Audit and Administration Committee
REPORT 07-011
9:30 a.m.
Wednesday, September 19, 2007

Committee Room 207
Hamilton Convention Centre
Hamilton, Ontario

Present: Chair C. Collins
Vice-Chair M. Pearson
Councillors B. Bratina, B. Clark, B. Morelli, R. Powers and T. Whitehead

Also Present: G. Peace, City Manager
J. Rinaldo, General Manager, Finance & Corporate Services
J. Priel, General Manager, Community Services
A. Pekaruk, Director of Audit Services
R. Male, Finance and Corporate Services
D. Fisher, Legal Services
K. Christenson, City Clerk
S. Hayden, Deputy Clerk
S. Paparella, City Clerk’s

THE AUDIT AND ADMINISTRATION COMMITTEE PRESENTS REPORT 07-011 AND RESPECTFULLY RECOMMENDS:

1. **Point of Sale Software and Hardware for Counter Clerks (CL07008) (City Wide) (Item 5.1)**

That Report CLO7008, respecting Point of Sale Software and Hardware for Counter Clerks, be received.

2. **Follow Up of Audit Report 2005-08 – Social Housing Funding Streams (CM07022) (City Wide) (Item 5.2)**

That Report CM07022, respecting the follow up of Audit Report 2005-08, Social Housing Funding Streams, be received.
3. **Follow Up of Audit Report 2005-07 – Downtown Renewal Division – Financial Assistance Programs (CM07023) (City Wide) (Item 5.3)**

That Report CM07023, respecting the follow up of Audit Report 2005-07, Downtown Renewal Division – Financial Assistance Programs, be received.

4. **Follow Up of Audit Report 2005-10 – Culture and Recreation – CLASS System (CM07024) (City Wide) (Item 5.4)**

That Report CM07024 respecting the follow up of Audit Report 2005-10, Culture and Recreation – CLASS System, be received.

5. **Audit of Management of Long-Term Contracts (City Wide) (CM07026) (Item 5.5)**

(a) That Report CM07026, respecting Audit of Management of Long-Term Contracts, be received.

(b) That Outstanding Business Item G be deemed complete and be removed from the Outstanding Business List.


(a) That Report CM07020 respecting Audit Report 2007-03, Public Works – Pavement Cuts, be received; and

(b) That the management actions plans as detailed in Appendix “A” of Report 07-011 be approved and the General Manager of Public Works and the General Manager of Finance and Corporate Services direct the appropriate staff to have the plans implemented.

7. **Audit Report 2007-06 – Corporate Services - Investments (CM07025) (City Wide) (Item 8.2)**

(a) That Report CM07025 respecting Audit Report 2007-06, Corporate Services – Investments, be received; and

(b) That the management actions plans as detailed in Appendix “B” of Report 07-011 be approved and the General Manager of Finance and Corporate Services direct the appropriate staff to have the plans implemented.

Council – September 26, 2007
8. **2006 Statement of Reserves (FCS07079) (City Wide) (Item 8.3)**

(a) That the 2006 Statement of Reserves Report and the 2006 Reserve Report attached as Appendix “C” to 07-011 be received; and

(b) That a Capital Reserve be established to fund life cycle replacement of building and grounds components of the former Stoney Creek City Hall, which is now leased to the RCMP and be funded from a portion of the annual lease revenues.

9. **Consent to Assignment of Ground Lease of the Sheraton Hamilton Hotel, 116 King Street West, by GGS Hotel Holdings Canada Inc. to Clocktower Hotel Limited Partnership, and Related Transactions. Approval of Various Agreements related to the Assignment of the Ground Lease (LS07013) (City Wide) (Item 8.4)**

(a) That the City, as landlord of the Sheraton Hotel, 116 King Street West, (pursuant to a ground lease dated May 3, 1983, as amended, the “Ground Lease”) grant consent to each of the following transactions subject to the conditions set out in clause 2 below:

(i) The amalgamation of GGS Hotel Holdings Canada Inc. (“GGS”) with Starwood Canada Corp. (the amalgamated corporation is hereinafter referred to as “Starwood”);

(ii) The assignment of the Ground Lease by Starwood to Clocktower Hotel Limited Partnership (“Clocktower”);

(iii) The assignment or transfer of other related rights and obligations in connection with the Sheraton Hotel by Starwood to Clocktower, such as the assignment of the rights and obligations of Starwood under an interface agreement between GGS Hotel Holdings Canada Inc., the City, Second Phase Civic Square Limited and Fourth Phase Civic Square Limited and the transfer of GGS Hotel Holdings Canada Inc.’s leasehold parcel.

(b) The City’s consent and approval of the said transactions is subject to the following conditions:

(i) The terms and conditions of the existing agreements;

(ii) The assumption by Clocktower of all obligations of GGS under those agreements;
(iii) The completion of the requisite due diligence to the satisfaction of the City Solicitor and City Treasurer;

(iv) The receipt by the City prior to each transaction of certified resolutions of the shareholders, partners or directors of the counterparties regarding the proposed transactions, solicitor’s opinions, third party consents and other documents, all as the City Solicitor;

(v) The registration on closing of all documents as may be required by the City Solicitor in a form satisfactory to the City Solicitor;

(vi) The payment on closing by Clocktower or Starwood of the costs of the City’s external legal counsel retained to advise the City on the proposed transactions; and

(vii) The carrying out of each of the transactions listed in clause 1 as one approved transaction.

(c) That the Mayor and the City Clerk, or other staff as appropriate, be authorized to execute all documents required to implement the foregoing in a form satisfactory to the City Solicitor, including the following:

(i) An assignment of the Ground Lease;

(ii) An assumption agreement for the Ground Lease; and,

(iii) Such other agreements regarding the Sheraton Hotel as the City Solicitor may determine.

10. **Companion Review (Item 9.1)**

That City staff prepare a companion review to accompany the 2008 Fees and Charges report. This review will outline any additional fees, surcharges and/or penalties, wherever relevant, and provide the actual dollars and percentage difference from the original amount and when imposed.
FOR THE INFORMATION OF COUNCIL:

(a) **CHANGES TO THE AGENDA (Item 1)**

There were no changes to the agenda.

(b) **DECLARATIONS OF INTEREST (Item 2)**

There were no declarations of interest.

(c) **APPROVAL OF MINUTES (Item 3)**

The Minutes of the September 5, 2007 meeting of the Audit and Administration Committee were approved, as presented.

(d) **Audit of Management of Long-Term Contracts (CM07026) (City Wide) (Item 5.5)**

Jim Harnum, Senior Director of Water and Waste Water, and Ann Pekaruk, Director of Audit Services were directed to attend the next Audit & Administration Committee to provide Committee with a draft Terms of Reference for the audit of overstrength agreements.

(e) **Audit Report 2007-03 – Public Works – Pavement Cuts (CM07020) (City Wide) (Item 8.1)**

Staff was directed to report back to the Audit & Administration Committee with respect to policy and guidelines regarding the collection of delinquent payments to the City of Hamilton. The report should also outline the amount of lost revenue, between 2001 to current, and the names of the companies who have become delinquent (uncollectible) or have fallen behind the normal acceptable time period for payment.

Staff was directed to investigate the signatures used in Item 5 – Excavation Permits, of Appendix A to Report CM07020.

That the General Manager of Public Works be directed to report back to the Public Works Committee on the following:

The review of options to add a clause to excavation permits issued to private contractors, who require permits in order to cut into existing roads, stating that the contractor must remediate the road back to City Standards.

Council – September 26, 2007
(f) DELEGATIONS (Item 6)

6.1 Mr. Doug Selby, SBF Business Forms (Item 6.1)

Mr. Selby appeared before Committee to request that his company be added to the Preferred Vendor List for printing.

The presentation, made by Mr. Doug Selby, SBF Business Forms, respecting the Preferred Vendors List, was received and no further action will be taken at this time.

(g) Audit & Administration Committee Outstanding Business List Items Update

Joe Rinaldo, General Manager of Finance and Corporate Services, provided an update to Committee with respect to the following Outstanding Business List Items:

(i) Item “E” – Development Charges and Driveway Improvements at 863 Upper Paradise Road

The matter has been dealt with in the Courts and Legal Services has received a copy of the Court Order dismissing the action. Therefore, this matter may now be considered complete and removed from the Audit & Administration Committee Outstanding Business List.

Item “E” – Development Charges and Driveway Improvements at 863 Upper Paradise Road was considered complete and removed from the Audit & Administration Committee Outstanding Business List.

(ii) Item “H” – Improvements within the City of Hamilton Procurement Process

Committee was advised that a change is required to the Audit & Administration Committee’s Outstanding Business List to reflect that this is matter is to be reported back as part of Purchasing Sub-Committee report.

Item “H” – Improvements within the City of Hamilton Procurement Process, was amended on the Audit & Administration Committee’s Outstanding Business list to reflect that this matter is to be reported back as part of the Purchasing Sub-committee report.
(h) **Purchasing Sub-Committee Voting Membership**

Staff advised Committee that Legal Services had confirmed that the citizen members of the Purchasing Sub-committee, who were provided with voting rights at the September 12, 2007 meeting of Council, could be considered a potential conflict of interest, as they are on a prequalified vendors list.

Members of the Audit & Administration Committee discussed the matter and determined that a reconsideration of the motion should be brought forward to next Council meeting. All members of Committee were in agreement.

(i) **ADJOURNMENT (Item 13)**

The Audit and Administration Committee adjourned at 11:12 a.m.

Respectfully submitted,

Councillor C. Collins, Chair
Audit and Administration Committee

Stephanie Paparella
Legislative Assistant
September 19, 2007
## Observations of Existing System

### Observation 1: Pavement Cuts Policies & Procedures

It was noted during the audit that the procedures pertaining to pavement cuts were out-of-date. Specifically, “Procedures for the Installation of Utilities on Road Allowance” were developed before amalgamation in 2000 and the “Road-Cut Contract Procedures” are also several years old. A number of changes have taken place during the past few years and the procedures have not been correspondingly updated.

When these outdated procedures are referred to during daily operations, it could cause confusion and misunderstanding which could lead to errors and inefficiency.

**Recommendation for Strengthening System:** That the pavement cut procedures be reviewed and updated to reflect changes that have taken place. In the future, the procedures should be reviewed annually to ensure they are kept up to date.

**Management Action Plan:**
- **Agreed.** Construction: The pavement cut procedures followed by the Contract Inspector will be reviewed and updated by the end of June 2007 and will be reviewed on an annual basis.
- **Surveys/Tech Services:** The pavement cut procedures will be reviewed annually and comments provided for inclusion in the Road Use By-law.

### Observation 2: Municipal Consent Application Form

A Municipal Consent (MC) is required for underground utility installation or repairs. At the time of audit, it was noted that in a randomly selected sample of MC Application Forms (the Form), the Form was not up-to-date. It was addressed to the “Regional Municipality of Hamilton-Wentworth” and a few terms and conditions on the Form (such as the signing authority requirements) are no longer applicable.

As a result of the continued inclusion of obsolete clauses, the Form’s legality might be diminished. If there was a dispute over the project approved under the Form, the City’s ability to hold the MC holder responsible could be challenged.

**Recommendation for Strengthening System:** That the Municipal Consent Application Form be reviewed and updated in accordance with the process and conditions currently in place.

**Management Action Plan:**
- **Agreed.** Surveys/Tech Services: A new MC form is now in place. All utilities implemented this practice as of April 2007.

### Observation 3: Excavation Permit

An Excavation Permit (EP) is required for utility and underground infrastructure projects on road allowances. An EP can only be issued to MC holders or bonded contractors (i.e. pre-approved contractors with valid bonds and insurance).

It was noted during the audit that the EP’s issued to the MC holders were completed by the Public Utilities Coordinator (PUC) and were not signed by the MC holders. Also, some EP’s issued to the bonded contractors by the Technical Services Assistant (TSA) were not signed by the bonded contractors due to the changes subsequent to the issuance of the original EP’s.

Without binding signatures on the EP’s, the MC holders or the bonded contractors might attempt to evade their responsibilities if anything were to go wrong with the road cuts they performed. As a consequence, it would create additional work resolving the controversy and put the City at risk of covering the costs of necessary repairs.

**Recommendation for Strengthening System:** That no EP be issued without a valid signature from the MC holder or bonded contractor.

**Management Action Plan:**
- **Agreed.** Surveys/Tech Services: At the last Utilities Co-ordinating Committee, all members were informed of this issue. Methods are being developed to ensure all forms and permits are signed by the applicant. Implementation date of June 2007 is expected.
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<td>4.</td>
<td>Adjustment Process</td>
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|    | When an EP holder disputes an amount invoiced, a meeting will be arranged at which the TSA, the Contract Inspector (CI), and the EP holder will discuss the questioned restoration cost in detail. Once an adjustment is warranted, the TSA prepares a Request for Adjustment (RFA) and also a Request for Journal (RFJ) if a portion of the adjusted amount is charged to the Annual Minor Construction (AMC) account or other City departments. The RFA is required to be signed by the TSA, the Senior Project Manager (SPM), Survey and the Project Manager (PM), Construction. | That the CI note the amount to be adjusted on the original WS and a copy of this revised WS be attached to the related RFA as supporting documentation. The PM should ensure that the attached backup (i.e. revised WS) has been authorized by the CI (through original signature) before signing off the RFA. | Agreed. Surveys/Tech Services: A new procedure will be implemented for the 2007 construction season. The following workflow change is proposed:  
- copy and retain original worksheet;  
- mark original with adjusted values;  
- date and sign amended WS; and  
- submit as per RFA process. |
<p>|    | At the time of audit, inadequate backup was attached to the RFA's selected for testing. The TSA simply used a photocopy of the original work sheet (WS) and manually changed the dollar amounts without further approval. Backup is evidence for valid transactions. The use of improper backup leaves room for mistakes, errors or improper adjustments. | That all adjustments go through F&amp;A using the RFA form. No adjustments should be directly requested by the TSA through Accounts Receivable. | Agreed. This is effective immediately. |
|    | There was also one incident in which the TSA contacted the Accounts Receivable Clerk directly to cancel invoices instead of requesting adjustments by way of a formal process through Finance &amp; Administration (F&amp;A). When the normal adjustment process is not being followed, inappropriate adjustments could be processed. | That corporate procedures pertaining to write-offs be followed when overdue balances are determined uncollectible after necessary and possible follow ups have been performed. The AMC account should not be used to record bad debt expenses. | Agreed. F&amp;A will work with the Accounts Receivable and CPI staff to develop a process to review outstanding payments and determine a course of action for any delinquent accounts. The expected completion date is July 31, 2007. |
|    | Further, a few overdue balances from 2001 for one bonded contractor were determined uncollectible, adjusted and charged to the AMC account. In this case, the City ended up absorbing the cost through its minor construction costs rather than recording the uncollectible as a bad debt expense. | That restrictions on issuing new EP's be considered if a bonded contractor has overdue balances outstanding for long periods of time. | Alternative to be considered. F&amp;A and CPI staff will undertake a review to determine if procedure should be changed to secure letters of credit or certified cheques in lieu of bonds. This will be completed by December 31, 2007. |</p>
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| 5. | **GeoMedia Database Review**  
GeoMedia is a database used to track the status of the EP’s issued, including the dates and details of issuance, completion and restoration.  
It was noted during the audit that one of the staff who works extensively with GeoMedia had limited understanding of some of its commonly used functions resulting in errors, extra work and inefficiency.  
A few defects were also discovered in the applications currently available in GeoMedia. For example, an EP previously entered in GeoMedia can be completely deleted from the database with no audit trail. As a result, the tracking purpose of GeoMedia can be compromised. The EP could be deleted intentionally or by accident without being noted.  
Also, some of the dates entered in GeoMedia were found logically incorrect. Specifically, a few EP’s have a restoration date earlier than the cut completion date or a restoration start date later than the restoration end date. The lack of proper field checks leaves room for errors which would misrepresent the EP’s status and create additional work for clarification and correction. | That training be arranged for the employees currently using GeoMedia to ensure that they have a clear understanding about the functioning and required processes in GeoMedia.  
That the functionality of GeoMedia be reviewed for potential improvement. For example, permanent deletion of any EP’s previously entered in GeoMedia needs to be disallowed. A field check should be added to ensure the dates entered are chronologically reasonable. The back-end database requires review. Any redundant columns should be removed or left blank instead of being manually filled in. | Agreed. Training for employees using GeoMedia will be provided by the 4th quarter, 2007.  
Agreed. Surveys/Tech Services: System is under development to address any security and database issues. The expected delivery date is May 2007. |
| 6. | **Documentation & Referencing**  
EP’s with the same holder name for locations in close proximity are sometimes compiled into one worksheet. However, only one EP (primary EP) is referenced to the worksheets while the other related EP’s bear no cross-referencing in GeoMedia or on file copies.  
At the time of audit, changes to an EP previously issued (such as cancellation, change of EP holder, etc.) were not always noted in GeoMedia or on the EP copy on file. The reasons for the changes were not always documented either.  
There should be an adequate paper trail to support the processes followed. Insufficient documentation and references can result in additional work for any investigations or follow ups that may have to be done. They can also lead to undetected errors or be used to cover mistakes. | That the rest of the EP’s be referenced to either the primary EP or the WS in GeoMedia when multiple EP’s are combined.  
That any changes to an EP previously issued be noted both in GeoMedia and on the EP copy on file. Any supporting documentation explaining the reasons for the changes should be attached to the EP copy on file. | Agreed. Surveys/Tech Services: This issue is being addressed in the redevelopment project noted above. All EP’s will link to a WS in the system.  
Agreed. This will be implemented by July 2007. |
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<td>7.</td>
<td><strong>Reconciliation</strong></td>
<td>That account reconciliations be performed by F&amp;A staff on a regular basis. These processes should include reconciliation between the construction cost account and revenue accounts, the revenue accounts and the overhead accounts and the total amount paid to the Contractor in the general ledger versus the year-to-date total of all the Progress Payment Certificate (PPC) issued.</td>
<td>Agreed. This is already in place for 2007.</td>
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<td>At the time of audit, various account reconciliations (e.g. total amount paid versus total amount recovered, total amount paid in the ledger versus total amount paid per payment schedules, etc.) were not completed adequately or on a regular basis. As a consequence, errors or questionable transactions would not be identified in a timely manner. This would result in the reconciliation process in the following periods being more cumbersome and time consuming.</td>
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<td>8.</td>
<td><strong>Bonded Contractor List</strong></td>
<td>That the list of bonded contractors be reviewed and updated by F&amp;A staff on a monthly basis. Those contractors whose bonds or insurance are expiring should be contacted for renewal before the expiry day. Those contractors who fail to provide current bond and insurance documentation ought to be taken off the list immediately.</td>
<td>Agreed. Process is already in place by F&amp;A staff to track and record all expirations dates and follow up. Any difficulties securing renewals are forwarded to CPI staff for their information and assistance as needed to obtain updates.</td>
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<td>Except for EP’s issued under a Municipal Consent, an EP can only be issued to a bonded contractor who has been pre-approved with a satisfactory bond and insurance. The F&amp;A group is responsible for contacting the bonded contractors for renewal of their bonds and insurance, updating the list of bonded contractors and distributing it to the individuals involved in the process. The most updated list provided during the audit included contractors whose bonds or insurance had expired. As a result, there is risk that an EP could be issued to an ineligible private contractor who does not have a valid bond or insurance. Without a valid bond, it would be difficult for the City to recover the restoration cost if the EP holder fails to perform or pay. Without valid insurance, the City could be held liable if there are problems with the excavation or restoration.</td>
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<td>9.</td>
<td><strong>Finance &amp; Administration Procedures</strong></td>
<td>That procedures pertaining to the entire process of pavement cut payment, invoicing and adjustment be documented and retained in the F&amp;A area. These procedures should be reviewed annually to ensure that they remain current and are appropriately and consistently applied.</td>
<td>Agreed. F&amp;A already has developed a process for procedure documentation, retention and regular updates for the entire F&amp;A section. Pavement Cut procedures were delayed due to staff turnover but are on schedule for completion by June 1, 2007.</td>
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<td>At the time of audit, the F&amp;A staff had only a few written procedures developed to cover the financial process of pavement cut payment, invoicing and adjustment. When there are no complete procedures to refer to, the employee currently carrying on the process relies on personal understanding and experience, which could be incorrect or inconsistent. It is also problematic and inefficient for the successor to commence his/her duties within a short period of time.</td>
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### Table: Observations & Recommendations

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<td>10</td>
<td><strong>Accounting Process for Adjustments</strong>&lt;br&gt;During the audit, several issues regarding the accounting&lt;br&gt;process for adjustments were identified. Included in this list are:&lt;br&gt;- adjustments posted in PeopleSoft without all the required&lt;br&gt;signing authorities; and&lt;br&gt;- journal entries regarding adjustments to Annual Minor Construction posted against a revenue account instead of&lt;br&gt;the Construction Cost account, resulting in overstated revenue and Construction Cost accounts.&lt;br&gt;The departure from the required procedures and the usage of incorrect accounts could result in misleading financial information or improper adjustments.</td>
<td>That no adjustments to pavement cut billings be posted by F&amp;A staff unless the RFA is signed appropriately as required.&lt;br&gt;That the correct accounts related to adjustments be clarified with the staff. The Business Administrator (BA) should ensure the appropriateness of the accounts used before approving the journal entries in PeopleSoft.</td>
<td>Agreed. F&amp;A will return all RFA’s that do not bear the correct signatures. This point will be included in the F&amp;A procedure by June 1, 2007.&lt;br&gt;Agreed. F&amp;A will review account structure for the pavement cuts with CPI staff so both areas are in agreement with the accounts being used. The review is expected to be completed by September 2007 and implemented through the 2008 budget process.</td>
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<td>11</td>
<td><strong>Process of Payment &amp; Recovery</strong>&lt;br&gt;Pavement cuts are restored by an independent contractor&lt;br&gt;(Contractor) hired by the City through an annual tender process. The City pays the Contractor first when the restoration is completed and then bills the EP holders for the restoration cost plus overhead charges.&lt;br&gt;At the time of audit, the payments to the Contractor and invoices to the EP holders were processed separately and with irregular timing differences. Confusion and inefficiencies resulting from this current process were noted during the audit.&lt;br&gt;Consequently, it has been time consuming for F&amp;A staff to reconcile the total amount paid to the Contractor to the total amount recovered either externally (EP holders) or internally (AMC or other City departments). Thus, errors or questionable transactions might not be identified.</td>
<td>That the documents supporting the process of payment (to the Contractor) and recovery (invoicing the EP holders and charging the internal department accounts) be forwarded to F&amp;A staff concurrently.&lt;br&gt;That F&amp;A staff investigate any discrepancies noted between the total amount to be paid and the total amount to be recovered before processing payments and recoveries.</td>
<td>Agreed. CPI staff will co-ordinate the payment and RFI information being submitted to F&amp;A for processing effective immediately.&lt;br&gt;Agreed. Submission of the documents as noted above will allow F&amp;A to action this recommendation immediately.</td>
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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, as necessary.

1. Currently, when a Progress Payment Certificate (PPC) is received by F&A staff, the total amount to be paid is allocated to a few selected accounts (such as Construction Cost account & Annual Minor Construction (AMC) account) in PeopleSoft. As the allocation is manually calculated based on limited information from the payment schedule attached to the PPC, the process is time consuming and the amounts calculated could be incorrect.

   It is recommended:
   That, as part of the process of payment and recovery, the total amount to be paid be posted to the Construction Cost account during the payment process and then the total amount to be recovered internally (according to the Request for Journal prepared by the Technical Services Assistant) be adjusted from the Construction Cost account to the appropriate accounts during the process of recovery. Consequently, accuracy and efficiency of the payment and recovery processes as well as the reconciliation process would be improved.

   Management Response:
   F&A will take this recommendation under advisement and review it further with staff in May, 2007.

2. During the audit, it was noted that Ontario Regulation 244/02 under the Municipal Act, 2001, which had disallowed charging gas and electricity companies for EP’s issued to them, had been amended to now (December, 2006) allow for the charging of permit fees. Upon communication of this observation to staff, such companies were notified that, starting 2007, they would be charged the appropriate fees.

   Without regular reviews of legislation pertinent to this subject area, this additional source of revenues might have gone unrealized.

   It is recommended:
   That regulation updates pertinent to pavement cuts be reviewed on a timely basis and any required changes be implemented accordingly.

   Management Response:
   Surveys/Tech Services: Regulatory change is reviewed by Legal Services. They will be advised of the legislation that applies to this area for future correspondence.

3. It was noted that the staff person responsible for approving adjustments used inconsistent signatures. He confirmed the authenticity of these signatures but acknowledged that his signature does vary from time to time. Signatures are used to validate the individual’s approvals for certain transactions and thus consistency needs to be maintained.

   It is recommended:
   That a specimen signature for the Technical Services Assistant be set up and maintained.

   Management Response:
   Surveys/Tech Services: Agreed. This will be done immediately.
4. Often road damage is incurred when developers carry out construction work, especially in an “in fill lot” (i.e. an empty lot where the owner wishes to bring the services in from the street). Even though an approach is normally built, the sidewalk adjacent to the approach is very likely to be damaged as a result of the usage of heavy trucks or equipment. Currently, no deposit is held for possible road damages when the building permit is issued. As a result, it would be difficult to obtain payment for restoration costs from the developers after the road is damaged. Consequently, the City has absorbed a considerable amount of the restoration costs in this regard.

It is recommended:
That the possibility of requiring a deposit for possible road damages at the time of the building permit application be discussed with the division issuing the permit. It would help in reducing the time spent on collecting restoration costs from the developers and improving the prospect of recovery rather than cost absorption by the City.

Management Response:
Surveys/Tech Services: This item is being reviewed with the Planning Department to ensure suitable funds are held for damages. Alternately, a charge back system is being considered in the event there are no funds retained. A decision on a methodology is expected by September 2007 for implementation in the 2008 budget process.

5. Before initiating the payment process in PeopleSoft, the account allocation of the total amount to be paid is recorded in a Purchase Order Distribution Form (the Form) by F&A staff. Instances were noted in which the printed copy of the Form did not represent the actual amounts posted in PeopleSoft. When an account balance reached the budget, no more transactions to that particular account were added in the non-printed area of the Excel Form, only accessible to the employee preparing the Form. This could result in misleading information and a lack of adequate paper trail, causing confusion. Any budget overruns would not be noticed on a timely basis.

It is recommended:
That the actual amounts posted to each account in PeopleSoft be shown on the Form.

Management Response:
F&A will take this recommendation under advisement and review it further with staff in May, 2007. However, it should be noted that this document is for F&A purposes only to enable reconciliation of actual payment distribution against original Purchase Order distribution.
CITY OF HAMILTON  
INTERNAL AUDIT REPORT 2007-06  
CORPORATE SERVICES - INVESTMENTS

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| 1. | **Access Database**  
The responsibility of investing the assets of the City's Reserve Fund and the Hamilton Future Fund (Funds) is delegated to the Investments Section of the Corporate Services Department. The custody over the assets of the Funds is outsourced to a third party custodian (Custodian) who provides financial statements and reports as required.  
The investment details, as determined by the Chief Investment Officer (CIO) or the Senior Investment Fund Manager (SIFM), are entered into an Access database by the Investment Assistant (INA) on a daily basis and two trade tickets are produced. One ticket is sent to the Custodian who then contacts the brokers to complete the transaction. A photocopy of the other trade ticket is forwarded to Finance & Administration (F&A) where the information is entered into Focus, a system used to track the investments and as a basis for journal entries to be posted in the general ledger (GL).  
The audit observation has identified that the information included in the above two trade tickets is basically identical. Hence, printing out both is not economical.  
Also, there have been instances in which a few trade tickets went missing during transition or were misplaced. As a result, the investment records in both Focus and GL would be incomplete.  
In addition, all investment performance reports such as the Investment Compliance Report and Issuer Exposure Report are currently prepared by the Custodian for an extra charge to the City. It has been discovered that some of the reports could be generated from the Access database since all the investment details (such as cost, interest rate, maturity date, rating, etc.) have been keyed in by the INA.  
At the time of audit, the City’s IT Services Division was working on updating the Access database currently in use by the INA. | That the users’ needs be communicated effectively to the IT Services Division while the functionality of the Access database is under review. For example, the new Access database should enable the investment details entered into it to be exported and sent to the F&A staff electronically so that manual errors could be minimized and duplicate entry is not necessary. A reporting function should be added to accommodate the requests from the CIO. The function of producing redundant printouts should be eliminated. | Agreed. The access database will be ready by June 30, 2007 for the purpose of entering trades. The reporting functionality will be available December 31, 2007.  
The database will be used to verify transactions against the RBC data, and used for the purpose of generating journal entries. |
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<th>RECOMMENDATION FOR STRENGTHENING SYSTEM</th>
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<td>2.</td>
<td><strong>Treasurer’s Report</strong>&lt;br&gt;An annual Treasurer’s report with regard to investments is required by the Municipal Act as reflected by the Statement of Investment Policies &amp; Procedures (SIP&amp;P). The report is currently prepared by an external investment consultant, James P. Marshall (JPM) for a fee. The overall objective of the report is to ensure the Funds are managed in accordance with existing legislation and the SIP&amp;P as well as to provide an independent third party review of the Funds’ performance. The most recently revised SIP&amp;P now allows the Treasurer’s report to be produced internally. However, it has not been determined if internal staff have the expertise or appropriate database to produce the report. The independence of the opinion could also be challenged as a result of internal staff involved in the investment processes commenting on their own work.</td>
<td>That a cost-benefit analysis be conducted before deciding on whether to prepare the Treasurer’s report internally. The qualification of the designated internal staff should be evaluated based on the content and requirements of the report.</td>
<td>Agreed. A cost-benefit analysis will be completed by March 2008, before the next Treasurer’s Report is due. If found to be of benefit, an internal procedure will be put into place for April 2008.</td>
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<td>3.</td>
<td><strong>Investment Holdings Review</strong>&lt;br&gt;At the end of each month, a list of investments, namely Schedule of Maturity (SOM), is printed out from Focus which details the current investment holdings of the Funds as recorded in Focus. To ensure completeness and accuracy of the investment records, the SOM is reviewed against a list of investments (which is called the Asset Detail Report (ADR)) provided by the Custodian. At the time of audit, the review of investment holdings was not performed on a regular basis. It was noted from the audit samples that a few variances between the SOM’s and ADR’s had been identified but were not subsequently followed up. There was no evidence of review by the F&amp;A staff on some of the SOM’s and ADR’s. Further, none of the SOM’s or the ADR’s indicate evidence of a supervisory review. Consequently, there is a risk that the review and the corresponding follow up might not have been done properly or at all. As a result, the effectiveness of the monthly review may be comprised.</td>
<td>That the comparison between the SOM and the ADR be performed on a monthly basis by the F&amp;A staff and reviewed by the Business Administrator (BA) to ensure the process has been completed properly. Evidence of review and follow up should be indicated on both the SOM and the ADR. If the SOM is not available, an alternative review should be conducted by the F&amp;A staff. For example, the Statement of Transaction (SOT) received from the Custodian can be reviewed against the trade tickets received from the INA to ensure completeness and accuracy. In this case, evidence of review and follow up should be indicated on both the SOT and the trade tickets.</td>
<td>Agreed. Since more than one employee worked on completing the reconciliations in 2006, inconsistent methods were used. However, the holdings were reconciled. A consistent method has been implemented, effective June 2007, including Business Administrator review and sign-off. Trades are entered into the database by investments. F&amp;A staff are verifying the data from the database to the Custodial Statement of Transactions, effective June 2007.</td>
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<td>4.</td>
<td><strong>Finance &amp; Administration Procedures</strong>&lt;br&gt;F&amp;A staff set up a number of procedures pertaining to investments in 2005 with an intention to review them annually. No such review was done in 2006 and the procedures have not been updated to reflect the change of staff nor changes in some of the procedures followed in the process currently in place. When the procedures are not up to date, confusion can result in inefficiency.</td>
<td>That F&amp;A procedures be reviewed annually to ensure that they remain current and are appropriately and consistently applied.</td>
<td>Agreed. A process with specific dates and responsibilities for reviewing F&amp;A procedures will be developed for implementation by September 30, 2007.</td>
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<td>5.</td>
<td><strong>System Development</strong>&lt;br&gt;F&amp;A staff use Focus to track investment records and to generate monthly investment journal entries to be posted in the GL. This is an antiquated application whose results require some manual adjustments monthly due to the system’s limited functionality. In addition, the amortization of discounts/premia...</td>
<td>That a decision for a new system (either developed in house or purchased externally) be made in the immediate future after the users’ needs are clarified and a cost-benefit analysis is performed. The irresolution of this issue could result in inefficient use of resources. In either case, the F&amp;A staff should coordinate with the selected party and monitor the progress closely in order to ensure the new system is implemented efficiently and in a timely manner.</td>
<td>Agreed. A decision has been made not to implement a sub-ledger system. Procedures will be developed to ensure the accuracy of the custodial reports by September 30, 2007.</td>
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The following item was noted during the course of the audit. Although it does not present an internal control deficiency, it is indicated in this Addendum so management is aware of the issue and can address it as necessary.

1. In accordance with the most recent departmental organizational chart provided by the Manager, Finance & Administration (F&A), there is one employee (FA1) designated exclusively to the Investments area. Currently, a review of the Access database and a review aimed at replacing the Focus application are being conducted. Thus, the entries to Focus, monthly posting to the general ledger (GL) and the reconciliation of various investment accounts which represent a considerable portion of the duties originally assigned to this designated staff person have not been carried out at all for the 2007 fiscal year. Once the system review is completed, the current accounting process pertaining to investments will likely change.

It is recommended:
That the responsibilities of the designated staff person be reviewed now and after the new process is implemented to ensure an appropriate allocation of staff resources.

Management Response:
Agreed. Staff responsibilities are currently under review.