



CITY OF HAMILTON
OFFICE OF THE CITY AUDITOR

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| TO: | Chair and Members Audit, Finance and Administration Committee |
| COMMITTEE DATE: | August 12, 2021 |
| SUBJECT/REPORT NO: | Review: Ward 3 Capital Reserve Administrative Oversight (AUD21008) (Ward 3 and City Wide) |
| WARD(S) AFFECTED: | Ward 3 and City Wide |
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| SUBMITTED BY: SIGNATURE: | Charles Brown, CPA, CA, CPA (Illinois) City Auditor Office of the City Auditor |

RECOMMENDATION

- (a) That Report AUD21008, respecting the Review: Ward 3 Capital Reserve Administrative Oversight Report, be received;
- (b) That the Management Responses as detailed in Appendix "A" be approved; and
- (c) That the General Manager of Finance and Corporate Services be directed to implement the Management Responses (attached as Appendix "A" to Report AUD21008) and report back to the Audit, Finance and Administration Committee by May 2022 on the nature and status of actions taken in response to the review report.

EXECUTIVE SUMMARY

The City Auditor received a request from the Ward 3 Councillor to review an administrative oversight with respect to the Ward 3 Capital Reserve. Due to the potential for this to impact the entire organization if not an isolated incident, the Office of the City Auditor initiated a review into this matter and related processes.

This report contains a description of what happened, how this administrative oversight occurred, and makes recommendations to prevent similar errors across the organization.

Five recommendations have been made to improve processes in the Corporate Services Department.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: A \$2.7 million correction relating to the administrative oversight detailed in this report was approved by Council at the November 25, 2020 Council meeting. The Parkland Acquisition Reserve (108050) was identified as an alternative funding source for the Acquisition of Property in Ward 3 as detailed in Report CES14022.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND

In January 2021, the City Auditor received a request from the Ward 3 Councillor (Councillor Nrinder Nann) to review an administrative oversight with respect to the Ward 3 Capital Reserve. Due to the potential for this to impact the entire organization if not an isolated incident, the Office of the City Auditor initiated a review into this matter and related processes.

This relates to Item 22 of the General Issues Committee Report 14-009, respecting Confidential Report CES14022, Acquisition of Property in Ward 3, which was approved by Council on April 23, 2014. The real estate transactions for the acquisition of lands relating to this matter known municipally known as 39, 43, 45 and 67 - 81 Lloyd Street, Hamilton are complete; therefore, this report can be a public document.

This review included reviewing documentation, discussions with relevant staff and evaluating this information against internal control best practices.

This report contains a description of what happened, how this oversight occurred, recommendations to prevent similar errors across the organization on a go-forward basis and management responses to the recommendations.

The administrative oversight described in this report was resolved at the Council meeting of November 25, 2020 where a motion was carried that provided direction to staff to resolve the oversight.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

N/A

RELEVANT CONSULTATION

Appendix “A” to Report AUD21008 includes responses from management responsible for overseeing the budgets and reserves process within the City’s Corporate Services Department.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

Background

A Stadium Precinct Master Plan was developed in 2013 when the Ivor Wynne site was selected for the Pan Am Stadium. The Plan recommended purchasing a parcel of land to develop an outdoor recreation space to increase parkland in the neighbourhood and provide replacements for the Brian Timmis Field and the baseball diamonds displaced by the Stadium and adjacent secondary school/community centre construction project.

Private and confidential reports were presented to the General Issues Committee on July 11, 2013 (Report CM13014) and April 16, 2014 (Report CES14022) containing original and amended costs and funding sources, respectively, to purchase, remediate and develop a parcel of land meeting the Master Plan requirements and were ultimately approved by Council. Report CES14022 approved an increase in the usage of the Ward 3 Capital Reserve as a funding source from \$0.5 million to \$3.2 million, an increase of \$2.7 million.

The Issue

The \$2.7 million increase in usage of the Ward 3 Capital Reserve as a funding source was not captured as an allocation or commitment in the Ward 3 Capital Reserve spreadsheet maintained by the Budgets and Financial Planning section. This spreadsheet forms the basis of the Annual Reserve Report and for periodic status updates.

Finance staff identified this discrepancy in 2020 when performing a detailed review of open capital projects and adjusted the Ward 3 Capital Reserve accordingly to reflect the \$2.7 million adjustment that was approved in Report CES14022. Subsequently, the

Ward Councillor for Ward 3 was informed there were insufficient funds in this reserve to fund new projects due to this adjustment.

How it Happened

Administration of the Ward reserve spreadsheets is a manual process and part of the broader Capital Reserve spreadsheets.

Budgets and Financial Planning Section staff are responsible for manually entering capital project information in the PeopleSoft Financial system and the Capital Reserve spreadsheets. Different staff enter the information in PeopleSoft Financial and the Capital Reserve spreadsheets.

The additional \$2.7 million allocation approved in 2014 with Report CES14022 was captured in the PeopleSoft Financial system but was not recorded in the Reserve spreadsheet as a result of staff oversight. Due to staff turnover in Budgets and Financial Planning Section, the Office of the City Auditor (OCA) was unable to discuss what happened with the people responsible. Management indicated that at that time, no formal processes were in place to review committee reports, communicate requirements to staff and follow up to ensure all required financial entries were made.

Management also indicated that the root cause of this error was that the \$2.7M budget adjustment was approved via a Confidential Report (CES14022). At the time of the oversight, Budgets and Financial Planning Section did not routinely receive all confidential reports and meeting minutes from the Office of the City Clerk.

It is the Office of the City Auditor's opinion that there were no processes in place to reliably and consistently detect this type of error/oversight.

PeopleSoft Financial is used to generate various reports to manage capital projects and ensure they remain within established budgets. Since the total budget of \$12.4 million was entered in PeopleSoft correctly, no concerns or "red flags" were raised by Finance, the Project Manager or the Capital Projects WIP Review Subcommittee from 2013 to 2019.

Staff reconcile PeopleSoft journal entries (moving funds from budgeted to actual revenues) to items entered in the Reserve spreadsheet to make sure both sets of records agree. However, no steps or reconciliations are performed to ensure the transactions themselves are complete. In this case, since there was no journal entry to move the budgeted \$2.7 million Ward 3 Capital Reserve funds to actual revenues, there was nothing to check against the Reserve spreadsheet.

Unlike operational budgets, capital projects may run a surplus or deficit at the end of any given calendar year. For multi-year capital projects such as this, it is possible that

discrepancies are not identified for years until the project is completed or staff perform an ad hoc review of open projects when time allows.

Issue Resolution

At the November 25, 2020 Council meeting a motion was carried that provided direction to staff to resolve the oversight. The Parkland Acquisition Reserve (108050) was identified as an alternative funding source for the Acquisition of Property in Ward 3 as detailed in Report CES14022.

Corrective Measures Implemented by Management

Management within the Budgets and Financial Planning section have implemented the following processes or measures to help reduce the risk of error and ensure all reserve spending and future obligations are captured:

- In 2019, the Supervisor began reviewing all Committee and Council reports for action items pertaining to the Budgets and Financial Planning section. These items, which include capital reserve spending and commitments, are manually entered into a Council Action Items Worksheet and an email is sent to staff alerting them to review their assignments in the Worksheet. The Supervisor reviews action items when key deliverables are prepared, such as the annual reserve report, to ensure all items are included and accurate.
- The Budgets and Financial Planning section began journaling budgeted to actual revenues for all non-obligatory reserve funds, including the Ward 3 Capital Reserve, when a project is approved, rather than when funds are required or when the project is completed. With the current reconciliation process, this step would ensure non-obligatory reserve funds are entered as spent funds in the Reserve spreadsheets.
- New Questica budgeting software went live in May 2021. Management indicated that Questica will replace the manual Excel reserve spreadsheets and limit the risk of input errors or omissions.

Additional Actions Needed

While the OCA agrees that management should continue with these above-noted corrective measures, additional steps may be taken to further prevent the risk of omissions and errors.

Reconciliation Process

A more robust reconciliation process is required to ensure that future reserve commitments are captured. Although staff currently reconcile PeopleSoft adjusting

entries to the Reserve spreadsheets, this only accounts for funding allocated to the project, not future funding commitments. If each budgeted funding source was identified in PeopleSoft with its own account number, staff would be able to run a PeopleSoft report showing budgeted and actual revenues for all projects by funding source, calculate the future commitment and compare this to information in the Excel reserve spreadsheet. Differences would be investigated, ensuring that both the PeopleSoft records and Reserve spreadsheets are accurate and complete.

It is the OCA's understanding that the Reserve spreadsheets will be replaced by the Questica budget system, and that Questica will pull information from itself and the PeopleSoft Financial system to generate reserve reports, thus eliminating manual entries.

It is also important that this review process continues if the Supervisor is absent for an extended period of time, changes positions or leaves the City's employment.

Communication of Errors to Council

There is a need for a process for Council to be informed of significant financial errors in a timely manner once an error is discovered, rather than waiting for the next reporting cycle (e.g. annually for a reserve fund), and to inform impacted stakeholders.

Please see OCA's recommendations to further strengthen processes in Appendix "A" to Report AUD21008. Five recommendations were made, management agreed with three recommendations and partially agreed with two recommendations. Management provided management responses for implementation with completion anticipated by Q1 2022.

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

Appendix "A" to Report AUD21008 – Recommendations and Management Responses