



Hamilton

Office of the City Auditor

Hamilton Municipal Cemeteries Trust Funds Audit

Recommendations and Management Responses

January 19, 2023

Office of the City Auditor
Nancy Hu, Senior Auditor
Brigitte Minard, Deputy City Auditor
Charles Brown, City Auditor

Introduction

The following 17 recommendations will correct errors and improve processes and controls to ensure compliance and accuracy in both the Cemeteries Administrative Office (CAO or Cemeteries) and Financial Planning, Administration & Policy Division (FPAP or Finance) processes for cemetery trusts management.

Recommendation 1

We recommend that a review of prior year trust allocations (as far back as there are available records) for completed Prepayment Plan (PPP) contracts be considered and an adjustment made to ensure all applicable money collected from cemetery sales is allocated to the correct trusts. All adjustments and support should be reviewed by FPAP management.

A one-time adjustment should be made to bring any currently active PPP contracts into compliance with the *Funeral Burial and Cremation Services Act (FBCSA)* by moving all applicable trust amounts into the respective trusts. As the responsible party for recording the financial activity for Cemeteries, FPAP should have the authority to make the decision on the amount to record.

Management Response

Agree

It is recognized that the old process that was being used was incorrect and has been corrected for 2021 onward. By the time the audit report is approved in 2023, most active PPPs will be closed so there will not be many open contracts (estimated at \$25,000). Interest adjustments identified in other recommendations in this report and management responses will be considered.

Estimated Completion: September 30, 2023

Office of the City Auditor Comment

In addition to interest adjustments, trust principal amounts collected and not properly allocated to the applicable trusts (incorrectly put into the operating account) should be adjusted. As noted in our report, the impact of not having the principal amounts properly allocated is estimated to have resulted in \$214K in lost interest.

Recommendation 2

To meet the record-keeping requirements of the *FBCSA* for the Pre-Need Trust, consider moving the trusts to individual trusts and tracking. If our current banking provider, does not provide this service, there are other financial institutions that currently offer the service.

Alternatively, a process could be put in place to more accurately calculate the interest earned on the Pre-Need trust amounts. Currently, CAO staff calculates and provides an amount to be taken out of the trust and transferred to the operating account to FPAP when Pre-Need services are needed. This calculation should be done by FPAP staff and reviewed by FPAP management.

Management Response

Agree

Collaborative FPAP/CAO Response:

Best practices from other municipalities will be researched. The processes to setup and manage individual Pre-Need Trust accounts with a financial institution will be reviewed and assessed against the current processes. The current processes include a separate database in a Microsoft Excel spreadsheet where individual trusts and accumulated interest are tracked. FPAP staff and Cemetery Office staff can implement new procedures immediately to update the interest rate and reconcile the spreadsheet to external sources.

Estimated Completion: June 30, 2023

Recommendation 3

There is no oversight or involvement from FPAP for the annual BAO regulatory reporting for the Cemetery Trusts. We recommend that it be clearly defined who is to be involved in the collection and validation of the information and who has the authority to complete this type of annual reporting on behalf of the City.

The reporting is a combination of annual sales detail and trust amounts collected. It is recommended that Cemeteries and Finance staff work together to gather the information and the report be reviewed by both Cemeteries and Finance management prior to submission. The final submission should be approved by Finance.

Management Response

Agree

A Standard Operating Procedure (SOP) will be created to define roles and responsibilities between FPAP and Cemetery Office staff. An annual meeting to review the report prior to submission will be part of the SOP and scheduled with defined staff and management. SOP to be completed by July 1, 2023, and annual meeting to be held thereafter.

Estimated Completion: July 1, 2023

Recommendation 4

We recommend that FPAP in conjunction with Financial Services (FS) review all current and prior year revenue recognition for transactions related to Cemeteries operations and trusts. Consider consulting the City's external auditors regarding the process to restate prior year revenues.

Additionally, current processes should be updated to ensure proper revenue recognition in the future.

Management Response

Agree

FPAP staff and Cemeteries Office staff will review the revenue recognition requirements under the FBSCA financial reporting and municipal financial reporting. Staff will update processes and procedures. Staff will analyze old transactions to adjust trust fund revenues, City municipal revenues for cemeteries and other accounts. Staff will consult with the External Auditors on the process to restate prior year revenues.

Estimated Completion: September 30, 2023

Recommendation 5

We recommend that work continue to determine why the \$1.2M Due From the City of Hamilton (COH) to the Cemeteries Trust exists and to ensure any amounts which should go to the Cemeteries Trusts are properly allocated to the applicable trust. This issue may be related to Recommendation 6.

Management Response

Agree

Initial analysis up to 2021 already started, on the Due From the City of Hamilton to Cemeteries Trusts, will be restarted. With creation of the new City of Hamilton in 2001, transactions back to 2000 should be available for analysis but, depending on the volume of transactions, the exercise may be time consuming. Interest adjustments identified in other recommendations in this report and management responses will be considered. Current practices have already been corrected to prevent a repeat of this issue once required adjustments are made.

Estimated Completion: December 31, 2023

Recommendation 6

We recommend that FPAP include the impact of the Inter-Business Unit Balancing transaction that was part of the journal voucher to record Special

Income C&M Trust amounts to determine if these are part of the total that makes up the Due From amount owed to the C&M Trust. Additionally, since adjustments to move the Special Income portions of the C&M Trust amount were needed to move those amounts to the trust, FPAP should also review to determine if an adjustment needs to be made to the years prior to 2014 to bring the C&M Trust up-to-date and to be in compliance with the *FBSCA* requirements.

Related to this, standard operating procedures need to be developed to document the current procedure to book the Special Income revenue and C&M Trust amounts. The procedures should include the process in the OW's Division to pay for the Special Income burial services and graves including any limitations which may exist for covering this expense. The procedures should include a process to communicate to FPAP if this should happen.

Management Response

Agree

The analysis of past transactions in other recommendations affecting the Due from City to Cemeteries Trust will include Special Income Transactions. The appropriate SOP's will be updated too.

Estimated Completion: December 31, 2023

Recommendation 7

We recommend the processes and procedures in CAO and FPAP be improved to address the risks identified in the audit report prior to the customizing of these processes in the City's new Enterprise Asset Management (EAM) system. This would ensure we are making the best and most efficient use of the customizations available for the new system. For example, consideration should be made when the switch to EAM is implemented to allow for reports to be run so Finance can independently pull financial transactions for booking transactions. Finance should also be involved in the EAM development. Cemeteries may also want to consider obtaining subject matter expertise of cemeteries management software and *FBSCA* to help build the EAM system for them.

Additionally, we recommend a risk assessment be performed with IT Security to ensure all risks with using an unsupported version of HMIS on a limited-supported server are known and considered in the event of delays to the implementation.

Management Response

Agree

The EAM business case that was presented to Council prior to the project being approved is based on eliminating non-value-added activities from the business.

The project will therefore improve, standardize and optimize processes for the business areas as the processes are configured into the system. The EAM system is highly configurable and does not require or involve customization. In the next stage of the project, the EAM team will be working with Cemeteries to elaborate and drill down on their required area specific workflows. These sessions will be held with Cemeteries, Finance, subject matters experts and other project team members including technical resources. Furthermore, current manual processes not included in HMIS, such as Trust Management, will be configured within the EAM system enabling the reduction of errors and cycle time. Finance will have access to the system so that they may adjust as required. The project will also be able to handle and, if desired, automate the month end requirement that is currently conducted in Excel, and trigger an email to happen under prescribed parameters.

The EAM team welcomes a Subject Matter Expert (SME) of cemeteries management software and *FBSCA* to inform the configuration.

A Risk Assessment will be completed with IT security in order to better understand the unsupported version of HMIS and the limited support server.

Estimated Completion: September 30, 2023

Recommendation 8

We recommend that the CAO charge the Council-Approved user fees for all transactions. Any price changes should be submitted as part of the annual budget process for Council approval. Cemeteries staff do not have the authority to waive or reduce fees.

Management Response

Agree

Agree, once prices are set only Council can approve waiving or reducing fees that are within the City's authority to set; some fees are legislated, and should a change occur the CAO would need to comply and neither Council or the CAO can waive or change those fees. Staff are currently charging the approved fees.

Estimated Completion: Completed

Recommendation 9

We recommend that a standard operating procedure be implemented for non-resident fees. It should include both validation and record retention requirements.

Management Response

Agree

The creation of a Standard Operating Procedure (SOP) is underway with some progress to date. The matter of non-resident fees is complicated by Hamilton's ownership of Woodlands Cemetery, that falls within the boundaries of Burlington. Staff will prepare a recommendation report for Council consideration on how to address non-resident fees for Hamilton-owned Cemeteries.

Estimated Completion: July 1, 2023

Recommendation 10

We recommend that the City's Cemetery By-Laws be updated to include a policy for refunds for lots/graves or niches/columbariums to ensure compliance with the *FBCSA*. The City can decide if it will refund a purchase or not, but the decision should be documented in the By-laws and, the contract clause in the contract for refunds should be updated accordingly.

Management Response

Agree

The By-law will be updated and submitted to BAO for approval in order to become compliant with this recommendation and the legislation. When the legislation changed a few years ago, it was determined that Hamilton would not buy back lots/graves or niches/columbariums, however the By-law was not updated at that time. It is anticipated that a staff report will be brought to Public Works Committee in Q2 2023. Once the By-law is approved by Council, it requires BAO review and approval, which staff estimate will take an additional 2-3 months. If changes are required by the BAO, a revised By-law and report to committee will be required.

Estimated Completion: September 30, 2023

Recommendation 11

We recommend that the CAO address the issues identified in the Cash Handling portion of the audit (as listed in Confidential Appendix "C" to Report AUD23001) to be compliant with the Council-approved City-Wide Cash Handling Policy and Guidelines.

Management Response

Agree

Management agree that separation of duties to ensure proper oversight of cash and financial matters is important. However, separation of duties is a challenge with Cemeteries office because there are not many staff in the administration area to provide layers of approval. The Supervisor of Cemeteries does now ensure management review and sign-off of contracts and other documents where changes are required. This ensures documentation is clear for approvals. Additionally, updates to Standard Operating Procedures (SOP's) and creation of new SOP's to reflect the requirements of the cash handling policy is ongoing.

Estimated Completion: September 1, 2023

Recommendation 12

We recommend that the CAO and FPAP Division document standard operating procedures for their respective processes for their current processes around cemetery sales and trust administration. The processes should ensure that compliance requirements are addressed and there is adequate segregation of duties. Included in the procedures should be more management oversight over processes (e.g. management review over any adjustments to the trusts, a periodic review of deposits and refunds, etc.).

Management Response

Agree

Management agree that Standard Operating Procedures (SOP's) be updated or created where there are none, to ensure management oversight and segregation of duties is clear and compliant. This is being addressed in Recommendation 11 as well as others related to SOP's to define roles and responsibilities between Cemeteries and Finance interactions.

Estimated Completion: December 31, 2023

Recommendation 13

We recommend that the Council-approved investment policy either be updated to allow for security lending for trusts or this practice be discontinued for trusts to comply with the current policy.

While completing the above, the risks of securities lending should be assessed for all trusts which earn income in this manner.

Management Response

Agree

While the inclusion of securities lending is missing from section 5 of the Statement of Investment Policies and Procedures (SIPP, Appendix "A" to Report FCS19074), securities lending is permitted in the custodian agreements through a separate securities lending agreement. Securities lending revenue is minimal. The existing agreement will be reviewed for the impact of cancelling and ceasing lending of cemetery trust securities.

Anticipated Completion: June 30, 2023

Recommendation 14

We recommend that Legal Services review the current Securities Lending Agreement and determine if there could be more advantageous or transparent terms which could be negotiated in addition to updating the terms to be current (e.g. update the list of Security Borrowers, etc.).

Management Response

Agree

Under recommendation 13, FPAP staff are looking to cease lending of cemetery trust securities so Legal Services will not be needed to negotiate terms for a new agreement.

Anticipated Completion: September 30, 2023

Recommendation 15

We recommend that FPAP determine the purpose of the allocation of revenue to specific cemeteries and include this in their standard operating procedures. If there is no impact to financial reporting or budgeting, discontinue this to streamline the financial reporting process. This should also extend to the refund process.

Management Response

Agree

FPAP staff will discuss with CAO Manager/Superintendent to understand if there is requirement to have separate cost centres or Dept IDs for each cemetery or general cemetery costs and revenues.

Estimated Completion: June 30, 2023

Recommendation 16

We recommend that Cemeteries staff ensure copies of BAO reports and all contract file information is saved electronically and that Finance ensures that journal entries in PeopleSoft include applicable attachments, particularly for any one-time entries or adjustments to financial records.

Management Response

Agree

Cemeteries staff are working on the transition to digital filing and good progress is being made. All contracts are digital and reporting to the BAO is now digital per the BAO processes. Cemeteries records are nearing completion of transition to digital with scanning of archive files. FPAP staff will ensure supporting documents are saved with PeopleSoft journals.

Estimated Completion: June 30, 2023

Recommendation 17

On the BAO website, there is a Compliance Self-Evaluation Checklist for Cemetery Operators that covers the breadth of the *FBCSA* requirements over all of cemeteries management. OCA recommends that Cemeteries and Finance review this checklist to understand what other areas or processes applicable to the COH cemeteries that may require improvements to be in compliance with the *FBCSA*.

Additionally, Finance should consider reaching out to the BAO directly for any questions and being less reliant on Cemeteries staff to make inquiries. This could help develop a relationship with the BAO independently of the Cemeteries staff.

Management Response

Agree

Management agree to undertake the self-assessment and follow any recommendations. Finance staff and Cemetery staff can have specific independent discussions with the BAO as required to clarify process and ask questions. It will be a priority to ensure ongoing collaboration and coordination between Cemetery and Finance staff, to be clearly defined through Standard Operating Procedure (SOP) to be created per Recommendation 3.

Estimated Completion: July 1, 2023