



CITY OF HAMILTON
CITY MANAGER'S OFFICE
Office of the City Auditor

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	August 13, 2020
SUBJECT/REPORT NO:	Control Weaknesses Respecting Case 2019-26707 (AUD20004) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Domenic Pellegrini CPA, CMA, CIA (905) 546-2424 Ext. 2207 Brigitte Minard CPA, CA, CIA, CGAP (905) 546-2424 Ext. 3107
SUBMITTED BY: SIGNATURE:	Charles Brown CPA, CA, CPA (Illinois) City Auditor Office of the City Auditor

Discussion of Confidential Appendix “A” to this report in Closed Session, would be pursuant to Section 8.1, Sub-section (a) of the City's Procedural By-law 18-270, as amended, and Section 239(2), Sub-section (a) of the Ontario Municipal Act, 2001, as amended, as the subject matter pertains to the security of the property of the municipality or local board.

RECOMMENDATION

- a) That the Management Action Plans as detailed in Confidential Appendix “A” of Report AUD20004 be approved; and
- b) That the General Manager of Healthy and Safe Communities be directed to instruct the appropriate staff to have the Management Action Plans (as detailed in Confidential Appendix “A” to Report AUD20004) implemented; and
- c) That Private and Confidential Appendix “A” to Report AUD20004, Control Weaknesses Respecting Case Number 2019-26707 remain confidential.

EXECUTIVE SUMMARY

As a result of a recent investigation reported to Audit, Finance and Administration (Case 2019-26707), the Office of the City Auditor found process weaknesses in the form of five vulnerabilities to misappropriation and six instances where the Cash Handling Policy had not been properly followed.

A formal report, attached as Confidential Appendix “A” to Report AUD20004, summarizes the control weaknesses uncovered in the above investigation and contains the Office of the City Auditor’s observations, recommendations and management’s responses and planned course of action to those recommendations.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: None.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND

On June 24, 2020, Council directed the City Auditor to implement a policy on City Auditor Reporting of Serious Matters to Council. Under this policy, timely disclosure to Council is called for in situations that:

- Pose a security threat (e.g. cybersecurity exposure) to the organization’s information systems/hardware/software applications or involves major privacy breach
- Threaten public safety
- Involve potential fraud over \$100,000
- Could have a significant adverse impact on the City’s vulnerable populations
- Result in investigation by Office of the City Auditor (OCA) and referral to the Police
- In the judgement of the City Auditor are deemed to be of a significant risk to the Corporation.

This is a follow-up to one of two previous reports of a serious matter made to Audit, Finance and Administration under the new policy. The criterion applied and met was that the matter resulted in an investigation by the Office of the City Auditor and referral to the Police. The analysis of control weaknesses pursuant to this investigation are attached as Confidential Appendix "A" of Report AUD20004.

The Audit, Finance and Administration Committee receives and approves audit and other reports as part of its responsibilities for the oversight of governance.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

None.

RELEVANT CONSULTATION

Confidential Appendix "A" to Report AUD20004 includes action plans which reflect the responses of management.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

The OCA made five recommendations to increase efficiencies and strengthen controls in each of the vulnerabilities identified, and six recommendations to address each occurrence where Cash Handling Policy standards were not met. These recommendations can be found in the Confidential Appendix "A" to Report AUD20004.

Management agreed with all recommendations and provided management action plans and mitigations for implementation. The action plans are expected to be fully completed by Q4 2020.

Under the current Council approved policy an Annual Report of case intake and resolution regarding the Fraud and Waste Hotline will be issued publicly. The investigation matter referred to above, which provided cause for the reporting of control weaknesses will be included in that Annual Report.

ALTERNATIVES FOR CONSIDERATION

Not applicable.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Our People and Performance

Hamiltonians have a high level of trust and confidence in their City government.

APPENDICES AND SCHEDULES ATTACHED

Confidential Appendix “A” to Report AUD20004