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## **Audit Management Recommendations**

Presented by: Brenda Barclay, Manager of Financial Operations, Financial Services and Information Technology

## **RECOMMENDED MOTION**

That the Community Growth & Infrastructure Standing Committee recommend to Council that the Audit Management Recommendations Report, dated August 23, 2021 be received as information.

## **PURPOSE OF REPORT**

The purpose of this report is to provide an update on Administration's progress towards implementing the year end audit recommendations provided by KPMG in the 2020 Year End Communication Report from April 19, 2021

## **ALIGNMENT TO PRIORITIES IN COUNCIL'S STRATEGIC PLAN**

N/A

## **ALIGNMENT TO LEVELS OF SERVICE DELIVERY**

Corporate Reporting to Community City's Annual Report

Financial statements are provided annually, in accordance with Generally Accepted Accounting Principles (GAAP), Municipal Government Act (MGA) and Public-Sector Accounting Board (PSAB) Standards.

Financial statements are submitted annually to Municipal Affairs by May 1.

## **ALIGNMENT TO COUNCIL (OR COMMITTEE) DIRECTION OR MANDATORY STATUTORY PROVISION**

N/A

## **BACKGROUND AND DISCUSSION**

Listed below are 5 audit recommendations identified by KPMG from the external audit and Administrations response to progress on each recommendation.

The first two audit recommendations are new from the 2020 audit and the remaining three are from the 2019 and prior years audit. These recommendations have taken several years to implement corrective action on due to Covid-19 and the complexity of the issue.

### **Audit Recommendations:**

#### **1. Operating Budget Presentation - New for 2020**

##### KPMG Recommendation (2020):

We recommend that the City clarify its conclusion about what represents the City's originally approved budget in accordance with Public Sector Accounting Standards (PSAS) requirements. As part of this process, we further recommend that the City review its current budget reconciliation process to ensure it separately identifies all adjustments and eliminations, such as non cash items, reserve elimination, departmental allocations, and subsequent budget amendments to facilitate the inclusion of approved budget information in accordance with PSAS in the consolidated financial statements.

##### Administrations Response:

While a reconciliation of the approved to revised budget was provided to KPMG as part of the year end audit, Administration has decided that the 2021 Approved Budget will be presented in the Financial Statements eliminating the requirement for a reconciliation note.

#### **2. Insurance Accruals and Holdbacks Payable - New for 2020**

##### KPMG Recommendation (2020):

We recommend that the City refresh its insurance liability and holdbacks payable processes to ensure the amounts payable or accrued meet the definition on a liability. We further recommend that management review the nature of their accounts payable and accrued liability accounts on a regular basis.

##### Administrations Response:

##### **Holdbacks Payable Update:**

Administration has reviewed and updated the holdback process. Holdback reports will go out to the departments quarterly for their review and to provide status updates on each project holdback. This will ensure Finance can remove any holdbacks that are no longer required on regular basis.

##### **Insurance Payable Update:**

The insurance liability process has been reviewed and only claims with a high chance of payout will have a corresponding accrual set up for year end. This process will be done on a regular basis to ensure that the liability is not overstated.

#### **3. Purchase Orders - In Progress**

KPMG Recommendation (2019):

We recommend that the City implement a purchase order policy for all departments which requires that all purchases greater than a certain dollar threshold have a purchase prepared and approved prior to a purchase being made.

KPMG Update (2020):

Through our review of the purchasing process, we noted that management is in the process of updating its Purchasing Administrative Directive to ensure that all purchases between \$10,000 and \$50,000 have a minimum of three quotes and a purchase order is created for the selected vendor.

Administration's Response:

In 2021, the City implemented a process change for purchases from \$10,000 to \$50,000. For these purchases an informal 3 quote process is required, which includes the issuance of a purchase order to place the order with the successful vendor. Additional changes will be implemented as part of 3 year project to review and update Purchasing policies and procedures.

**4. Capital budget, including budgeting for contributed tangible capital assets - Repeated**

KPMG Recommendation (2017):

We recommend that the City review the components of its capital plan. These components include its processes for capital budget amendments, its historic capital priorities including approved but delayed capital projects, and the carry forward amounts that are brought forward into the upcoming fiscal year to ensure the City has the capacity and funds necessary to execute and complete the capital projects.

We also recommend that the City review its current budget process to ensure contributed tangible capital assets are budgeted for and that this information is provided to and approved by Council during its regular budget deliberations. Further, given the predictability of amortization expense, we recommend the City incorporate this into the budget process to provide more meaningful comparisons within the consolidated financial statements of the City.

KPMG Update (2018):

Due to the timing of the budget process at the City, the 2018 budget had already been created and approved by Council prior to the receipt of this recommendation. As a result, the recommendations raised remain valid. Per discussions with management, the capital budgeting process has been updated for these recommendations as part of the 2019 budget. We will continue to follow-up on this matter as part to the 2019 audit process.

KPMG Update (2019):

In 2019, we did not note any changes to the capital budgeting process. More specifically, we noted that the budgeted acquisition of tangible capital asset compared to the actual acquisition of tangible capital assets resulted in a \$115

million variances on the consolidated financial statements. Similarly, we noted that the City did not include budgeted figures for contributed tangible capital assets or amortization expense in its external financial reporting.

We did note that the City has implemented a process to incorporate developer-contributed tangible capital assets and amortization of tangible capital assets into the capital budget for 2020.

KPMG Update (2020):

We continue to recommend that the City review the components of its capital plan and budgeting process to ensure the budgeted results provided to and approved by Council reflect actual anticipated annual results.

Administration's Response:

Administration will continue to review the internal and external capital reporting to ensure integration and consistency.

## **5. Valuation of contributions of tangible capital assets - Repeated**

KPMG Recommendation (2017):

We recommend the City require all developers provide costing information related to all tangible capital assets contributed to the City on the construction completion certificate.

KPMG Update (2018):

In the current year, we noted that costing information is not provided to the City by developers. Through our discussions with management, we noted that the engineering department has implemented a policy that will require developers to provide costing information related to all contributed tangible capital assets. We will continue to follow up on this matter as part of the 2019 audit process.

KPMG Update (2019):

Through our review of contributions of tangible capital assets, we noted that the engineering department has requested costing information from developers throughout 2019 and is implementing this as a requirement as part of the Municipal Engineering Standards in fiscal 2020.

KPMG Update (2020):

In lieu of a formalized policy to submit costing information, we recommend that the City develop an appropriate process by which to assign values to contributed tangible capital assets. This could involve performing regular assessments of standard costs used to value contributed tangible capital assets by reference to actual costs incurred by the City for comparable assets, among other options.

Administration's Response:

Administration is working with the Engineering Department to update the Developer's requirements to submit construction costing in order to achieve their Construction Completion Certificate (CCC). This costing requirement will become part of the City's Engineering Standards and will be implemented on all new Development agreements. The Engineering Standards have been updated and will be published in August 2021. In progress projects that began prior to the publishing of the updated Engineering Standards will be asked to provide costing information when they apply for their CCC.

The Engineering Department does not foresee push back from Developers to provide costing information on these projects.

For previous year's projects that were completed and CCC's issued prior to the updated Engineering Standards being released, the Engineering Department is in the process of reaching out to Developers to see if they will give their approval to release their historical construction cost information.

## **STAKEHOLDER COMMUNICATIONS OR ENGAGEMENT**

N/A

## **IMPLICATIONS OF RECOMMENDATION(S)**

### Financial

None at this time.

### Legal / Risk:

None at this time.

### Program or Service:

None at this time.

### Organizational:

None at this time.

## **ALTERNATIVES AND IMPLICATIONS CONSIDERED**

None at this time

Report Date: August 23, 2021

Author: Brenda Barclay

Department: Financial Services and Information Technology

Deputy Chief Administrative Officer: Kerry Hiltz

Chief Administrative Officer: Kevin Scoble