



## **AUDIT, FINANCE AND ADMINISTRATION COMMITTEE REPORT 23-001**

**9:30 a.m.**

**January 19, 2023  
Council Chambers  
Hamilton City Hall**

**Present:** Councillors C. Kroetsch (Chair), T. Hwang (Vice-Chair), J. Beattie, B. Clark, M. Tadeson, A. Wilson and M. Wilson

**Also Present:** Councillor T. Jackson

### **THE AUDIT, FINANCE AND ADMINISTRATION COMMITTEE PRESENTS REPORT 23-001 AND RESPECTFULLY RECOMMENDS:**

**1. 860 Rymal Rd E - Wentworth Condominium Corporation (WCC) #128  
Wastewater/Storm Sewer Credit (Item 7.1)**

WHEREAS, 860 Rymal Rd E is an 87-unit townhome complex that experienced a sharp increase in their wastewater / storm bills during 2022 that was attributable to a private watermain break in a driveway and a service line break under the basement floor of a unit;

WHEREAS, prior to 2022 the typical monthly water billings averaged approximately 1,500m<sup>3</sup> in consumption with total water and wastewater/storm monthly bills of about \$6,000 and the period of high consumption related to the service line leaks of January 4, 2022 to October 3, 2022 amounted to 50,317m<sup>3</sup> equating to total water and wastewater/storm charges of \$190,299.32;

WHEREAS, Hamilton Water reviewed the private watermain break and concluded that given the location of the leak and the fact that the leaking water remained underground, it appears that the leaking water ended up underground and likely did not enter the City's sanitary or storm sewer systems.

WHEREAS, the wastewater portion associated with the excess water consumption related to the service line leak at 860 Rymal Road amounts to \$65,900.

**THEREFORE BE IT RESOLVED:**

That staff be directed to provide a credit adjustment in the amount of \$65,900 to the Wentworth Condominium Corporation (WCC) #128 for excess wastewater/storm sewer charges located at 860 Rymal Rd E, for the billing period from January 4, 2022 to October 3, 2022.

**Council – January 25, 2023**

**2. 2022 City of Hamilton External Audit Plan (FCS23008) (City Wide) (Item 8.1)**

- (a) That Appendix “A” attached to Audit, Finance and Administration Committee Report 23-001, prepared by KPMG, be received.
- (b) That staff be directed to work with the external auditor to develop an executive summary of the financial audit to make it more accessible to the public, utilising clear writing standards, to be included as part of the final audit report.

**3. Water Meter Program Audit and Water Billing Service Transition Project (AUD23002) (City Wide) (Item 8.2)**

- (a) That Report AUD23002, and Appendices “B” and “C” attached to Audit, Finance and Administration Committee Report 23-001, be received;
- (b) That staff be directed to amend the Management Responses, as detailed in Appendix “B” to Report AUD23002, to indicate approval of the Office of the City Auditor’s Recommendation 5, and that the revised Appendix “B” to Report AUD23002, attached hereto as Appendix “D,” be approved;
- (c) That the General Manager of Public Works be directed to implement the Management Responses and report back to the Audit, Finance and Administration Committee by July 2023 on the nature and status of actions taken in response to the audit report; and
- (d) That the General Manager of Public Works, in conjunction with the General Manager of Finance and Corporate Services, be directed to conduct a fulsome risk assessment for the Water Billing Service Transition Project; and
- (e) That staff ensure a privacy impact assessment is completed for the water billing service transition project.

**4. Hamilton Municipal Cemeteries Trust Funds Audit (AUD23001) (City Wide) (Item 8.3)**

- (a) That Report AUD23001 and Appendix “E” attached to Audit, Finance and Administration Committee Report 23-001, respecting the Hamilton Municipal Cemeteries Trust Funds Audit be received;
- (b) That the Management Responses, as detailed in Appendix “F” to attached to Audit, Finance and Administration Committee Report 23-001, 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 “F” attached to Audit, Finance and Administration Committee Report 23-001) 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 confidential Appendix “C” to Report AUD23001, respecting Hamilton Municipal Cemeteries Trust Funds Audit Report: Cash Handling Audit, remain confidential and restricted from public disclosure.

**5. Utility Billing Transition Project Procurement Plan (FCS21082(d)) (City Wide) (Item 10.1)**

- (a) That the single source procurement with Olameter Inc. to provide manual water meter reading services for the City of Hamilton, pursuant to Procurement Policy #11 – Non-competitive Procurements, be approved;
- (b) That the General Manager, Public Works, be authorized to negotiate, enter into and execute a contract and any ancillary documents required to give effect thereto to provide manual water meter reading services for the City of Hamilton for a term of two years with a one-year term extension at the City’s sole option, commencing from when the City assumes responsibility for utility billing from Alectra Utilities, in a form satisfactory to the City Solicitor.

**6. 2023 Budget Submission – Committee Against Racism (CM23003) (City Wide) (Item 10.2)**

That the Committee Against Racism 2023 base budget attached as Appendix “G” attached to Audit, Finance and Administration Committee Report 23-001, in the amount of \$8,900, be approved and referred to the 2023 budget process for consideration.

**7. 2023 Budget Submission – Advisory Committee for Immigrants and Refugees (CM23006) (City Wide) (Item 10.3)**

That the Advisory Committee for Immigrants and Refugees 2023 base budget submission attached as Appendix “H” attached to Audit, Finance and Administration Committee Report 23-001, in the amount of \$3,500.00, be approved and referred to the 2023 budget process for consideration.

**8. 2023 Budget Submission: Mundialization Committee (CM23004) (City Wide) (Item 10.4)**

- (a) That Appendix “I” attached to Audit, Finance and Administration Committee Report 23-001, respecting the Mundialization Committee’s 2023 base budget submission be approved in the amount of \$5,890.00; and
- (b) That Mundialization Committee’s 2023 budget submission be referred to the 2023 budget process.

**9. 2023 Budget Submission Hamilton Women and Gender Equity Committee (CM23002) (City Wide) (Item 10.5)**

That the Hamilton Women and Gender Equity Committee 2023 base budget submission attached as Appendix “J” attached to Audit, Finance and

Administration Committee Report 23-001, in the amount of \$3,500.00, be approved and referred to the 2023 budget process for consideration.

**10. Recording of Advisory Committee Meetings (FCS21054(a)) (Item 10.6)**

- (a) That Council approve the recording and retention of all Virtual, Hybrid and In Person Advisory Committee meetings;
- (b) That subject to the approval of recommendation (a) to this report, the draft by-law, entitled “To Amend By-law No. 11-040 To Establish Retention Periods for Records of the City of Hamilton” (the “Records Retention By-law”), attached as Appendix ‘A’ to Report FCS21054(a)), be enacted by Council;
- (c) That subject to the approval of recommendation (a) to this report, the recruitment advertising for Advisory Committee Membership include notice that all Advisory Committee meetings will be livestreamed and recorded for future viewing; and
- (d) That subject to the approval of recommendation (a) to this report, all Council appointed Advisory Committee members be required to sign the Acknowledgement Form prior to each member attending their first meeting, as acknowledgement of the livestreaming and recording of all meetings.

**11. Road Maintenance Small Tools and Equipment Inventory Audit and Follow up to Audit Report AUD11006 (AUD21010): Management Update (PW23004) (City Wide) (Item 10.7)**

That Report PW23004, respecting Road Maintenance Small Tools and Equipment Inventory Audit and Follow up to Audit Report AUD11006 (AUD21010): Management Update, be received.

**FOR INFORMATION:**

**(a) CHANGES TO THE AGENDA (Item 2)**

The Committee Clerk advised of the following changes to the agenda:

**6. DELEGATION REQUESTS**

- 6.1 Angelo Cristofaro, Consilium Public Sector Services Inc., respecting Fairness of procurement process for contract number C5-09-22 - Development of a Multi-Year Plan to Build Safer Communities (For a future meeting).

**10. DISCUSSION ITEMS**

- 10.7 Road Maintenance Small Tools and Equipment Inventory Audit and Follow up to Audit Report AUD11006 (AUD21010): Management

Update (PW23004) (City Wide)

**11. MOTIONS**

- 11.1 Development Charge Demolition Charge Credit Extension for 708 Rymal Road East, Hamilton, Ontario – **WITHDRAWN**

**12. NOTICES OF MOTION**

- 12.1 Delegated Authority to Staff relating to Water Service Line Leaks

The agenda for the January 19, 2023 Audit, Finance and Administration Committee meeting was approved, as amended.

**(b) DECLARATIONS OF INTEREST (Item 3)**

There were no declarations of interest.

**(c) APPROVAL OF MINUTES OF PREVIOUS MEETING (Item 4)**

**(i) December 1, 2022 (Item 4.1)**

The Minutes of the December 1, 2022 meeting of the Audit, Finance and Administration Committee was approved, as presented.

**(d) COMMUNICATIONS (Item 5)**

**(i) Correspondence from Khursheed Ahmed, respecting their resignation from the Immigrant and Refugee Advisory Committee (Item 5.1)**

The correspondence from Khursheed Ahmed, respecting their resignation from the Immigrant and Refugee Advisory Committee, was received.

**(e) DELEGATION REQUEST (Item 6)**

**(i) Angelo Cristofaro, Consilium Public Sector Services Inc., respecting Fairness of procurement process for contract number C5-09-22 - Development of a Multi-Year Plan to Build Safer Communities (For a future meeting) (Added Item 6.1)**

The delegation request from Angelo Cristofaro, Consilium Public Sector Services Inc., respecting Fairness of procurement process for contract number C5-09-22 - Development of a Multi-Year Plan to Build Safer Communities, was approved for a future meeting.

**(f) DELEGATIONS (Item 7)**

**(i) Patricia Ford, Wentworth Condominium Corporation (WCC) #128 at 860 Rymal Rd. E., respecting a water service line leak (Item 7.1)**

Patricia Ford, Wentworth Condominium Corporation (WCC) #128 at 860 Rymal Rd. E., addressed Committee respecting a water service line leak.

**(ii) Staff Supporting Documentation respecting a water service line leak at Wentworth Condominium Corporation (WCC) #128 at 860 Rymal Rd. E., (Item 7.1(a))**

(a) The delegation from Patricia Ford, Wentworth Condominium Corporation (WCC) #128 at 860 Rymal Rd. E., respecting the water service line leak, was received; and

(b) The Staff Supporting Documentation respecting the water service line leak at Wentworth Condominium Corporation (WCC) #128 at 860 Rymal Rd. E., was received.

For further disposition of this matter, refer to Item 1.

**(g) PRESENTATIONS (Item 8)**

**(i) 2022 City of Hamilton External Audit Plan (FCS23008) (City Wide) (Item 8.1)**

Paul Ciapanna, KPMG, addressed the Committee respecting 2022 City of Hamilton External Audit Plan, with the aid of a presentation.

The presentation from Paul Ciapanna, KPMG, respecting the 2022 City of Hamilton External Audit Plan, was received.

For further disposition of this item, refer to Item 2.

**(ii) Water Meter Program Audit and Water Billing Service Transition Project (AUD23002) (City Wide) (Item 8.2)**

Brigette Minard, Deputy City Auditor, and Melissa Fournier, John Asher and Mike Cunningham, BDO, addressed the Committee respecting Water Meter Program Audit and Water Billing Service Transition Project, with the aid of a presentation.

(a) The presentation from Brigette Minard, Deputy City Auditor, and Melissa Fournier, John Asher and Mike Cunningham, BDO, respecting Water Meter Program Audit and Water Billing Service Transition Project, was received.

- (b) Subsection (b) of Report AUD23002, respecting the Water Meter Program Audit and Water Billing Service Transition Project, was *amended* as follows:
  - (b) That ***staff be directed to revise*** the Management Responses, as detailed in Appendix “B” to Report AUD23002, ***to indicate approval of the Office of the City Auditor’s Recommendation 5, and that the revised Appendix “B” to Report AUD23002,*** be approved;
  - (c) Report AUD23002, respecting the Water Meter Program Audit and Water Billing Service Transition Project, was further *amended* to add a new subsection (e), as follows:
    - (e) ***That staff ensure a privacy impact assessment is completed for the water billing service transition project.***

For further disposition of this item, refer to Item 3.

**(iii) Hamilton Municipal Cemeteries Trust Funds Audit (AUD23001) (City Wide) (Item 8.3)**

Charles Brown, City Auditor addressed the Committee respecting Hamilton Municipal Cemeteries Trust Funds Audit, with the aid of a presentation.

The presentation from Charles Brown, City Auditor, respecting Hamilton Municipal Cemeteries Trust Funds Audit, was received.

For further disposition of this item, refer to Item 4.

**(g) CONSENT ITEMS (Item 7)**

The Committee Against Racism Minutes of April 26, 2022, were received.

**(h) NOTICES OF MOTION (Item 12)**

**(i) Delegated Authority to Staff relating to Water Service Line Leaks (Added Item 12.1)**

Councillor Hwang introduced the following Notice of Motion:

WHEREAS, individual community members, corporations, non-profit organizations, and all other resident entities can delegate to the Audit Finance and Administration Committee to ask for Council consideration for bill adjustments and waiving of penalties, fees, interest accrued relating to charges for water and wastewater services;

WHEREAS, some properties with water meters located at the property line may experience increased water and wastewater/storm billings related to downstream water service line leaks;

WHEREAS, there is no Council approved policy/by-law authority for staff to address water service line leaks and their associated costs to claimants;  
and

WHEREAS, staff are better equipped to respond to technical and other considerations related to decision making with respect to water service line leaks than members of Council;

THEREFORE, BE IT RESOLVED:

That staff report back to the Audit, Finance and Administration Committee with a Water Service Line Leak Wastewater Bill Adjustment Policy to provide delegated authority for staff to make decisions on bill adjustments, waiving of fees/penalties, or enforcement of fees associated with water service line leaks; such policy to include an evaluation framework that would allow staff to determine the validity of water service line leak claims and appeals.

**(i) ADJOURNMENT (Item 15)**

There being no further business, the Audit, Finance and Administration Committee, was adjourned at 12:57 p.m.

Respectfully submitted,

Councillor Cameron Kroetsch, Chair  
Audit, Finance and Administration  
Committee

Tamara Bates  
Legislative Coordinator  
Office of the City Clerk



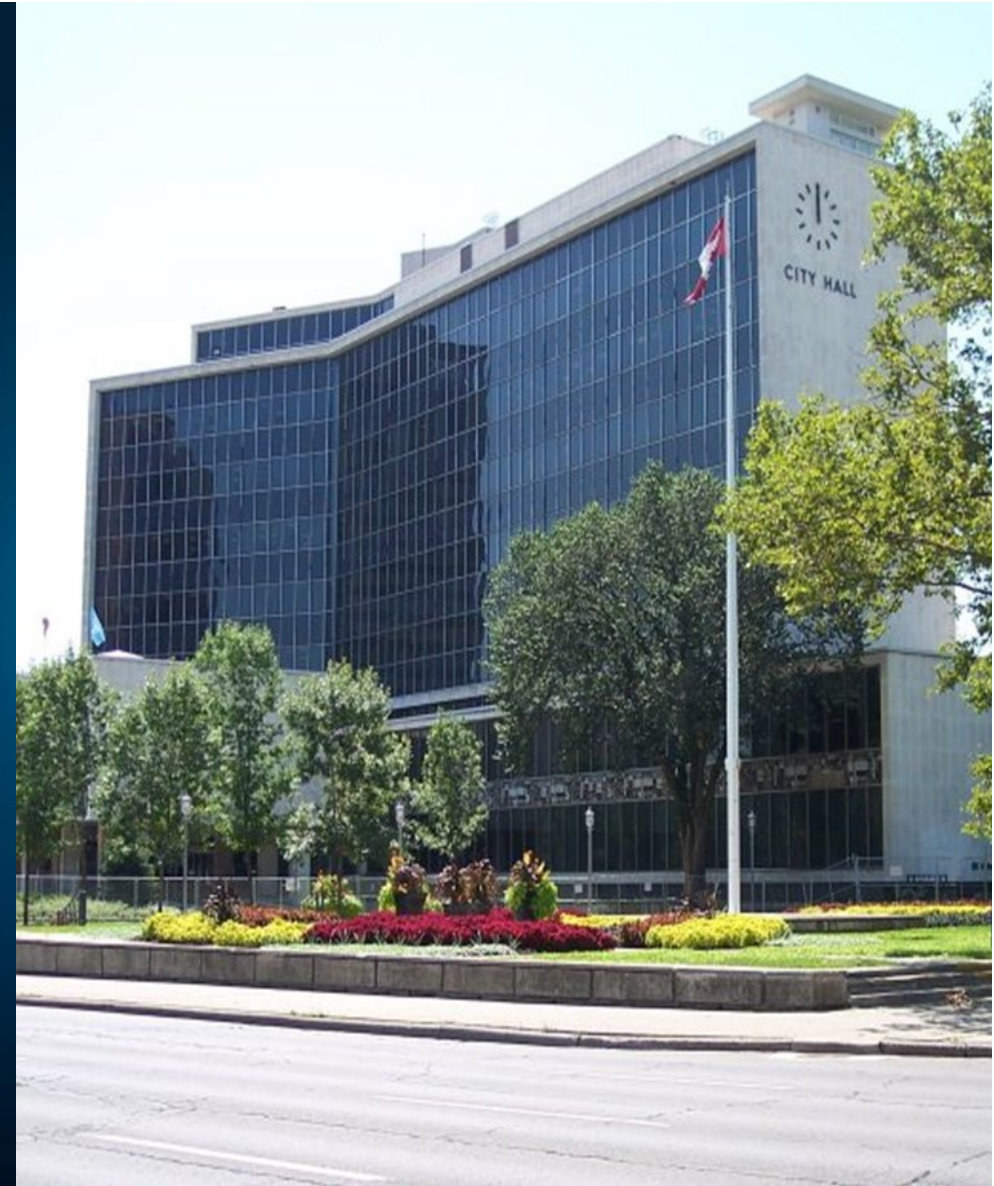


# The Corporation of City of Hamilton

**External Financial Audit Planning Report  
for the year ended December 31, 2022**



Prepared December 9, 2022 for presentation to the Audit,  
Finance and Administration Committee on January 19, 2023  
[kpmg.ca/audit](http://kpmg.ca/audit)



# KPMG contacts

## Key contacts in connection with this engagement



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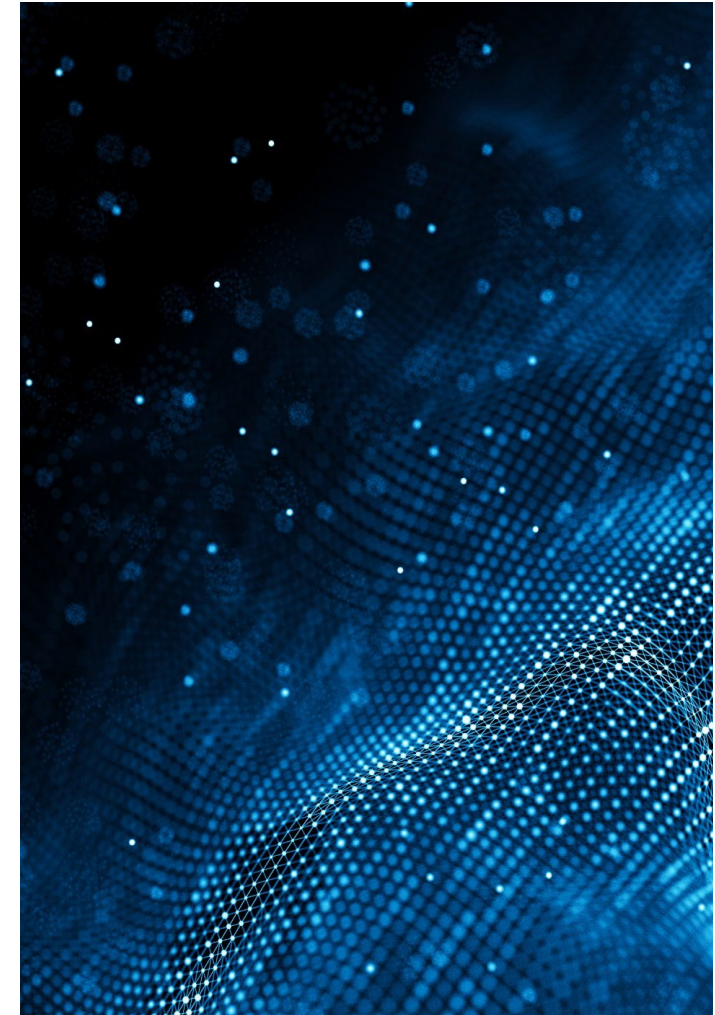
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This report to the Audit, Finance and Administration Committee is intended solely for the information and use of management and the Committee, and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report to the Committee has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

## Digital use information

This Audit Planning Report is also available as a “hyper-linked” PDF document.

If you are reading in electronic form (e.g. In “Adobe Reader” or “Board Books”), clicking on the home symbol on the top right corner will bring you back to this page.



Click on any item in the table of contents to navigate to that section.

# Audit Quality: How do we deliver audit quality?

**Quality** essentially means doing the right thing and remains our highest priority. Our **Global Quality Framework** outlines how we deliver quality and how every partner and staff member contribute to its delivery.

'**Perform quality engagements**' sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

Our **quality value drivers** are the cornerstones to our approach underpinned by the **supporting drivers** and give clear direction to encourage the right behaviours in delivering audit quality.

We define 'audit quality' as being the outcome when:

- audits are **executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality controls**; and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics** and **integrity**.



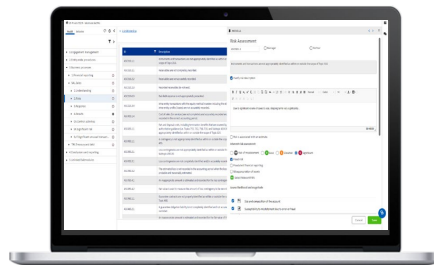
**Doing the right thing. Always.**



# Our audit platform - KPMG Clara

Building upon our sound audit quality foundations, we are making significant investments to drive consistency and quality across our global audit practices. We've committed to an ongoing investment in innovative technologies and tools for engagement teams, such as KPMG Clara, our smart audit platform.

## KPMG Clara workflow

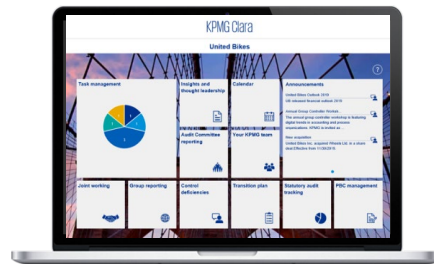


### Globally consistent execution

A modern, intuitively written, highly applicable audit methodology that allows us to deliver globally consistent engagements.

[▶ Learn more](#)

## KPMG Clara for clients



### Real-time collaboration and transparency

Allows the client team to see the real-time status of the engagement and who from our KPMG team is leading on a deliverable.

[▶ Learn more](#)

## KPMG Clara analytics



### Insights-driven efficient operations

Using the latest technologies to analyze data, KPMG Clara allows us to visualise the flow of transactions through the system, identify risks in your financial data and perform more specific audit procedures.

[▶ Learn more](#)

## Advanced Technologies

To ensure quick and efficient access to data, we use one of our available data extractions tools such as **DataShare**. DataShare is a data extraction tool that enables easy and reliable data extraction from compatible accounting systems to support our audit work by fully automating the extraction process.



[Click to learn more](#)

# Highlights

## Scope of the audit

Our audit of the consolidated financial statements (“financial statements”) of The City of Hamilton (“the City”) as of and for the year ending December 31, 2022, will be performed in accordance with Canadian generally accepted auditing standards (CASs).



### Significant risks

We have identified significant risks of material misstatement for the audits including:

- Risk of fraud over revenue recognition
- Risk of fraud related to management override of controls

See pages 12 to 13.

### Required communications

See Appendix A: Other required communications

### Other areas of audit focus

We have identified other areas of focus including:

- Government Grants
- Investment and Related Income
- Employee Future Benefits
- Landfill Liability & Contaminated Sites
- Tangible Capital Assets
- Operating Expenditures Including Payroll

See pages 14 to 18.

### Materiality

Materiality has been established by considering various metrics that are relevant to the users of the financial statements, including total revenues and total expenses. Materiality has been determined based on prior period total revenues. We have determined group materiality to be \$64.4 million (PY \$50.3 million). See page 8.

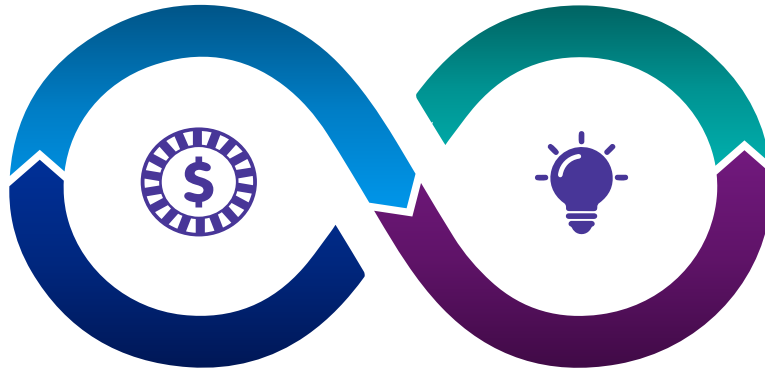
We have reviewed the scope of work across segments and business across the group. Materiality will be set at lower thresholds where necessary to meet requirements of various funding agencies. See page 9.

### Newly effective auditing standards

Please refer to page 10 and Appendix C for auditing changes relevant to the City, specifically on CAS 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement*.



# Materiality



We **initially determine materiality** at a level at which we consider that misstatements could reasonably be expected to influence the economic decisions of users. Determining materiality is a matter of **professional judgement**, considering both quantitative and qualitative factors, and is affected by our perception of the common financial information needs of users of the financial statements as a group. We do not consider the possible effect of misstatements on specific individual users, whose needs may vary widely.

We **reassess materiality** throughout the audit and revise materiality if we become aware of information that would have caused us to determine a different materiality level initially.

## Plan and perform the audit

We **initially determine materiality** to provide a basis for:

- Determining the nature, timing and extent of risk assessment procedures;
- Identifying and assessing the risks of material misstatement; and
- Determining the nature, timing, and extent of further audit procedures.

We design our procedures to detect misstatements at a level less than materiality in individual accounts and disclosures, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

## Evaluate the effect of misstatements

We also use materiality to evaluate the effect of:

- Identified misstatements on our audit; and
- Uncorrected misstatements, if any, on the financial statements and in forming our opinion.

# Materiality – Consolidated Financial Statements





# Materiality - Components


KPMG will audit the following components that are consolidated into the City of Hamilton financial statements using their stand-alone materiality as separate financial statements are required:




<b>Components</b>
CityHousing Hamilton Corporation
Hamilton Utilities Corporation ("H.U.C.")
Hamilton Enterprises Holdings Corporation ("H.E.H.C.O")
Hamilton Renewable Power Inc. ("H.R.P.I.")
Hamilton Public Library Board
Hamilton Business Improvement Areas (BIAs)
Hamilton Farmers Market



# Updates to our prior year audit plan



## New significant risks

 <p>New significant risks</p>	➔	No new significant risks have been identified in the current year.
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## Other significant changes

 <p>Other significant changes</p>	➔	No significant changes to the audit plan.
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 <p>Newly effective auditing standards</p>	➔	<ul style="list-style-type: none"> <li>• <b>CAS 315 (Revised) <i>Identifying and Assessing the Risks of Material Misstatement</i></b>                      Please see Appendix C for a detailed description of the revised standard.</li> </ul>	Newly effective auditing standards 
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 <p>Newly effective accounting standards</p>	➔	There are no new or amended accounting standards effective for the City's 2022 consolidated financial statements.  Please see Appendix B for all the upcoming standards and amendment changes that will be effective in future periods.	Newly effective accounting standards 
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Audit Quality

KPMG Clara

Highlights

Audit Plan

Audit Risks

Key Milestones and Deliverables

Independence

Appendices



# Involvement of others

Involved party	Nature and extent of planned involvement	Involvement In
<b>KPMG Actuarial Specialists</b>	We involve actuarial specialists as part of our audit procedures to perform an assessment of the assumptions and methods used in the valuation of employee future benefits obligation and related disclosures.	Audit of financial statements

Audit Quality	KPMG Clara	Highlights	Audit Plan	<b>Audit Risks</b>	Key Milestones and Deliverables	Independence	Appendices	
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# Significant risks

	<b>Risk of fraud over revenue recognition</b>	RISK OF  FRAUD
<b>Estimate?</b>	<b>Significant risk</b>	<b>New or changed?</b>
No	Yes	No

## Relevant inherent risk factors affecting our risk assessment

We have identified the following areas where this presumed fraud risk is relevant:

- Government grants
- Development charges

Government grant revenue recognition is dependent on the terms of the grant and can be complex depending upon the terms. The City receives many different types of grants with different terms and conditions. Fraud could include misapplying expenditures to incorrect grant funded programs in order to maximize returnable funding. The nature of development charges and their use create complexity in the timing of revenue recognition.

## Our audit approach

To address the fraud risk from revenue recognition, our audit approach will consist of the following:

- test of journal entries and other adjustments;
- substantively test revenues (both recognized and amounts held as deferred at year end); and
- recalculate management's determination of deferred revenue – obligatory reserve funds through auditing management's methodology.

Audit Quality	KPMG Clara	Highlights	Audit Plan	<b>Audit Risks</b>	Key Milestones and Deliverables	Independence	Appendices	
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# Significant risks (continued)

	<b>Risk of fraud over management override of controls</b>	<b>RISK OF FRAUD</b>
<b>Estimate?</b>	<b>Significant risk</b>	<b>New or changed?</b>
No	Yes	No

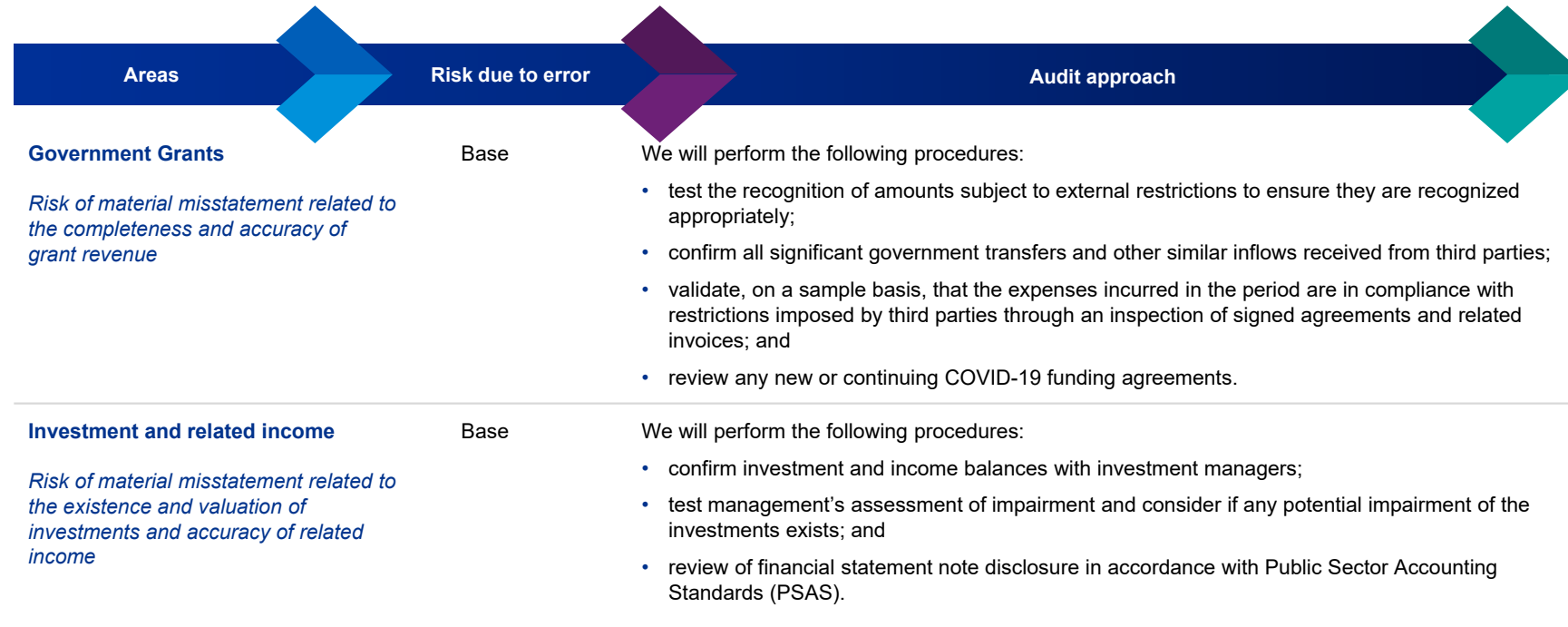
### Relevant inherent risk factors affecting our risk assessment

Under CAS, there is a presumed risk of fraud of management override of controls. We have not identified any specific additional risks of management override relating to this audit. Management is in a unique position to perpetrate fraud because of management’s ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities.

### Our audit approach

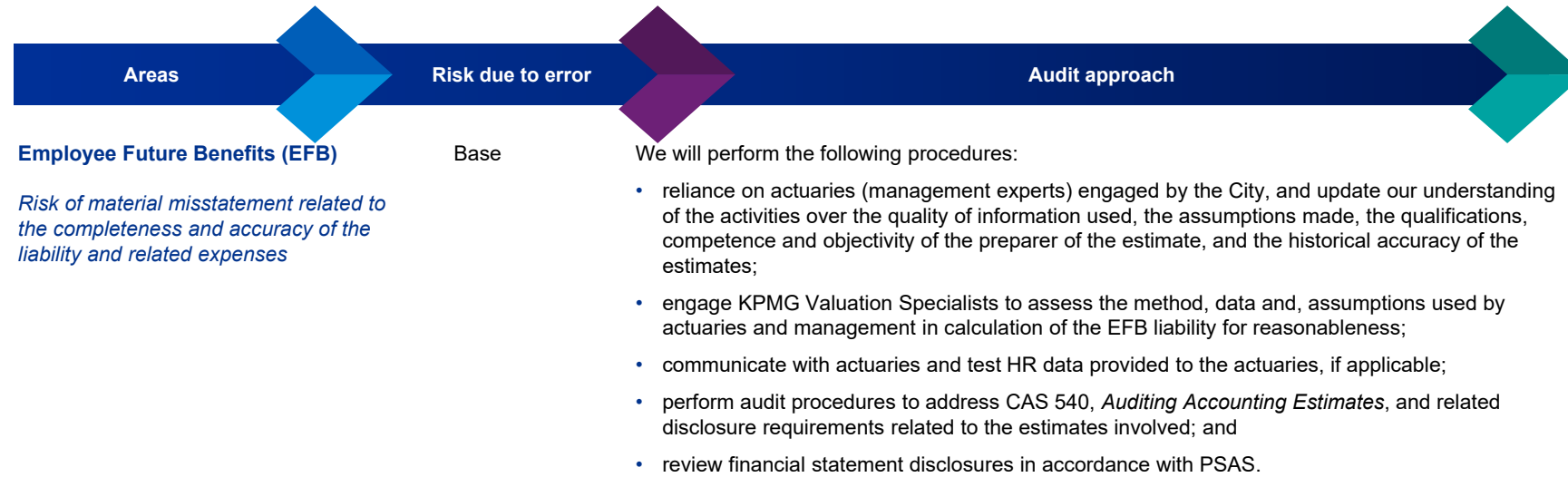
- Our audit approach will consist of the following steps to address this risk as required under professional standards:
- evaluate the design and implementation of controls surrounding journal entries and other adjustments;
  - determine criteria to identify high-risk journal entries and other adjustments; and
  - test high-risk journal entries and other adjustments made at the end of the reporting period.

# Other areas of focus\*

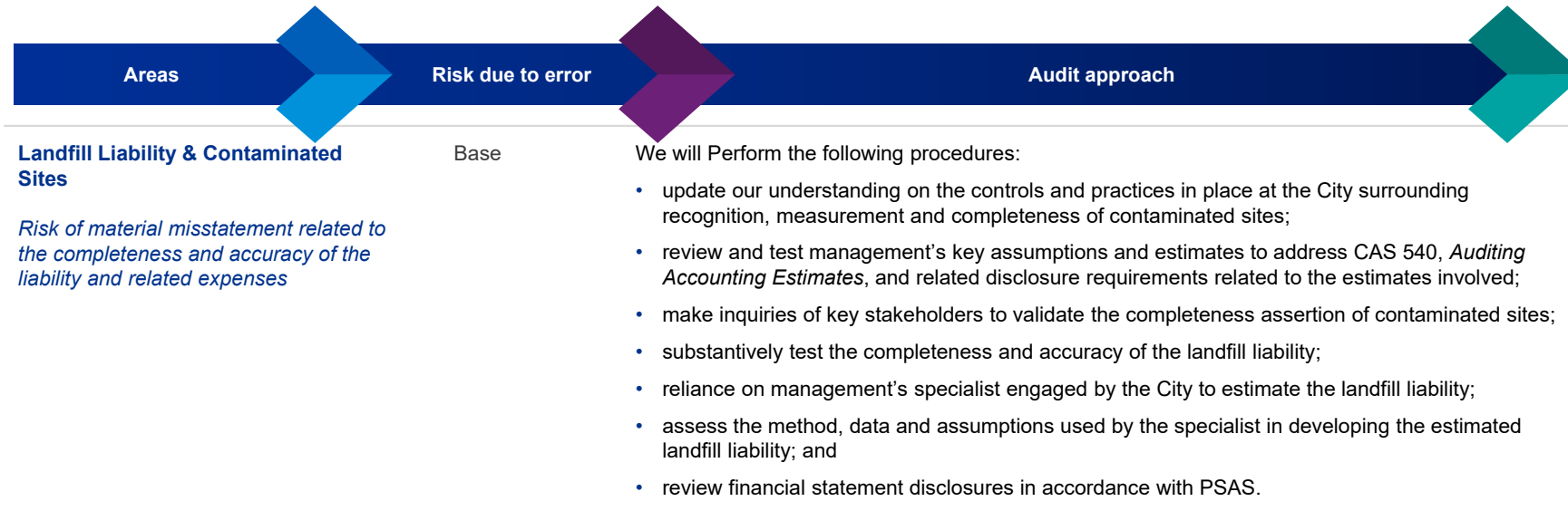


\*Risk assessment may change as we work through implementation of the new auditing standard and we will communicate any changes in our audit findings report.

# Other areas of focus (continued)

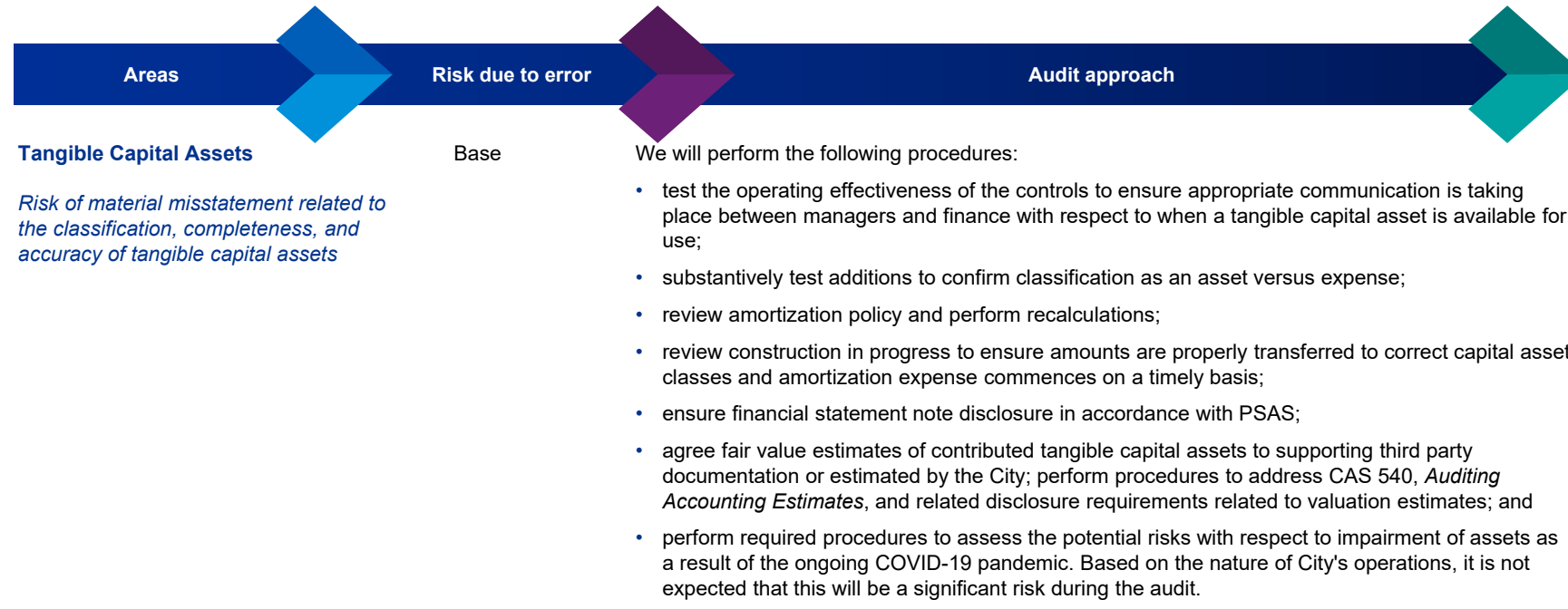


# Other areas of focus (continued)

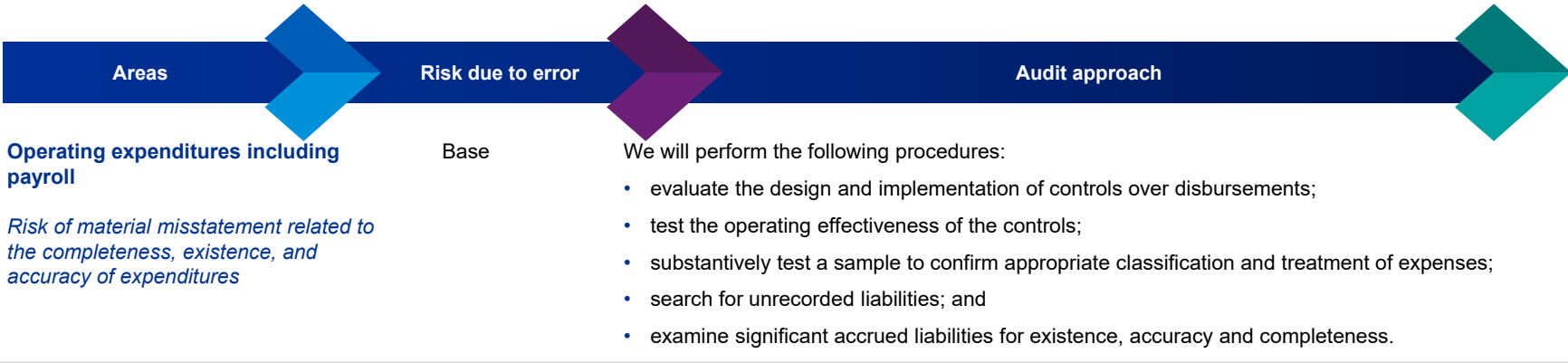




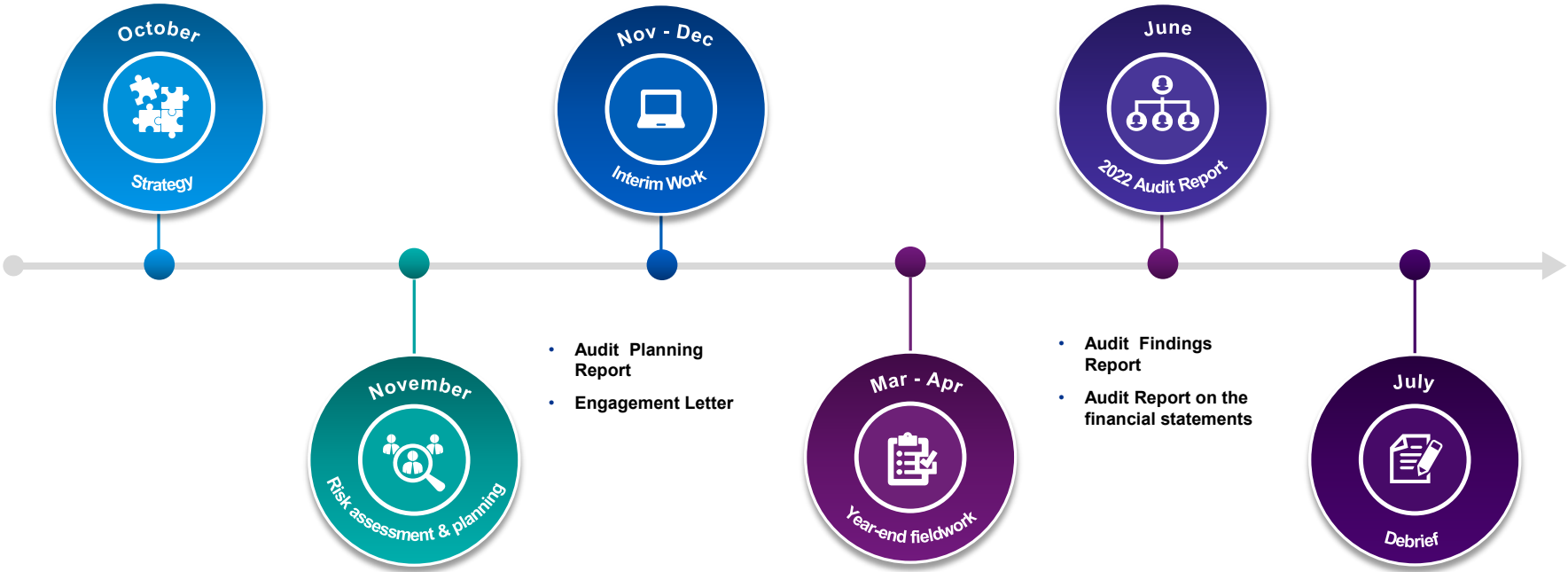
# Other areas of focus (continued)



# Other areas of focus (continued)



# Key milestones and deliverables



Audit Quality	KPMG Clara	Highlights	Audit Plan	Audit Risks	Key Milestones and Deliverables	<b>Independence</b>	Appendices	
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# Independence



We are independent and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services and follow Finance and Administration Committee approved protocols.



# Appendices



Other required communications



Audit and assurance insights



Changes in accounting standards



Insights to enhance your business



Newly effective auditing standards



# Appendix A: Other required communications



## CPAB communication protocol

The reports available through the following links were published by the Canadian Public Accountability Board to inform Audit Committees and other stakeholders about the results of quality inspections conducted over the past year:

- [CPAB Audit Quality Insights Report: 2021 Annual Inspections Results](#)
- [CPAB Audit Quality Insights Report: 2022 Interim Inspections Results](#)
- The 2022 Annual Inspection Results will be available in March 2023



# Appendix B: Changes in accounting standards

Standard	Summary and implications
<b>Asset retirement obligations</b>	<ul style="list-style-type: none"> <li>• The new standard PS 3280 <i>Asset retirement obligations</i> is effective for fiscal years beginning on or after April 1, 2022.</li> <li>• The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets.</li> <li>• The asset retirement obligations (“ARO”) standard will require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets (“TCA”). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life if the asset is in productive use.</li> <li>• As a result of the new standard, the public sector entity will:             <ul style="list-style-type: none"> <li>• Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset;</li> <li>• Carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements;</li> <li>• Begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify ARO and obtain information to estimate the value of potential ARO to avoid unexpected issues.</li> </ul> </li> </ul>



## Appendix B: Changes in accounting standards (continued)

Standard	Summary and implications
<b>Financial instruments and foreign currency translation</b>	<ul style="list-style-type: none"> <li>The new standards PS 3450 <i>Financial instruments</i>, PS 2601 <i>Foreign currency translation</i>, PS 1201 <i>Financial statement presentation</i> and PS 3041 <i>Portfolio investments</i> are effective for fiscal years beginning on or after April 1, 2022.</li> <li>Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable.</li> <li>Hedge accounting is not permitted.</li> <li>A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations.</li> <li>PS 3450 <i>Financial instruments</i> was amended subsequent to its initial release to include various federal government narrow-scope amendments.</li> </ul>
<b>Revenue</b>	<ul style="list-style-type: none"> <li>The new standard PS 3400 <i>Revenue</i> is effective for fiscal years beginning on or after April 1, 2023.</li> <li>The new standard establishes a single framework to categorize revenue to enhance the consistency of revenue recognition and its measurement.</li> <li>The standard notes that in the case of revenue arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations.</li> <li>The standard notes that unilateral revenue arises when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.</li> </ul>



# Appendix B: Changes in accounting standards (continued)

Standard	Summary and implications
<b>Purchased Intangibles</b>	<ul style="list-style-type: none"> <li>• The new Public Sector Guideline 8 <i>Purchased intangibles</i> is effective for fiscal years beginning on or after April 1, 2023 with earlier adoption permitted.</li> <li>• The guideline allows public sector entities to recognize intangibles purchased through an exchange transaction. The definition of an asset, the general recognition criteria and GAAP hierarchy are used to account for purchased intangibles.</li> <li>• Narrow scope amendments were made to PS 1000 <i>Financial statement concepts</i> to remove the prohibition to recognize purchased intangibles and to PS 1201 <i>Financial statement presentation</i> to remove the requirement to disclose purchased intangibles not recognized.</li> <li>• The guideline can be applied retroactively or prospectively.</li> </ul>
<b>Public Private Partnerships</b>	<ul style="list-style-type: none"> <li>• The new standard PS 3160 <i>Public private partnerships</i> is effective for fiscal years beginning on or after April 1, 2023.</li> <li>• The standard includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership.</li> <li>• The standard notes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the public private partnership ends.</li> <li>• The public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure.</li> <li>• The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project.</li> <li>• The standard can be applied retroactively or prospectively.</li> </ul>

# Appendix B: Changes in accounting standards (continued)

Standard	Summary and implications
<b>Concepts Underlying Financial Performance</b>	<ul style="list-style-type: none"> <li>• The revised conceptual framework is effective for fiscal years beginning on or after April 1, 2026 with earlier adoption permitted.</li> <li>• The framework provides the core concepts and objectives underlying Canadian public sector accounting standards.</li> <li>• The ten chapter conceptual framework defines and elaborates on the characteristics of public sector entities and their financial reporting objectives. Additional information is provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts are introduced.</li> </ul>
<b>Financial Statement Presentation</b>	<ul style="list-style-type: none"> <li>• The proposed section PS 1202 <i>Financial statement presentation</i> will replace the current section PS 1201 <i>Financial statement presentation</i>. PS 1202 <i>Financial statement presentation</i> will apply to fiscal years beginning on or after April 1, 2026 to coincide with the adoption of the revised conceptual framework. Early adoption will be permitted.</li> <li>• The proposed section includes the following: <ul style="list-style-type: none"> <li>• Relocation of the net debt indicator to its own statement called the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained.</li> <li>• Separating liabilities into financial liabilities and non-financial liabilities.</li> <li>• Restructuring the statement of financial position to present total assets followed by total liabilities.</li> <li>• Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities).</li> <li>• Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities), including a new component called “accumulated other”.</li> <li>• A new provision whereby an entity can use an amended budget in certain circumstances.</li> <li>• Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position.</li> </ul> </li> <li>• The Public Sector Accounting Board is currently deliberating on feedback received on exposure drafts related to the reporting model.</li> </ul>

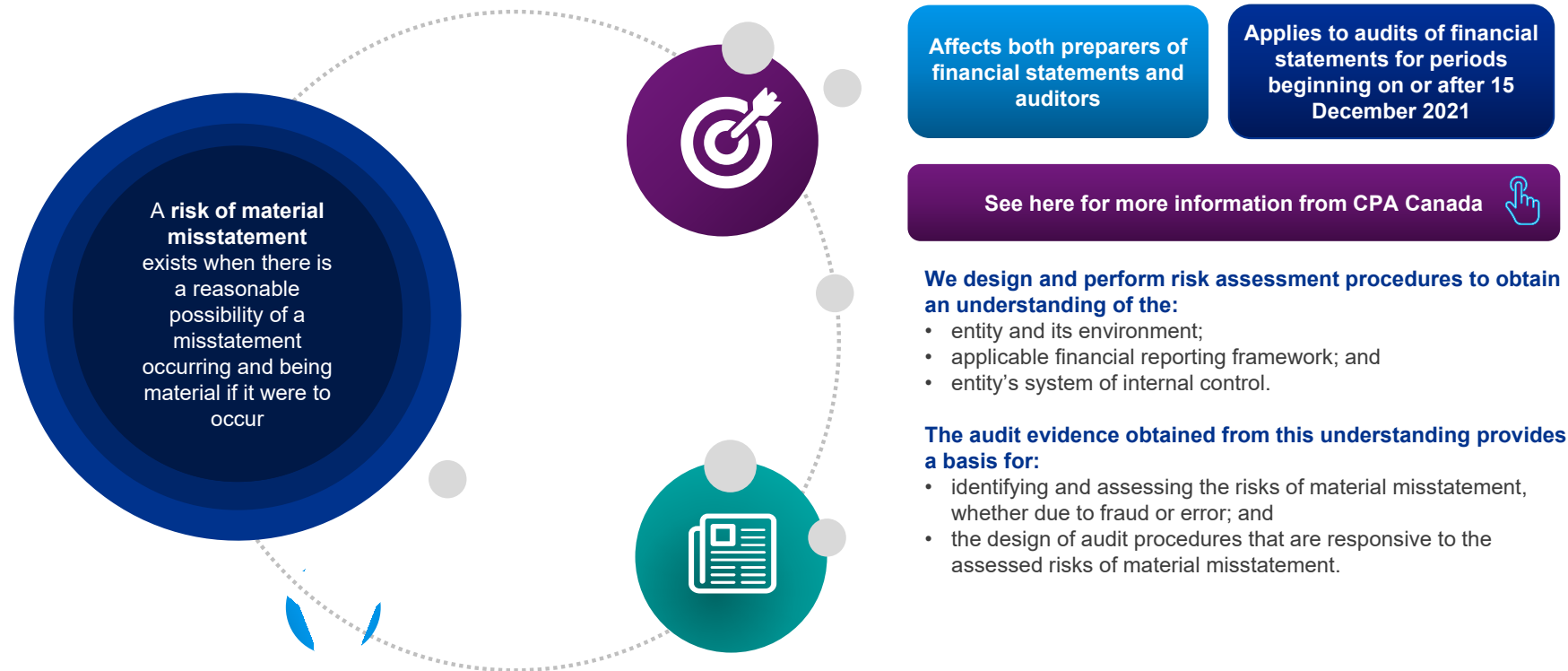


## Appendix B: Changes in accounting standards (continued)

Standard	Summary and implications
<b>Employee benefits</b>	<ul style="list-style-type: none"> <li>• The Public Sector Accounting Board has initiated a review of sections PS 3250 <i>Retirement benefits</i> and PS 3255 <i>Post-employment benefits, compensated absences and termination benefits</i>.</li> <li>• The intention is to use principles from International Public Sector Accounting Standard 39 <i>Employee benefits</i> as a starting point to develop the Canadian standard.</li> <li>• Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, the new standards will be implemented in a multi-release strategy. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues.</li> <li>• The proposed section PS 3251 <i>Employee benefits</i> will replace the current sections PS 3250 <i>Retirement benefits</i> and PS 3255 <i>Post-employment benefits, compensated absences and termination benefits</i>. It will apply to fiscal years beginning on or after April 1, 2026. Early adoption will be permitted and guidance applied retroactively.</li> <li>• This proposed section would result in public sector entities recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations.</li> <li>• The Public Sector Accounting Board is in the process of evaluating comments received from stakeholders on the exposure draft.</li> </ul>

# Appendix C: Newly effective auditing standards

**CAS 315 (Revised) Identifying and Assessing the Risks of Material Misstatement** has been revised, reorganized and modernized in response to challenges and issues with the previous standard. It aims to promote consistency in application, improve scalability, reduce complexity, support a more robust risk assessment and incorporate enhanced guidance material to respond to the evolving environment, including in relation to information technology. Conforming and consequential amendments have been made to other International Standards on Auditing.



# Appendix C: Newly effective auditing standards (continued)

Key change	Impact on the audit team	Impact on management
<p><b>Overall, a more robust risk identification and assessment process, including:</b></p> <ul style="list-style-type: none"> <li>• New requirement to take into account how, and the degree to which, 'inherent risk factors' affect the susceptibility of relevant assertions to misstatement</li> <li>• New concept of significant classes of transactions, account balances and disclosures and relevant assertions to help us to identify and assess the risks of material misstatement</li> <li>• New requirement to separately assess inherent risk and control risk for each risk of material misstatement</li> <li>• Revised definition of significant risk for those risks which are close to the upper end of the spectrum of inherent risk</li> </ul>	<p>When assessing inherent risk for identified risks of material misstatement, we consider the degree to which inherent risk factors (such as complexity, subjectivity, uncertainty, change, susceptibility to management bias) affect the susceptibility of assertions to misstatement.</p> <p>We use the concept of the spectrum of inherent risk to assist us in making a judgement, based on the likelihood and magnitude of a possible misstatement, on a range from higher to lower, when assessing risks of material misstatement</p> <p>The changes may affect our assessments of the risks of material misstatement and the design of our planned audit procedures to respond to identified risks of material misstatement.</p> <p>If we do not plan to test the operating effectiveness of controls, the risk of material misstatement is the same as the assessment of inherent risk.</p>	<p>If the effect of this consideration is that our assessment of the risks of material misstatement is higher, then our audit approach may increase the number of controls tested and/or the extent of that testing, and/or our substantive procedures will be designed to be responsive to the higher risk.</p> <p>We may perform different audit procedures and request different information compared to previous audits, as part of a more focused response to the effects identified inherent risk factors have on the assessed risks of material misstatement.</p>

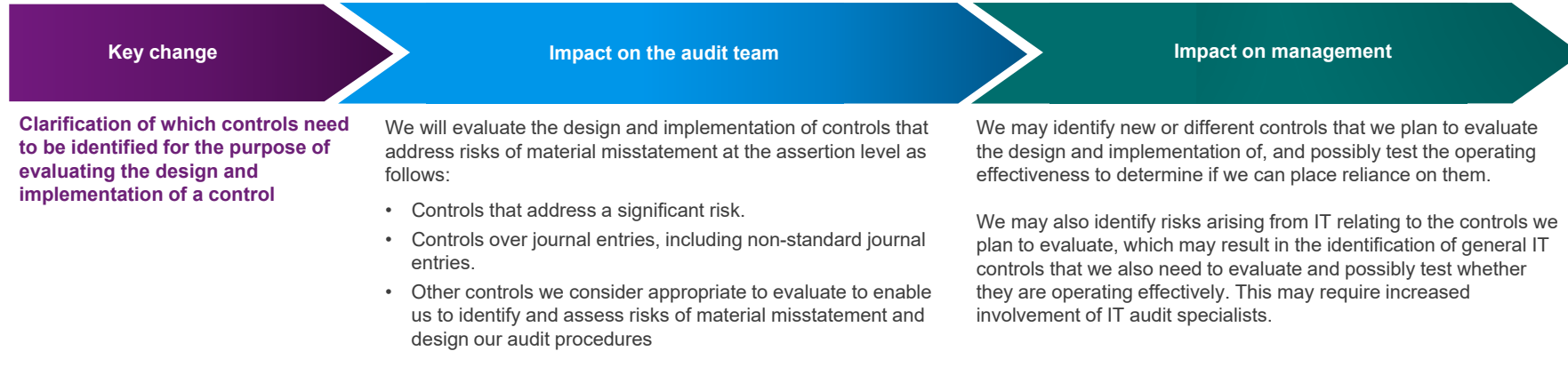
# Appendix C: Newly effective auditing standards (continued)

Key change	Impact on the audit team	Impact on management
<p><b>Overall, a more robust risk identification and assessment process, including evaluating whether the audit evidence obtained from risk assessment procedures provides an appropriate basis to identify and assess the risks of material misstatement</b></p>	<p>When making this evaluation, we consider all audit evidence obtained, whether corroborative or contradictory to management assertions. If we conclude the audit evidence obtained does not provide an appropriate basis, then we perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis.</p>	<p>In certain circumstances, we may perform additional risk assessment procedures, which may include further inquires of management, analytical procedures, inspection and/or observation.</p>
<p><b>Overall, a more robust risk identification and assessment process, including performing a 'stand back' at the end of the risk assessment process</b></p>	<p>We evaluate whether our determination that certain material classes of transactions, account balances or disclosures have no identified risks of material misstatement remains appropriate.</p>	<p>In certain circumstances, this evaluation may result in the identification of additional risks of material misstatement, which will require us to perform additional audit work to respond to these risks.</p>

# Appendix C: Newly effective auditing standards (continued)

Key change	Impact on the audit team	Impact on management
<p><b>Modernized to recognize the evolving environment, including in relation to IT</b></p>	<p>New requirement to understand the extent to which the business model integrates the use of IT.</p> <p>When obtaining an understanding of the IT environment, including IT applications and supporting IT infrastructure, it has been clarified that we also understand the IT processes and personnel involved in those processes relevant to the audit.</p> <p>Based on the identified controls we plan to evaluate, we are required to identify the:</p> <ul style="list-style-type: none"> <li>IT applications and other aspects of the IT environment relevant to those controls</li> <li>related risks arising from the use of IT and the entity's general IT controls that address them.</li> </ul> <p>Examples of risks that may arise from the use of IT include unauthorized access or program changes, inappropriate data changes, risks from the use of external or internal service providers for certain aspects of the entity's IT environment or cybersecurity risks.</p>	<p>We will expand our risk assessment procedures and are likely to engage more extensively with your IT and other relevant personnel when obtaining an understanding of the entity's use of IT, the IT environment and potential risks arising from IT. This might require increased involvement of IT audit professionals.</p> <p>Changes in the entity's use of IT and/or the IT environment may require increased audit effort to understand those changes and affect our assessment of the risks of material misstatement and audit response.</p> <p>Risks arising from the use of IT and our evaluation of general IT controls may affect our control risk assessments, and decisions about whether we test the operating effectiveness of controls for the purpose of placing reliance on them or obtain more audit evidence from substantive procedures. They may also affect our strategy for testing information that is produced by, or involves, the entity's IT applications.</p>
<p><b>Enhanced requirements relating to exercising professional skepticism</b></p>	<p>New requirement to design and perform risk assessment procedures in a manner that is not biased toward obtaining audit evidence that may be corroborative or toward excluding audit evidence that may be contradictory. Strengthened documentation requirements to demonstrate the exercise of professional scepticism.</p>	<p>We may make changes to the nature, timing and extent of our risk assessment procedures, such as our inquires of management, the activities we observe or the accounting records we inspect.</p>

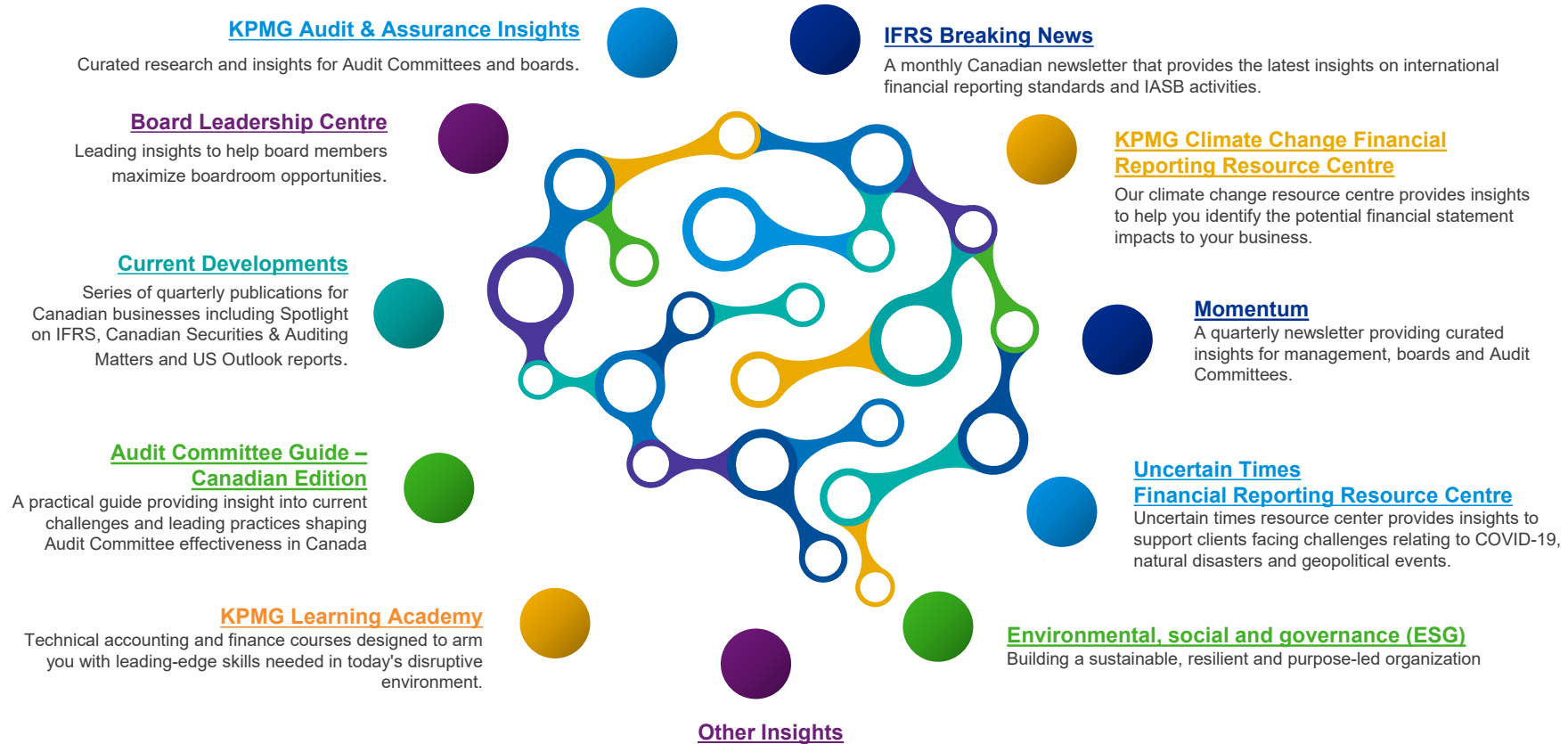
# Appendix C: Newly effective auditing standards (continued)





# Appendix D: Audit and assurance insights

Our latest thinking on the issues that matter most to Audit Committees, board of directors and management.



# Appendix E: Insights to enhance your business

We have the unique opportunity as your auditors to perform a deeper dive to better understand your business processes that are relevant to financial reporting.

[▶ Learn more](#)

## Lean in Audit

Lean in Audit™ is KPMG’s award-winning methodology that offers a new way of looking at processes and engaging people within your finance function and organization through the audit.

By incorporating Lean process analysis techniques into our audit procedures, we can enhance our understanding of your business processes that are relevant to financial reporting and provide you with new and pragmatic insights to improve your processes and controls.

Clients like you have seen immediate benefits such as improved quality, reduced rework, shorter processing times and increased employee engagement.

We look forward to using this approach on your audit this year and will work with you to select the appropriate process(es).

## How it works

<p><b>Standard Audit</b></p>	<p>Typical process and how it's audited</p>	
<p><b>Lean in Audit™</b></p>	<p>Applying a Lean lens to perform walkthroughs Typically 95% + is considered redundant through a customer's lens</p>	
<p><b>How Lean in Audit helps businesses improve processes</b></p>	<p>Make the process more streamlined and efficient for all</p>	

● **Value:** what customers want (maximize)     
 ● **Necessary:** required activities (minimize)     
 ● **Redundant:** non-essential activities (remove)

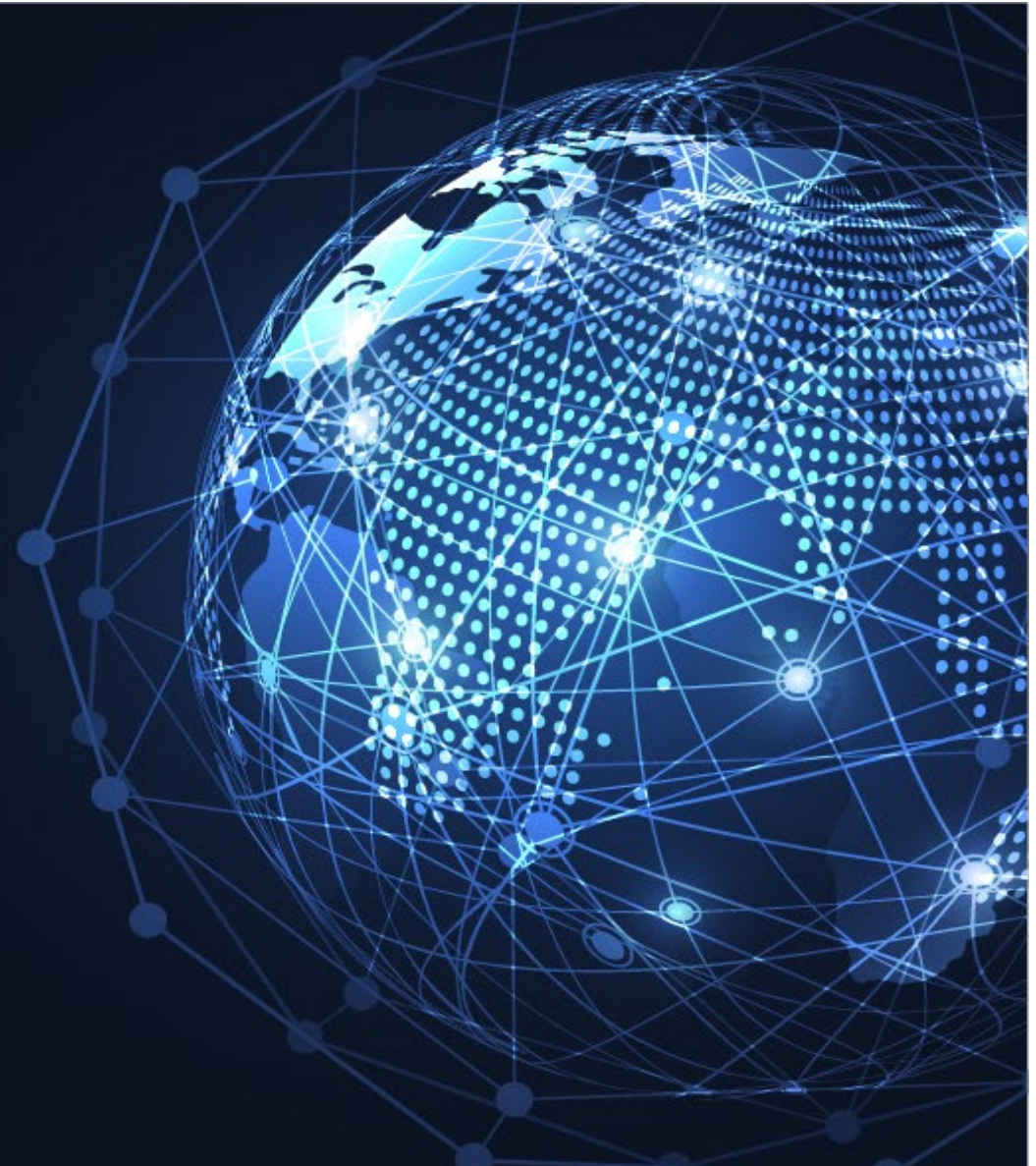
🔒 Process controls     
 ✔ Key controls tested



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# AUDIT OF HAMILTON WATER METER PROGRAM

## CITY OF HAMILTON, OFFICE OF THE CITY AUDITOR

DECEMBER 16, 2022

FINAL REPORT

## Publication History

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# EXECUTIVE SUMMARY

## Introduction

Hamilton Water is responsible for the City of Hamilton's (the "City") Water Meter Program (the "Program") which includes the installation, testing, monitoring, repairing, and replacing of approximately 156,000 water meters. The main purpose of the Water Meter Program is to ensure the efficient, timely and accurate metering and billing for water that is used by the City's customers. Through the operation and monitoring of these meters, the program generates approximate \$240 million in revenue each year.

Hamilton has two (2) contractors who are engaged in the delivery of the Program:

1. Alectra Utilities Corporation ("Alectra"), who provides meter reading, customer service, reporting and billing services on behalf of the City, through Corporate Finance; and
2. Neptune Technologies ("Neptune"), who provides meter operations services to the City, including but not limited to meter installation, meter repair, and meter maintenance, through Hamilton Water, Public Works Department.

Since 2019, there have been a number of significant events that have impacted the Water Meter Program's effectiveness, including at least five major billing adjustments totaling approximately \$2 million since June 2021.

## Audit Objective and Scope

The objective of this audit was to identify strengths and weaknesses of the City's Water Meter Program. This included a review of various aspects of the Program and assessing them against existing policies and procedures. In addition, a review of the Program against industry best practices was conducted to identify strengths, gaps, and opportunities for improvement regarding program delivery as well as existing policies and operational procedures. An assessment of the efficiency and effectiveness of program areas, as well as the identification of areas for improvement was also conducted.

The scope of the audit included reviewing the various aspects of the Water Meter Program and comparing them against existing corporate and departmental policies and procedures, as well as against industry best practices to identify strengths and potential gaps that may not currently be addressed in existing policies and procedures. The following Program areas were considered during the conduct of the audit:

- Effectiveness of recent corrective actions taken to address 2021-22 large billing issues;
- Applicable operational processes and procedures to verify completeness and gaps;
- Data transfer processes between the City, Alectra and Neptune;

- Work order creation, management and resolution including the transfer of work between Neptune, the City and Alectra;
- Management of consecutively estimated accounts;
- Management of account setup, transfer, and closure;
- Effectiveness of asset management of water meters, preventative/reactive maintenance, and asset renewal;
- Contractor management including inspections by City staff;
- Contractor invoicing;
- Review of program metrics and key performance indicators;
- Handling of soft and hard customer refusals;
- Handling of private plumbing issues affecting meter maintenance activities;
- Management of vacant properties;
- Management of flat rate accounts;
- Process for Large Valve Maintenance (broken valves on private property);
- Billing inquires/complaints process;
- Management of Master/Satellite meters (sub-metering);
- Top 100 Reporting process and procedure; and
- Comparison of meter programs from three (3) comparator municipalities to identify best/comparative practices.

The scope of the audit did not include policies, procedures or processes developed internally by City of Hamilton Water Meter Program vendors for the purposes of managing and overseeing their contractually obligated responsibilities under their respective City of Hamilton Water Meter Program agreements.

## Audit Conclusion

The City of Hamilton's Water Meter Program is undergoing a period of rapid transformation, both in response to the 2021-22 large billing issues and the fact that their billing agent, Alectra, has notified the City that they are discontinuing their water billing services. Although these issues have brought on a wide array of challenges, they have also presented new opportunities to increase the operational effectiveness and efficiency of the Program as a service provider to the residents of the City of Hamilton.

The audit has identified opportunities for improvement for Hamilton's Water Meter Program. Although the Program has documented a strong operational procedure framework that clearly defines roles and responsibilities, the audit identified gaps in the policy framework that should be aligned to current procedures and practices. Further, the Program has begun to use data to support the management and oversight of operations through the development of key program metrics. However, program



reporting and key program metrics lack contextualization against established targets, baselines, outcomes, timelines, as well as lack clear methods for collection, reporting, and related accountabilities.

A noted strength of the Program includes the implementation of a proactive maintenance program, which is on target to achieve the expected number of completed annual proactive maintenance work orders for 2022 and the execution of two pilot projects to test new meter technology with a view to modernizing the Program, further aligning with industry best practices.

The audit observed ineffective, and in some cases, insufficient contract management mechanisms with regards to the City’s billing agent, as evidenced by the absence of a contractor performance management framework, a sufficient governance structure, and a dedicated contract manager. It was also found that there is little to no contract mechanisms in place to identify, manage, and rectify poor vendor performance.

The Program has experienced high levels of staff turnover, both at the supervisory and frontline levels. This, combined with inefficient manual data transfer and reporting processes, has created a processing backlog of key operational reporting. This backlog increases the risk of inaccurate bills being sent to customers which in-turn could increase the risk of customer complaints and reputational damage to the City of Hamilton’s Water Meter Program.

Lastly, in response to the identified 2021-2022 large billing issues, a root-cause analysis was performed by Hamilton Water that identified and implemented corrective and preventative actions to address the root causes. Overall, the actions implemented by the City support the correction of issues that contributed to the billing variances and the prevention of future issues; however, it should be noted that for some corrective and preventative actions, the audit was unable to fully assess effectiveness in preventing future billing issues due to the recentness of their implementation and lack of measurable results as of the period of the audit. As such, these actions should be reviewed by the City in the future to ensure that they are in fact effective in addressing root causes. Moreover, gaps were noted in the root-cause analysis which indicates that the corrective and preventative actions identified by Hamilton Water are incomplete and therefore not fully effective in eliminating the risk of future large billing issues. One such example includes the fact that there are some water meters being estimated at zero consumption which may mean that these meters are being improperly billed for their actual consumption. As such, the City should take action to ensure these accounts are being appropriately billed.

## Recommendations and Management Responses

The following recommendations have been made to address the areas for improvement noted above:

Recommendation	Priority
<b>Recommendation 1:</b> The City should perform a job evaluation review of the key administrative, supervisory, and	<b>High</b>

<p>superintendent roles within the Program to validate the appropriateness of competency requirements, job descriptions and compensation level within the organization structure of the program.</p>	
<p><b>Recommendation 2:</b> The City should review its program policy and procedures framework to address identified gaps, as well as identify opportunities to strengthen the framework and enhance authorities to better meet the needs of the City and support appropriate enforcement action.</p>	<p><b>Medium</b></p>
<p><b>Recommendation 3:</b> The City should develop and implement their program performance management regime by ensuring that each key metric has documented baselines, targets, timeframes for measurement and an outline of how/when the metric would be measured, including the applicable data source and accountabilities.</p>	<p><b>Medium</b></p>
<p><b>Recommendation 4:</b> The City should ensure that all vendor contracts establish performance management frameworks, including minimum standards, KPIs and performance reporting; and have sufficient contract mechanisms, including corrective actions clauses where performance does not meet minimum standards, to oversee vendor performance. This includes establishing a dedicated and experienced contract manager tasked with the responsibility of managing and overseeing contract and vendor performance.</p>	<p><b>High</b></p>
<p><b>Recommendation 5:</b> The City should implement a regular operational meeting attended by all relevant program stakeholders to ensure consistency and alignment of information and progress to support program oversight and delivery.</p>	<p><b>Medium</b></p>
<p><b>Recommendation 6:</b> The City should develop a Program KPI to track City inspections of Contractor (Neptune) activities.</p>	<p><b>Medium</b></p>
<p><b>Recommendation 7:</b> The City should develop a report of all intermediate and large meter assets that are currently being estimated at zero consumption to identify, prioritize, and investigate any accounts that are at risk of being improperly billed.</p>	<p><b>High</b></p>
<p><b>Recommendation 8:</b> The City should perform follow-up assessments of the effectiveness of implemented corrective and preventative actions on at least an annual basis to ensure they are effectively addressing identified root causes of 2021-22 large billing issues.</p>	<p><b>Medium</b></p>

**Recommendation 9:** Where possible, the City should examine opportunities to automate the processing and transfer of key data and information from program reporting into the City’s asset management system, which is currently being manually performed by WOCs. Further, the implementation of formalized data validation tools would support accuracy of data and reporting. Opportunities to automate the processing, transfer, and validation of Water Meter Program data into the City’s asset management system should be evaluated as a part of requirements for the procurement of a new billing solution/service provider.

**High**

# 1 BACKGROUND

## General

Hamilton Water is responsible for the City of Hamilton's (the "City") Water Meter Program (the "Program"), which includes the installation, testing, monitoring, repairing, and replacing of approximately 156,000 revenue water meters. The main purpose of the Water Meter Program is to ensure the efficient, timely and accurate metering and billing for water that is used by the City's customers. Through the operation and monitoring of these meters, the Program generates approximate \$240 million in revenue each year.

The City has two (2) contractors who are engaged in the delivery of the Program:

- Alectra Utilities Corporation ("Alectra"), who provides meter reading, customer service, reporting and billing services on behalf of the City, through Corporate Finance; and
- Neptune Technologies ("Neptune"), who provides meter operations services to the City, including but not limited meter installation, meter repair, and preventative meter maintenance, through Hamilton Water, Public Works Department

The main purpose of the Water Meter Program is to ensure the efficient, timely and accurate metering and billing for water that is used by the City's customers. There are many factors that can interfere with this process such as faulty/damaged meters, vandalism or tampering, property or meter access issues, and incorrect or untimely data transfer between the City and its contractors. These issues can lead to accounts being estimated based on historical usage for long periods of time, resulting in significant over or under billing.

Over the years, there have been a number of processes developed to help identify potential issues as well as deal with them in a timely and consistent manner, ranging from official City policies to documented standard operating procedures.

## Discontinuation of Water Billing Services by Alectra

On August 6, 2021, the City was advised at their May 21, 2021, board meeting that Alectra's Board of Directors approved an Alectra staff recommendation to discontinue water billing services. Alectra has committed to upholding the Water Billing Services Agreement (Service Agreement) that is currently in place with a focus on winding-down providing water billing services to the City at the time of the current contract expiry, being December 31, 2024.

Alectra has advised it will support the City to facilitate a smooth transition to a new billing supplier by:

- Providing support through established joint working teams to assist with the transition of services and related municipal data to a new billing provider; and

- Working closely with the City on joint communications, through multiple communication channels, to help water billing customers manage the related change with the transition to a new billing provider.

The City is currently working with other municipalities also affected by Alectra's discontinuation of water billing services and has engaged external consulting support to gather business requirements and assess future-state water billing service options.

## 2021-22 Large Billing Issues

Since 2019, there have been a number of significant events that have impacted the Program's effectiveness. Of note, these include several changes and turnover of key management and supervisory positions within Hamilton Water. In addition, it was identified that individuals who were Acting in supervisory/management roles were not provided with adequate process documentation to inform them of their roles.

During this same period, Alectra switched their billing management system from Daffron to Oracle Utilities Customer Care and Billing (CC&B), resulting in reporting changes and delays in sending/receiving data to and from Hamilton Water, as well as data accuracy. Following this, in 2020 the COVID-19 pandemic struck, severely limiting the City's ability to complete required field work for the Program (e.g. entering properties/sites to access water meters for maintenance).

The culmination of these events has resulted in at least five (5) major billing adjustments of over \$100,000 each, for a total of just under \$2 million in billing adjustments made since June 2021.

In response to these large billing adjustments, Hamilton Water conducted a root-cause analysis that identified the following findings:

1. The historical Consecutive Estimate (CE) reporting data process used prior to 2019 from Infor Public Sector (IPS) Hansen, the City of Hamilton's asset management system, stopped in 2019 because of data transfer issues when Alectra moved from Daffron to Oracle Utilities Customer Care and Billing (CC&B). As a result, there was no quality assurance (QA) / quality control (QC) in place to catch errors in the Alectra Utilities Corporation (AUC) Daily Report Processing.
2. High turnover of supervisors and lack of critical processes documentation provided to the supervisors who were an acting capacity.
3. When data transfer issues were identified with Alectra, there was no resolution implemented in a timely manner (data transfer issues were present from 2019 to June 2022).
4. The CE procedure was updated to use AUC Daily Report for CE review, there was a gap in controls to identify errors in the AUC Daily Report for report processing.
5. The AUC Daily Report included identification of CE service orders; however, this identification was stopped in December 2020 by Alectra.

It was noted that a vendor non-conformance (NC) for Neptune was completed and sent to City of Hamilton procurement on March 22, 2022. The NC was for 165 Barton St East

(Barton St Jail) and 50 Charlton Ave East (St Joes Hospital). The vendor failed to program the meter correctly, failed to network the register heads and touch pads correctly, failed to provide the production report within 7 days of service, failed to provide the City with a reading to ensure successful operations, and failed to provide details regarding multiplication factors on the production report. Further, Hamilton Water issued a Self-Declared non-conformance on March 7, 2022.

Overall, this has raised concerns regarding the current effectiveness of the City's Water Meter Program. While both the City, and its contractor (Alectra), have conducted their own analysis and identified preventative and corrective actions, the City believed an independent audit of the City's Water Meter Program was necessary.

## 2 AUDIT OBJECTIVE AND SCOPE

### Audit Objective

The objective of this audit was to identify strengths and weaknesses of the City's Water Meter Program. This included a review of various aspects of the program and assessing them against existing policies and procedures. In addition, a review of the program against industry best practices was conducted to identify strengths, gaps, and opportunities for improvement regarding existing policies and operational procedures. An assessment of the efficiency and effectiveness of program areas, as well as identification of areas for improvement was also be conducted.

### Audit Scope

The scope of the audit included reviewing the various aspects of the Water Meter Program and comparing them against existing corporate and departmental policies and procedures, as well as against industry best practices to identify strengths and potential gaps that may not currently be addressed in existing policies and procedures. The following Program areas were considered during the conduct of the audit:

- Effectiveness of recent corrective actions taken to address 2021-22 large billing issues;
- Applicable operational processes and procedures to verify completeness and gaps;
- Data transfer processes between the City, Alectra and the City's Contractor;
- Work order creation, management and resolution including the transfer of work between Neptune, the City and Alectra;
- Management of consecutively estimated accounts;
- Management of account setup, transfer, and closure;
- Effectiveness of asset management of water meters, preventative/reactive maintenance, and asset renewal;
- Contractor management including inspections by City staff;

- Contractor invoicing;
- Review of program metrics and key performance indicators;
- Handling of soft and hard customer refusals;
- Handling of private plumbing issues affecting meter maintenance activities;
- Management of vacant properties;
- Management of flat rate accounts;
- Process for Large Valve Maintenance (broken valves on private property);
- Billing inquires/complaints process;
- Management of Master/Satellite meters (sub-metering);
- Top 100 Reporting process and procedure; and
- Comparison of meter programs from three (3) comparator municipalities to identify best/comparative practices.

The scope of the audit did not include policies, procedures or processes developed internally by City of Hamilton Water Meter Program vendors for the purposes of managing and overseeing their contractually obligated responsibilities under their respective City of Hamilton Water Meter Program agreements.

Please refer to Appendix B for alignment between the audit scope areas and coverage as part of the audit criterion.

## Approach and Methodology

The audit was planned and performed to obtain reasonable assurance that the audit objective was achieved. During the conduct phase, BDO systematically administered the audit program, which included a combination of interviews, documentation review, file testing, and benchmarking. The structure of these activities was tailored to directly inform and conclude on each audit control objective as well as their associated audit criteria. This comprised the following:

- Reviewing key documentation;
- Conducting interviews with key stakeholders;
- Conducting benchmarking / comparative practices assessment (see Appendix A for the results of this assessment);
- Conducting a site visit office to meet with program management, operational supervisors, and frontline roles. This visit included:
  - A walkthrough of the Water Operations Clerk (WOC) daily responsibilities and a systematic review of the program's asset management system.
  - The observation of field activities with Meter Technicians/Investigators (MTIs), which included the execution of three different work order types.

### 3 OBSERVATIONS

This section presents the findings from the audit, which are based on evidence and analysis identified through the audit procedures performed in accordance with the audit program and work plan.

Please refer to Appendix B for the Audit Control Assessment Scale and Appendix C for the results of the Audit Control Assessment.

#### Finding 1: Resource Management

##### ***Staff turnover and vacancies within the Program have strained program operations.***

There has been a significant amount of turnover in manager, supervisor and frontline employee roles within the Program. There are two (2) main supervisor positions as part of the Program, including the Supervisor of Dispatch and Operations Support, and the Supervisor of Meter Operations and Cross Connection Control. These supervisor positions primarily provide oversight, support, and coordination of the three (3) key Program frontline positions, including the Scheduler/Dispatchers, the WOCs and the MTIs. Scheduler/Dispatchers and WOCs report into the Supervisor of Dispatch and Operations Support, while MTIs report into the Supervisor of Meter Operations and Cross Connection Control.

In addition, both supervisors are responsible for the overall oversight and management of their respective Program areas. As a part of this, supervisors are responsible for attending and providing operational status updates at the Program's weekly and monthly Meter Operations Update Meetings.

While the Supervisor of Meter Operations and Cross Connection Control position has remained consistent, the Supervisor of Dispatch and Operations Support has experienced a significant level of instability with three (3) Acting Supervisors having been in the position between late 2019 until February 2022. Moreover, the Manager of Customer Service and Community Outreach (CS&CO) position has seen five (5) different individuals in the role since 2019. This issue was manifested during Hamilton Water's recent billing issues and self-declared non-conformance, the root-cause analysis of which identified that high turnover of supervisors and lack of critical processes documentation provided to the Supervisors who were in an Acting capacity was a contributing factor.

There are two (2) full-time and two (2) part-time Scheduler/Dispatcher positions within the Program. Up until September 2022, all positions were filled, but there has since been turnover in one of the part-time positions resulting in a vacancy. There are two (2) full-time and one (1) part-time WOC positions within the Program. The part-time position has not been filled for a significant period of time and has historically seen a lot of turnover. Most recently, one of the existing fulltime WOCs has left their position, leaving only one (1) WOC within the Program. There are currently only two (2) MTIs employed by the City, although there are three (3) full-time positions available in the Program.



Staff retention is an issue that many organizations face today and Hamilton Water is no exception. The CS&CO Sectional Annual Report 2021 stated that *“for the duration of 2021, there was on average one out of five position vacant, in other words there were four people doing the work of five people throughout the year”*. The culmination of these staff challenges has resulted in various areas of the Program struggling to manage their workload.

Perhaps the most pertinent example of this is the role of the WOC. WOCs are responsible for processing daily Neptune and Alectra reports, tasking and closing out work orders to MTIs and Neptune, sending letters to customers and generally managing the process flow of program data and information. Over the years, the number of customer accounts has grown and with that, so have the responsibilities of WOCs. Given the critical nature of the WOC role in relation to the success of the Program, as well as the turnover in this role, concerns have been raised by program management as to whether the current role is appropriately aligned to the related duties and responsibilities within the Program. In part, this is because WOCs need to have an in-depth knowledge of program operations (i.e., understand how different meters and their components work, understand the work orders notes from MTIs, etc.) to be successful in their role. The role of the WOC is less clerical and data entry driven, and much more program coordination and operational analysis.

Program management should take steps to address the retention challenges that the Program currently faces. This should include reviewing key program roles to ensure that job descriptions and compensation levels match the actual responsibilities they are required to execute.

#### RECOMMENDATION 1:

The City should perform a job evaluation review of the key administrative, supervisory, and superintendent roles within the Program to validate the appropriateness of competency requirements, job descriptions and compensation level within the organization structure of the program.

**Priority:** High

## Finding 2: Procedure and Policy Framework

***The Water Meter Program has a strong procedure framework which clearly defines program roles and responsibilities to City staff. However, some policy and procedure gaps were identified.***

The Program’s procedure framework guides all program activities. There are over 40 procedures in place and stored in the main document control database for the Program, Intellex. Intellex acts as a document quality management system, allowing for the controlled access of pertinent program documents, including program procedures. When a new document is added to the system, the Quality Assurance (QA) Analyst for CS&CO ensures that management reviews it for approval. Once approved, it is then made accessible for program staff and obsolete documents are removed.

The *Control of Documents* procedure details the process to manage the issuance, change, and approval of documents, ensuring that only relevant and approved documents are used by the Hamilton Water Division. It also ensures that staff can locate and access internal and external controlled documents relevant to their work, in the format most suitable to their work. Key features of this procedure include a requirement for a unique title and/or document number for all documents, guidance on document management practices for controlled documents, as well as minimum time intervals for document updates. Procedures are reviewed at a minimum of every three (3) years and Intalex will automatically flag documents when they are due for review.

All program staff are required to review procedures through the City's Learning Management System, which includes the completion of related assessments to test their knowledge and comprehension. The QA Analyst for CS&CO tracks training and awareness progress of CS&CO staff, and ensures they review new or updated procedures as required.

Few gaps were noted in the Program's procedure framework, where nearly every task and activity within the Program is documented through an associated procedure. Each procedure defines the associated roles and responsibilities of program staff, which provides a clear reference for all program areas and positions regarding required activities. However, worth noting is that the Program's comprehensive procedure framework results in a large volume of Program documentation for staff, making it difficult to distinguish between critical and non-critical tasks.

Further, in response to high turnover in some supervisory roles within the Program and a high volume of documented Program procedures, a *Meter Operations Critical Tasks* procedure was created in April 2022 to identify critical tasks related to meter operations and to ensure that there is frequent oversight of these critical tasks. The content of this procedure differs from most, as it does not outline instructions or workflows to complete Program activities. Instead, it acts as a reference document and provides an overview of critical tasks, as well as related procedures and assigned responsibilities for supervisory roles within the Program. This includes the two (2) supervisor positions, Superintendent of Service Coordination, Project Manager of Service Coordination, Manager of CS&CO and QA Analyst of CS&CO. Annually, the staff listed above are expected to meet and review the list of critical tasks to ensure that they remain relevant, as well as the frequency of the task to be completed and related output. Given that there is such a large volume of procedures within the Program, this streamlined approach is an effective way to ensure that the highest-risk areas are being appropriately prioritized for management oversight. In addition, if turnover continues in the supervisory roles of the Program, this procedure acts as an effective tool to introduce incoming supervisors to critical Program tasks.

The audit assessed the design effectiveness of the *Meter Operations Critical Tasks* procedure, whereby the six (6) tasks and accompanying procedures were confirmed to be those considered critical for those in supervisory roles to understand and execute. Although the audit did not test the operating effectiveness of the *Meter Operations Critical Tasks* procedure (which was not feasible due to the nature of the procedure as a reference document), the audit did review each of the identified procedures for critical Program tasks. This included testing the effectiveness of the *Water Meter 38mm Above*,

*Processing ICI Meter Issue Letters, and Large Meter 5 Year Program* procedures. This testing found that the procedures identified in the *Meter Operations Critical Tasks* procedure are designed and operating effectively.

Overall, this program procedure framework is expansive and effectively covers most areas of the Program; however, the following points are identified as inconsistencies between these established procedures and related City policies as well as some policy and procedure gaps that have been identified.

### ***Master/Satellite Meter Maintenance***

From a procedure standpoint, one gap that was identified relates to Master/Satellite meter maintenance. Since work associated with these meters tends to be more complex, the Program has opted to conduct maintenance on Master/Satellite meters “in-house”, although this has not been formally documented. It may be beneficial to formally document this approach in a program procedure, including instructions on how to calculate new meter reads once a satellite meter is installed to ensure that maintenance is effectively carried out.

### ***Water and Wastewater Consecutive Estimated Accounts Policy***

From a policy perspective, a noted gap relates to the *Water and Wastewater Consecutive Estimated Accounts Policy*, which details the protocol followed by Hamilton Water and Alectra in rendering estimated accounts where actual water consumption cannot be confirmed due to City’s inability to obtain access to a water meter or water metering equipment, for the purpose of meter reading, installation, inspection, maintenance, or repair of utility property. This policy clearly outlines the protocol for both single residential and multi-residential/Industrial, Commercial and Institutional (ICI) properties for each consecutive month of estimates.

For single residential properties, the policy states that Alectra creates work orders after the second consecutive estimate, which triggers the process to investigate, triage and/or fix the issue that is causing the meter to be consecutively estimated. If the property is still being estimated after four (4) consecutive months, the policy states that Alectra is to issue a letter acknowledging their right to put them on double historical consumption billing.

After six (6) months of consecutive meter estimation, Hamilton Water issues a letter notifying the customer that they are being put on triple historical consumption billing and at the twelve-month mark and thereafter, Hamilton Water can shut off water in certain circumstances. For multi-residential/ICI properties, the process is the same except that after twelve months, Hamilton Water is not allowed to turn off water.

Notwithstanding the documented escalation process described above, and as per the *Processing Consecutive Estimates* procedure and the *Escalated Billing Procedure* implemented by Hamilton Water, the Program has adopted an approach of creating consecutive estimate work orders after three (3) months, not two (2) months as detailed in the *Water and Wastewater Consecutive Estimated Accounts Policy*. Although this is a relatively minor misalignment, Program procedures should be aligned with City policies

to avoid any confusion among staff and to ensure that the quality of services provided by the City of Hamilton is maintained.

### ***Processing ICI Meter Issue Letters Procedure***

A more significant gap noted regarding the alignment of policies and procedures concerns the *Processing ICI Meter Issue Letters* procedure. This procedure describes the required steps for notification, distribution and follow up for ICI property owners that are required to make repairs at their own expense before the City can repair or replace their water meter. The procedure outlines that Hamilton Water will send out two letters to the customer, each 30 days apart. 30 days after the second letter is sent, the customer will be moved to double historical billing consumption.

Although compliance testing against this procedure found that the Program was following the procedure as designed in all cases reviewed, it was noted that there is no policy instrument that provides Hamilton Water with the authority to move ICI customer accounts to double historical consumptions (such as in the case of Consecutive Estimates under the *Water and Wastewater Consecutive Estimated Accounts Policy*) when customers do not address their private plumbing issues in a timely manner.

In these cases, City Finance is required to reimburse customers put on multiple historical billing consumption after their repairs have been made. It is also worth noting that in the cases reviewed, only 22% of instances where customers were put on multiple historical billing consumption resulted in customers addressing their private plumbing issues, which suggests that the procedure itself may not be working as intended.

Aside from the potential ineffectiveness of the procedure as designed, the implication of not having the authority to move customers onto double historical consumption is that it creates inefficient billing processes and increases the risk of reputational damage in the event that customers question the City of Hamilton's authority in these situations.

Based on the best practices assessment, it was found that some comparative municipalities have opted to transfer similar cases to municipal by-law officers who can issue fines to property owners for not completing the required repair work requested by the municipality in accordance with the authority granted in their by-laws. This type of enforcement option should be considered by the City of Hamilton, especially as the City is currently in the process of reviewing its own *Waterworks By-Law*.

Lastly, it should be noted that the majority of Program policies and procedures contain language and direction that is specific to the current Program operating context (i.e., Alectra as City's billing service provider). However, upon the expiry of the current service agreement with Alectra in 2024, policies and procedures will need to be updated to reflect the operational realities of the new Program billing solution/service provider.

### **RECOMMENDATION 2:**

The City should review its program policy and procedures framework to address identified gaps, as well as identify opportunities to strengthen the framework and

enhance authorities to better meet the needs of the City and support appropriate enforcement action.

**Priority:** Medium

### Finding 3: Program Reporting and Metrics

***Hamilton Water has begun to adopt a data driven approach to program management and oversight; however, data insights and key program performance metrics require enhancement.***

The main governance mechanism within the Water Meter Program is the internal weekly and monthly Meter Operations Update Meetings, which are attended by representatives of all pertinent functions of the CS&CO group, including the Manager of CS&CO and the Superintendent of Service Coordination. Both weekly and monthly Meter Operations Update Meetings are guided by the contents of the current week's Meter Operations Update Report. This report outlines various meter operations metrics, key action items, meter operations commitments, and major initiative updates.

Meter operations metrics have been developed pursuant of improvements in accuracy, effectiveness, and efficiency of Program operations. This is aligned with the Program's purpose of ensuring the efficient, timely, and accurate metering and billing for water that is used by the City's customers.

For each meter operations metric, related information is presented through a visual aid. Meter operations metrics are created by manually exporting data and information from a variety of Program reports and IPS Hansen into Excel, where visual aids are manually created and updated as required. Metrics presented as a part of Meter Operations Update Report include production report backlog, consecutive estimates, Alectra daily report backlog, no problem found work orders, status of Top 100 consumption accounts, unactioned Alectra work orders, properties on two times consumption and aging work orders. As of September 14, 2022, the Program is reviewing additional metrics to include to this reporting, such as vacant properties, volume of emails in the meter operations inbox and curb stops.

It was noted that the metrics included as a part of this reporting have evolved significantly during 2022, in an effort to effectively track and report the most critical metrics to Program operations. As a part of this, a number of metrics have been refined, including categorization of Large Meter Valve Replacement Program progress, aging work orders and the consecutive estimate metrics. The adoption of a continuous improvement approach to program metrics by management is a program management strength that should be upheld. It is also noted that, compared to other municipalities that were engaged as part of the best practices assessment (please refer to Appendix A), Hamilton's Water Meter Program use of program data and metrics appears to be above the industry standard.

Notwithstanding, there are opportunities to further enhance the use of program data and metric design. It was noted that there are no established targets, baselines, or desired outcomes for any of the meter operations metrics currently tracked and reported. For

example, while tracking the number of properties on double historical consumption is important, it is unclear what the Program's risk tolerance is for this metric (i.e., the point at which the number of properties on double historical consumption is so high that the potential impacts are beyond what the Program is willing to risk and therefore mitigating action is required by management).

Without clearly defined and documented targets, baselines, and desired outcomes, it is unclear whether the Program is achieving its goals. By addressing this gap, management will be able to enable more effective decision making and take a more proactive approach to mitigating Program risks.

### RECOMMENDATION 3:

The City should develop and implement their program performance management regime by ensuring that each key metric has documented baselines, targets, timeframes for measurement and an outline of how/when the metric would be measured, including the applicable data source and accountabilities.

**Priority:** Medium

## Finding 4: Proactive Maintenance

***The City has an effective proactive maintenance program in place for large meters, as well as pilot projects to test new meter technology (e.g., Mach 10 and Cellular Meter Interface Unit) to evolve the program and align with industry best practices.***

Large meters present the highest risk of creating large billing discrepancies as they have the highest rates of consumption. The Hamilton Water Meter Program is currently undertaking two large meter proactive maintenance (PM) initiatives:

- The *Large Meter 5 Year Program*, which includes the annual testing and maintenance of large meters to ensure that every large meter within the Program's jurisdiction is scheduled for testing and maintenance within a five-year cycle.
- The *2022 Large Meter Inspection Project*, which was created in response to the Barton Street billing issues with the objective to review all large meters to ensure accuracy of meter programming and networking to identify accounts currently being billed incorrectly.

Given that large meter PM is conducted on a five-year cycle and there are 640 large meters in Hamilton, it is expected that 128 large meters (20% of all large meters) are tested/inspected per year. As of June 30, 2022, the Program appears to be on track to reach their 2022 targets as they have completed 60 work orders out of 128 expected for the year, demonstrating a completion rate of 47% for the first six months of 2022. It should be noted, however, that this data combines work order completion rates for the *Large Meter 5 Year Program* and the *2022 Large Meter Inspection Project*. This is because the *2022 Large Meter Inspection Project* is a top priority of the Program to ensure there are no additional large billing issues and the meters being inspected under

this program are mutually exclusive from those tested under the *Large Meter 5 Year Program*.

Based on the comparative practices assessment, the City of Hamilton's large meter PM initiatives exceeds industry best practice. Comparator municipalities generally did not have an implemented large meter PM program and do not proactively test their meters, but rather they have meter replacement cycles and conduct testing as new meters are installed. Further, Hamilton's Water Meter Program proactively tracks progress against their large meter PM program as part of weekly and monthly status updates through the "Physical Inspections" metric, which is a strong management oversight practice.

In addition to the large meter PM programs outlined above, Hamilton's Water Meter Program is also currently running two pilot programs for new meter technology, namely the *Mach 10 Project* and the *Cellular Meter Interface Unit (CMIU) Project*.

Hamilton's current compound meters have two register heads, which require more complicated programming to read correctly, and two Meter Interface Units (MIU) to be read with an Advanced Metering Infrastructure (AMI) system. Due to the complexities associated with these compound meters, there have been many problems with meter reading and billing customers with compound meters (exemplified by the Barton Street billing issue).

Solid State meters, such as Ultrasonic Flow meters, do not have any moving parts and therefore the accuracy does not degrade over time and have guaranteed accuracy for 10 years. This means they will have much lower maintenance and repair costs, and a longer life span. The Neptune Mach 10 have a much greater flow range than a turbine meter and can accurately read both high and low flow rates, meaning they can replace both turbine and compound meters.

Additionally, since one Ultrasonic meter utilizes one register head instead of two, the programming and reading issues that compound meters experience could be solved with the replacement. Hamilton Water is currently installing 14 of these meters within the City as part of the Mach 10 Pilot Project, which will be monitored for a one-year period to determine if this is the correct path forward. As of September 14, 2022, 10 Mach 10 meters have been installed (71%). The CMIU Pilot Project is also being undertaken to enable cellular reading devices for meters where live reads are sent directly to the Neptune 360 asset management system without the need for a physical read from the meter pad.

Some comparable municipalities consulted as part of the audit had already implemented similar technology as part of their respective water meter programs, while one was still in the process of piloting this technology. As such, Hamilton's Water Meter Program is not exceeding industry best practices with regards to modernization and digitization, but they are aligned and should continue to work towards implementing modern meter technology.

## **Finding 5: Work Order Management**

***The Water Meter Program has established processes and procedures to manage work orders (i.e., creation, execution, and verification of work) to facilitate the***

***completion of program operations. Although there are some opportunities for improvement, work order management is operating effectively.***

Hamilton's Water Meter Program uses work orders to manage all program operations/activities, including proactive and corrective meter maintenance, meter changeouts, customer service requests, pad relocations and replacements, meters investigations, inspections of contractor work, etc. There are several documented procedures that detail the processes for managing different work order types and there is a work order management system in place called IPS/Hansen with access management controls based on program roles and responsibilities.

The *Water 38mm Above Procedure* outlines the process whereby intermediate and large meter work orders are created, executed, and closed out. Alectra is responsible for generating work orders to the City when they cannot obtain a read from a given meter or if they observe an issue with a meter. The City's MTIs will then investigate the meter based on the information contained in the work order. MTIs will fix the issue during the investigation, if possible, otherwise they will assign the work order to Neptune who will address the issue and close-out the work order. When Neptune completes the work order, MTIs will then inspect their work to ensure it is done properly.

The audit assessed compliance against the *Water 38mm Above Procedure*, as it is the primary procedure that guides work order management of the highest risk assets (i.e., most consumption and highest revenue-generating), including those that were the root of the identified billing issues. In assessing this, it is worthy to note that Hamilton Water does not conduct inspections of Neptune's work on meters smaller than 38mm so this assessment tested to ensure that City inspections were being appropriately executed on meters larger than 38mm as per the procedure.

The results of this assessment demonstrated that in all cases where the audit team expected to see an MTI investigation work order, a Neptune work order, and an MTI inspection work order, the work orders had all been appropriately initiated, executed, and closed out. Some exceptions were noted; however, reasonable justification was provided. For example, cases where no problem was found during investigation, cases where small repairs were conducted by the MTI during the initial investigation that did not require further work by Neptune, and cases where the Neptune work order had been created but not yet executed due to reasonable work order prioritization.

Notwithstanding the results above, interviews suggested that notes/comments left in work orders by MTIs and contractors were not consistently recorded and they often created challenges for WOCs to understand the context of the work order. Program management is aware of this issue and new procedures are being developed to address this.

## **Finding 6: Contract Management**

***There is no established contractor performance management framework and limited contractual mechanisms for managing and overseeing the performance of the City's outsourced billing agent.***

The Program has two (2) primary contracts in place:



- 1) Contract between the City and Neptune for the supply, delivery, installation, and maintenance of new and existing water meters, managed by CS&CO, Hamilton Water, Public Works; and
- 2) Contract and renewal agreement between the City and Alectra (formerly Horizon Utilities) for the staffing, administration, operation, and maintenance of the meter reading and billing services and service expenses, managed through Corporate Finance.

The audit team reviewed the contract and agreements to become familiar with the obligations of all parties including the City, Neptune, Alectra, and related subcontractors. However, the audit team is not trained or licensed in the law profession. Therefore, the review of the Program contracts and agreements was limited to identifying areas of potential non-compliance by any of the named parties, where there may be conflicts, or contract language where interpretations may be nebulous or no longer relevant. The objective was to highlight and recommend areas of the contracts for future legal expert review and identify sections which might be revised for better clarity in future contracts and best serve the City.

### ***Billing Services Contract***

The City has a suite of policies, procedures and processes in place related to billing and the management of customer accounts (e.g., *City of Hamilton Water and Wastewater/Storm Arrears Policy; Water and Wastewater / Storm Back-billing Policy; Escalated Billing Procedure; Processing ICI Meter Issue Letters; Water Operations Clerks – Water Billing Inquiries; New Meter Installation and Account Set Up Flowchart*; etc.). Alectra is responsible for performing billing services on behalf of the City as detailed in their renewal agreement, effective January 1, 2020 (Original contract was effective January 1, 2015 and expired December 31, 2019). As part of these services, Alectra is required to follow some of the City's policies and procedures, while they can rely on their own internal processes not covered under the noted policies and procedures (e.g., account set-up, transfer and closure).

Through the renewal of the billing services agreement, most terms and conditions remained in place from the original contract and a variety of terms and conditions were amended. However, in some cases these amendments missed opportunities to strengthen contract terms and mechanisms.

One of the most impactful cases of this is related to contract key performance indicators (KPIs). Within Alectra's renewal agreement, three (3) KPIs were identified for measurements to be developed against in conjunction with the City as part of the term of the contract. The identified KPIs included meter reading accuracy, percentage of estimated accounts and tax roll transfer accuracy. Alternatively, the original contract identified five (5) KPIs to be measured, which were not identical to those in the renewal agreement.

It also defined a timeline for the establishment of related standards and targets for those KPIs (second year of the term), as well as an interval for measurement of Alectra's performance against them (during the third year of the term and annually thereafter). This additional language regarding targets and performance measurement intervals was

removed as a part of the renewal agreement. As a result, these KPIs were not formally established as part of the contract when the agreement between the City and Alectra was renewed in 2020.

Additionally, the dispute resolution terms and conditions from the original contract remained in the renewal. However, no amendments were made to further strengthen this contract mechanism by adding terms to allow the City to take corrective action in the event that Alectra fails or defaults in the performance of work as defined in the contract.

It should also be noted that, while terms were amended as a part of the renewal agreement to strengthen the City's right to audit or inspect Alectra's operations, the City has never exercised this right in its management and oversight of Alectra's performance as the billing services agent.

Further, there is no dedicated and experienced contract manager tasked with the responsibility of managing and overseeing Alectra to ensure compliance with the requirements of their contract and the quality expectations of the City. The contract is managed by the City's Senior Policy Advisor, Financial Planning; however, until recently, this individual was not fully dedicated to the management and oversight of Alectra, until the identification of the 2021-22 large billing issues.

In response to the large billing issues, the City and Alectra have established bi-weekly meetings where Alectra provides the City with updates on key program billing metrics, as well as their progress against them. These meetings are led by the City's Meter Operations and attended by Finance. Meeting minutes are recorded for each of these meetings between the City and Alectra. However, for key program billing metrics discussed between the City and Alectra, no evidence was found of any established targets or related consequences for failure to meet targets. Similar meetings occur with the Program's meter operations contractor, Neptune, on a weekly basis.

Notwithstanding, there are no established operational meetings that are inclusive of all relevant program stakeholders (i.e., Hamilton Water, Neptune, Alectra, City Finance). As a result, the ability to share relevant program information to all key stakeholders involved is limited and the possibility that key information is not being raised to key stakeholders in a timely manner is increased. Moreover, since the contract authority for the Alectra contract rests with City Finance, Hamilton Water is limited at times in their ability to provide oversight of Alectra or to elicit appropriate action/response when issues are raised. Currently there is no mechanism inclusive of all relevant program stakeholders and contractors to discuss key objectives, risks and outcomes for the year as part of the Water Meter Program.

Overall, contract management and oversight of the billing services agent has been more reactive than proactive, which has increased the likelihood of Program risks being realized. This, as well as a lack of prescriptiveness in Alectra's contract, is evidence that oversight mechanisms in place to oversee and manage billing and customer management activities have been ineffective. This has manifested in several ways, examples of which include:

- 1) Alectra did not consistently provide required reporting (e.g., Consecutive Estimate reporting) as identified in the root-causes of the 2021-22 large billing issues;

- 2) Alectra implemented and adopted a new billing system without consulting/informing the City of Hamilton, and did not effectively migrate the City's historical customer consumption data; and
- 3) Alectra's automated system was generating work orders for meters that did not require maintenance due to there being an issue with "No Problem Found" work orders (the same problem was found in a comparative municipality who used the same billing agent).

As a result of these limitations, the impact for the City is that there is a higher risk of billing discrepancies, inefficient use of the program budget (i.e., higher labour costs to fix issues or triage non-issues) and reputational damage resulting from customer complaints.

#### RECOMMENDATION 4:

The City should ensure that all vendor contracts establish performance management frameworks, including minimum standards, KPIs and performance reporting; and have sufficient contract mechanisms, including corrective actions clauses where performance does not meet minimum standards, to oversee vendor performance. This includes establishing a dedicated and experienced contract manager tasked with the responsibility of managing and overseeing contract and vendor performance.

**Priority:** High

#### RECOMMENDATION 5:

The City should implement a regular operational meeting attended by all relevant program stakeholders to ensure consistency and alignment of information and progress to support program oversight and delivery.

**Priority:** Medium

### Finding 7: Corrective Action for 2021-22 Billing Issues

***The Program has implemented preventative and corrective actions that address the identified root-causes of the 2021-22 large billing issues; however, there are gaps in the City's root-cause analysis that should be addressed to increase the effectiveness of these actions.***

In response to the large billing issues identified the Water Meter Program conducted a root-cause analysis of the issues and developed the following set of corresponding corrective actions and preventative actions:

CORRECTIVE / PREVENTATIVE ACTION	DESCRIPTION	STATUS
Corrective	Issuance of a vendor non-compliance for Neptune.	Completed (March 30, 2022)
Corrective	Creation of critical process procedure for meter operations.	Completed (April 30, 2022)
Corrective	Update of the <i>Water Operations Clerks – Processing Work Orders from AUC</i> procedure (PW-WW-CS-CS-P-011-042) and provide training to staff in LMD.	Completed (April 15, 2022)
Corrective	Update of the <i>Processing Consecutive Estimates Related Tasks</i> procedure (PW-WW-CS-CS-P-020-018) and provide training to staff in LMD.	Completed (May 1, 2022)
Preventative	Work with AUC to fix the data transfer issues.	Completed (June 15, 2022)
Preventative	Once the data transfer issues are resolved, review of the manual AUC CE report to the automated CE report from IPS to determine the best process for meter operations.	Completed (July 1, 2022)

The audit confirmed through documentation review and consultations with program management that all corrective and preventative actions identified by the City have been implemented.

In addition to the actions noted above, Hamilton Water also introduced the *2022 Large Meter Inspection* project to ensure that all large meters are operating effectively. This project is a Program priority and Hamilton Water has made appropriate progress to date.

Overall, the actions implemented by the City support the correction of issues that contributed to the 2021-22 large billing issues and the prevention of future issues; however, it should be noted that for some corrective and preventative actions, the audit was unable to fully assess effectiveness in preventing future billing issues due to the recentness of their implementation and lack of measurable results as of the period of the audit. Moreover, gaps were noted in the root-cause analysis that indicate that the corrective and preventative actions identified by Hamilton Water are incomplete and therefore not fully effective in eliminating the risk of future large billing issues.

### ***Contractor Inspections***

One of the root-causes of the billing issues at one site was that Neptune did not properly program the meter in question, which was confirmed through the vendor non-conformance letter that was issued to that organization. However, not included in root-cause analysis was the fact that Hamilton Water did not schedule an inspection of Neptune's work, which is required for large meters as per the *Water Meter 38mm Above* procedure. This was confirmed through interviews and had Hamilton Water inspected Neptune's work in a timely manner upon completion of the maintenance activities, the improper meter programming could have been identified earlier.

### ***Contract Management***

The second significant gap that was not identified in the root-cause analysis by Hamilton Water was the lack of an established contractor performance management framework and limited contractual mechanisms for managing and overseeing the performance of the City's outsourced billing agent, Alectra. Ultimately, this resulted in issues with reporting by the contractor, improper migration of City data and information without prior notice, and operational inefficiencies that are further described in Finding 6: Contract Management.

For example, one of the root causes of the billing issues identified by Hamilton Water was that when the data transfer issues associated with the migration of Alectra's new billing system were identified by Alectra, there was no resolution implemented in a timely manner. Had a contractor performance management framework, as well as contractual mechanisms such as corrective actions been established and leveraged, it's likely that the contractor issues experienced would have been proactively identified and addressed.

### ***Zero Consumption Meters***

The third gap identified in the root-cause analysis and corresponding corrective actions and preventative actions is related to those accounts that are being estimated at zero consumption. As noted in the root-cause analysis, Alectra switched billing systems, and in that process, historical consumption data was not migrated to the new system. In doing so, Hamilton Water's business requirements were not effectively identified or considered by Alectra during this business transformation initiative; however, the larger implication is that when an account is estimated (i.e., in scenarios when an actual meter read cannot be obtained), it is estimated based on the historical consumption of that meter.

If there is no historical consumption data, that means that the customer will receive a bill only for the fixed rate fees on their account and may not be billed for any water consumption (i.e., the account may be underbilled) since the estimate was zero consumption. In other scenarios, customers were not being billed at all. This presents a significant risk, especially for large meters, as there is the potential for additional billing discrepancies.

Hamilton's Meter Operations has capability to produce a zero-consumption report, which as of January 2022 shows the following meters with zero consumption:

METER SIZE	ESTIMATED ZERO CONSUMPTION	ACTUAL ZERO CONSUMPTION
SMALL (<= 25MM)	907	2,077
INTERMEDIATE (38 & 50MM)	106	148
LARGE (>= 100MM)	39	77
TOTALS	1,052	2,302
	<b>3,354</b>	

It should be noted that it is possible that the actual consumption on any given meter could be zero (i.e., a customer is on an extended vacation and therefore their property is not consuming any water). Notwithstanding, the meters that are being estimated at zero consumption pose a significant risk, especially the 145 combined intermediate and large meters whose actual consumption tends to be higher due to their size.

To address this risk Hamilton Water offered to provide the data to Alectra whose billing system is currently under a code freeze, whereby modifications are not permitted to the system and therefore restrict the ability to create new reports to analyze data, but this was rejected by City Finance. The rationale was that:

- 1) Alectra is responsible for reviewing zero consumption and producing work orders; and
- 2) Corporate Finance does not have capacity to review these reports.

Although both rationales are true this should not void the Program’s responsibility to oversee and manage this risk. Initiatives such as the *2022 Large Meter Inspection* project may help to mitigate this risk. It is clear; however, that Alectra is unable to fulfill their responsibilities of reviewing zero consumption assets and producing work orders accordingly due to their system code freeze so an alternative solution is required. As a result, these zero consumption assets continue to pose a risk of future large billing issues such as those experienced in 2021-22. For example, the incorrect billing estimations at 50 Charlton was a compounding factor to the significant underbilling associated with this account between 2019-2022 (\$343,000). This is another example of how the absence of a contractor performance management framework and other oversight mechanisms has resulted in a greater risk exposure for Hamilton’s Water Meter Program.

**RECOMMENDATION 6:**

The City should develop a program KPI to track City inspections of Contractor (Neptune) activities.

**Priority:** Medium

### RECOMMENDATION 7:

The City should develop a report of all intermediate and large meter assets that are currently being estimated at zero consumption to identify, prioritize and investigate any accounts that are at risk of being improperly billed.

**Priority:** High

### RECOMMENDATION 8:

The City should perform follow-up assessments of the effectiveness of implemented corrective and preventative actions on at least an annual basis to ensure they are effectively addressing identified root causes of 2021-22 large billing issues.

**Priority:** Medium

## Finding 8: Data Transfer and Reporting

***Data transfer and reporting between Hamilton Water, Alectra, and Neptune are highly manual processes resulting in operational inefficiencies.***

The Water Meter Program relies on data and information provided through reporting by its Program stakeholders to support effective and efficient operations. Many of these reports are manually developed and processed by WOCs, including the Alectra Daily reports, Neptune Production reports, and Top 100 reports.

Alectra Daily reports are Excel documents created by Alectra and provided to Hamilton Water on a daily basis. They document the water meters that Alectra has been unable to read for a number of reasons, including stopped meters, missing pads, lack of access to the property, etc. WOCs receive these Alectra daily reports and check for an existing work order for the identified issue in each line item of the report. If no existing work order is found a new one is created by the WOC based on the information provided in the Alectra daily report for that item. Neptune Production reports are Excel documents that provide an overview of work orders completed by Neptune, which are provided to Hamilton Water on a daily basis. There are multiple types of Neptune production reports, each one representing a different category of work completed by Neptune.

The Top 100 report outlines a list of the City's top 100 water accounts by consumption, which are developed by Alectra and received by Hamilton Water on a monthly basis. These reports are used to review consumption history and try to proactively address issues with these accounts if there are discrepancies in their month-to-month consumption trends.

Overall, the volume of manual data transfer and reporting processes between Program stakeholders is contributing to measurable inefficiencies and data integrity risks within Hamilton's Water Meter Program. For example, the Top 100 report is provided in a PDF

format and can be 200+ pages long, rendering it challenging for Program staff to identify consumption discrepancies effectively and efficiently compare it to other report formats.

Another example concerns the Neptune Production report. Upon completion of a maintenance activity on a given meter, Neptune will provide an updated actual read on that meter in the Neptune Production report. If the maintenance activity was a meter change out this report will include the new asset ID of the new meter. The WOCs will then manually transcribe the data contained in these reports into IPS Hansen. However, due to the volume of manual reporting and the inefficiency of this process, a backlog of report processing has emerged.

As of September 14, 2022, the oldest report waiting to be processed was from July 6, 2022, meaning that this backlog is over two months long. With recent turnover and retention issues identified in the WOC role (currently, only one WOC for the entire Program), management is expecting this backlog to grow. Moreover, as this data is manually entered into the system, there is a high risk of human error, meaning either meter reads or asset IDs may be incorrectly entered into the asset management system.

To the credit of Hamilton Water there has been some automation introduced recently. For example, the Consecutive Estimates reports, which are monthly reports providing a list of all water meter accounts for which consumption data has been estimated for three or more consecutive months, was recently automated. It is currently in the process of being evaluated by Program management to determine if this approach is the best path forward. Additionally, for most production reports relating to small meter work, automation is in place to process and close out work orders, as well as add/update any required information within IPS Hansen. However, any larger meter work orders are required to be manually processed and closed out by a WOC. Lastly, pilot projects such as the *Mach 10 Project* and the *CMIU* bring the potential for more automated reporting should they be successful and eventually rolled out more broadly across Hamilton Water's jurisdiction.

Nevertheless, these current inefficient processes and reporting backlogs negatively impacts the effectiveness of overall Program operations, including the accuracy of bills being sent to customers. If there is a backlog of Alectra daily reports that means that work orders for meter maintenance may not be conducted in a timely enough manner to fix a potentially critical issue. If there is a backlog in Neptune Production reports accurate meter reads and new asset IDs might not be communicated to Alectra in time for them to produce accurate bills against the right asset in the current billing cycle. If customers receive inaccurate bills or delayed maintenance on their meters it will likely lead to more customer billing inquiries and complaints. This is a feedback cycle that will continue to negatively impact the program holistically if management does not reduce report processing backlogs by hiring more WOCs in the short-term and introducing more efficient automated processes in the long-term.

#### **RECOMMENDATION 9:**

Where possible, the City should examine opportunities to automate the processing and transfer of key data and information from program reporting into the City's asset



management system, which is currently being manually performed by WOCs. Further, the implementation of formalized data validation tools would support accuracy of data and reporting. Opportunities to automate the processing, transfer, and validation of Water Meter Program data into the City's asset management system should be evaluated as a part of requirements for the procurement of a new billing solution/service provider.

**Priority:** High

## 4 AUDIT CONCLUSION

The City of Hamilton's Water Meter Program is undergoing a period of rapid transformation, both in response to the 2021-22 large billing issues and the fact that their billing agent, Alectra, has notified the City that they are discontinuing their water billing services. Although these issues have brought on a wide array of challenges, they have also presented new opportunities to increase the operational effectiveness and efficiency of the Program as a service provider to the residents of the City of Hamilton.

The audit has identified opportunities for improvement for Hamilton's Water Meter Program. Although the Program has documented a strong operational procedure framework that clearly defines roles and responsibilities, the audit identified gaps in the policy framework that should be aligned to current procedures and practices. Further, the Program has begun to use data to support the management and oversight of operations through the development of key program metrics. However, program reporting and key program metrics lack contextualization against established targets, baselines, outcomes, timelines, as well as lack clear methods for collection, reporting, and related accountabilities.

A noted strength of the Program includes the implementation of a proactive maintenance program, which is on target to achieve the expected number of completed annual proactive maintenance work orders for 2022 and the execution of two pilot projects to test new meter technology with a view to modernizing the Program, further aligning with industry best practices.

The audit observed ineffective, and in some cases, insufficient contract management mechanisms with regards to the City's billing agent, as evidenced by the absence of a contractor performance management framework, a sufficient governance structure, and a dedicated contract manager. It was also found that there is little to no contract mechanisms in place to identify, manage, and rectify poor vendor performance.

The Program has experienced high levels of staff turnover, both at the supervisory and frontline levels. This, combined with inefficient manual data transfer and reporting processes, has created a processing backlog of key operational reporting. This backlog increases the risk of inaccurate bills being sent to customers which in-turn could increase the risk of customer complaints and reputational damage to the City of Hamilton's Water Meter Program.

Lastly, in response to the identified 2021-2022 large billing issues, a root-cause analysis was performed by Hamilton Water that identified and implemented corrective and preventative actions to address the root causes. Overall, the actions implemented by the City support the correction of issues that contributed to the billing variances and the prevention of future issues; however, it should be noted that for some corrective and preventative actions, the audit was unable to fully assess effectiveness in preventing future billing issues due to the recentness of their implementation and lack of measurable results as of the period of the audit. As such, these actions should be reviewed by the City in the future to ensure that they are in fact effective in addressing root causes.

Moreover, gaps were noted in the root-cause analysis which indicates that the corrective and preventative actions identified by Hamilton Water are incomplete and therefore not fully effective in eliminating the risk of future large billing issues. One such example includes the fact that there are some water meters being estimated at zero consumption which may mean that these meters are being improperly billed for their actual consumption. As such, the City should take action to ensure these accounts are being appropriately billed.

## Appendix A COMPARATIVE PRACTICES ASSESSMENT

As part of the audit, comparative practices were identified through the review and comparison of meter programs from three (3) comparator municipalities. The municipalities for comparison were City of London, Ontario; City of Markham, Ontario; and Regional Municipality of Halton, Ontario. The audit team conducted consultations/walkthrough with representatives from the comparator municipality’s water meter program to identify best practices in each of the audit control areas. In some cases, documentation was provided and reviewed accordingly. To maintain confidentiality of comparator municipalities interviewed, identifiers have been removed.

CITY OF HAMILTON	COMPARATOR MUNICIPALITY #1	COMPARATOR MUNICIPALITY #2	COMPARATOR MUNICIPALITY #3
<b>GOVERNANCE AND REPORTING STRUCTURES</b>			
<ul style="list-style-type: none"> <li><b>Governance Structure:</b> Meter Operations (Hamilton Water) responsible for water meter program management. This includes 2.5 WOC positions, 3 Scheduler/Dispatcher positions, 3 MTIs and 2 supervisors.</li> </ul>	<ul style="list-style-type: none"> <li><b>Governance Structure:</b> Finance team is responsible for water meter program management. This includes 2.5 staff responsible for consumption management/reporting and 30 full-time water operators; however, these operators provide services to all municipal water functions and not all operators are capable of water meter</li> </ul>	<ul style="list-style-type: none"> <li><b>Governance Structure:</b> Dedicated administrative team of two (2), including a Controller position. This also includes two (2) plumbers and four (4) meter servicers in place.</li> </ul>	<ul style="list-style-type: none"> <li><b>Governance Structure:</b> Finance team is responsible for water meter program management. This includes Supervisor, three (3) Analysts, and two (2) Senior Clerks.</li> </ul>

CITY OF HAMILTON	COMPARATOR MUNICIPALITY #1	COMPARATOR MUNICIPALITY #2	COMPARATOR MUNICIPALITY #3
	maintenance and repairs.		
<ul style="list-style-type: none"> <li>• <b>Governance Meetings:</b> Internal weekly and monthly governance meetings.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Governance Meetings:</b> Biweekly meeting with vendors individually.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Governance Meetings:</b> Daily internal program meetings occur.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Governance Meetings:</b> Quarterly governance meetings take place.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Program Reporting:</b> Program statistics and KPIs are established, but no targets set.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Program Reporting:</b> Previous audit recommendations have been made to incorporate additional oversight over program reporting. As a result, there are now eight (8) people responsible for reviewing reports. No formal program KPIs established.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Program Reporting:</b> There is reporting on program staffing levels, which was introduced during the Covid-19 pandemic.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Program Reporting:</b> Track program statistics and KPIs.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Risk:</b> No program risk register in place.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Risk:</b> No program risk register in place.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Risk:</b> No program risk register in place.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Risk:</b> Unclear whether program risk register in place.</li> </ul>
VENDOR MANAGEMENT			
<ul style="list-style-type: none"> <li>• <b>Vendors:</b> Vendor in place for meter operations (Neptune).</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Vendors:</b> Vendor in place for meter operations (Neptune).</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Vendors:</b> Vendor in place for meter reading and billing.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Vendors:</b> Four (4) vendors in place for</li> </ul>

CITY OF HAMILTON	COMPARATOR MUNICIPALITY #1	COMPARATOR MUNICIPALITY #2	COMPARATOR MUNICIPALITY #3
Vendor in place for meter reading and billing (Alectra).	Vendor in place for meter reading and billing (Alectra).		meter reading and billing.
<ul style="list-style-type: none"> <li>• <b>Contract Oversight:</b> Meter Operations team is responsible for contract management oversight of meter operations vendor. Finance team is responsible for contract management oversight of billing services agent.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Contract Oversight:</b> Meter Operations team is responsible for contract management oversight of meter operations vendor and billing services agent.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Contract Oversight:</b> Water Demand Office is responsible for contract management oversight of meter operations vendor and billing services agent. Dedicated point of contact for the vendor is established.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Contract Oversight:</b> Finance is responsible for contract management oversight.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Vendor Performance:</b> No formal KPIs in place for vendor contracts.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Vendor Performance:</b> No formal KPIs in place for vendor contracts.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Vendor Performance:</b> There is a service level agreement in place for the vendor, which outlines performance measurements/expectations related to service delivery. These include costs, scheduling, and service delivery and could include timeliness in providing reports, delivery time on Service Change Request, customer feedback, or</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Vendor Performance:</b> There are established KPIs in place, including: number of estimated accounts, dollar value of write-offs, number of calls, call response time, etc.</li> </ul>

CITY OF HAMILTON	COMPARATOR MUNICIPALITY #1	COMPARATOR MUNICIPALITY #2	COMPARATOR MUNICIPALITY #3
		actions taken to address issues.	
<ul style="list-style-type: none"> <li><b>Contract Mechanisms:</b> Right to audit clause in place.</li> </ul>	<ul style="list-style-type: none"> <li><b>Contract Mechanisms:</b> No right to audit clause with Neptune contract. Included right to audit clause with Alectra contract as part of contract amendment.</li> </ul>	<ul style="list-style-type: none"> <li><b>Contract Mechanisms:</b> Right to audit clause in place.</li> </ul>	<ul style="list-style-type: none"> <li><b>Contract Mechanisms:</b> Right to audit clause in place. Contract includes technology change notice requirement.</li> </ul>
<ul style="list-style-type: none"> <li><b>Contractor Invoicing:</b> Monthly invoicing occurs for vendors.</li> </ul>	<ul style="list-style-type: none"> <li><b>Contractor Invoicing:</b> Monthly invoicing occurs for vendors.</li> </ul>	<ul style="list-style-type: none"> <li><b>Contractor Invoicing:</b> Monthly invoicing occurs for vendors.</li> </ul>	<ul style="list-style-type: none"> <li><b>Contractor Invoicing:</b> Monthly invoicing occurs for vendors.</li> </ul>
<ul style="list-style-type: none"> <li><b>Best Practices:</b> Does not share best practices among vendors.</li> </ul>	<ul style="list-style-type: none"> <li><b>Best Practices:</b> Does not share best practices among vendors.</li> </ul>	<ul style="list-style-type: none"> <li><b>Best Practices:</b> Does not share best practices among vendors.</li> </ul>	<ul style="list-style-type: none"> <li><b>Best Practices:</b> Since there are multiple vendors, best practices among them are identified more easily and incorporated by others.</li> </ul>
<b>PROJECT MANAGEMENT AND METER MAINTENANCE</b>			
<ul style="list-style-type: none"> <li><b>Number of Accounts:</b> Services approximately 160,000 meters.</li> </ul>	<ul style="list-style-type: none"> <li><b>Number of Accounts:</b> Services approximately 85,000 meters.</li> </ul>	<ul style="list-style-type: none"> <li><b>Number of Accounts:</b> Services approximately 123,000 meters.</li> </ul>	<ul style="list-style-type: none"> <li><b>Number of Accounts:</b> Services approximately 165,000 meters.</li> </ul>

CITY OF HAMILTON	COMPARATOR MUNICIPALITY #1	COMPARATOR MUNICIPALITY #2	COMPARATOR MUNICIPALITY #3
<ul style="list-style-type: none"> <li>• <b>Meter Operations Responsibility:</b> Meter operations are outsourced, although municipality staff (MTIs) perform meter inspections.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Meter Operations Responsibility:</b> Meter operations are outsourced, although municipality staff perform meter maintenance.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Meter Operations Responsibility:</b> Meter operations (including installation and maintenance) is conducted in-house.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Meter Operations Responsibility:</b> Meter reading issues are initiated by billing services agents and entered into the public works system. Based on system information, work orders are created manually by municipality staff.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Work Order Management:</b> Alectra initiates work orders, WOCs assign and manage work orders, and MTIs execute work orders. IPS/Hansen system is used for work order management.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Work Order Management:</b> Automated work order management system which vendors have direct access to.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Work Order Management:</b> Program Supervisor is responsible for work order management and oversight.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Work Order Management:</b> Public works team is responsible for assigning work orders.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Inspections:</b> There are inspections of meter operations contractor work performed.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Inspections:</b> There are no inspections of meter operations contractor work performed.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Inspections:</b> Inspections are not required since operations is in-house, however meter installation is included in the municipality's housing inspections</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Inspections:</b> Inspections are conducted on hardware (ad hoc) and large meter maintenance programs.</li> </ul>



CITY OF HAMILTON	COMPARATOR MUNICIPALITY #1	COMPARATOR MUNICIPALITY #2	COMPARATOR MUNICIPALITY #3
		checklist for all new homes.	
<ul style="list-style-type: none"> <li>• <b>Enforcement:</b> By-laws are not leveraged to enable access to meters.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Enforcement:</b> Exploring opportunities to charge customers more where refusals are made to incentivize access to meters.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Enforcement:</b> By-laws are leveraged to enable access to meters.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Enforcement:</b> By-law makes participation in meter maintenance mandatory. Customers receive communications, which identify the potential involvement of by-law enforcement. These are dealt on a case-by-case basis, and decisions would be made by water operations management.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Large Meter Preventative Maintenance:</b> Large meter maintenance program (100mm and above) and large meter inspection project in place.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Large Meter Preventative Maintenance:</b> No preventative maintenance program in place.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Large Meter Preventative Maintenance:</b> No preventative maintenance program in place.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Large Meter Preventative Maintenance:</b> Large meter maintenance program (75mm and above) in place that is outsourced.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Master Satellite Meters/Sub-metering:</b> Municipality uses master</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Master Satellite Meters/Sub-metering:</b> No master satellite meters/sub-metering.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Master Satellite Meters/Sub-metering:</b> One master satellite meter/sub-metering.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Master Satellite Meters/Sub-metering:</b> No master satellite meters/sub-metering.</li> </ul>

CITY OF HAMILTON	COMPARATOR MUNICIPALITY #1	COMPARATOR MUNICIPALITY #2	COMPARATOR MUNICIPALITY #3
satellite meters/sub-metering.			
<b>BILLING AND CUSTOMER MANAGEMENT</b>			
<ul style="list-style-type: none"> <li>• <b>Billing Responsibility:</b> Meter reading and billing services are outsourced.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Billing Responsibility:</b> Meter reading and billing services are outsourced.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Billing Responsibility:</b> Meter reading and billing services are outsourced.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Billing Responsibility:</b> Meter reading and billing services are outsourced to four (4) local vendors in each of the City's four (4) regions.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Customer Penalties:</b> Double historical consumption in cases of customer refusals.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Customer Penalties:</b> Desire to establish penalties for customer refusals, however billing services agent has not agreed.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Customer Penalties:</b> Unclear whether customer penalties are used.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Customer Penalties:</b> By-law enforces customer penalties, as required.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Consecutive Estimate:</b> There is a consecutive estimate policy in place, whereby residential/ICI is every two (2) months.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Consecutive Estimate:</b> There is a consecutive estimate policy in place, whereby residential is every two (2) months and commercial is monthly.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Consecutive Estimate:</b> There is a consecutive estimate policy in place which occurs after three (3) months.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Consecutive Estimate:</b> There is a consecutive estimate policy in place, whereby residential is every twelve (12) months and commercial is every six (6) months. If consecutive estimates are used for accounts, the billing services agents will review</li> </ul>

CITY OF HAMILTON	COMPARATOR MUNICIPALITY #1	COMPARATOR MUNICIPALITY #2	COMPARATOR MUNICIPALITY #3
			electrical consumption and billing for the properties to identify whether properties are vacant.
<ul style="list-style-type: none"> <li>• <b>Customer Account Management:</b> Account set up/closure managed by vendor.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Customer Account Management:</b> Account set up/closure managed by vendor.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Customer Account Management:</b> Two (2) customer service representatives and one (1) Supervisor in place, who take phone calls from customers, manage work orders, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Customer Account Management:</b> Account set up/closure managed by vendors.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Flat Rate:</b> Minimum charges for accounts on a monthly basis, regardless of consumption, for unmetered properties. Processes in place for new builds to ensure timely metering.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Flat Rate:</b> Exploring opportunities to include minimum charges for accounts on a monthly basis, regardless of consumption.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Flat Rate:</b> Minimum charges for accounts on a monthly basis, regardless of consumption.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Flat Rate:</b> Only some flat rate accounts in place and no new flat rate accounts are being approved.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Meter Reading:</b> Manual reads conducted by vendor's subcontractor, with some AMI technology being piloted.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Meter Reading:</b> Manual reads conducted by vendor's subcontractor.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Meter Reading:</b> Leverages drive-by meter reading.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Meter Reading:</b> Each vendor uses their own meter reading processes and/or technology.</li> </ul>

CITY OF HAMILTON	COMPARATOR MUNICIPALITY #1	COMPARATOR MUNICIPALITY #2	COMPARATOR MUNICIPALITY #3
<ul style="list-style-type: none"> <li>• <b>Billing Validation:</b> Billing processes are managed by the vendor.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Billing Validation:</b> Billing processes are managed by the vendor.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Billing Validation:</b> Unclear whether billing validation occurs.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Billing Validation:</b> Municipality undertakes a revenue assurance process on a daily basis, where billing and customer account information provided by the vendors is validated. Multiple reports are reviewed regularly including multi-residential, low consumption, zero consumption report, etc.</li> </ul>

## Appendix B      AUDIT CONTROL ASSESSMENT SCALE

Based on the evidence collected during our audit, we formally assessed the effectiveness of each practice described within the Audit Program using a four-point scale, provided below.

SCALE	DEFINITION
NOT EFFECTIVE AT ALL – 1	Significant management attention is needed to improve these practices.
SOMEWHAT EFFECTIVE – 2	Some parts of this element are in place, but key deficiencies exist.
MOSTLY EFFECTIVE – 3	Most parts of this element are working as intended, but more work is needed in some areas.
FULLY EFFECTIVE – 4	No action is required. Everything is working as intended.

We consolidated findings and observations with formal substantiation provided through fully indexed and peer reviewed working papers. For each line of inquiry that comprises the Audit Program, we documented observations and findings using the following scheme.

HEADING	CONTENT
CRITERIA	Provide a summary of the expected practice, as specified in the review program.
CONDITION	Summarize the observed condition of the practice or area being reviewed, as determined by the outcome of the review procedures.
CAUSE	Identify the probable causes for any deficiencies or instances of non-compliance, as determined through the outcome of the review procedures.
EFFECT	Detailed the potential impact of the deficiency in terms of risk, as determined through analysis of risk and control.

## Appendix C      AUDIT CONTROL ASSESSMENT

CONTROL AREA	AUDIT CRITERIA	CONTROL ASSESSMENT
A. GOVERNANCE AND REPORTING	A.1: The City has established governance structures, frameworks, roles and responsibilities that are working effectively, staffed with the appropriate capacity, to enable management and oversight of the Water Meter Program.	SOMEWHAT EFFECTIVE – 2
	A.2: The City has established a Water Meter Program policy and procedure framework which is effectively managed and communicated with appropriate City staff.	MOSTLY EFFECTIVE - 3
	A.3: The City has an effective reporting framework in place to report on program risks, intended objectives, expected efficiencies, cost savings and service improvements.	MOSTLY EFFECTIVE – 3
	A.4: The City has established appropriate communication channels between all relevant Water Meter Program stakeholders in order to support program oversight and delivery.	SOMEWHAT EFFECTIVE - 2
	A.5: The governance and reporting structures for the City align with industry best practices.	MOSTLY EFFECTIVE – 3
B. VENDOR MANAGEMENT	B.1: The City has effective vendor management frameworks and mechanisms (including KPIs, service-level agreements (SLAs), communication channels, audit and inspection rights, and remedies) in place to oversee contractor performance related to the Water Meter Program.	SOMEWHAT EFFECTIVE - 2
	B.2: The City ensures the accurate and timely invoicing of Water Meter Program contractors.	FULLY EFFECTIVE - 4
	B.3: The vendor management framework and mechanisms for the City align with industry best practices.	MOSTLY EFFECTIVE – 3
C. PROGRAM OPERATIONS MANAGEMENT	C.1: The City effectively manages work orders (i.e., creation, execution, and verification of work) to allow for completion of program	FULLY EFFECTIVE - 4

CONTROL AREA	AUDIT CRITERIA	CONTROL ASSESSMENT
	operations in a fulsome, accurate, and timely manner.	
	C.2: Data integrity and transfer processes exist between the City and the City’s contractors that are designed and operating effectively to allow for completion of program operations in a fulsome, accurate, and timely manner.	SOMEWHAT EFFECTIVE - 2
	C.3: Work order and data integrity processes and procedures for the City align with industry best practices.	MOSTLY EFFECTIVE – 3
D. BILLING AND CUSTOMER MANAGEMENT	D.1: The City has established effective billing processes and controls to identify, mitigate, and resolve billing issues and errors in a timely manner.	SOMEWHAT EFFECTIVE – 2
	D.2: The City has established policies, processes, and procedures to effectively manage customer accounts, inquiries, complaints, or site access.	MOSTLY EFFECTIVE – 3
	D.3: Billing policies, processes, and procedures for the City align with industry best practices.	MOSTLY EFFECTIVE – 3

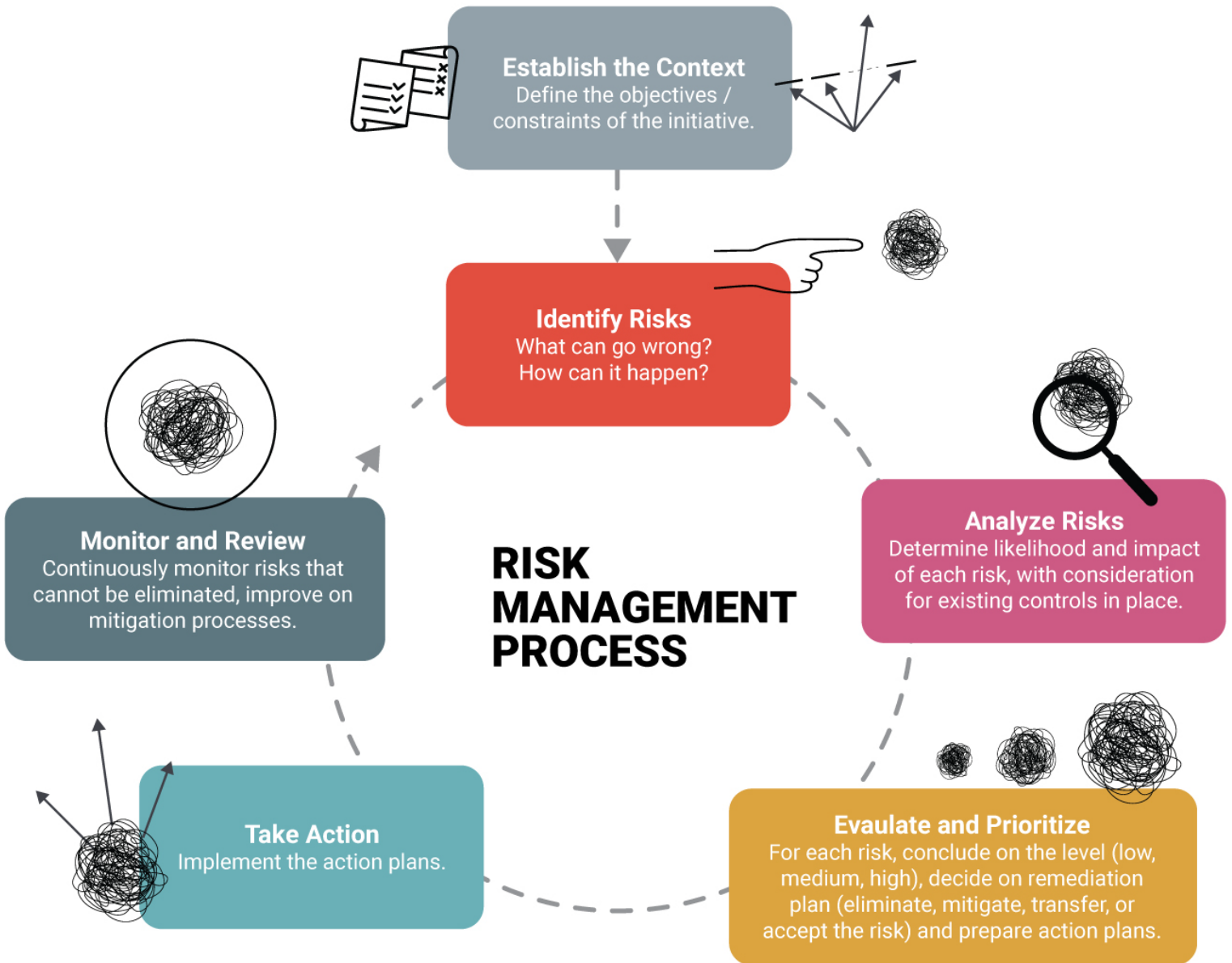
## Appendix D RECOMMENDATION AND MANAGEMENT ACTION PLAN PRIORITY SCALE

The following scale has been used to assess the priority associated with recommendations noted as part of the audit to facilitate management's action planning.

PRIORITY	MANAGEMENT RESPONSE
HIGH	The risks identified have a high level of exposure and should be addressed in the immediate or short-term, as a result of significant deficiencies in control structures and systems or required financial adjustments that are material to the organization.
MEDIUM	The risks identified have a medium level of exposure and should be addressed in a timely manner to ensure that they do not escalate or result in a higher level of exposure for the organization.
LOW	The risks identified represent lower priority or minor process improvement observations, which should be addressed where practical to improve the overall efficiency and/or effectiveness of the operations of the organization.



# Risk Management Process





Hamilton

Office of the City Auditor

# Hamilton Municipal Cemeteries Trust Funds Audit



**January 19, 2023**

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

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## Executive Summary

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- 1 Staff from the Financial Planning, Administration & Policy (FPAP or Finance) Division 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 or Cemeteries) 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 an audit focused on the processes at the CAO and FPAP that related to the recording of Cemeteries Trust financials.
  
- 2 Highlights of our findings are as follows:

Regarding trust management, we found that the City of Hamilton (COH) is not in compliance with timing and recordkeeping requirements as governed by the *Funeral Burial and Cremation Services Act (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.
  
- 3 We also identified two issues related to the City's financial statements. First, we identified that revenue is being incorrectly recognized for prepaid services contract revenue and trust money collected. Prepaid contract services (payment for services in advance of a burial which can be done years in advance) revenue is being recognized when we receive full payment on the contract. However, it should only be recognized when services are provided - when a burial takes place. Additionally, money collected for the two trusts related to maintenance of cemetery property and markers is being recognized as revenue when it should be considered additions to the principal amounts in the trusts and not revenue.

The second issue that was identified is that there is a \$1.2 M "Due From" the COH to the Cemetery Trusts on the annual audited financial statements. This has been a relatively fixed amount for several years. 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. It is also unclear how this meets obligations of the City to keep its own monies separate from trust monies and to ensure the appropriate interest accrues to the trust.
  
- 4 The 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, liability and customer

contract management as well as trust tracking that are not an inherent part of EAM and will need to be customized. The switch is intended to be made in Q2/Q3 2023 which may be too soon considering the complexity of the financial aspects of the cemeteries management processes. It also appears that there may have been a lack of due diligence in deciding on the timing of the switchover.

- 5 OCA also identified issues related to non-compliance with the Council-Approved User Fee schedule. CAO was charging a lower fee than what was approved by City Council for a particular type of grave. OCA also identified where Cemeteries charged the prior year approved fees on a 2020 contract. Additionally, there appear to be some inconsistencies and informality regarding the applying of non-resident surcharges. The impact of these issues is lost revenue.
- 6 Finally, OCA performed a Cash Handling Audit on the CAO procedures and noted several areas of non-compliance with corporate policy. (Appendix C).
- 7 Overall, OCA has recommendations to bring the Cemeteries Trusts into compliance with the *FBSCA* and to address the financial statement issues noted and to improve governance and controls within the CAO and FPAP processes.

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## Introduction and Background

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- 8 Hamilton Municipal Cemeteries is one of the largest municipal cemetery organizations in Canada, serving families for over 150 years (first burial was in 1850). The City of Hamilton operates 69 cemeteries across the greater Hamilton area. The total revenue recognized for Cemeteries in 2021 was reported as \$2,737,910 for cemetery sales.
- 9 The City of Hamilton 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 City 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. At the end of 2021, the total market value of all three trust funds' investment portfolio was \$21,612,245. Additionally, there is a total balance of \$802,572 in the respective trusts bank accounts at the end of 2021.

- 10 There is an annual reporting process required by the BAO from all cemetery operators to provide information on the required trusts. The objectives of the annual reporting requirements are:
- to make sure cemetery operators put aside the legislatively required amount when selling interment, or scattering rights (a percentage or a fixed amount depending on the rights) into their care and maintenance funds;
  - the funds are properly accounted for on an annual basis; and
  - to ensure income generated from the funds is being used for the upkeep of the cemeteries in perpetuity.

### What is a Trust?

A trust is an arrangement that allows one party, the trustee, to hold assets on behalf of another party – the beneficiary. Trustees have a fiduciary responsibility to act in the interest of beneficiaries in accordance with the rules of the trust. In the case of the Cemeteries Trust, the City of Hamilton has a duty to protect the assets of the trust and to follow the regulations of the Bereavement Authority of Ontario.

- 11 The BAO has licensing and enforcement duties and non-compliance penalties for municipalities may be up to \$250,000.
- 12 The COH had an inquiry by the BAO in 2016 regarding a discrepancy they noted between the closing balance and the opening balance on the City's annual BAO reports submitted in 2014 and 2015. As a result of the inquiry, two key financial compliance issues were identified:
- Capital Gains had been removed for trust-related revenues from the Trust Fund beginning in 2010. This is not allowed per the *FBCSA*. Capital gains is considered principal and should stay in the trust. Only interest earned on the trusts can be used for care and maintenance of cemetery property and markers. The amount of capital gains returned to the trust after the BAO's inquiry was \$195,863.
  - The amount of deposits reported by the City was not actually put in the Trusts. The amounts missing were from prepayment installment plans and Social Services lots.

The issues identified by the BAO were addressed by making adjustments to the trusts.

- 13 The importance of maintaining sound stewardship over trusts cannot be overemphasized. Besides the fact trusts are a fiduciary relationship, there are also regulatory requirements governing cemeteries management that add complexity and risk. Additionally, funerals are a vulnerable time for individuals, so the care taken with the money collected for burials also has reputational risk for the City associated with it.

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## Audit Objective

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- 14 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.
  - Evaluate our compliance with the *FBCSA* with regards to the management of our trust monies.

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## Audit Scope

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- 15 The audit scope was focused on the Cemeteries Administrative Office (CAO or Cemeteries) and Financial Planning, Administration & Policy (FPAP or Finance) processes to collect and record sales revenue and to allocate the applicable trust money to their respective trusts. The focus of the audit was on 2021 financial processes and information, with historical data and records reviewed as appropriate and reasonable.

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## What We Did

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- 16 OCA performed the following procedures:
- Gained an understanding of and assessed the processes and controls over contract sales, cash handling, and financial recording in the Cemeteries as processes that feed into the cemetery trusts.
  - Gained an understanding of and assessed the process and controls over financial recording in Finance with a focus on cemetery trust allocations.
  - Interviewed the BAO regarding the regulations and guidelines established by the *FBCSA* regarding cemetery trust management.
  - Reviewed the processes related to the 2016 BAO inquiry to determine if the issues identified are currently correct.

- Performed additional testing and review of procedures in areas tangential to the above processes as deemed relevant to the scope of the audit.

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## How We Did It

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17

- Reviewed the applicable regulations and guidelines in the *FBCSA* for COH cemetery trusts;
- Interviewed relevant staff;
- Interviewed and consulted with the BAO's Registrar and Financial Compliance Manager;
- Examined Cemeteries and Finance financial reports and supporting documentation;
- Gained access to and used the cemetery management software (HMIS) for testing; and
- Performed testing on a sample of contracts and monthly financial records.

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## What the Scope Did Not Include

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The audit is not an exhaustive review of compliance against the full *FBCSA*. OCA did not review the non-financial operational processes at the Cemeteries Administrative Office. As noted above, the scope was limited to processes relevant to cemeteries trust management.



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## Key Terms

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19 **Funeral, Burial and Cremation Services Act (FBCSA), 2002** - Legislation that governs all Bereavement Sector activity in Ontario. The *FBCSA* along with its related legislation helps regulate bereavement service providers and helps ensure consumer protection when making bereavement-related purchase decisions.

**The Bereavement Authority of Ontario (BAO)** - A government delegated authority administering provisions of the *FBCSA*. The BAO was established as a delegated administrative authority (DAA) on January 16, 2016. The BAO regulates and supports licensed: funeral establishment operators, directors and preplanners; cemetery, crematorium, and alternative disposition operators; transfer service operators; and bereavement sector sales representatives across Ontario.

**Cemeteries Care & Maintenance Trust Fund (C&M)** - A trust fund established in accordance with the *FBCSA* that helps ensure the long-term upkeep of a cemetery. A cemetery operator is required to make contributions to the fund from the sale of property such as in-ground graves, crypts, tombs, niches, and scattering rights. The *FBCSA* outlines how much you need to contribute from the sale of each of these items. This will be either a percentage of the item's price (e.g. 40% of the price) or a set dollar amount – whichever is greater. Only the interest earned on the fund is used for the care and maintenance of graves, crypts, tombs, and niches.

**Cemeteries Monument Care Trust Fund (MC)** - A trust fund established in accordance with the *FBCSA* that provides funds to maintain, stabilize, secure and preserve markers and monuments. A cemetery operator is required to make contributions to the fund from the sale of markers and monuments. The *FBCSA* outlines how much you need to contribute from the sale of each of these items. It is a set dollar amount based on the size. The interest earned on the fund is used for the care of the markers and monuments.

**Pre-Need Assurance Trust Fund** - A trust fund established in accordance with the *FBCSA* that holds funds received by a cemetery operator for services and supplies (excludes in-ground graves, niches, etc. which is covered by the Cemeteries Care & Maintenance Trust Fund) in advance of an actual burial. The interest earned over time on the initial amount paid into the fund covers price increases over the years up until the burial or cremation is needed.

**Grave and Lot** - A grave is a single burial space while a lot is one or more contiguous burial spaces.

**Niche and Columbarium** - A niche is a final resting place for ashes after cremation and is an individual compartment in a columbarium.

**PPP or Pre-Payment Plan** - A payment plan of usually 12 or 24 months, offered by the CAO, to pay for cemetery property or services in advance.

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## Detailed Findings

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### Non-Compliance with BAO Trust Requirements

#### Care & Maintenance Trust Fund (C&M)

- <sup>20</sup> In 2021, staff from the Cemeteries Administrative Office (CAO or Cemeteries) and Financial Planning, Administration & Policy (FPAP or Finance) Division realized their process to allocate installment payments for Prepayment Plans (PPP) received for property was not in compliance with the *FBCSA*'s requirement that C&M trust money must be put into the C&M trust account within 60 days of receipt. Prior to 2021, all PPP payments were put in the Pre-Need Trust account even if a payment was for property and a portion should have been put in the C&M trust account. Beginning in March of 2021, when a PPP payment was received for a property purchase, the applicable trust percentage (40% for lots/graves and 15% for niches) of the payment was put into the C&M trust account and the remaining amount of each payment goes to the operating bank account. The process is now compliant with the *FBCSA*'s requirement.
- <sup>21</sup> While the procedure has been corrected, there is still the issue of reinstating the previously incorrectly allocated funds to their proper balances including interest. For active contracts (PPP payment plans that have not been completed) that started prior to 2021, there was discussion between CAO and FPAP as to how to correct the amounts previously paid for property and put incorrectly into the Pre-Need trust. Finance staff suggested a one-time adjustment to move all previously paid PPP payments applicable amounts to the C&M trust account and operating account. CAO and FPAP could not agree on the amount to adjust so the money was left in the Pre-Need Trust account and remains uncorrected.
- <sup>22</sup> In our opinion, the money left in the Pre-Need Trust account which should be allocated to the C&M Trust account for active contracts that started prior to 2021 is not compliant with the requirement that all C&M trust money should be put into the C&M trust account within 60 days of receipt. Additionally, because those amounts were in the Pre-Need Trust account instead of the C&M trust account, interest that would have been earned in the C&M trust will be permanently lost if the payments to be reallocated only consist of the initial contract amount.

## Pre-Need Trust Money

- 23 The current record-keeping processes in place are not compliant with the *FBCSA*'s regulations for providing information to individual purchasers for their funds held in the Pre-Need Trust, for paying out any extra trust money that remains after supplies or services are provided, or for refunds.
- 24 Per the *FBCSA*, "an operator may hold prepaid trust money in a pooled trust fund only if the records maintained for the fund permit the tracking and reporting on funds in the fund on an individual contract basis." Additionally, if a purchaser requests, the trustee (the COH) must be able to provide them with a statement that accurately sets out the current value of their money.
- 25 The records at the time of purchase are kept at an individual contract level in HMIS, however, once the money is put in the Pre-Need trust account, there is no process to track the interest earned at the individual contract level which must be provided to the purchaser upon request. When Pre-Need services or a refund is needed, a manual "back" calculation is done in a spreadsheet to determine what interest was earned over time on the initial contract amount paid.
- 26 However, the spreadsheet's information for the calculation is not reflective of the actual interest earned by the trust over time and therefore information given to customers will be inaccurate. The spreadsheet calculates an annual interest rate based on an annual prime rate less 1.75%. Several inquiries were made regarding the origins of this method and inputs, but the process owners did not know the how the spreadsheet and/or the calculation was developed. Interest earned on the contract amount paid (i.e. the principal) would include interest earned by the Trust Bank Account as well as any interest/income earned from securities lending activity, and bond interest from the trust fund itself.

## Inconsistencies in Trust Allocations for Pre-Payment Plan Installments

- 27 In addition to reviewing the current 2021 process for Pre-payment Plans (PPP) trust allocations, OCA reviewed a random selection of months from prior years to understand what was being done prior to the new 2021 process. Most of the current staff responsible for the audited processes in Cemeteries and Finance started around 2016-2017. OCA went back as far as 2017 and found that from 2017 to present, at the end of the PPP plan's contract term, Finance staff would record journal entries to take the Total Contract Value out of the Pre-Need Trust (as noted above, all PPP payments, regardless of the purchase, were put in the Pre-Need Trust prior to 2021) and move it to the Cemeteries Operating Account with the intention of reallocating amounts to the appropriate trusts. During the period reviewed, allocations to the proper trusts were not consistent and money that should have been allocated to their respective trusts appear to have been left

in the Cemeteries Operating Account for those years. This results in a shortfall in funding that should have gone to the Trust.

28 • **Care & Maintenance Trust Fund (C&M):**

From January 2017-May 2017 when the Total Contract Value was taken out of the Pre-Need Trust, the C&M portion was not put into the C&M Trust. An adjustment was made in June 2017 to correct for these months and for 2014-2016. The adjustment was not only the C&M from the PPP portions but also the Special Income portions (payments for lots/graves for individuals under Ontario Disability Support Program-ODSP and Ontario Works-OW, Low Income) that were also not previously contributed (see the Special Income C&M Trust Adjustments issue below).

29 Though OCA did not review the financial records prior to 2014, we inquired with Finance staff if they adjusted for years prior to 2014. They claimed this issue was identified and an adjustment made as part of the BAO inquiry in 2016/17 and at the time the BAO only asked them to correct back to 2014. OCA reviewed BAO emails regarding this issue, and it appears that the BAO only identified the discrepancy back to 2014. The erroneous treatment went back further but has not been corrected. Regardless of the BAO requirement, the City has an obligation to the individuals who paid the C&M fees to ensure the money goes to the trust.

30 • **Monument Care Trust Fund (MC):**

From January 2017 to April 2020, the MC fees from PPP contracts that ended during this period were included in amounts moved to the C&M trust noted above instead of the MC trust. Thus, the funds went to the wrong trust. There was an adjusting entry in May 2020 for the prior months in 2020 (January to April) to reallocate the fees to MC trust, however, this was only the principal amount and did not include any interest accrued during that period. For 2017-2019 there is still \$800 in the C&M trust that needs to be reallocated to the MC trust. OCA did not go back prior to 2017, however, we inquired with Finance if they knew if similar adjustments were made prior to 2017 and they did not know. There may need to be adjustments for 2016 and prior. While the amount may not be significant, it is important that all monies be allocated to the trust in order to ensure long-term sustainability.

31 • **Pre-Need Trust:**

When the Total Contract Value was taken out of the Pre-Need trust at the end of the PPP contract terms, Pre-Need amounts were not put back into the trust. There was an adjustment done in 2020 to correct from January-May 2020 (the correct process of recording the interment/Pre-Need amounts started in June

2020 to present); however, it does not appear that prior years were corrected. These amounts should be corrected and put back into the Pre-Need trust.

- 32 In addition to not being in compliance with *FBSCA* requirements for trusts (money not being contributed to the applicable trusts and lost interest), there are other financial impacts of this issue. For the last ten years, the Cemeteries operating account has been at a surplus, however, given the issues identified above, this may not really be the case. Additionally, these errors would impact the long-term planning and budgeting for Cemeteries as the information to forecast subsequent years' revenues may be based on inaccurate information.
- 33 Based on available information, OCA estimated the lost interest for these shortfalls in funding for each trust to be -

Care & Maintenance	\$125,000
Monument Care Trust Fund	\$400
Pre-Need	\$89,000
<b>Total Over All Three Trusts:</b>	<b>\$214,400</b>

Note: Based on investment return rates going back only to 2010 through to 2021.

OCA did not look at information prior to 2010 but there may be additional impacts due to lost interest for the periods prior as well.

## Finance's Lack of Involvement in the Annual Financial Reporting to the BAO

- 34 There is an annual financial reporting requirement for cemetery operators to report each year's financial activity on the two maintenance trusts (C&M and MC) and the Pre-Need trust. Cemeteries Administration staff independently completes and submits this report with no formal review from the Financial Planning, Administration & Policy (FPAP) Division. FPAP or the Financial Services Division should be involved in all financial regulatory reporting that is done on behalf of the City of Hamilton.

## Financial Statement Issues

### Revenue Recognition

- 35 Revenue from Pre-Need sale contracts and C&M and MC trust money is not being properly recognized per Public Sector Accounting Board (PSAB) standards.

#### Revenue Recognition

Typically, revenue is recognized when a critical event has occurred or when a product or service has been delivered to a customer. The revenue recognition principle using accrual accounting requires that revenues are recognized when realized and earned – not when cash is received. If revenue is recognized before it is earned (before the actual service or product has been delivered), revenue is considered overstated.

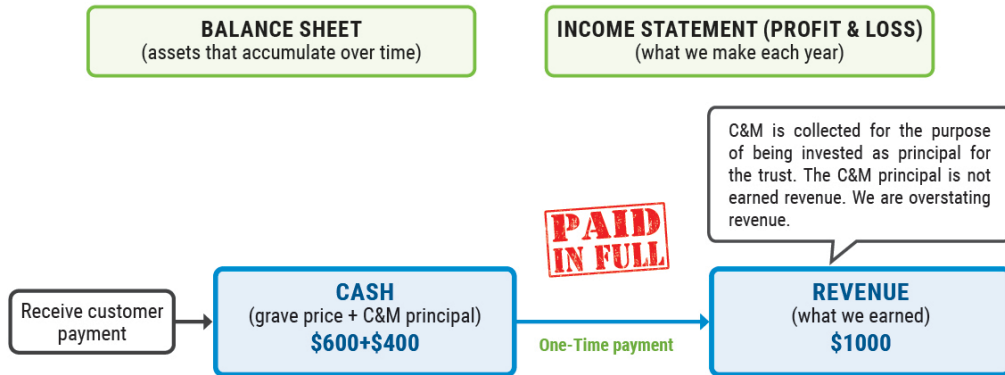
- 36 OCA identified that Pre-Need revenue and C&M and MC trust money is being recognized as follows:
- For Pre-Need contracts, revenue is being recognized when it is paid in full (either when one-time full payments are received, or Pre-Payment Plan (PPP) payments are completed).
  - For C&M and MC trust amounts, the principal is being recognized when it is paid in full (one-time and PPP payments).
- 37 OCA confirmed with the City's current external auditors (KPMG) the following regarding revenue recognition requirements:
- For Pre-Need contracts, revenue should not be recognized until the funds are applied to a service performed (i.e. when the burial is performed/supplies provided).
  - For C&M and MC trust amounts, the principal should not be recognized as revenue. The principal is added to the trust. The principal should never be recognized as revenue only the interest income earned in the trust is recognized.
- 38 Recognizing revenue too early results in overstatement of revenue which makes it look like the City has more assets than it actually does. It gives an impression of a stronger financial situation than may be the case. A revenue recognition error that is considered "material" would require a restatement to the City's annual financial statements for all prior years this has been done incorrectly. OCA estimated for 2021, the total amount of revenue overstatement is approximately \$900K. FPAP will need to consult with its external auditors to determine whether restatement is required based on the auditor's materiality.

The below diagrams are included to illustrate the gap between the current revenue recognition process and the correct process for one scenario of a one-time payment.

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

#### GRAVE/LOT PURCHASE EXAMPLE

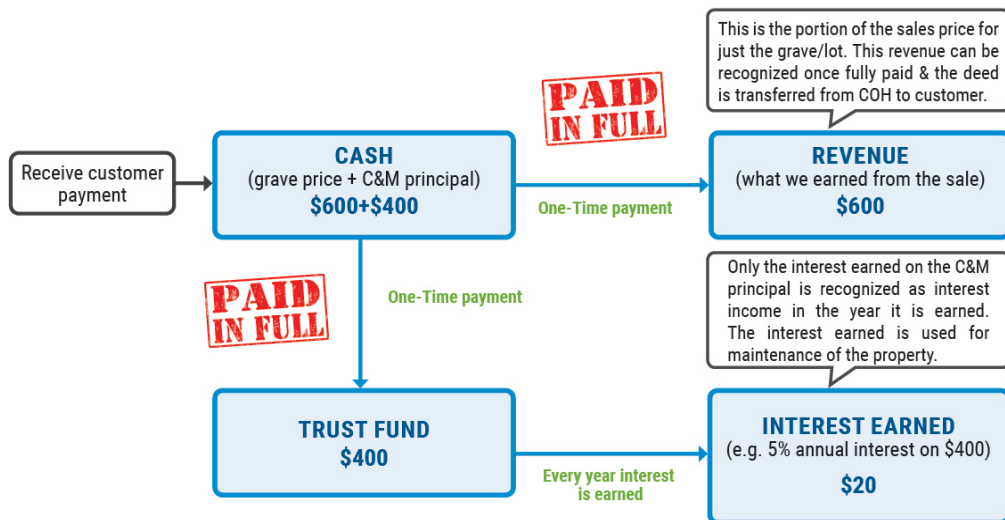
(For grave/lot purchases 40% of sale price is required to go to the Care & Maintenance (C&M) trust)



### Revenue Recognition for One-Time Payment for Property (Correct Process)

#### GRAVE/LOT PURCHASE EXAMPLE

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



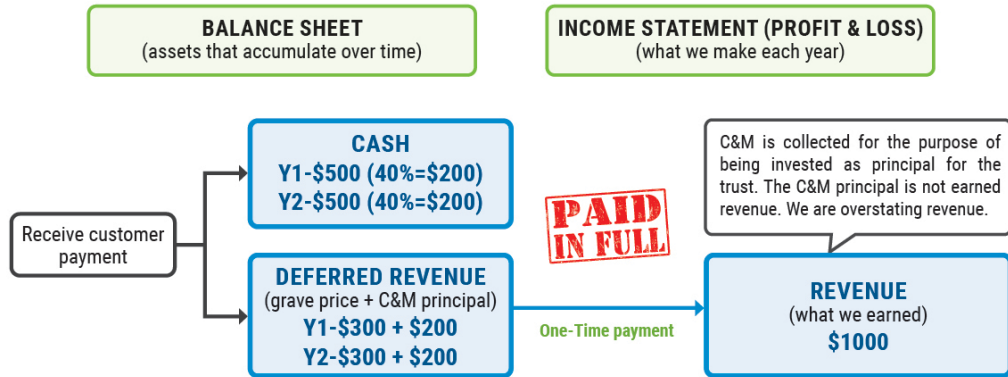
Note: This diagram utilizes plain language. The City follows PSAB (Public Sector Accounting Board) accounting standards where the Balance Sheet is called the "Statement of Financial Position" and the Income Statement is called the "Statement of Operations".

The below diagrams are included to illustrate the gap between the current revenue recognition process and the correct process for one scenario of a pre-payment plan (PPP).

### Revenue Recognition for Pre-Payment Plan (PPP) for Property (Current Process)

#### GRAVE/LOT PURCHASE EXAMPLE

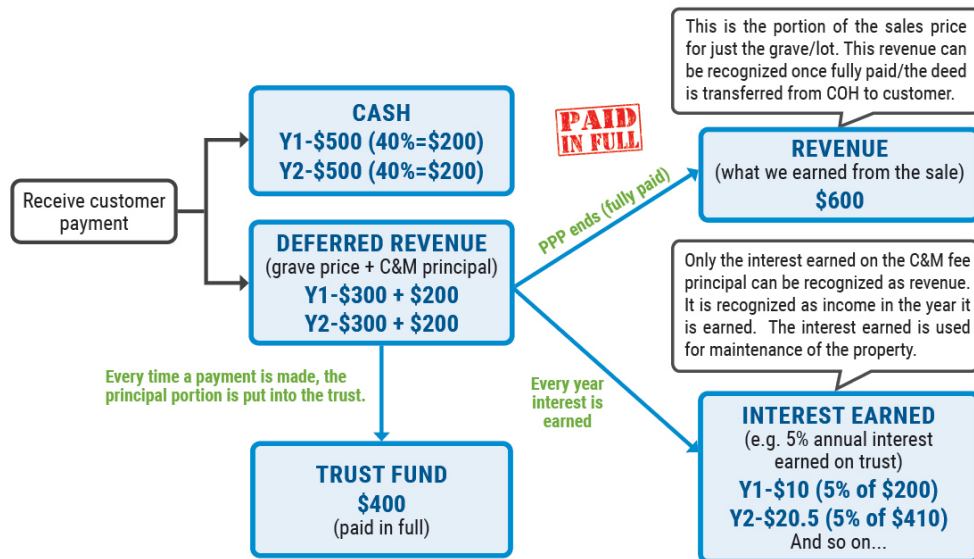
(For grave/lot purchases 40% of sale price is required to go to the Care & Maintenance (C&M) trust)



### Revenue Recognition for Pre-Payment Plan (PPP) for Property (Correct Process)

#### GRAVE/LOT PURCHASE EXAMPLE

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



Note: This diagram utilizes plain language. The City follows PSAB (Public Sector Accounting Board) accounting standards where the Balance Sheet is called the "Statement of Financial Position" and the Income Statement is called the "Statement of Operations".



## Due From Balance on 2020 Financial Statement for Cemeteries Trusts

- 39 There is a \$1.23M Due From the City of Hamilton (COH) to the Cemeteries Trust reported as part of the 2020 audited Financial Statement for the COH (at the time of reporting, the 2021 financial statements are available, and this balance is now \$1.2M). This is money that the City of Hamilton (COH) owes to the three Cemeteries Trusts. OCA inquired about this with Financial Services (FS) in May 2022 and they needed time to investigate this in conjunction with Financial Planning, Administration & Policy (FPAP), however, they confirmed the money had not been transferred to the Cemeteries Trusts. OCA also reached out to the City's external auditors and they were not sure what the source of the balance was. They had information on the amounts owed to each trust and they said they verified the amounts were on the City's books, but no other work was done.

### What is a "Due From"?

A "Due From" listed as an asset in the financial statements of the Cemeteries Trust represents monies that are owed to Trust – in this case by the City. This balance has been outstanding at over \$1M for multiple years. This raises concerns that fiduciary responsibilities have not been met in that these funds are supposed to be placed under Trust administration in a timely manner so it can be invested for the benefit of Cemetery customers.

In late July 2022, FPAP responded they had identified all the department IDs (DEPTIDs) that go into the Due From balance on the financial statement but would need more time to investigate and figure out what correcting entries need to be made and would reconvene with Financial Services in mid-September to go over next steps. FPAP met with Accounting Services in September and per FPAP, a draft of a standard operating procedure was created by Accounting Services for transactions that make up the Due From related to HST rebates and AP. However, this does account for entire balance of the \$1.2 M Due From.

- 40 OCA made several requests to management to understand this balance. It is OCA's understanding from FPAP management that no further analysis has been completed since the initial identification of the DEPTID balances in late July that go into the Due From balance. As of report finalization, OCA cannot conclude on this issue or its impact until more information is provided.

## Special Income C&M Trust Allocation Adjustments

- 41 During the course of OCA's review of the process to allocate payments to the respective trusts, we found that for cemetery lot purchases paid for by Special Income (ODSP and OW), the C&M trust portion for these purchases included an Inter-Business Unit Balancing transaction (i.e. a Due To/Due From, or DTDF)) up

until May 2017. Per Finance staff, PeopleSoft automatically generates an Inter-Business Unit Balancing transaction whenever there are transactions between two Business Units. In this case between HAMTN (City of Hamilton) and CTRUS (City Trusts).

As noted above, as part of the BAO inquiry in 2016/2017, it was identified that C&M portions from Special Income purchases were not being put into the C&M trust account. In June 2017, adjusting entries were made back to 2014 and the process was changed to ensure that future Special Income C&M Trust contributions would be moved to the trust in compliance with FBSCA requirements; however, the Inter-Business Unit Balancing transactions were being used to record Special Income C&M trust amounts prior to 2014 and those years were not adjusted.

- 42 Finance staff did not know why the Special Income C&M Trust contributions were recorded with the DTF line item prior to 2017 and were not sure of what the process on ODSP/OW's side was to pay for Special Income burial services and graves. There are no standard operating procedures that document OW's process for payment of ODSP and Low-Income burial services and graves, and how the transactions should be recorded by Cemeteries Finance staff. Without awareness of the whole process, Finance cannot be assured transactions are recorded accurately and appropriately. In addition, there is also the cost of the services and graves that ODSP/OW also pays for, which need to be accounted for.
- 43 Additionally, though OCA has not been able to confirm if the pre-2014 unadjusted DTF transactions is part of the Due From balance from the City to the C&M Trust noted above, it should be included in FPAP's review of this balance.

## **Cemeteries Management System and Current Processes**

- 44 The Cemeteries Administrative Office (CAO) is scheduled to switch from their current cemetery management software application, Hanlon Management Information Systems (HMIS) to the new Enterprise Asset Management (EAM) system with a target of January 2023 (Q1). Initially, CAO was scheduled to transition to EAM later, however, the application developer for HMIS, Batesville, is also discontinuing the Windows-based HMIS version that is used by Cemeteries, at the end of 2022. They are requiring all current users to switch to their cloud-based version at that time. Rather than pay the additional start-up costs to move to the cloud version, the transition to the EAM system was moved up.
- 45 EAM is primarily an asset management application. Work orders and Property Inventory are two aspects of Cemeteries operations that may be a good fit with EAM but HMIS is a cemetery management software that is much more than asset management. There are liabilities and revenues from the sale of cemetery supplies, services, and property, trust fund calculations and tracking, and

customer contract management including refunds and installment plan payments that are not regular functions of EAM which will need to be customized.

- 46 As of reporting, the process to begin design and creation of the customized functions has just begun, and conversations have been primarily with the CAO. Finance was not consulted for their processes for this transition. The deadline to switch over is intended to be Q2/Q3 2023. This would be after the design and creation of the customized functions which require a testing phase and a data migration phase. The deadline would appear to be fraught with risk.
- 47 Until EAM is implemented, CAO will continue using the unsupported (as of January 1, 2023) Windows version of HMIS. This means there will be no fixes to any functional or security issues. Additionally, HMIS is currently being housed on a Windows 2016 server, for which mainstream support ended in January 2022. This means we will continue to receive security updates, but any functional issue support will be at a cost. This may pose a risk to the information stored in HMIS and to the application itself.
- 48 Per CAO staff, an internal review was performed which included the COH's EAM consultant and IT Business Applications staff. IT Security staff were not directly involved in the review. Per CAO staff, the EAM consultant advised that because the HMIS cloud system is hosted in the USA and the City is not permitted to store information outside of Canada, Cemeteries could not use the cloud-based version of HMIS. The EAM consultant stated this is due to the Patriot Act that conflicts with Canadian legislation (PIPEDA-Personal Information Protection and Electronic Documents Act).
- 49 OCA reached out to Legal & Risk Management Services to confirm this information and they said it is a preference/best practice that data stay in Canada but not a requirement. PIPEDA governs private and federal organizations. MFIPPA is the privacy legislation that governs municipalities (and the legislation to which the City is bound). There is nothing per MFIPPA that prohibits data from being transferred outside Canada. Additionally, we were not able to identify any IT policy that prohibits this.
- 50 The switch to EAM does not appear to have adequately considered the customization that is needed, and the sensitivity and historical breadth of the information in the HMIS database. IT Security should have been involved to properly assess the risks of using an unsupported software for an extended period. Additionally, given the financial and trust aspects of cemeteries management that are a key part of the process and the fiduciary obligations of the City, Finance should also be heavily involved in the design of the new EAM system for cemeteries.
- 51 The current process for recording monthly revenue is very manual and spreadsheet intensive for both Cemeteries and Finance portions, which puts the City at a high risk of human error. It appears that part of the reason for this is that the older Windows version of HMIS the City uses is either missing the functionality to mitigate this and/or the system is not being used in a way that

allows Cemeteries and Finance to rely on reports run out of the system. Instead, there is currently a manual transfer of information in the system that gets sent to Finance to perform a similarly manual process. Further, there is the challenge that EAM customizations should not be mapped to the way current processes are being done. Rather they should be mapped to the improved processes, otherwise there is risk for the same issues identified in this report.

## By-Law Issues

### Council-Approved Prices Not Charged

- 52 The price for a Premium Preferred Grave was listed as \$2,956 on the 2022 Price list on the Hamilton Municipal Cemeteries website. Per the 2021 and 2022 Approved User Fees, the price for this type of grave is \$3,015. OCA also saw this pricing on one contract sample. Per Cemeteries staff, it was an internal decision to charge a different price than on the Council-Approved User Fees list.
- 53 Additionally, Cemeteries staff can override the prices set in HMIS. Each year, when Council approves the new user fees, the applicable updates are made in HMIS; however, the fees are not locked and can be overridden. Staff are required to ask approval from the Supervisor to do this; however, it is often a verbal approval, and not documented. OCA found one contract where a prior year fee was charged via verbal approval.
- 54 The annual Council-approved user fees must be charged, and departments do not have discretion to charge different prices. There may be loss revenue if prices charged are not consistent and it is important that staff follow Council direction for approved pricing.

### Non-Resident Fees

- 55 Per the annual Council-approved user fees, a 25% non-resident surcharge is required to be applied on Property Sales for all non-residents. Per Cemeteries staff, if the purchaser or deceased has a relative with a Hamilton municipality address, the non-resident surcharge is waived. Resident vs. Non-Resident charges are not reviewed by a supervisor. It appears to be an honour system with the purchaser charged or not charged based on this.
- 56 Additionally, for one contract OCA sampled, there was no Hamilton municipality address listed and no non-resident surcharge applied to the contract total. It is unknown if this is an isolated incident or not.

## Cemetery By-Law BAO Compliance

- 57 The current contract clause regarding property sales (lots, graves, niches, etc.) cancellations/refunds needs to be updated. Per Cemeteries staff, no refunds are given after 30 days once the property is paid in full, however, the contract does not state this. The contract term does not reflect our current policy and is a misrepresentation of our procedures.
- 58 Additionally, per the *FBCSA*, the municipality's By-laws should state the process for property refunds. The current practice is to not buy back the lot; however, this is not documented in the current Cemetery By-Laws.

## Process and Procedures

- 59 Neither the Cemeteries Administrative Office (CAO) nor Financial Planning, Administration & Policy (FPAP) have documented standard operating procedures for their current processes around cemetery sales and trust administration. As noted above, the processes in both areas are very manual and spreadsheet reliant which puts them at high risk for human errors that may remain undetected. Additionally, the formulas used in the spreadsheets are not locked to prevent unintended changes. Finally, the key staff currently have no back-up to perform their duties when they are not at work.
- 60 The objective of having formally documented standard operating procedures is to help guide the organization's operations to fulfill departmental objectives. Given the manual processes and compliance requirements for cemeteries financial management, documented procedures are important for consistency and completeness of what needs to be done. It also serves as a document for transfer of knowledge for new employees.

## Other Issues

### Trust Investments

- 61 The three Cemeteries Trusts (C&M Trust, MC Trust, and Pre-Need Trust) all receive income from what is referred to as "securities lending activities" overseen by Royal Trust (part of RBC Wealth Management). Securities lending involves the owner of shares or bonds transferring them temporarily to a borrower. In return, the borrower transfers other shares, bonds, or cash to the lender as collateral and pays a borrowing fee. The City Trust Fund earns a portion of the fee as income to the trusts. Per the Council-approved investment policy (Report FCS19074,

Appendix A-Reserve Revenue Funds Trust Accounts Statement of Investment Policies and Procedures, Section 6-Trust Accounts: Permitted Investments), securities lending is not listed as one of the types of permitted investments.

- 62 Most of the investments in the trusts are Provincial and Guaranteed, Municipal, and Corporate bonds. There is some common stock, but not of significant amounts. The income earned by the cemeteries trusts from securities lending is minimal. For 2021, over all three trusts, the COH earned \$4,936 from securities lending. As noted earlier, the total market value as of the end of 2021 of all three trusts was \$21,612,245.
- 63 During OCA's review of the Cemeteries Trusts securities lending activities, we reviewed the Securities Lending Agreement (SLA) between the City and Royal Trust. The SLA applies to all securities lending activities for the City and not just the Cemeteries Trusts. The agreement appears to be out of date. As a result, the City may be exposed to unnecessary risks or loss of income from being able to maximize earnings from securities lending. OCA identified the following issues with the SLA:
- It was signed over 19 years ago in January 2003.
  - The agreement terms state that notices should be sent by first class mail, personal delivery, or facsimile transmission, which is not in line with modern business practices.
  - The list of Securities Borrowers includes Lehman Brothers which no longer exists.
  - In general, the terms seem to give Royal Trust significant autonomy and authority and did not offer a lot transparency to their processes or decision-making.
  - There was an amendment to the Agreement in March 2019 which updated the fee for services to 40% of fees collected from securities borrowers, down from 50%. This amendment was reviewed by Legal Services. Per management in the City's Investments Section, the fee was renegotiated in 2019 as that was the going market rate. This is only change noted in the amendment.

## **General Ledger Account Recording**

- 64 Lot sales and marker setting revenues are recorded in specific DEPTIDs for the specific cemetery (e.g. Eastlawn Cemetery revenue from lot sales is recorded in the revenue account specifically for this cemetery). However, niches/columbarium revenue are not recorded in the specific cemetery where it is located. It is not clear why this is done for lots but not niches/columbarium. Per FPAP staff this procedure was inherited and there may have been a historical reason, but they do not know what it is. Essentially "it has always been done this way" was the rationale provided to us.

- 65 Depending on the reason and impact for the specific revenue coding above, for three refund samples OCA reviewed, the refunds were coded to the wrong cemetery's revenue account. For example, a refund for Mt. Hamilton Cemetery interment fees was recorded in the revenue account for Ancaster Cemetery.
- 66 It is not clear what the impact is of the above two issues if we do not know the reasoning for the differences in revenue coding. If there is no financial impact or purpose for booking revenue to specific cemeteries, then this would help reduce the amount of work for month end financials. If there is a purpose, the procedure for recorded revenue should be documented in a standard operating procedure.

## **Retention of Documentation Improvements**

- 67 For some verification support that was requested during the audit, Cemeteries staff was not able to provide information until they went into the office as some records are kept in hard copy (BAO reports, refunds, etc.).

Also, during the course of the audit, OCA noted that supporting documentation for Finance staff entries were not attached in PeopleSoft and had to be requested, which in some cases involved searching through old emails. The monthly workbooks are very large and are available on their shared drive. This support is not needed to be attached as the information is accessible but any one-time journal entries, especially for adjustments, should be attached to the journal entry.

- 68 Proper retention of reporting and supporting documentation is important for historical recordkeeping and compliance purposes. Hard copies are at risk for accidental loss, misfiling, or destruction. Additionally, records should be kept in compliance with the City's Records Retention By-law (By-Law 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).

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## **Recommendations**

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- 69 Please refer to Appendix "B" to Report AUD23001 for a list of Recommendations and the related Management Responses that will strengthen governance and oversight of the Hamilton Municipal Cemeteries Trusts-related processes.

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## Conclusion

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- 70 The OCA has brought forward several observations and recommendations to strengthen controls, improve processes, and ensure compliance and accuracy in both Cemeteries Administrative Office and Financial Planning, Administration & Policy processes related to cemetery trusts management.
- 71 The OCA would like to thank the Cemeteries Administrative Office and Financial Planning, Administration & Policy staff and other participants for their contributions throughout this audit. We look forward to following up with management in the future to see the progress of their action plans and their impact on improving the processes and compliance for cemetery trust management.



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**Office of the  
City Auditor**

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Alternate report formats available upon request.



Hamilton

Office of the City Auditor

# **Hamilton Municipal Cemeteries Trust Funds Audit**

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# **Recommendations and Management Responses**

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**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

# **CITY OF HAMILTON**

**2023**

**ADVISORY COMMITTEES**

**BUDGET SUBMISSION FORM**

**COMMITTEE AGAINST RACISM**

**PART A: General Information**

**ADVISORY COMMITTEE MEMBERS:**

<b>Taimur Qasim</b>	
<b>Marlene Dei-Amoah</b>	
<b>Simone McWatt</b>	
<b>Tyrone Childs</b>	
<b>Phillip Jeffrey</b>	

**MANDATE:**

The Committee Against Racism is a volunteer Advisory Committee of the City of Hamilton, appointed by Council. Members comprise residents of the City of Hamilton, representing diverse background and cultures. The mandate of the Committee Against Racism is to advise, advocate and consult on relevant issues in the community of Hamilton relating to racism and its consequences, including anti-racism strategies.

**PART B: Strategic Planning**

**STRATEGIC OBJECTIVES:**

1. Make recommendations and give advice to the City of Hamilton’s staff and Council on issues relating to racism, equity, diversity and inclusion as well as issues relating to anti-racism.
2. Encourage every person, regardless of their race, ancestry, place of origin, colour, ethnic origin, citizenship, religion, creed or any other grounds based on the Ontario Human Rights Code (OHRC), to participate in programs and services for the improvement of community relations and the fulfilment of Human Rights.
3. Work actively with institutions and all other relevant organizations, including educational institutions, Police Services, Emergency Services, public, private, voluntary sector and all levels of government to advise, consult, advocate and to promote proactive measures pertaining to racism and its impacts.
4. Consult with individuals and/or groups with respect to complaints regarding racism and to make referrals within the community for complainants.
5. Initiate and facilitate discussions between individuals and/or groups to address issues and concerns of racism and/or while promoting respect and understanding in the community.

**ALIGNMENT WITH CORPORATE GOALS:**

Please check off which Council approved Strategic Commitments your Advisory Committee supports			
1) <b>Community Engagement &amp; Participation</b>	X	2) <b>Economic Prosperity &amp; Growth</b>	X
3) <b>Healthy &amp; Safe Communities</b>	X	4) <b>Clean &amp; Green</b>	
5) <b>Built Environment &amp; Infrastructure</b>	X	6) <b>Culture &amp; Diversity</b>	X
7) <b>Our People &amp; Performance</b>			

**PART C: Budget Request**

**INCIDENTAL COSTS:**

Monthly meeting expenses (photocopying, refreshments, advertising, postage, etc.)	
<b>SUB TOTAL</b>	<b>\$ 900</b>

**SPECIAL EVENT/PROJECT COSTS:**

Initiatives by the Committee, including the following: 1) Days of recognition such as, Lincoln Alexander Day, Black History Month, Emancipation Day, and other days related to the mandate of anti-racism 2) Supporting City of Hamilton initiatives related to anti-racism 3) Support of anti-racism related community events	
<b>SUB TOTAL</b>	<b>\$ 8000</b>

<b>TOTAL COSTS</b>	<b>\$ 8900</b>
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<b>Funding from Advisory Committee Reserve (only available to Advisory Committees with reserve balances)</b>	
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<b>TOTAL 2023 BUDGET REQUEST (net of reserve funding)</b>	<b>\$ 8900</b>
<b>PREVIOUS YEAR (2022) APPROVED BUDGET (2022 Request \$ 8900)</b>	<b>\$ 8900</b>

**CERTIFICATION:**

Please note that this document is a request for a Budget from the City of Hamilton Operating budget. The submission of this document does not guarantee the requested budget amount. Please have a representative sign and date the document below.

**Representative's Name:** **Taimur Qasim**

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**Signature:** *Taimur Qasim*

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**Date:** Dec 23, 2022

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**Telephone #:** 365-323-5348

# **CITY OF HAMILTON**

**2023**

**ADVISORY COMMITTEES**

**DRAFT BUDGET SUBMISSION FORM**

**Advisory Committee for Immigrants & Refugees**



## **PART A: General Information**

### **ADVISORY COMMITTEE MEMBERS:**

<b>Name</b>	
Aref Alshaikhahmed	
Dina Honig	
Rami Safi	
Eisham Abdulkarim	
Dorar Abuzaid	
Ammira Ali	
Jennie Hamilton	

### **MANDATE:**

Makes recommendations to City Council and staff about policies, procedures and guidelines that address the needs of immigrants and refugees within the City of Hamilton.

**PART B: Strategic Planning**

**STRATEGIC OBJECTIVES:**

1. Review and comment on pertinent reports, proposed legislation and studies that affect immigrants and refugees.
2. Be consulted by City of Hamilton staff and Council on the review, development and implementation of City policies, procedures, programs and services that affect, directly or indirectly, immigrants and refugees.
3. Facilitate, organize and promote open lines of communication with the school boards, police services, City of Hamilton, (e.g. Public Health Services, Healthy and Safe Communities, etc.) and other relevant organizations to provide advice and recommendations about the service needs of newcomers, immigrants and refugees.
4. Make presentations, host workshops and/or open houses to educate service providers, police, Ontario Works, school boards, settlement agencies, employment agencies, professional regulating bodies and other relevant services and programs about immigrant and refugee issues.
5. Develop relationships with the Access to Fair Trades Office and training institutions to gain a better understanding of their processes and find some common ground that will assist newcomers and immigrants in their pursuit of timely certification and upgrading.
6. Complement and collaborate with the work of the City of Hamilton’s Volunteer Advisory Committees.

**ALIGNMENT WITH CORPORATE GOALS:**

Please check off which Council approved Strategic Commitments your Advisory Committee supports			
1) Community Engagement & Participation	X	2) Economic Prosperity & Growth	X
3) Healthy & Safe Communities	X	4) Clean & Green	X
5) Built Environment & Infrastructure	X	6) Culture & Diversity	X
7) Our People & Performance	X		

**PART C: Budget Request**

**INCIDENTAL COSTS:**

Monthly Meetings Expenses (photocopying, refreshments, advertising, postage, etc.)	\$1,500
<b>SUB TOTAL</b>	<b>\$1,500</b>

**SPECIAL EVENT/PROJECT COSTS:**

Special project	\$2,000
<b>SUB TOTAL</b>	<b>\$2,000</b>

<b>TOTAL COSTS</b>	<b>\$3,500</b>
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Funding from Advisory Committee Reserve (only available to Advisory Committees with reserve balances)	\$
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<b>TOTAL 2023 BUDGET REQUEST (net of reserve funding)</b>	<b>\$3,500</b>
<b>PREVIOUS YEAR (2022) APPROVED BUDGET (2022 Request \$3500)</b>	<b>\$3,500</b>

**CERTIFICATION:**

Please note that this document is a request for a Budget from the City of Hamilton Operating budget. The submission of this document does not guarantee the requested budget amount. Please have a representative sign and date the document below.

**Representative's Name:** Jennie Hamilton

**Signature:** Jennie Hamilton

**Date:** December 19, 2022

**Telephone #:** 905-518-7850

# **CITY OF HAMILTON**

**2023**

**ADVISORY COMMITTEES**

**BUDGET SUBMISSION FORM**

**HAMILTON MUNDIALIZATION COMMITTEE**

**PART A: General Information**

**ADVISORY COMMITTEE MEMBERS:**

<b>Anthony Macaluso (Chair)</b>	
<b>Rosemary Baptista (Co-Chair)</b>	
<b>Jan Lukas</b>	
<b>Rein Ende</b>	
<b>Robert Semkow</b>	
<b>Patricia Semkow</b>	

**MANDATE:**

The purpose of the Hamilton Mundialization Committee shall be:

- a) to promote Hamilton as "A World (Mundialized) City" dedicated to global awareness, international cooperation, and world law
- b) to further the work of the United Nations through publicity and education and to have the United Nations flag always flown with the Canadian flag the City Hall
- c) to undertake twinning programs in international cooperation with like-minded municipalities in this and other countries to foster an understanding of the increasing interdependence of the municipalities, peoples, and countries of the world
- d) to involve Hamilton residents of different cultures, especially those from the countries of our sister communities, to share in our multicultural programs
- e) to include representatives from City Council in the Committee for implementing the above programs.

**PART B: Strategic Planning**

**STRATEGIC OBJECTIVES:**

The Hamilton Mundialization Committee's goals and objectives include:

- Facilitating and supporting peace initiatives and the twinning relationships between Hamilton and its ten twin-cities around the world.
- Assisting Council in implementing its Mundialization resolution
- Complementing and affirming the objectives of the City's "Strengthening Hamilton Community Initiative"
- Supporting any and all relationships with the City of Hamilton's Twin Cities

In alignment with the Committee's mandate, key deliverables include leading the following efforts, activities, and initiatives:

- Ongoing Kaga/Hamilton events commemorating the 50+ year relationship between Kaga and Hamilton (Dundas)
- Anniversary twinning events or other twinning events as identified
- Racalmuto Regional events
- World Citizenship Award
- Photo Contest
- Hiroshima- Nagasaki Vigil

The Committee provides an ongoing review of Mundialization relationships and processes thereof. The benefit of participation is the enhancement of relationships between the residents of our twin communities both locally and internationally and the residents of the city of Hamilton.

**ALIGNMENT WITH CORPORATE GOALS:**

Please check off which Council approved Strategic Commitments your Advisory Committee supports			
1) Community Engagement & Participation	X	2) Economic Prosperity & Growth	X
3) Healthy & Safe Communities	X	4) Clean & Green	X
5) Built Environment & Infrastructure	X	6) Culture & Diversity	X
7) Our People & Performance	X		

**PART C: Budget Request**

**INCIDENTAL COSTS:**

Monthly Meetings Expenses (photocopying, refreshments, advertising, postage, etc.)	\$1,500.00
<b>SUB TOTAL</b>	<b>\$1,500.00</b>

**SPECIAL EVENT/PROJECT COSTS:**

Hiroshima — Nagasaki Vigil, World Citizenship Award and/or photo contest, other twinning events (e.g., Racalmuto events)	\$2,390.00
Kids for Kaga support for exchange program	\$2,000.00
<b>SUB TOTAL</b>	<b>\$4,390.00</b>

<b>TOTAL COSTS</b>	<b>\$5,890.00</b>
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Funding from Advisory Committee Reserve (only available to Advisory Committees with reserve balances)	\$ n/a
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<b>TOTAL 2023 BUDGET REQUEST (net of reserve funding)</b>	<b>\$5,890.00</b>
<b>PREVIOUS YEAR (2022) APPROVED BUDGET (2022 Request \$5,890.00)</b>	<b>\$5,890.00</b>

**CERTIFICATION:**

Please note that this document is a request for a Budget from the City of Hamilton Operating budget. The submission of this document does not guarantee the requested budget amount. Please have a representative sign and date the document below.

**Representative's Name:** Anthony Macaluso

**Signature:** *Anthony Macaluso*

**Date:** December 19, 2022

**Telephone #:** Staff liaison Amy Majani – 1-365-323-5348

# **CITY OF HAMILTON**

**2023**

**ADVISORY COMMITTEES**

**BUDGET SUBMISSION FORM**

**Hamilton Women and Gender Equity Committee BUDGET 2023**



**PART A: General Information**

**ADVISORY COMMITTEE MEMBERS:**

<b>Deanna Allain, Chair</b>	<b>Heather Platt</b>
<b>Melanie Cummings</b>	<b>Stephanie Scardellato</b>
<b>Anne Davey</b>	<b>Gagan Batra</b>
<b>Adriana Harris</b>	<b>Jan Lukas</b>
<b>Autumn Getty</b>	<b>Julie Turner</b>
<b>Pascale Marchand</b>	
<b>Kathleen Shannon</b>	
<b>Yulena Wan</b>	<b>Councillor Representative, Nrinder Nann</b>

**MANDATE:**

The Hamilton Women and Gender Equity Committee is a Council mandated advisory committee of the City of Hamilton. Serving and acting as an advisory committee of Council relating to matters pertaining to women, non-binary and gender diverse to provide input with respect to matters of municipal concern.

The Committee is empowered by City Council and is responsible to City Council for its services; it reports to City Council on issues and concerns pertaining to women, non-binary and gender diverse communities through the Audit, Finance and Administration Committee.

**PART B: Strategic Planning**

**STRATEGIC OBJECTIVES:**

To define, investigate, study and make recommendations on issues of concern affecting women of the City of Hamilton and other matters of social or municipal concern including matters referred to this Committee by City Council, staff and City of Hamilton committees.

To inform citizens of the City of Hamilton on issues affecting women and non-binary individuals and groups. To actively encourage women and non-binary folks to participate in all aspects of society and support them in their life choices.

To advise citizens of the City of Hamilton of decisions made by City Council which may impact on women and non-binary individuals including matters of social concern and those referred to City Council by this Committee.

To review the progress and measure of success of the Committee and its activities on a regular basis.

**ALIGNMENT WITH CORPORATE GOALS:**

Please check off which Council approved Strategic Commitments your Advisory Committee supports			
<b>1) Community Engagement &amp; Participation</b>	Y	<b>2) Economic Prosperity &amp; Growth</b>	Y
<b>3) Healthy &amp; Safe Communities</b>	Y	<b>4) Clean &amp; Green</b>	Y
<b>5) Built Environment &amp; Infrastructure</b>	Y	<b>6) Culture &amp; Diversity</b>	Y
<b>7) Our People &amp; Performance</b>	Y		

**PART C: Budget Request**

**INCIDENTAL COSTS:**

Monthly meeting expenses (photocopying, refreshments, advertising, postage, etc.)	
<b>SUB TOTAL</b>	<b>\$1,000.00</b>

**SPECIAL EVENT/PROJECT COSTS:**

<ul style="list-style-type: none"> <li>• Initiatives to be determined by the Committee that further advance Women &amp; Gender Equity issues within the City of Hamilton</li> <li>• Partnership in the development and sharing of community resources and information</li> <li>• Subsidizing membership participation in workshops / conferences relevant to committee objectives</li> <li>• Additional Special Event/Project Cost of \$2,000.00 (for International Women’s Day and other civic participation initiatives)</li> </ul>	
<b>SUB TOTAL</b>	<b>\$2,500.00</b>

<b>TOTAL COSTS</b>	<b>\$3,500.00</b>
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<b>TOTAL 2023 BUDGET REQUEST (net of reserve funding)</b>	<b>\$3,500.00</b>
<b>PREVIOUS YEAR (2022) APPROVED BUDGET (2022 Request \$3,500.00)</b>	<b>\$3,500.00</b>

**CERTIFICATION:**

Please note that this document is a request for a Budget from the City of Hamilton Operating budget. The submission of this document does not guarantee the requested budget amount. Please have a representative sign and date the document below.

**Representative’s Name:** Deanna Allain

**Signature:** Deanna Allain

**Date:** December 14, 2022

**Telephone #:** 905-546-2424 ext. 2178 (Inquiries will be fielded through the Staff Liaison)



**Hamilton**

Office of the City Auditor

# **Water Meter Program Audit and Water Billing Service Transition Project**

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# **Recommendations and Management Responses**

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**January 19, 2023**

**Office of the City Auditor  
Jacqui De Jesus, Senior Auditor  
Brigitte Minard, Deputy City Auditor  
Charles Brown, City Auditor**

## Introduction

As a result of the audit completed by BDO Canada LLP on behalf of the Office of the City Auditor, opportunities for improvement were identified and nine recommendations were made (as noted in Appendix “A” to Report AUD23002).

The Office of the City Auditor requested management responses from the Hamilton Water Division in the Public Works Department with input from the Financial Planning, Administration and Policy Division in the Corporate Services Department.

## Recommendation 1

The City should perform a job evaluation review of the key administrative and supervisory roles within the Program to validate the appropriateness of competency requirements, job descriptions and compensation level within the organization structure of the program.

## Management Response

### Agree

Hamilton Water will leverage a consultant to complete a municipal comparison of the Meter Operations organizational structure, job duties, responsibilities and associated compensation. With the results of the municipal comparison City staff will work with Human Resources and Labour Relations specialists in order to make any necessary updates to the organizational structure of the Meter Operations Business Unit which will include, but is not limited to, a review of job titles, responsibilities, duties and compensation.

Responsibility – Hamilton Water

**Estimated Completion:** Q2 2024

## Recommendation 2

The City should review its program policy and procedures framework to address identified gaps, as well as identify opportunities to strengthen the framework and enhance authorities to better meet the needs of the City and support appropriate enforcement action.

## Management Response

### Agree

1. Consecutive Estimates Policy and other Corporate Finance Billing Policies – review and update as necessary.  
Responsibility – Corporate Finance
2. Waterworks By-law – Review opportunity to enforce private property repairs required for meter-related repairs, installations and maintenance activities  
Responsibility – Hamilton Water
3. Master/Satellite Program – review program process and evaluate if a new and dedicated procedure is required for this program. If required, create new procedure.  
Responsibility – Hamilton Water
4. All program policies and procedure will be updated for accuracy upon completion of the Alectra billing contract.  
Responsibility – Corporate Finance and Hamilton Water

**Estimated Completion:** 1. Q4 2023; 2. Q2 2023; 3. Q4 2023; 4. Q4 2024

## Recommendation 3

The City should develop and implement their program performance management regime by ensuring that each key metric has documented baselines, targets, timeframes for measurement and an outline of how/when the metric would be measured, including the applicable data source and accountabilities.

## Management Response

### Agree

We are in the process of creating automated metrics in a dashboard environment to generate the operational metrics that have been developed and refined over the past 8 months. Now that Meter Operations has 8 months of data to track the operations we are focusing on staffing and training and will then establish meaningful KPIs, including targets and baselines, based on approved and sustainable service levels.

**Estimated Completion:** Q4 2024

## Recommendation 4

The City should ensure that all vendor contracts establish performance management frameworks, including minimum standards, KPIs and performance reporting; and have sufficient contract mechanisms, including corrective actions clauses where performance does not meet minimum standards, to oversee vendor performance. This includes establishing a dedicated and experienced contract manager tasked with the responsibility of managing and overseeing contract and vendor performance.

## Management Response

### Agree

#### Alectra Contract (Corporate Finance)

With the support of Kaihen, Corporate Finance is working through procurement and contract negotiations for the vendors that will be providing services when the future billing solution is implemented. The vendor contracts are to include the recommended clauses re minimum standards, KPIs and performance reporting; and ensure there are corrective contract mechanisms where performance does not meet minimum standards. Additionally, Kaihen will be supporting the City as it adopts a Target Operating Model (TOM) for a utility billing organization structure. This will include a dedicated vendor management to oversee vendors' performance.

Responsibility – Corporate Finance

#### Meter Maintenance Contract (Hamilton Water)

The current contract will be reviewed to ensure that appropriate language is in place to manage performance standards, including minimum reporting standards, KPIs and performance reporting and corrective action clauses. Gaps will be identified and the updated in the next iteration of the contractual documents. Hamilton Water will also review the contract management responsibilities, identifying who is responsible for these tasks, and evaluate if a dedicated and experienced contract manager is required for improved management of this contract.

Responsibility – Hamilton Water

**Estimated Completion:** Q1 2025

## Recommendation 5

The City should implement a regular operational meeting attended by all relevant program stakeholders to ensure consistency and alignment of information and progress to support program oversight and delivery.

## Management Response

### *Disagree-Agree*

*Staff will hold at least 2 meetings/year with all stakeholders*

~~*Operational meetings are held between Neptune and Hamilton Water on a weekly basis, as well as Alectra Hamilton Water and Corporate Finance on a biweekly basis. Hamilton Water will continue with these operational meetings with a continual improvement mindset, focusing on efficient process operations, transparent work management (supported by relevant and meaningful metrics and KPIs) and open communication.*~~

~~*As the City moves through the Water Billing Transition project, we will ensure to implement internal stakeholder meetings (Hamilton Water and Corporate Finance) to ensure seamless operation between Meter Reading, Billing and Meter Operations.*~~

~~*City staff are of the opinion that there is no value-added benefit to an “all players” operational meeting (including Alectra, Neptune, Hamilton Water and Corporate Finance). As such, we will continue with the current Operational meeting structure.*~~

~~*Expected Completion: N/A Ongoing – First meeting will be scheduled Q1 2023*~~

## Office of the City Auditor Comment

As noted in the audit report (Appendix “A” to Report AUD23002):

“the ability to share relevant program information to all key stakeholders involved is limited and the possibility that key information is not being raised to key stakeholders in a timely manner is increased. Moreover, since the contract authority for the Alectra contract rests with City Finance, Hamilton Water is limited at times in their ability to provide oversight of Alectra or to elicit appropriate action/response when issues are raised. Currently there is no mechanism inclusive of all relevant program stakeholders and contractors to discuss key objectives, risks and outcomes for the year as part of the Water Meter Program.”

It is our opinion that these stakeholder meetings would add value and would not be particularly time consuming if a schedule of quarterly meetings (or similar) was utilized.



## Recommendation 6

The City should develop a Program KPI to track City inspections of Contractor (Neptune) activities.

## Management Response

**Agree**

KPIs will be developed and tracked to track City inspection of contractor (Neptune) activities.

Responsibility – Hamilton Water

**Estimated Completion:** Q1 2023

## Recommendation 7

The City should develop a report of all intermediate and large meter assets that are currently being estimated at zero consumption to identify, prioritize, and investigate any accounts that are at risk of being improperly billed.

## Management Response

**Agree**

Hamilton Water has created a monthly QA report to identify zero consumption estimates. This monthly report will be shared with Alectra through Corporate Finance for action on the zero consumption estimates until such time that Alectra can recreate their own zero consumption estimates report through CC&B (Alectra reporting estimated for Q2 2023). Alectra will action this report and provide an update on this metric at the monthly operational meeting with Hamilton Water and Corporate Finance. Priority will be given to large and intermediate water meters (greater than 38mm).

Responsibility – Corporate Finance

**Estimated Completion:** Q1 2023

## Recommendation 8

The City should perform follow-up assessments of the effectiveness of implemented corrective and preventative actions on at least an annual basis to ensure they are effectively addressing identified root causes of 2021-22 large billing issues.

## Management Response

### Agree

The root cause of the 2021-2022 large billing issues has been addressed by updating Meter Operations process and procedures as outlined in the self-declared non-conformance. These procedures have been set for annual review.

Responsibility – Hamilton Water

**Estimated Completion:** Q4 2023

## Recommendation 9

Where possible, the City should examine opportunities to automate the processing and transfer of key data and information from program reporting into the City's asset management system, which is currently being manually performed by WOCs. Further, the implementation of formalized data validation tools would support accuracy of data and reporting. Opportunities to automate the processing, transfer, and validation of Water Meter Program data into the City's asset management system should be evaluated as a part of requirements for the procurement of a new billing solution/service provider.

## Management Response

### Agree

Upon design and implementation of the new CIS billing system (Corporate Finance) and PW EAM (Public Works, Hamilton Water), the City of Hamilton will be prioritizing system integrations and process automations with the intent to automate data transfers, reporting and analytics for both the billing and meter operations programs.

Responsibility – Corporate Finance and Hamilton Water

**Estimated Completion:** Q1 2025