CITY OF HAMILTON

CITY MANAGER’S OFFICE
Audit Services

Report to: Chair and Members
Audit and Administration
Committee

Submitted by: Ann Pekaruk
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SUBJECT: Audit Report 2008-12 - Operational Review of the Umbrella Family and Child Centres of Hamilton - Phase I (CM09006) (City Wide)

RECOMMENDATION:


Ann Pekaruk
Director, Audit Services
City Manager's Office

EXECUTIVE SUMMARY:

The 2009 Internal Audit work plan approved by Council included an operational review of a day care service provider. As a large multi-site child care centre operator, Umbrella Family and Child Centres of Hamilton (Umbrella) was selected. The review examined revenues (City provided fee subsidies, program start up costs, wage subsidies, capital expenses and health and safety related cost reimbursements) and expenditures for completeness, validity and reasonableness for day care operations and as per the terms of the service provider agreement.

The results of the review are presented in a formal audit report containing observations, recommendations and Umbrella management responses, all attached as Appendix “A” of Report CM09006.
BACKGROUND:

As the local Consolidated Municipal Service Delivery Manager (CMSM), the City is responsible for the management of child care services. The municipality enters into agreements with service providers and provides specific funding for various operating expenditures.

The City maintains a Service Provider Agreement with Umbrella Family and Child Centres of Hamilton (Umbrella), a not-for-profit organization, providing child care services. As the preferred operator of child care programs for Hamilton-Wentworth District School board schools, Umbrella operated over twenty (20) child care programs over the past few years, representing approximately 1,100 spaces. The agency received $2.2 million (2006) and $2.8 million (2007) respectively from the City in the form of fee subsidies, program start up costs, wages subsidies, capital expenses and health and safety related expenses.

The municipality has an obligation to ensure that public funds are spent in accordance with the terms of the Service Provider Agreement. The City has the authority to conduct various (financial and program related) reviews of child care programs from time to time, in accordance with special clauses of the Agreement.

In 2008, an operational review of Umbrella was started. The City’s Audit Services division carried out Phase I, described as an audit of the various sources of funding from the City to ensure that the funding was properly calculated (where applicable) and allocated and spent in accordance with the Service Provider Agreement and the approved budget. Phases II and III, dealing with the agency’s governance oversight and expansion business decisions as well as assessment of the quality of its programs and services is to be carried out by a third party consultant.

The review was completed in early 2009. The results of this review are attached as Appendix “A” of Report CM09006.

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

ANALYSIS/RATIONALE:

This review involved the examination of the service agreement between the City and Umbrella. The financial records of Umbrella were also examined. Funding information per the City records was compared to that recorded by the agency. Expenditures in the financial records of Umbrella were verified against appropriate supporting documentation. Actual expenditures were compared against the budgeted figures submitted for fee subsidies and audited financial statements were analyzed for significant changes from 2006 to 2007. In general, revenues were reviewed to ensure their completeness and accuracy and expenditures for their validity and reasonableness for day care operations.
For the size and diversity of the Umbrella group operations, the financial records were reasonably well kept and made readily available. The review, however, did identify some areas for improvement, mainly of a general recordkeeping or internal control nature. A formal audit report containing observations, recommendations and management action plans which were provided by Umbrella’s senior management was issued and is attached as Appendix “A” to Report CM09006.

Some of the recommendations include:

- Supporting receipts or detailed explanations to be attached to all cheque requisitions;
- Receipts and cheque requisitions for blank cheques for field trips to be reviewed and approved, in writing, by the Executive Director;
- Reimbursements to the Executive Director to be approved by a member of the Board of Directors; and
- Funding for the City to be separately tracked and recorded in the General Ledger by category.

As work on Phases II and III did not occur concurrently with Phase I as originally planned, the results of Internal Audit’s Phase I review will be provided to the consultant. As well, a list of points to consider as a result of some of the findings in Phase I will be provided to the consultant.

Also, as a result of Phase I, staff of the City’s Social Development and Early Childhood Services division were provided with a list of several items that need addressing from the City’s side, mainly of a housekeeping nature.

**ALTERNATIVES FOR CONSIDERATION:**

Not applicable.

**FINANCIAL/STAFFING/LEGAL IMPLICATIONS:**

None, as the issues identified deal with the operations of Umbrella.

**POLICIES AFFECTING PROPOSAL:**

Legislation and guidelines from the Ministry of Children and Youth Services.

**RELEVANT CONSULTATION:**

Internal – Social Development and Early Childhood Services division of Community Services Department

External – Senior Management and Chairman of the Board of Umbrella Family and Child Centres of Hamilton
CITY STRATEGIC COMMITMENT:

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Community Well-Being is enhanced. ☑ Yes ☐ No

Child care services provided through service provider agreements improve the well being of the community.

Environmental Well-Being is enhanced. ☐ Yes ☑ No

Economic Well-Being is enhanced. ☑ Yes ☐ No

City Council’s strategic commitment to "Best Practices - Best Value" under "A City That Spends Wisely and Invests Strategically" is addressed through audits and reviews and their subsequent follow up to ensure controls are in place to protect the assets of the City and promote efficient, effective and economic services and programs.

Does the option you are recommending create value across all three bottom lines?
☐ Yes ☑ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants?
☐ Yes ☑ No

ap:dt
Attachment – Appendix “A”
## OBSERVATIONS OF EXISTING SYSTEM

### Payment Scrutiny & Authorization

The following discrepancies were noted from the review of payments randomly sampled during the audit:

- There were some cheque requisitions to which supporting receipts were not attached nor were explanations of the expenditures documented.

- Signed cheques with amounts left blank were provided for field trips in advance. Although all other pertinent information was completed (date, payee), this form of blank cheque is not highly recommended. However, as justified for field trips where the final amount is not known until at the vendor’s site, the expenditure should be reviewed after the fact. The actual amounts spent were not reviewed by the Executive Director when the receipt was subsequently submitted.

- All payments need authorization from the Executive Director but the reimbursements to the Executive Director currently do not require approval from a higher level authority, such as a member of the Board of Directors.

- Some payments were made to parties related to the Executive Director in order to reimburse labour costs associated with moving and installing furniture or equipment for newly opened child care locations. Several payments were made simply based on e-mails from the Executive Director indicating hours and the pre-determined rate to be paid.

The lack of adequate review of payments could result in unauthorized purchases not being identified in a timely manner. The current practice may cast doubt over non-arm's length transactions.

## RECOMMENDATION FOR STRENGTHENING SYSTEM

- That supporting receipts be attached to all cheque requisitions or alternatively, detailed explanations be noted on the cheque requisitions if receipts are not available.

- That receipts and cheque requisitions for signed blank cheques be reviewed and approved in writing by the Executive Director.

- That reimbursements to the Executive Director be approved by a member of the Board of Directors.

- That payments made to parties related to the Executive Director be approved by a member of the Board of Directors.

## MANAGEMENT ACTION PLAN

- Agreed. Appropriate processes have been set up to comply with the recommendation.

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- Agreed. A Board member will be designated to approve the reimbursements.

- Agreed. Board members were aware that members of the Executive Director's family were being compensated for the completion of work to move furniture/equipment and assist with setting up new programs in the Best Start Demonstration sites.
### Funding Tracking

Among the funding Umbrella Family and Child Centres of Hamilton (Umbrella) received from the City of Hamilton (the City) during 2006 and 2007 was fee subsidy and funding specific for the Best Start Initiative. These funds are reported as Revenue on Umbrella’s audited financial statements in two respective categories: Government Subsidies – Child Care Fees and Government Funding – Best Start.

Since Umbrella did not track the City’s fee subsidy separately until 2007, a portion of that fee subsidy received in 2006 was reported under the Child Care Fee (Parent Contributions) category on Umbrella’s 2006 audited financial statements. Umbrella’s 2007 General Ledger (GL) structure better reflected the funding received from the City. However, misallocation between various funding categories still existed. Although audit work performed indicated that the City’s funding had been recorded in total in Umbrella’s GL, tracking of individual funding categories was not adequate, resulting in misleading financial information.

- **Observation:** That funding received from the City be separately tracked and recorded in the General Ledger by the category of the funding received. Year end confirmation would be simplified as a result of such efforts.
- **Recommendation:** That the possibilities of achieving savings on food and program supplies by establishing long term contracts with a few selected wholesalers be considered.
- **Management Action Plan:** Agreed. Individual Centres are currently required to post child care subsidies received to appropriate GL accounts. Further clarification will be sought from the City of Hamilton regarding GL classification for any other funding received.

### Choice of Vendors

Food and program supplies (such as toys and equipment) are two major expenses for the Umbrella group. In 2007, food cost was approximately $260,000 and program supplies were over $150,000. The sample invoices reviewed during the audit indicated that food and program supplies were currently purchased from a variety of vendors and each centre selected vendors and shopping locations at its discretion.

While it is appreciated that convenience and timeliness would have impact on vendor selection, potential savings might be realized if purchases are made in larger quantities with selected suppliers. Large quantity purchases (to cover several centres at one time) from local wholesalers (rather than regular retailers) should be investigated for possible volume discounts or product savings.

- **Observation:** That the possibilities of achieving savings on food and program supplies by establishing long term contracts with a few selected wholesalers be considered.
- **Recommendation:** Agreed. The organization will continue to work closely with staff members in the various Centres in order to determine the most cost-effective methods of purchasing supplies and equipment.