




CITY OF HAMILTON
OFFICE OF THE CITY AUDITOR

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	January 19, 2023
SUBJECT/REPORT NO:	Hamilton Municipal Cemeteries Trust Funds Audit (AUD23001) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Nancy Hu CFE, CIA (905) 546-2424 Ext. 2207 Brigitte Minard CPA, CA, CIA, CGAP (905) 546-2424 Ext. 3107
SUBMITTED BY:	Charles Brown, CPA, CA City Auditor Office of the City Auditor
SIGNATURE:	

RECOMMENDATION

Discussion of Confidential Appendix “C” to this report is subject to the following requirement(s) of the City of Hamilton’s Procedural By-law and the *Ontario Municipal Act, 2001*:

- The security of the property of the City or a local board

RATIONALE FOR CONFIDENTIALITY

Appendix “C” is being considered in Closed Session as it contains information that pertains to the City’s cash handling operations, providing the information in open session may put the City at risk for theft and other fraudulent activity. Per Cemeteries staff, there have previously been break-ins at this location.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

RATIONALE FOR MAINTAINING CONFIDENTIALITY

The City Auditor recommends that Appendix “C” to Report AUD23001 remain confidential, because in addition to the rationale noted above, the City Auditor in their capacity as an Auditor General for investigations (as approved by Council per Report AUD19005) has a duty of confidentiality as per the *Municipal Act, 2001 Section 223.22*.

RECOMMENDATION (CLOSED SESSION)

None.

RECOMMENDATION (OPEN SESSION)

- (a) That Report AUD23001 and Appendix “A” to Report AUD23001, respecting the Hamilton Municipal Cemeteries Trust Funds Audit be received;
- (b) That the Management Responses, as detailed in Appendix “B” to Report AUD23001 be approved;
- (c) That the General Managers of Public Works, and Finance and Corporate Services be directed to implement the Management Responses (attached as Appendix “B” to Report AUD23001) and report back to the Audit, Finance and Administration Committee by December 2023 on the nature and status of actions taken in response to the audit report; and
- (d) That the Appendix “C” to Report AUD23001, respecting Hamilton Municipal Cemeteries Trust Funds Audit Report: Cash Handling Audit, remain confidential and restricted from public disclosure.

EXECUTIVE SUMMARY

Hamilton Municipal Cemeteries is one of the largest municipal cemetery organizations in Canada. The City of Hamilton (COH) operates 69 cemeteries throughout the city. The total revenue recognized for Hamilton Municipal Cemeteries in 2021 was reported as \$2.7 M for cemetery sales.

The COH is required to operate their cemeteries in compliance with the *Funeral, Burial and Cremation Services Act (FBCSA), 2002*. The Bereavement Authority of Ontario (BAO) is a government delegated authority administering provisions of the *FBCSA*. Per the *FBCSA*, the COH is required to set up three trusts related to the management of cemetery property, services, and supplies. They are the Cemetery Care & Maintenance Trust Fund, the Cemetery Monument Care Trust Fund, and the Pre-Need Assurance Trust Fund.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

The overall objective of the audit was to gain an understanding of the current process related to the revenue collected by the City of Hamilton Cemeteries Administrative Office and the financial processes to record the revenues and trust fund allocations, and evaluate our compliance with the *FBCSA* with regards to the management of our trust monies. The key issues identified are below:

Regarding trust management, we found that the City of Hamilton (COH) is not in compliance with timing and recordkeeping requirements as governed by the *FBCSA*. Additionally, our processes to allocate collected trust money has not been consistent over the years and there is money that has not been moved to the respective trust accounts as required by the *FBCSA*. In addition to not being compliant with the Act, there is the issue of lost interest earned on the trust over the years.

Regarding financial statements, OCA also found that revenue is being incorrectly recognized for prepaid services contract revenue and trust money collected. Additionally, there is a \$1.2 M Due From the COH to the Cemetery Trusts on the annual financial statements. This is a payable from the COH to the Cemetery Trusts. OCA made inquiries into this to understand why there is money that is owed from COH to the trusts, however, we have not received a clear explanation as to why it exists and what it is made up of.

The Cemeteries Administrative Office (CAO) is scheduled to switch from their current cemeteries management system to the City's new Enterprise Asset Management (EAM) system. Though there are aspects of cemeteries management which would work well with EAM (work orders, property inventory, etc.) there is revenue and liability and customer contract management as well as trust tracking that is not an inherent part of EAM and will need to be customized. It also appears that there may have been a lack of due diligence in deciding on the timing of the switchover.

OCA also identified issues related to non-compliance with the Council-Approved User Fee schedule. There appears to be some inconsistencies and informality regarding the applying of some fees.

Finally, OCA performed a Cash Handling Audit on the CAO procedures and noted several areas of non-compliance with corporate policy.

Overall, OCA has recommendations to bring the Cemeteries Trusts into compliance with the *FBSCA*, to address the financial statement issues noted, and to improve governance and controls within the CAO and Financial Planning, Administration & Policy Division (FPAP) processes.

Alternatives for Consideration –Not Applicable

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The report contains some findings that have financial reporting implications for financial statements, specifically regarding revenue recognition.

Staffing: None.

Legal: Compliance issues with the *Funeral, Burial and Cremation Services Act, 2002* were identified in this report, along with compliance issues with Bereavement Authority of Ontario (Provincial regulatory body) requirements.

HISTORICAL BACKGROUND

Staff from the Financial Planning, Administration & Policy Division (FPAP) reached out to the Office of the City Auditor (OCA) regarding concerns over the accuracy and compliance of the amounts and processes related to Cemeteries Trusts reporting. FPAP and the Cemetery Administrative Office (CAO) had several discussions regarding the process compliance and accuracy of the amounts in the Trusts but could not come to an agreement. As a result, OCA performed a preliminary assessment of the matter and based on our initial findings, ultimately completed this audit.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Funeral, Burial and Cremation Services Act, 2002 (FBCSA)

City of Hamilton By-Laws No. 11-040 To Establish Retention Periods for Records of the City of Hamilton and 21-055 To Amend By-law No. 11-040, to Establish Retention Periods to Records of the City of Hamilton

RELEVANT CONSULTATION

Appendix “B” to Report AUD23001 includes responses from management responsible for overseeing the Cemeteries Trusts business processes and financial reporting in the Environmental Services Division and the Financial Planning Administration & Policy Division.

The Financial Services and Legal and Risk Management Services Divisions in the Corporate Services Department were consulted during this audit.

The Bereavement Authority of Ontario (Provincial regulatory body) and KPMG LLP (the City’s current external financial statement auditors) were also consulted during this audit.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

The audit objective was to gain an understanding of the current processes related to the revenue collected by the City of Hamilton Cemeteries Administrative Office and the financial processes to record the revenues and trust fund allocations, and to evaluate our compliance with the *FBCSA* with regards to the management of trust monies.

The Office of the City Auditor (OCA) interviewed staff, the BAO, and reviewed financial and compliance information and other documents.

The Audit Report summarizing our findings can be found at Appendix “A” to Report AUD23001. Findings regarding cash handling can be found at Confidential Appendix “C” to Report AUD23001.

The OCA made 17 recommendations to strengthen program governance, controls and financial reporting. These recommendations can be found in Appendix “B” to Report AUD23001. They include:

- Review prior year financials to bring Cemeteries Trust amounts up to date and to be in compliance with the *FBSCA*;
- Correct identified revenue recognition and financial reporting issues;
- Improve oversight and involve Finance in annual regulatory reporting to the Provincial Regulator (the BAO);
- Charge fees in accordance with Council direction;
- Re-evaluate the timing of the cemeteries management system switchover; and
- Address cash handling deficiencies.

Management responses were received for all recommendations. Overall management agrees with the 17 recommendations. We are requesting that Council direct staff to report back on their progress on management response implementation to the Audit, Finance and Administration Committee.

The Recommendations and Management Response can be found in Appendix “B” to Report AUD23001.

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 AUD23001 – Hamilton Municipal Cemeteries Trust Funds Audit Report

Appendix “B” to Report AUD23001 – Recommendations and Management Response

Confidential Appendix “C” to Report AUD23001 – Cash Handling Audit