



P.O. Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

Item No. 3
Halifax Regional Council
November 10, 2015

TO: Mayor and Members of Halifax Regional Council

Original Signed

SUBMITTED BY: _____
Councillor Bill Karsten, Chair, Audit & Finance Standing Committee

DATE: October 22, 2015

SUBJECT: Internal Control Process Review

INFORMATION REPORT

ORIGIN

October 21, 2015 meeting of the Audit & Finance Standing Committee, Information Item No. 2.

LEGISLATIVE AUTHORITY

The principle role of the Audit and Finance Standing Committee is to provide advice to Council on matters relating to Audit and Finance. In particular, Section 3.2.6 of the Audit and Finance Standing Committee's Terms of Reference shall 'Review as required, any other policies, procedures, forecasts, reports or process as agreed to mutually by the Municipalities CAO and the Committee'.

BACKGROUND

An information report dated October 14, 2015 pertaining to an Internal Control Process Review was before the Audit & Finance Standing Committee at its meeting held on October 21, 2015.

For further information please refer to the attached information report dated October 14, 2015.

DISCUSSION

The Audit & Finance Standing Committee received the information report dated October 14, 2015 at its meeting held on October 21, 2015 and passed a motion to forward it to Halifax Regional Council as an information item.

FINANCIAL IMPLICATIONS

As outlined in the attached information report dated October 14, 2015.

COMMUNITY ENGAGEMENT

All meetings of the Audit & Finance Standing Committee are open to the public. The agenda and reports are provided online in advance of the meeting.

ATTACHMENTS

1. Information Report dated October 14, 2015.

A copy of this report can be obtained online at <http://www.halifax.ca/commcoun/index.php> then choose the appropriate Community Council and meeting date, or by contacting the Office of the Municipal Clerk at 902.490.4210, or Fax 902.490.4208.

Report Prepared by: Liam MacSween, Legislative Assistant, 902-490-6521



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Item No. 2
Audit and Finance Standing Committee
October 21, 2015

TO: Chair and Members of the Audit and Finance Standing Committee

Original Signed

SUBMITTED BY: Richard Butts, Chief Administrative Officer

DATE: October 14, 2015

SUBJECT: Internal Control Process Review

INFORMATION REPORT

ORIGIN

Staff has identified weaknesses in the internal controls surrounding the development deposit process and is providing information to the Audit and Finance Standing Committee of the issues and the improvements planned to resolve this issue.

LEGISLATIVE AUTHORITY

- Section 48(2) of the *Halifax Regional Municipality Charter*:

Audit committee

48 (2) The responsibilities of the audit committee include
(b) an evaluation of internal control systems and any management letter
with the Auditor;

- Section 4 (d) of the Audit and Finance Standing Committee Terms of Reference:

(d) ensure the adequacy and effectiveness of the systems of internal control in relation to financial controls and risk management as established by Administration;

BACKGROUND

Planning and Development requires developers to provide security to ensure that they meet all of their responsibilities under various by-laws related to the development process. The security from the developers may be in the form of cheque, certified cheque and/or letter of credit.

In the process of closing a long term file on July 2, 2015, Planning and Development attempted to deposit a group of certified cheques as a developer had not met their responsibilities. As the certified cheques were stale dated, the cheques did not clear and Planning and Development were advised of same on July 23, 2015. This event triggered a review, which has identified a weakness in the internal controls* surrounding the holding and recording of this security.

* Internal controls are the combination of people, policies, and procedures that management rely upon to ensure they are:

1. Operating effectively and efficiently and safeguarding the assets;
2. Providing reliable information to those that need it; and,
3. Complying with all applicable constraints.

DISCUSSION

Initial Review and Actions Taken:

Planning and Development regularly receives deposits from developers and others as security that they will meet all their responsibilities under various by-laws. The security is received from the developer and if/when the developer has fulfilled their responsibilities, the security is returned. If the developer has not met their responsibilities, their security is used to complete the outstanding work and any balance is either billed to the developer or refunded.

If the security is a non-certified cheque, the cheque is deposited and when the responsibilities are completed, HRM issues a cheque to the developer for the remaining balance of the deposit.

However, in the case of certified cheques* and letters of credit, these have traditionally been held in a secure location by HRM until the process is completed. If the developer has satisfied their responsibilities, the letter of credit or the certified cheque is returned. This approach of holding security in the file has been common practice for a number of years.

In July, when the certified cheques did not clear, a review of the current process was initiated. On September 29, Planning and Development staff advised that approximately \$2.3m in security is being held in their offices. Additional details on the make-up and age of the security being held is being gathered and will be available at the conclusion of the review. Over this period of time, Planning and Development and Finance will be working together to review the current process for recording these deposits and safeguarding the security held.

The matter was raised with the CFO on October 1 with a subsequent briefing on the review and developing improvement process provided to the CAO. While the review is underway, all new security is being deposited in the bank and the files are being managed according to strengthened internal controls. It is anticipated that this review and process will take a number weeks to conclude and has already resulted in strengthened internal controls at the business unit level.

This process review will involve documenting the permitting process, creating a list of all deposits that have been received and a reconciliation to ensure that all deposits have been either deposited into the bank or held in a safe location. As part of these process improvements, staff anticipates that the majority of the certified cheques on hand will be deposited into HRM's bank account or, if all the developer's responsibilities are met, the security will be returned. Any proposed changes will be considered as part of the current review of Planning and Development.

Staff has notified both the external auditors and the Auditor General of the situation and committed to providing them with additional information as it is available and the details of the changes being made to this process. The Auditor General has offered his assistance and his staff to assist in this review. Building on the lessons learned in the Planning and Development review, Finance will expand the scope of the process review to identify other business units that take deposits or other security to ensure that clear processes are in place to ensure all deposits are deposited in the bank and other security appropriately safeguarded.

FINANCIAL IMPLICATIONS

The deposits received would not be revenue to the HRM until Planning and Development has determined that these funds are required to fulfill the developer's responsibility, and therefore not reflected in our Statement of Operations. If the certified cheques had been deposited, HRM's bank account would have increased and our liabilities increased by the same amount. The increase in assets and liabilities would have been reflected in our Statement of Financial Position.

To the extent that the deposits are certified cheques, they could have been deposited into HRM's bank account and interest earned for the period the deposits are held.

While we believe the risk of fraud is low, it is a reality in all business process and is one of the reasons for continuing to examine and strengthen internal controls.

*A certified cheque is a form of cheque for which the bank verifies that sufficient funds exist in the account to cover the check, and so certifies, at the time the check is written. Those funds are then set aside in the bank's internal account until the draft is cashed or returned by the payee.

Certification therefore is a direct promise of a bank to pay, independent of a customer's obligation to pay.

A certified cheque stale dated however, after 10 years, the process to get the funds changes as the bank can no longer honour the cheque directly. The funds are placed with the Bank of Canada and we would have to collect through the Bank of Canada.

COMMUNITY ENGAGEMENT

None required.

ATTACHMENTS

None.

A copy of this report can be obtained online at <http://www.halifax.ca/commcoun/index.php> then choose the appropriate Community Council and meeting date, or by contacting the Office of the Municipal Clerk at 902.490.4210, or Fax 902.490.4208.

Report Prepared by: Louis de Montbrun, Manager, Financial Reporting 902.476.0585
Jerry Blackwood, Manager, Revenue 902.490.6470

Original Signed

Report and Financial Approved by: Amanda Whitewood, Director Finance & ICT/CFO 902.490.6308
