



Hamilton

Office of the City Auditor

HAMILTON MUNICIPAL CEMETERIES TRUST FUNDS AUDIT

Charles Brown, City Auditor

JANUARY 19, 2023



Background

- Hamilton Municipal Cemeteries is one of the largest municipal cemetery organizations in Canada
- The City of Hamilton operates 69 cemeteries throughout the city
- Total revenue recognized for Hamilton Municipal Cemeteries in 2021 was \$2.7 M. Cemeteries assets are in 3 separate trusts that total \$21.6M
- The City is required to operate their cemeteries in compliance with the *Funeral, Burial and Cremation Services Act (FBCSA), 2002*

Legislative and Regulatory Requirements

- The Bereavement Authority of Ontario (BAO) is a government delegated authority administering provisions of the *FBCSA*.
- The City is required to set up three trusts related to the management of cemetery property, services, and supplies.
 - Cemetery Care & Maintenance Trust Fund
 - Cemetery Monument Care Trust Fund
 - Pre-Need Assurance Trust Fund
- There is a requirement for annual reporting to the BAO on revenue details, trust information, annual financials etc. All cemetery operators are to report information related to their required trusts.

- Gained an understanding of:
 - The current process for revenue collected by the City of Hamilton Cemeteries Administrative Office; and
 - The financial processes to record the revenues and trust fund allocations
 - How fiduciary obligations are administered
- Evaluated compliance with *the Funeral, Burial and Cremation Services Act (FBCSA), 2002* with regards to the management of our trust monies.

- The City is not in compliance with trust management requirements as governed by the *FBCSA*.
 - Processes to allocate trust money not consistent over the years and there is still money that has not been moved to the respective trust accounts as required by the *FBCSA*.
- The financial impact is:
 - Shortfalls in funding due to the principal not being put into the trusts.
 - As a result of the shortfalls in funding, there is lost interest income (interest income from the trusts is supposed to be used for maintenance and burial costs as prescribed by the applicable trusts)
 - Based on available information, OCA estimates the lost interest applicable to 2010 to 2021 to be \$214,400

What We Found

- A long outstanding \$1.2 M “Due From the COH” that represents monies owed to the Trust by the City
 - It is still not clear to OCA as to why it exists and what it consists of.
 - Amount has been outstanding for at least 5 years. If the amount is verified as owing to the Trust the lost interest would equate to approx. \$50K per year (\$250K)
- Revenue is being incorrectly recognized for prepaid services contract revenue and trust money collected.
 - Impact may be a material amount in terms of impact on the Trust financial statements

Current Process (Incorrect Revenue Recognition)

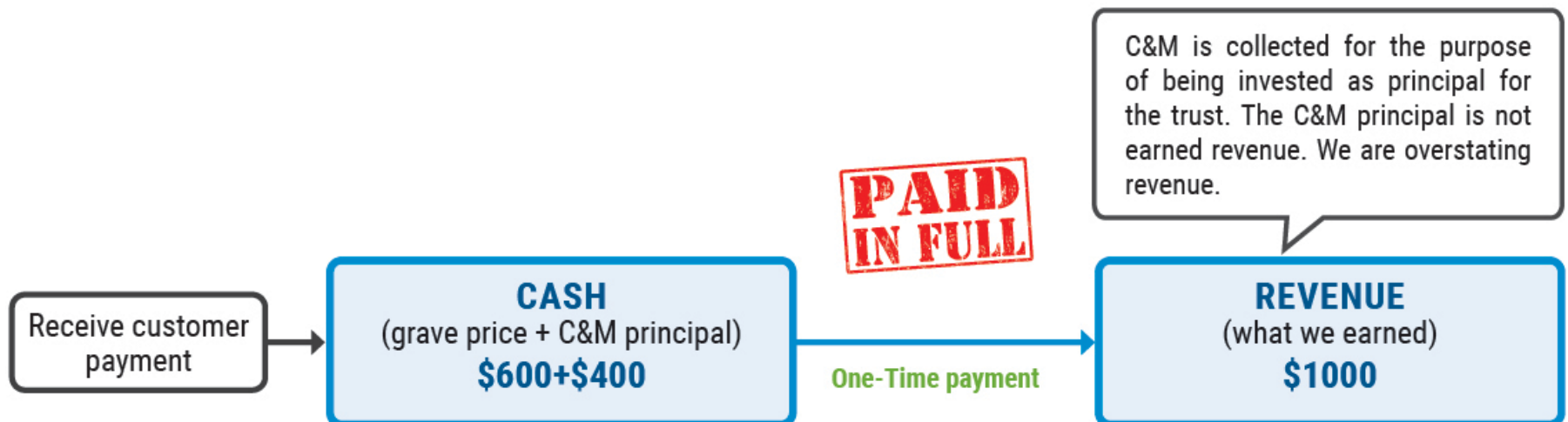
Revenue Recognition for One-Time Payment for Property (Current Process)

GRAVE/LOT PURCHASE EXAMPLE

(For grave/lot purchases 40% of sale price is required to go to the Care & Maintenance (C&M) trust)

BALANCE SHEET
(assets that accumulate over time)

INCOME STATEMENT (PROFIT & LOSS)
(what we make each year)



Correct Process

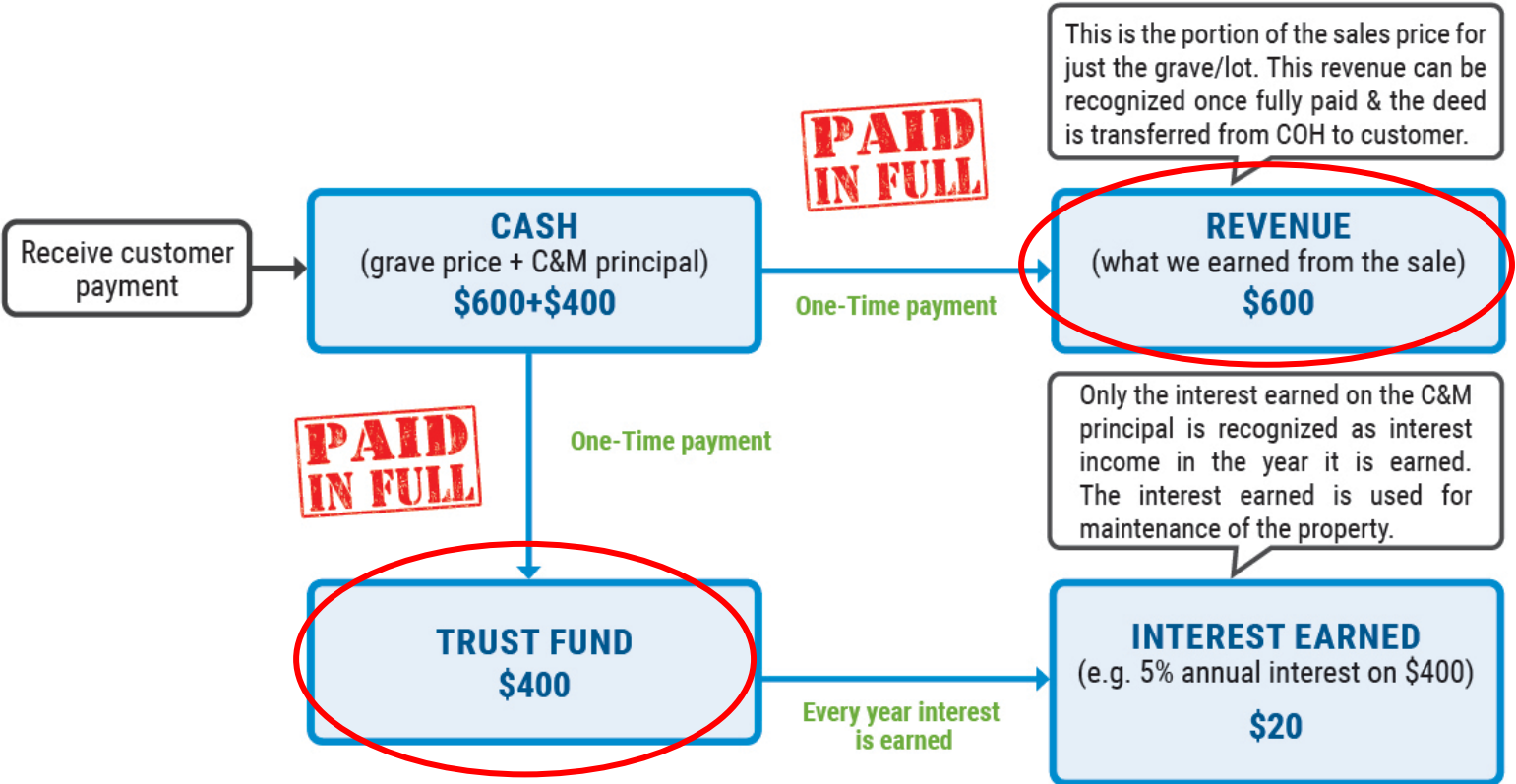
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What We Found

- The switch from the current cemeteries management software to the new Enterprise Asset Management (EAM) system appears to have been made with a lack of due diligence in deciding on switchover timing.
- Non-compliance with the Council-Approved User Fee schedule identified.
- Cash Handling Audit performed, and several areas of non-compliance identified, including several fraud risks.

What We Found

- Cemeteries Administrative Office and Finance do not have documented standard operating procedures for their processes for cemetery sales and trust administration.
- The three Cemeteries Trusts all receive income from securities lending activities.
 - Per the Council-approved investment policy, securities lending is not listed as one of the types of permitted investments.

- We made 17 recommendations to strengthen program governance, controls and financial reporting made.
- Management agreed with all recommendations in their management responses.
- We request that Council direct staff to report back to A&FA on their progress in implementing the recommendations.



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QUESTIONS?