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**TAMRMS#: B09**

## **Audit Management Recommendations**

Presented by: Brenda Barclay, Manager, Financial Operations & Reporting

### **RECOMMENDED MOTION:**

That Community Growth & Infrastructure Standing Committee recommend to Council that the Audit Management Recommendations Report, dated October 13, 2020 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 2019 Year End Communication Report from April 20, 2020.

### **ALIGNMENT TO COUNCIL STRATEGIC PRIORITY**

N/A

### **ALIGNMENT TO 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.

Two of these recommendations date back to the external audit of 2017 and have required a few years to implement corrective action on. This is due to the timing of when the recommended action was received from the auditors, (April of the following year) and the complexity of implementing some of the recommendations. In some cases, once a recommendation is implemented it takes several accounting cycles before the results can be assessed by the auditors. The remaining three audit recommendations are from the 2019 audit.

### Audit Recommendations:

#### **1. Capital budget, including budgeting for contributed tangible capital assets**

##### 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.

We will follow up on the implementation of this recommendation in 2020.

Administration's Response:

Administration will continue to review the internal and external capital reporting to ensure integration and consistency. A budget for amortization and contributed tangible capital assets was approved as part of the 2020 Approved Budget.

## **2. Valuation of contributions of tangible capital assets**

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.

We will follow up on the implementation of this recommendation in 2020.

Administration's Response:

Administration continues to work 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 are currently being updated and will be implemented for the 2021 construction season.

### **3. Purchase Orders**

#### 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 order prepared and approved prior to a purchase being made.

#### Administration's Response:

The City is in the process of updating its Purchasing Administrative Directive to ensure that all purchases over \$5K have a minimum of 3 quotes and a purchase order is created for the successful vendor.

### **4. Capital accruals - Completeness**

#### KPMG Recommendation (2019):

We recommend that the City enhance the year end review of the Capital Carry Forward Report for municipal and Utility projects by individually reviewing all projects with a significant budget to actual variance. Through a review of this report and the related contract, management can determine and track when the next progress billing is expected to be received to assess whether work performed to date has been fully accrued at year-end. We further recommend that the City hold regular discussions with dependent components to ensure capital projects, inclusive of the related funding to be provided, are appropriately recorded in the correct period.

#### Administrations Response:

1) Finance department: As part of the year end process Finance distributes capital reports for all departments to review. The capital reports show the amount spent over the project, the total budget, and forecast budget. All departments are then asked to complete the following:

- The status of the project (Not Yet Commenced, In Design, In Progress 0-50%, In Progress 50-75%, In Progress > 75%, Maintenance, Complete)
- If the project is complete and can be closed or needs to be carried into the future year
- If the assets associated with the project is in use
- Estimated drawdown (funding) for the project for the next three years
- Explanation as to why the project is not complete

In addition to noting the above information, departments are asked to review the total spend to ensure there are no outstanding invoices that they may be aware of. The completed report is reviewed by the Divisional Controller and the Capital Projects Office Manager and used to prepare the year end report to Council to request projects be closed or carried into the future year.

At year end, a cut-off report is run a few days after the accounts payable accrual deadline to review invoices with invoice dated in the year end date that was posted into the new year. This is assessed and material invoices may be accrued. As the recording of expenses impact other procedures (i.e. capital assets process), the recording of accruals after the set deadline would result in significant work.

2) Planning & Development department: Currently the engineering financial officer tracks invoices received and sent

out for signatures in a spreadsheet to ensure all are received back. At year end, project managers are asked to remind their vendors to send invoices relating to that year prior to the cut-off date. Another spreadsheet is kept that tracks each project and the invoices paid so project managers are aware of what was used compared to budget. Thus, there are strong processes that currently exist for the City.

***Additional enhancements that will be added:***

- 1) Finance will also do a reasonability check for outstanding liabilities by comparing the project status to amount spent.
- 2) Finance will extend the date range and run the cut-off report a few weeks after accrual deadline to review any large invoices pertaining to year end that were posted into the new year. If identified material, an accrual will be recorded.

**5. Deposit liabilities - tracking and monitoring**

KPMG Recommendation (2019):

We recommend that management prepare a listing of all outstanding deposits and review it on a recurring basis. As part of this review, the City should validate individual project deposits by determining if the project remains in progress and therefore the deposit remains payable, or if deficiencies were noted in the project and there is no intent to repay the balance to ensure the related deposit is appropriately released.

Administrations Response:

Finance continues to work with the Engineering department to ensure all deposit liabilities are thoroughly reviewed and reconciled. A quarterly and bi-annual review will be implemented to ensure the status of all deposit liabilities is consistent with the status of the project.

**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: October 13, 2020

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Chief Administrative Officer: Kevin Scoble

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