or of a cheque with what appeared to be two of the same signature. Details of the cheques with inadequate signatures are summarized below:

Expense Type	# of Cheques	Total Value	Supported
Payroll	12	$18,169.37	Yes-11
Canada Day Additional Personnel	13	$ 3,808.50	No
Zone Expenses	10	$10,766.01	Yes
Unsupported Expense Report	1	$ 1,171.63	No
Rent	1	$ 650.00	No
Totals	37	$34,565.51	

- Payroll – all were properly supported with the exception of one payment but we did obtain written documentation that referenced additional compensation related to Canada Day Street Festival duties.

- Canada Day Additional Personnel – these additional personnel payments averaged less than $400 each and do not appear unreasonable. These expenses are included in the previous section Unsupported Transactions – A. Canada Day Additional Personnel Expenses.
- Zone Expenses - all were properly supported.
- Unsupported Expense Report – one expense report was reimbursed via cheque. The expense report did not have proper supporting documentation and the cheque was not properly authorized. A review of the expense items indicated a wide variety of expense types that one would expect to be incurred in the normal course of business.
- Rent – one rent cheque was not properly authorized.

The volume of cheques that were not properly authorized indicates both a lack of financial oversight at the Zone and consequently a lack of proper authorization on the withdrawal of Zone funds.

An associated issue with the banking institution honouring and processing cheques that are potentially not properly authorized has been forwarded to the Zone Board Chair for follow-up.

4. Audited financial statements

The responsibility for ensuring the Zone met the Bylaw requirements was not clearly defined. Bylaw Section 21(1)(d) requires a complete set of audited statements be filed with the Clerk within 90 days following the Annual General Meeting. The Bylaw does not explicitly define what the Clerk should do if a Zone fails to comply with this provision.

As at December 31, 2018, audited financial statements had not being submitted, as required by the Bylaw, for the preceding four years (2014, 2015, 2016 and 2017). These were all received by March 22, 2019.

The Interim Chief Administrative Officer assigned the responsibility for ensuring submission of annual audited financial statements to the Controller / Manager of Finance - Planning, Property and Development Department.

INVESTIGATION RECCOMENDATIONS

As a result of the investigative work completed a number of recommendations have been identified. These recommendations have been communicated to the Board Chair; we do note that they are transferable to any of the Business Improvement Zones.

1. We recommend that the duties of the Treasurer should include on-line review of bank transactions on a monthly basis. This review is critical to demonstrate proper oversight of the financial transactions incurred in the time period and that the internal control processes are functioning as intended.

2. We recommend that the monthly minutes include confirmation by the Executive Director (or applicable position) that the source deduction and GST remittances are all up to

date. This will enable the Board to hold Zone staff accountable for performance of their duties and provide evidence of financial statement reporting.

3. We recommend that the Zone formally adopt and periodically update a Policy/Operational manual that includes:
    a. Guidance on roles and responsibilities for the key Board and staff positions, and
    b. Procedures for the important operational processes such as financial management.

The Audit Department's Audit Plan – 2020 includes an audit of the Business Improvement Zones. The intended focus is to examine mechanisms in place against best practices to provide Council assurance that Zones are fulfilling their legislated roles and providing value to members. Additional recommendations may be identified through this project.

ADDITIONAL BACKGROUND ON THE INVESTIGATION

The Public Service became aware of a number of financial issues with the Osborne Village Business Improvement Zone relating to financial oversight and internal controls of the Zone's operations. The Public Service held discussions with Zone Board representatives as well as the external auditors engaged by the Zone to complete their outstanding financial statement audits.

The Public Service notified the City Auditor of the concerns and after further discussion the decision was made to conduct a limited scope investigation into the Zone's financial operations.

Council's *Business Improvement Zone Procedures Bylaw No. 8111/2002* delegates authority to the City Auditor to review business improvement zone operations. The Bylaw, under Accountability and Transparency, Section 21(2) states, "All books, documents, records of transactions, minutes and accounts of the board may be inspected at any reasonable time by the Auditor of the City of Winnipeg or by an auditor appointed for this purpose by Council."

The Interim Chief Administrative Officer notified the Zone Board Chair of the investigation.

The City Auditor notified the Mayor and Council of the intent to commence an investigation.

Grant Thornton LLP was selected to conduct the investigation and report back to the City Auditor. Periodic status update meetings occurred between Grant Thornton representatives, the Interim Chief Financial Officer and the City Auditor.

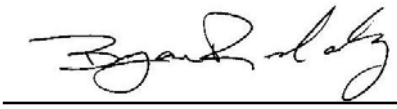
INDEPENDENCE

The City Auditor is a statutory officer appointed by City Council under The City of Winnipeg Charter. The City Auditor is independent of the Public Service and reports directly to Executive Policy Committee, which serves as the City's Audit Committee.

The Audit Department is classified as an independent external auditor under *Government Auditing Standards* due to statutory safeguards that require the City Auditor to report directly to Council, the City's governing body, through the Audit Committee.

ACKNOWLEDGEMENT

The City of Winnipeg Audit Department would like to acknowledge the assistance of the Interim Chief Administrative Officer, Interim Chief Financial Officer and staff from the Planning, Property and Development Department who were involved in this investigation, for their assistance in providing time, information and expertise. We would also like to acknowledge the current Zone Board Chair and staff for their cooperation and assistance through the investigation. Finally, we would like to acknowledge Grant Thornton LLP, who was engaged to conduct the investigation.



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City Auditor

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Date