

CITY OF HAMILTON

**CITY MANAGER'S OFFICE
Audit Services Division**

TO: Chair and Members Audit, Finance and Administration Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: October 8, 2013	
SUBJECT/REPORT NO: Audit Report 2013-07 – Public Works (PW) and Finance and Corporate Services (FCS) – Inactive Landfill Sites – Controls & Liabilities (AUD13032) (City Wide)	
SUBMITTED BY: Ann Pekaruk Director, Audit Services City Manager's Office	PREPARED BY: Ann Pekaruk 905-546-2424 x4469
SIGNATURE:	

RECOMMENDATION

- (a) That the Management Action Plans as detailed in Appendix "A" of Report AUD13032 be approved; and
- (b) That the General Manager of Public Works and the Acting General Manager of Finance and Corporate Services be directed to instruct the appropriate staff to have the Management Action Plans (attached as Appendix "A" to Report AUD13032) implemented.

EXECUTIVE SUMMARY

An audit of inactive landfill sites – controls and liabilities was approved by Council in the 2013 Internal Audit work plan. The audit included an assessment of compliance with applicable legislation and accounting standards. Requirements in regard to maintenance and monitoring activities at closed landfill sites were reviewed by external consultants and the results documented in annual performance reports were examined. The City's 2012 liability calculation for closed landfill sites was verified as to the

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accuracy, recording and disclosure of the liability. Funding and expenditures of the Closed Landfill Sites Reserve were also considered.

Recommendations were made to strengthen administrative controls and maintain adequate supporting documentation in regard to the annual liability calculations.

The results of the audit are presented in a formal Audit Report (2013-07) containing observations, recommendations and management responses. Audit Report 2013-07 is attached as Appendix “A” to Report AUD13032.

Alternatives for Consideration – Not Applicable

FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: Inaccurate liability calculations that are presented in the City of Hamilton Consolidated Statement of Financial Position can impact decisions made by Council and management.

Inadequate funds set aside to repair and maintain these sites can result in increased tax levies or borrowing of funds.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

The audit was scheduled as part of the 2013 Internal Audit work plan approved by Council. The audit fieldwork was completed in July 2013. The results of this audit are attached as Appendix “A” of Report AUD13032.

The Audit, Finance and Administration Committee receives and approves final audit and review reports as part of its responsibilities for the oversight of governance and control.

POLICY IMPLICATIONS/LEGISLATED REQUIREMENTS

Public Sector Accounting Board Standards (PSAB) 3270 – Solid Waste Landfill Closure and Post-closure Liability

Environmental Protection Act – R.S.O. 1990, Chapter 19

Environmental Protection Act – Ontario Regulation 232/98 – Landfilling Sites (Does not apply to current inventory of closed sites as all sites were closed prior to effective date of this legislation (August 1, 1998))

RELEVANT CONSULTATION

Appendix “A” to Report AUD13032 includes action plans which reflect the responses of management responsible for the financial and operational administration of inactive landfill sites, i.e. Environmental Division of Public Works and the Financial Services Division of Corporate Services.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

The City of Hamilton is responsible for maintaining 12 inactive landfill sites. The maintenance activities range from monitoring these sites to the construction of containment structures that collect liquid or gas waste escaping into the environment. The Ministry of the Environment (MOE) requires that closed landfills have ongoing monitoring and maintenance as part of their closure plans.

The City is required to record and disclose information about solid waste landfill liabilities under the standards set by the Public Sector Accounting Board (PSAB) section 3270. In compliance with this requirement, as of December 31, 2012, the City has reported a present value of future landfill closure and post closure liabilities of \$31.7 million.

To help defray the above future liability, the City established a Closed Landfill Sites Reserve. This reserve was started in 2010 and is funded from the dividends received from Hamilton Renewable Power Inc. (HRPI). (HRPI is a cogeneration facility at Woodward Avenue which creates energy from methane gas, a by-product of the City's wastewater operations.) As of December 31, 2012, the amount in this reserve was \$853,000. No expenditures/fund transfers have been recorded since the inception of the reserve.

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The audit focused on verifying that the maintenance and monitoring activities performed had been assessed in accordance with the MOE requirements, that liabilities were recorded and disclosed as per the PSAB standard and the reserve is funded and used appropriately.

The audit identified opportunities to strengthen administrative controls and maintain adequate supporting documentation for the annual liability calculation.

A formal Audit Report (2013-07) containing observations, recommendations and resulting management action plans was issued. Six recommendations were included in Audit Report 2013-07 and the Addendum (attached as Appendix “A” of Report AUD13032).

Among the recommendations are:

- Developing, approving and implementing procedures for calculating the liability for landfill sites;
- Assessing the need for a review of the Glanbrook landfill capacity and expected closure date every three years;
- Supporting one time closure costs for Glanbrook with a list of itemized activities and their related costs;
- Removing costs for development of a new section of the Glanbrook landfill from the liability calculations; and
- Maintaining support for the allocation of operating costs between open and closed sites.

Audit Services conducted this audit in conformity with the *International Standards for the Professional Practice of Internal Auditing*. Those standards require that Audit Services plan and perform the audit to obtain sufficient, appropriate evidence to support the findings and conclusions based on the audit objectives. Audit Services believes that the work performed provides a reasonable basis for the audit findings and conclusions.

ALTERNATIVES FOR CONSIDERATION

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

Not applicable.

ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN:

Strategic Priority #2

Valued & Sustainable Services

WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.

Strategic Objective

2.1 Implement processes to improve services, leverage technology and validate cost effectiveness and efficiencies across the Corporation.

Strategic Priority #3

Leadership & Governance

WE work together to ensure we are a government that is respectful towards each other and that the community has confidence and trust in.

Strategic Objective

3.4 Enhance opportunities for administrative and operational efficiencies.

APPENDICES / SCHEDULES

Appendix “A” to Report AUD13032

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**CITY OF HAMILTON
INTERNAL AUDIT REPORT 2013-07
PUBLIC WORKS (PW) AND FINANCE AND CORPORATE SERVICES (FCS)
INACTIVE LANDFILL SITES – CONTROLS & LIABILITIES**

#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
1.	<p><u>Procedures</u> There are no formal written procedures to guide Financial Services and Environmental Services staff in updating financial and operational factors such as the discount rate used to estimate the total expenditures, the changes with inflation rates and the used capacity of the landfill when carrying out the calculations for the liability of landfill sites.</p> <p>When written procedures do not exist, employees currently carrying out the process rely on personal understanding and experience which could result in incorrect, incomplete or inconsistent application. It would also be problematic and inefficient for a successor to commence such related duties within a short period of time.</p>	<p>That Financial Services and Environmental Services develop, approve and implement comprehensive procedures for calculating the liability for landfill sites. These documents should be reviewed on a regular basis (annually) and be revised, as required.</p>	<p><u>Financial Services (FCS)</u> Agreed. Staff will work with Environmental Services to develop a procedure for the annual calculations required. Expected completion – Q4, 2013.</p> <p><u>Environmental Services (PW)</u> Agreed. Staff will develop a procedure for the calculation of annual used landfill capacity. Expected completion – Q4, 2013.</p>

**CITY OF HAMILTON
INTERNAL AUDIT REPORT 2013-07
PUBLIC WORKS (PW) AND FINANCE AND CORPORATE SERVICES (FCS)
INACTIVE LANDFILL SITES – CONTROLS & LIABILITIES**

ADDENDUM

The following items were noted during the course of the audit. Although they do not present internal control deficiencies, they are indicated in this Addendum so management is aware of the issues and can address them appropriately.

Glanbrook Landfill Liability

1. An assessment of the need for a comprehensive review of capacity at the Glanbrook landfill site has not been undertaken within the past three years. This is contrary to PSAB Section PS 3270.18. Such reviews are important as they are the basis for estimating total capacity and the capacity used. Capacity must be applied consistently so that the liability and results are comparable over time.

It is recommended:

Environmental Services (PW) – That an assessment of the need for a comprehensive review of capacity at the Glanbrook landfill site be performed and documented at least once every three years, beginning in 2013.

Management Response:

Environmental Services (PW) - Agreed. A review will be completed for total remaining capacity in 2013. Calculated capacity will be accurate to the end of 2012. Capacity will then be calculated at least every 3 years going forward.

2. The calculations for the liability of the Glanbrook landfill site used an expected closure date of 2036. The last independent study of when this landfill is expected to close was completed in 2009. The expected closure date has remained unchanged since then even though changes that could potentially impact the closure date have occurred (i.e. collection of extra garbage through the use of garbage bag tags).

It is recommended:

Environmental Services and Financial Services (PW and FCS) - That the closure date used in the calculations for the Glanbrook landfill liability be updated in 2013 and reviewed at least once every three years or whenever a significant change potentially impacting the closure date is implemented.

Management Response:

Environmental Services (PW) - Agreed. Landfill closure date will be assessed in 2013 and then at least every two years or when a significant change in the waste management system necessitates a review.

**PW AND FCS – INACTIVE LANDFILL SITES – CONTROLS & LIABILITIES
JULY 2013**

Glanbrook Landfill Liability (Cont'd)

3. The Public Sector Accounting Board (PSAB) Section PS 3270.09 requires that all activities related to closing a landfill site be itemized for the liability. The one time closure costs for the Glanbrook landfill (costs calculated as \$2.37 million in 2012) have not been broken-down to indicate individual costs such as final cover and vegetation, drainage control features and monitoring of leachate, water quality and gas recovery.

It is recommended:

Environmental Services and Financial Services (PW and FCS) - That the liability for the one time closure costs for Glanbrook be supported with a list of activities and their related costs.

Management Response:

Environmental Services (PW) - Agreed. A detailed breakdown of landfill closure costs will be developed by Q1, 2014.

Financial Services (FCS) - Agreed. Closure cost estimates should be supported by a detailed breakdown.

4. Post closure care estimates for monitoring and maintaining the Glanbrook landfill when it closes includes a \$5.48 million amount for development of a new section of the Glanbrook landfill. These costs do not pertain to post closure care and should be removed from the liability calculations.

It is recommended:

Environmental Services and Financial Services (PW and FCS) - That the \$5.48 million for development of a new section of the Glanbrook landfill site be removed from the liability calculations.

Management Response:

Environmental Services (PW) - Agreed. Staff will work with Financial Services to make this correction.

Financial Services (FCS) - Agreed. Only costs relating to post-closure care activities should be included in the post-closure care cost estimate.

**PW AND FCS – INACTIVE LANDFILL SITES – CONTROLS & LIABILITIES
JULY 2013**

Landfill Operating Costs

5. The 2012 operating costs to maintain the open and closed landfill sites were \$3.63 million. The cost allocation was \$2.27 million and \$1.36 million for open and closed landfill sites, respectively. There was no documented support for the allocation of these costs.

It is recommended:

Environmental Services - That analysis to support the allocation of operating costs between open and closed sites be maintained.

Management Response:

Environmental Services - Agreed. Support documentation for the allocation of operating costs specific to open and closed landfills will be developed. Expected completion Q4, 2013.