

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF MAY 8, 2012

Item 1, Report No. 5, of the Finance and Administration Committee, which was adopted without amendment by the Council of the City of Vaughan on May 8, 2012.

1 INTERNAL AUDIT REPORT OF THE HUMAN RESOURCES DEPARTMENT

The Finance and Administration Committee recommends:

- 1) That the recommendation contained in the following report of the City Auditor, dated April 30, 2012, be approved; and**
- 2) That the City Manager prepare and present a detailed report to Committee prior to the summer hiatus providing a plan of action to address the range of issues identified in the Human Resources Department audit report; that a subsequent follow-up report be provided prior to the end of 2012 and a further report prior to the 2013 summer hiatus.**

Recommendation

The City Auditor recommends:

That the Internal Audit Report of The Human Resources Department be approved.

Economic Impact

The recommendations of the auditor and the implementation of corrective actions in the audit report, will improve the effectiveness of risk management, control and governance processes of the department. Some impact will be economic and measurable in dollar terms, while others will provide intangible benefits which may not be measurable. Other benefits will be an improvement in the efficiency and effectiveness in the operations of the department. Internal Audit adds value to all areas of City activity which are audited.

Communications Plan

The agenda containing this report is available in the office of the City Clerk and on the City's website.

Purpose

To present to the Finance and Administration Committee, the Internal Audit Report of the Human Resources Department.

Background - Analysis and Options

The audit was part of the 3 year risk-based Internal Audit Work Plan which was approved by the previous Audit and Operational Review Committee.

The internal audit report is provided as an attachment.

The Executive Summary in the report summarizes the major findings and recommendations.

The detailed report includes, for all audit findings (1) the observations of the auditor, (2) the implications, (3) the auditor's recommendations, (4) operational management's response for corrective actions and (5) the auditor's response to the corrective actions.

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Relationship to Vaughan Vision 2020

This report is consistent with the priorities previously set by Council and the necessary resources have been allocated and approved.

Regional Implications

Not applicable.

Conclusion

1. The Internal Audit Report of the Human Resources Department is presented to the Finance and Administration Committee for approval. The report includes the audit findings, recommendations and corrective actions. The report has been discussed broadly with the Director and Commissioner of the department audited.
2. The Director and Commissioner are aware that the intent of the observations and recommendations in the Internal Audit Report is for continuous improvement.
3. When all corrective actions are implemented, (1) internal controls, corporate governance and risk management will be improved, (2) the quality of performance in carrying out assigned responsibilities will be enhanced, (3) the department/operation will operate more effectively and efficiently and (4) the Internal Audit department will have added value to the organization and assisted members of the organization in the effective discharge of their responsibilities.

Attachments

Internal Audit Report of the Human Resources Department

Report prepared by:

Michael Tupchong, CA, CIA, CPA, CFE
City Auditor

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

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Item 2, Report No. 5, of the Finance and Administration Committee, which was adopted without amendment at the Special Council meeting of May 7, 2012.

2 IMPACT OF BUDGETING FOR AMORTIZATION AND POST-EMPLOYMENT EXPENSES

This matter was considered and adopted at the Special Council meeting of May 7, 2012, under Minute No. 66

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Item 3, Report No. 5, of the Finance and Administration Committee, which was adopted without amendment by the Council of the City of Vaughan on May 8, 2012.

3 VAUGHAN'S RESPONSE TO THE NOVEMBER 2011 C.D. HOWE REPORT

The Finance and Administration Committee recommends:

- 1) That clause 1 contained in the following report of the Commissioner of Finance & City Treasurer, dated April 30, 2012, be approved; and
- 2) That the following recommendations a) and b) in Ernst & Young's report, be approved, and the Province of Ontario require key sections of the Financial Information Return (FIR) be included as part of the annual municipal audits:
 - a) The City should attempt to provide taxpayers with an "executive summary" of financial information that would contain high level budget and actual financial data in one easy to understand schedule; and
 - b) The City should highlight any budget modifications approved by Council in its annual reporting to ensure that the full budget is presented.

Recommendation

The Commissioner of Finance & City Treasurer recommends:

- 1) That the staff report and presentation by Ernst & Young be received; and
- 2) That recommendations a) and b) in Ernst & Young's report be approved, and the Province of Ontario require key sections of the Financial Information Return (FIR) be included as part of annual municipal audits.

Contribution to Sustainability

Contribution to sustainability is not directly associated with this report; however the strength of the City of Vaughan's finances is integral to its sustainability. Strong reserves, multi-year budgeting, the review of programs and services provided by the City, and continued emphasis on managing tax rate increases all contribute to the objective of financial sustainability and stability.

Economic Impact

There are no economic impacts associated with this report.

Communications Plan

Corporate Communications will provide a media release. Staff will also be providing a copy of the complete report to the Municipal Finance Officers Association and the Ministry of Municipal Affairs.

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Purpose

The purpose of this report is to provide Members of Council and the public with the facts regarding the City of Vaughan's financial performance over the 2001 to 2010 time period. The fact is, the City did not over spend budgets (as portrayed in the C.D. Howe report) but in fact prudently invested unbudgeted revenues and under-spent operational budgets in the City's reserves, resulting in discretionary reserve balances increasing from \$86.8 million in 2001 to \$211.8 million in 2010 (Source – Audited Financial Statements from 2001 to 2010).

Background - Analysis and Options

In November of 2011, C.D. Howe Institute released a backgrounder "Holding Canada's Cities to Account: An Assessment of Municipal Fiscal Management". In the report, the City of Vaughan was portrayed as having over-expended budgets between 2001 and 2010 to a cumulative amount of \$119 million. Staff immediately requested the C.D. Howe data to understand how they arrived at this conclusion.

A preliminary review of the data indicated that they had missed budget data, revenue data was also missing from the analysis and certain financial information was interpreted as expenditures in ways that were not consistent with the City's audited financial statements (e.g. unfunded future liabilities, transfers to capital and reserves). In addition, annual approved capital budgets were compared to annual capital spending in the same year, but for different projects. This particular analysis does not result in any meaningful information due to the fact that spending on capital projects continues over several years and is unrelated to capital approvals in any given year. Capital spending should be analyzed on a project by project basis. Also, in-year Council approved adjustments to approved capital budgets often occur as a result of Council addressing issues that arise within the year (e.g. 2009 purchase of hospital lands) or unbudgeted grants becoming available (e.g. Investing in Ontario grant). These budget adjustments occur after the annual budgets have been approved. They were not considered in the C.D. Howe analysis.

Staff's preliminary review indicated that correcting and revising the analysis based on these findings significantly altered the cumulative overspending of \$119 million portrayed in the C.D. Howe report, virtually reversing the reported overspending.

Objective Third Party Opinion Sought

Given the significance of the conclusions made by C.D. Howe in their report, it is important that their report and its conclusions be reviewed and the facts made available to the residents of Vaughan and the public at large. This can best be accomplished through the use of an objective and qualified third party. To that end, the following steps were taken:

Staff issued a Request for Proposal (RFP) to retain an external firm to review the C.D. Howe analysis and comment on the completeness of the data used by C.D. Howe and the approach, methodology and analysis relative to the conclusion drawn and published by C.D. Howe with respect to the City. The RFP also requested an analysis of the City's record of over/under expenditures since 2000, and comments or recommendations on other items or issues, if any, uncovered during the review. As a result of the RFP process, Ernst & Young LLP was retained to undertake the review.

Ernst & Young is one of the largest accounting firms in Canada, with a strong focus on the public sector, with experience providing professional services to other municipal clients, not-for profit organizations, pension funds and other public sector organizations. Ernst & Young also have served as auditors for large municipalities in Canada and have a good understanding of the financial reporting needs of Canadian municipalities.

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Ernst & Young's findings are noted in the attached report and indicate that contrary to the C.D. Howe report, the City cumulatively under-spent its budgets between 2001 and 2010. Their findings are summarized below:

| C.D. Howe Assertion | EY Finding in Respect to the City |
|---|---|
| 2001 to 2010, cumulative over-spending in Vaughan amounted to 46.4% of total 2010 budget* | 2001 to 2010 Combined Operating, Capital and Water/Wastewater - Vaughan under-spent by approximately 6% |
| 2001 to 2010 Operating Budget – Vaughan has the largest overshoot (31%) | 2001 to 2010 Operating - Vaughan under-spent by 6% |
| 2001-2008 Vaughan...worst offender in cumulatively over-spending on capital expenditures | 2001 to 2010 Capital - Vaughan under-spent by 3% |
| Chronic over-spending by ...Vaughan | Overall under-spending of 6% from 2001 to 2010** |

* C.D. Howe expressed the cumulative dollar variances over the 10 years between 2001 and 2010 in their report as percentages of the 2010 budgets, rather than as a percentage of the total cumulative budget. This has the affect of inflating the percentage variance. Ernst & Young have calculated their variances as percentages of the total cumulative budgets, which does not inflate the variance but rather expresses it as an average.

** Staff also note that Vaughan contributed an additional \$186 million to reserves during the 2001 to 2010 time frame.

Other Observations

Low Risk Rating From the Province of Ontario

The City annually receives a "Financial Indicator Review" prepared and published by the Ministry of Municipal Affairs assessing a number of financial risk factors for Ontario municipalities. The City of Vaughan has been assessed as "Low Risk" (the best rating) on every risk factor for every year since 2002, which was the first year assessed. This rating would not be possible if the conclusions drawn by C.D. Howe were accurate.

Use of the Municipal Financial Information Return

The Financial Information Return (FIR) is the principal source of information for the C.D. Howe analysis. The FIR is a data collection tool used by the Ministry of Municipal Affairs and Housing to collect financial and statistical information on Ontario municipalities, and consists of approximately 90 pages of spreadsheet linked calculations with very detailed property tax calculations, statistical information, financial information and performance measure information.

However, the website advises that "users of the data should be cautious with aggregating data and/or making comparisons between Municipalities and/or between different reporting years." In addition, the Province of Ontario does not require that the FIR be audited, therefore there could be omissions or inconsistencies in the data reported from municipality to municipality. The FIR is not designed for general "public consumption".

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In their report, Ernst & Young indicate that taxpayer's should be able to rely on the City's audited financial statements, which are simpler documents to review, have accompanying explanatory notes to the financial statements, and up until 2009, consolidated the operating budget and audited operating results on one schedule (Consolidated Schedule 1 – Current Fund Operations) in a simple format for the reader.

Public Sector Accounting Board – Changes to Municipal Financial Reporting

As of 2009, all municipalities, including the City of Vaughan were required to prepare their Financial Statements under the new Public Sector Accounting Board standards (PSAB) which require full accrual reporting, including accumulated amortization, annual amortization expense for depreciable assets, recognizing subdivision infrastructure assumed through subdivisions as revenues, elimination of capital expenses and elimination of the reporting of transfers to reserves and capital.

The change in reporting requirements makes the comparison of financial results for 2009 and beyond more complex when comparing to results prior to 2009.

Ernst and Young Recommendations

Staff agree with the following recommendations (a) and b)) in the Ernst and Young report, as they reflect best practices and will assist taxpayers in their review of the City's financial information.

- a) *The City should attempt to provide taxpayers with an "executive summary" of financial information that would contain high level budget and actual financial data in one easy to understand schedule*
- b) *The City should highlight any budget modifications approved by Council in its annual reporting to ensure that the full budget is presented*

Staff also recommend that the Province of Ontario require key sections of the Financial Information Return (FIR) be included as part of annual municipal audits in order to ensure consistency in reporting of information.

Relationship to Vaughan Vision 2020/Strategic Plan

The report is consistent with the priority initiatives set by Council.

Regional Implications

Not applicable.

Conclusion

The City takes the stewardship of public funds very seriously. The results of the third party review by Ernst and Young of the C.D. Howe report clearly demonstrates that the City has NOT been overspending as portrayed in the C.D. Howe report. In fact, under-spending and additional revenues have made it possible to substantially increase reserve/saving contributions between 2001 and 2010. Vaughan continues to have a very strong financial position relative to most Ontario municipalities.

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Attachments

Attachment 1: Ernst & Young – Report with respect to City of Vaughan's Financial Results from 2001 to 2010

Report Prepared by:

Barbara Cribbett
Commissioner of Finance & City Treasurer
Ext. 8475

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

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Item 4, Report No. 5, of the Finance and Administration Committee, which was adopted without amendment by the Council of the City of Vaughan on May 8, 2012.

4

OTHER ITEMS CONSIDERED BY THE COMMITTEE

4.1 RECESS & RECONVENE

The Finance and Administration Committee recessed at 10:06 a.m. and reconvened at 10:25 a.m., with the following Members present:

**Councillor Marilyn Iafrate, Chair
Hon. Maurizio Bevilacqua, Mayor
Regional Councillor Michael Di Biase
Regional Councillor Deb Schulte
Councillor Alan Shefman**