



*Office of the Auditor General / Bureau du vérificateur général*

**AUDIT OF YEAR-END SPENDING 2004-2007**

**2008**

**VÉRIFICATION DES DÉPENSES DE FIN D'EXERCICE 2004-2007**



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## **EXECUTIVE SUMMARY**

### ***Background***

This audit was conducted as a result of a motion of Council at its September 26, 2007 meeting.

On September 19, 2008 the Auditor General informed all members of Council that due to difficulties in obtaining the required data from Financial Services, the audit would be delayed pending receipt of adequate data. The data was ultimately received in October 2008 and the analysis was then undertaken.

### ***Objectives***

The objectives of the audit were to:

- Examine year-end expenditure patterns to identify where spending in the fourth quarter was excessive or unreasonable, indicating an attempt to fully expend budgets prior to year-end; and,
- Identify any issues regarding reasonableness, appropriateness and adherence to financial policy.

### ***Scope***

The scope of the audit included monthly expenditures for all branches and divisions within each department for the last quarter of each year (i.e., October to December) for the period 2004-2007 inclusive. Transactions from the Ottawa Police Service and the Ottawa Public Library were not considered in the analysis.

As we established that four years represented a sufficient period to establish any trends and as there was a change in SAP structure in 2004, the period 2001-2003 was excluded.

### ***Key Findings***

Year-over-year expenditure levels in the fourth quarter were consistent and reasonable. As such, there was no indication that budgets are being systematically emptied in the final quarter of the year.

Although no pattern of excessive fourth quarter spending was observed, the total annual budgets for certain accounts are regularly overspent, in some cases by significant amounts. These areas include: Conferences and Conventions, Consultants, Receptions and Luncheons, Office Furniture and Equipment, and Computers/Peripherals/ Software.

Various obstacles relating to the financial system resulted in our obtaining the data six months after our initial request. Files from three systems needed to be analysed. Specifically, SAP data does not contain details of the M4/M5 system for fleet

expenditures as well as the Access Direct system for purchasing, credit, travel and vehicle card expenditures. We also observed that the reasons for, or description of, the expenditure is not always populated in SAP. Additional limitations, such as out of scope transactions, (i.e., transactions that did not pertain to the fourth quarter) were also identified with the data.

### **Recommendation 1**

**That the City fully review and validate the data generated for this audit to ensure it is complete and accurate for any future year-end spending analysis.**

#### **Management Response**

Management agrees with this recommendation. Management has reviewed and validated the data to ensure it is complete and accurate for any future year-end spending analysis.

### **Recommendation 2**

**That the City ensure appropriate budgeting practices are followed for all accounts.**

#### **Management Response**

Management agrees with this recommendation. In 2008 a Budget Challenge Working Group was formed to undertake a review of the 2009 Budget and as part of the 2010 budget challenge process there will be an analysis of overspending/underspending of major account groupings. A review of planned versus actual spending will assist in establishing an appropriate base for the succeeding budget.

City of Ottawa budgeting policy and practice directs management to maintain appropriate budget levels to support City operations. Expenditures against budgets are monitored on an ongoing basis with variances reported and explained on a quarterly basis through status update reports to Council. When permanent changes are identified, budget adjustments are processed updating the annual provision requested. Budget adjustments are not, however, processed for minor variations reflecting temporary situations.

The accounts reviewed by the Auditor demonstrated that the budgets are adjusted regularly. The overspending highlighted by the Auditor is a corporate total whereas budgets are built at the cost centre level (approximately 2,500 cost centres). For example, the cost element for Conferences and Conventions was used in 284 cost centres in 2007. Overspending or underspending at the cost element level varies from year to year and budgets are only adjusted if any overspending is known to be of a permanent nature. The analysis provided by the Auditor General for the Conferences and Conventions element highlights that the budget has been adjusted each year and the variance between budget and actual has been reduced from \$201,000 in 2004 to \$35,000 in 2007. Certain

accounts may be overspent, however, this can vary by branch each year depending on program requirements.

Management monitors their budgets for the purchases of materials, supplies and services on a bottom line basis. If there is overspending in one cost element typically there is underspending in another to ensure it does not result in a bottom line deficit.

It should be noted that the analysis included the BIAs and the Pineview Golf Course. Management would like to clarify that the beer purchases referenced in Table 2 were for the Golf Course.

### **Recommendation 3**

**That the City reconcile M5 data with that in SAP at least twice a year.**

#### **Management Response**

Management agrees with this recommendation. Reconciliation of data between M5 and SAP was conducted as part of the SAP implementation in October 2008. Regular inventory reconciliations were conducted within SAP (including Fleet inventory) as part of the December 31, 2008 year-end. Future reconciliation will be completed at least twice a year commencing in 2009.

### ***Conclusion***

Although there were challenges and obstacles that had to be overcome for Financial Services to gather and provide the requested information, the analysis indicates that fourth quarter spending was consistent and reasonable. Of greater concern is the fact that for a number of the accounts selected for review; the total annual budgets were regularly overspent, albeit not as the result of excessive year-end spending. In addition, as a result of concerns with respect to the Fleet system (M5) and its interface to the City's financial system, the Office of the Auditor General will undertake an audit of the M5 system in its 2010 work plan.

Finally, the difficulties encountered in producing useable data for this audit is cause for concern. It raises questions about the City's financial system and whether its current functionality is adequate to efficiently provide accurate and timely information to inform management decision-making in the future.

### ***Acknowledgement***

We wish to express our appreciation for the cooperation and assistance afforded the audit team by management.





## RÉSUMÉ

### **Contexte**

Cette vérification a été effectuée à la suite d'une motion adoptée par le Conseil à sa réunion du 26 septembre 2007.

Le 19 septembre 2008, le vérificateur général a informé tous les membres du Conseil qu'en raison de difficultés à obtenir les données nécessaires des Services financiers, on retarderait la vérification jusqu'à la réception des données adéquates. Les données ont enfin été reçues en octobre 2008 et leur analyse a alors commencé.

### **Objectifs**

Les objectifs de la vérification étaient :

- d'étudier les modèles de dépenses de fin d'exercice afin de déceler les cas où les dépenses du quatrième trimestre étaient excessives ou déraisonnables, indiquant une tentative de dépenser entièrement les fonds avant la fin de l'exercice; et
- de déterminer les problèmes concernant le caractère raisonnable, la convenance et la conformité à la politique financière.

### **Portée**

La portée de la vérification englobait les dépenses mensuelles de toutes les directions et divisions dans chaque service pour le dernier trimestre de chaque exercice (c.-à-d., d'octobre à décembre) pour 2004-2007 inclusivement. L'analyse n'a pas pris en compte les opérations du Service de police d'Ottawa et de la Bibliothèque publique d'Ottawa.

Comme nous avons établi que quatre ans constituaient une période suffisante pour dégager les tendances et qu'il y a eu un changement dans la structure de SAP en 2004, la période 2001-2003 a été exclue.

### **Principales constatations**

Les niveaux de dépenses sur 12 mois au quatrième trimestre étaient constants et raisonnables. En soi, il n'y a aucune indication qu'on épuise systématiquement les budgets au dernier trimestre.

Bien qu'on n'ait observé aucun modèle d'excédent des dépenses au quatrième trimestre, on dépasse régulièrement le budget annuel de certains comptes, dans certains cas de montants substantiels. Ces secteurs incluent : Conférences et congrès, Expert-Conseils, Réceptions et déjeuners, Mobilier et équipement de bureau et Ordinateurs, périphériques et logiciels.

À cause de divers obstacles liés au système financier, nous avons obtenu les données six mois après notre demande initiale. Il a fallu analyser des dossiers provenant de trois systèmes différents. Notamment, les données de SAP ne contiennent pas les détails du système M4/M5 pour les dépenses liées au parc automobile ou le système d'Access Direct les dépenses sur carte d'achat, de crédit, de voyages et du parc automobile. Nous avons aussi noté que les raisons, ou la description, de la dépense ne sont pas toujours remplies dans SAP. Nous avons aussi décelé que les données fournies comportaient des limites supplémentaires, comme des transactions hors portée de la vérification (c.-à-d., des transactions qui ne concernent pas le quatrième trimestre).

### **Recommandation 1**

**Que la Ville procède à un examen complet et à la validation des données produites pour cette vérification afin d'assurer qu'elle soit complète et exacte pour toute analyse future des dépenses de fin d'exercice.**

#### **Réponse de la direction**

La direction est d'accord avec cette recommandation. La direction a examiné et validé les données afin d'assurer que la vérification est complète et exacte pour toute analyse future des dépenses de fin d'exercice.

### **Recommandation 2**

**Que la Ville s'assure que des pratiques budgétaires adéquates sont suivies pour tous les comptes.**

#### **Réponse de la direction**

La direction est d'accord avec cette recommandation. En 2008, on a formé un groupe d'examen critique du budget chargé d'entreprendre un examen du budget 2009, et dans le cadre du processus d'examen critique du budget 2010, on mènera une analyse de l'excédent des dépenses ou de la sous-utilisation des fonds des principaux groupes de comptes. Un examen des dépenses prévues par rapport aux dépenses réelles aidera à établir une base adéquate pour le budget suivant.

La politique et la pratique budgétaires de la Ville d'Ottawa obligent la direction à maintenir des niveaux budgétaires suffisants pour soutenir les opérations municipales. On suit les dépenses par rapport au budget sur une base continue et les écarts sont signalés et justifiés sur une base trimestrielle par des rapports de situation budgétaire soumis au Conseil. Lorsqu'on décèle des changements permanents, on procède à un redressement budgétaire afin de mettre à jour la provision annuelle demandée. Ce n'est pas le cas, cependant, pour des écarts mineurs reflétant des situations provisoires.

Les comptes examinés par le vérificateur ont démontré que les budgets sont ajustés régulièrement. L'excédent des dépenses mis au jour par le vérificateur est

un total à l'échelle de la Ville, alors que les budgets sont établis au niveau du centre de coûts (environ 2 500 centres de coûts). Par exemple, l'élément de coût Conférences et congrès a été utilisé dans 284 centres de coûts en 2007. L'excédent des dépenses ou la sous-utilisation des fonds au niveau des éléments de coût varie d'année en année et on ne redresse les budgets que si on sait que l'excédent des dépenses a un caractère permanent. L'analyse par le vérificateur général de l'élément de coût Conférences et congrès met en lumière le fait que le budget ait été ajusté tous les ans et que l'écart entre les prévisions budgétaires et les dépenses réelles a été réduit de 201 000 \$ en 2004 à 35 000 \$ en 2007. Les dépenses de certains comptes ont pu dépasser le budget; toutefois, cela peut varier chaque année selon la direction et les exigences des programmes.

La direction surveille ses budgets d'achat de matériel, de fournitures et de services sur une base de résultats net. S'il y a un excédent des dépenses dans un élément de coût, en règle générale, on réduit les dépenses d'un autre élément de coût afin d'éviter un bilan déficitaire.

Il convient de noter que l'analyse comprenait les zones d'amélioration commerciale (ZAC) et le terrain de golf Pineview. La direction tient à préciser que les achats de bière cités au tableau 2 ont été faits pour le terrain de golf.

### **Recommandation 3**

**Que la Ville effectue le rapprochement des données M5 avec celles de SAP au moins deux fois par an.**

#### **Réponse de la direction**

La direction est d'accord avec cette recommandation. Le rapprochement des données entre M5 et SAP a été mené dans le cadre de la mise en œuvre de SAP en octobre 2008. Des rapprochements de stocks ont été effectués régulièrement au sein de SAP (y compris l'inventaire du parc automobile) dans le cadre de la fin de l'exercice au 31 décembre 2008. À l'avenir, le rapprochement se fera au moins deux fois par an et ce, à compter de 2009.

### ***Conclusion***

Bien que certains défis et obstacles aient dû être surmontés pour que les Services financiers rassemblent les informations demandées et nous les remettent, l'analyse indique que les dépenses du quatrième trimestre étaient constantes et raisonnables. Fait plus inquiétant, on a régulièrement dépassé le budget annuel total d'un certain nombre de comptes sélectionnés pour examen, bien que cela ne soit pas le résultat d'un excédent des dépenses de fin d'exercice. De plus, en raison de préoccupations au sujet du système de parc automobile (M5) et de son interface avec le système financier de la Ville, le bureau du vérificateur général entreprendra une vérification du système M5 dans le cadre de son plan de travail pour 2010.

Enfin, les difficultés survenues dans la production de données utilisables pour cette vérification sont une source de préoccupation. Elles soulèvent des questions sur le système financier de la Ville, notamment à savoir si sa fonctionnalité actuelle suffit à fournir efficacement des informations précises en temps opportun pour orienter la prise de décisions de la direction à l'avenir.

### **Remerciements**

Nous tenons à remercier la direction pour la collaboration et l'assistance qu'elle a accordées à l'équipe de vérification.

## **1 BACKGROUND**

This audit was conducted as a result of a motion of Council at its September 26, 2007 meeting.

On September 19, 2008 the Auditor General informed all members of Council that due to difficulties in obtaining the required data from Financial Services, the audit would be delayed pending receipt of adequate data. The data was ultimately received in October 2008 and the analysis was then undertaken.

## **2 AUDIT OBJECTIVES AND APPROACH**

### **2.1 Objectives**

The objectives of the audit were to:

- Examine year-end expenditure patterns to identify where spending in the fourth quarter was excessive or unreasonable, indicating an attempt to fully expend budgets prior to year-end; and,
- Identify any issues regarding reasonableness, appropriateness and adherence to financial policy.

### **2.2 Scope**

The scope of the audit included monthly expenditures for all branches and divisions within each department for the last quarter of each year (i.e., October to December) for the period 2004-2007 inclusive. Transactions from the Ottawa Police Service and the Ottawa Public Library were not considered in the analysis.

As we established that four years represented a sufficient period to establish any trends and as there was a change in SAP structure in 2004, the period 2001-2003 was excluded.

### **2.3 Approach**

Obtain monthly expenditures by branch and division for all departments for the final quarter of 2004 to 2007 inclusive.

Review and analyse expenditures patterns for this period.

## **3 OBSERVATIONS AND RECOMMENDATIONS**

Data was first requested from Financial Services in March 2008. Various obstacles relating to the financial system resulted in our obtaining the data in October 2008. Specifically,

- A custom extract was required because the data was not readily available using established SAP reports or query tools; and,

- The financial system does not record the contact name or spending authority requiring a custom table to be created.

### 3.1 Fourth Quarter Spending

Once the data was received, there still were issues of accuracy. For 2007, the data file included 4,696 transactions totalling \$2,442,656 where the date in which the transaction took place was prior to September 1, 2007<sup>1</sup>.

**Table 1: Out of Scope Transactions Included in 2007 Data**

<b>Actual Year of Transaction</b>	<b># of Transactions</b>
2001	1
2002	6
2003	0
2004	7
2005	22
2006	122
2007 prior to Sept 1	4,538
<b>Total</b>	<b>4,696</b>

We also noted that the reasons for, or description of, the expenditure is not always populated in SAP. Capturing this information would assist in identifying the reason and reasonableness for the transaction.

During the audit, Financial Services indicated that since extensive work had been done to create this custom extract, it could be used again by management in the future for monitoring purposes. In light of the issues identified regarding completeness and accuracy, it will be necessary for the data to be more fully validated so that required changes to the routine to generate it are made. Otherwise, the existing shortcomings in the data will remain.

Notwithstanding the limitations described above, an assessment of fourth quarter spending for each year was undertaken. A sample of 20 specific accounts was selected; areas which we believe could be most susceptible to managers emptying the budget at year-end. The analysis indicates that year-over-year expenditure levels were consistent and reasonable. As such, there was no indication of an attempt to fully expend budgets prior to year-end. The following table summarizes this analysis for the accounts selected for review.

<sup>1</sup> September 1, 2007 was selected as a cut-off date to allow for a one-month delay in payments being made, e.g., a transaction made on September 3 may not be paid until October 3. Therefore any transaction initiated prior to September 1 is more likely to be out of scope for the purposes of this analysis.

**Table 2: Last Quarter Spending to Budget and Actual**

	2007		2006		2005		2004	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
<b>502111 ■ Conferences &amp; Conven</b>								
Total Spending (Oct-Dec)	714,173	735,146	592,337	797,183	629,516	651,276	584,270	383,092
Total Last Quarter Spending	179,923	179,923	248,050	248,050	136,350	136,350	190,872	190,872
% of Spending to Budget/Actual	25%	24%	42%	31%	22%	21%	33%	50%
<b>502112 ■ Staff Training &amp; Dev</b>								
Total Actual and Budget	2,342,048	1,698,882	2,124,990	1,720,710	2,006,511	1,638,556	1,916,672	972,718
Total Spending (Oct-Dec)	326,068	326,068	348,779	348,779	405,338	405,338	341,772	341,772
% of Spending to Budget/Actual	14%	19%	16%	20%	20%	25%	18%	35%
<b>502119 ■ Business Travel</b>								
Total Actual and Budget	779,193	391,770	844,193	562,368	813,523	458,993	820,680	334,032
Total Spending (Oct-Dec)	105,034	105,034	224,128	224,128	157,107	157,107	151,681	151,681
% of Spending to Budget/Actual	13%	27%	27%	40%	19%	34%	18%	45%
<b>502210 ■ Advertising/Promotio</b>								
Total Actual and Budget	2,502,858	2,058,684	2,479,551	1,676,784	2,383,608	1,644,456	2,332,275	1,630,834
Total Spending (Oct-Dec)	603,168	603,168	501,061	501,061	359,484	359,484	607,799	607,799
% of Spending to Budget/Actual	24%	29%	20%	30%	15%	22%	26%	37%
<b>502329 ■ Non Prof Services</b>								
Total Actual and Budget	2,433,142	3,429,467	1,665,280	1,659,022	1,979,355	1,185,531	1,932,938	1,110,450
Total Spending (Oct-Dec)	1,059,417	1,059,417	329,545	329,545	287,960	287,960	182,034	182,034
% of Spending to Budget/Actual	44%	31%	20%	20%	15%	24%	9%	16%
<b>502330 ■ Professional Services</b>								
Total Actual and Budget	19,816,656	16,119,914	19,929,498	18,872,006	19,505,096	17,965,390	14,660,315	15,482,820
Total Spending (Oct-Dec)	4,492,784	4,492,784	4,023,481	4,023,481	3,299,135	3,299,135	3,051,932	3,051,932
% of Spending to Budget/Actual	23%	28%	20%	21%	17%	18%	21%	20%
<b>502392 ■ Consultants</b>								
Total Actual and Budget	1,489,791	2,598,549	1,936,445	2,684,162	1,739,525	1,872,092	1,494,271	1,810,503
Total Spending (Oct-Dec)	503,326	503,326	693,747	693,747	340,146	340,146	943,938	943,938
% of Spending to Budget/Actual	34%	19%	36%	26%	20%	18%	63%	52%
<b>502394 ■ Receptions/Luncheons</b>								
Total Actual and Budget	353,886	427,405	289,574	618,169	319,697	360,178	413,657	259,421
Total Spending (Oct-Dec)	139,748	139,748	173,817	173,817	194,894	194,894	134,633	134,633
% of Spending to Budget/Actual	39%	33%	60%	28%	61%	54%	33%	52%
<b>502650 ■ Rentals - Miscellaneous</b>								
Total Actual and Budget	369,544	690,143	429,118	632,599	485,500	400,044	765,422	332,755
Total Spending (Oct-Dec)	156,832	156,832	275,403	275,403	89,546	89,546	106,947	106,947
% of Spending to Budget/Actual	42%	23%	64%	44%	18%	22%	14%	32%

	2007		2006		2005		2004	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
<b>502903 ■ Sundry Services</b>								
Total Actual and Budget	1,509,976	448,159	2,188,548	627,500	1,811,837	1,983,916	1,503,966	1,229,714
Total Spending (Oct-Dec)	<b>77,058</b>	<b>77,058</b>	<b>87,578</b>	<b>87,578</b>	<b>615,726</b>	<b>615,726</b>	<b>75,965</b>	<b>75,965</b>
% of Spending to Budget/Actual	5%	17%	4%	14%	34%	31%	5%	6%
<b>502930 ■ Artist Services</b>								
Total Actual and Budget	226,915	353,448	243,064	232,456	133,265	59,089	0	0
Total Spending (Oct-Dec)	<b>149,833</b>	<b>149,833</b>	<b>55,542</b>	<b>55,542</b>	<b>37,315</b>	<b>37,315</b>	<b>0</b>	<b>0</b>
% of Spending to Budget/Actual	66%	42%	23%	24%	28%	63%		
<b>505100 ■ Food &amp; Beverages</b>								
Total Actual and Budget	2,334,009	2,482,569	2,415,667	2,707,159	2,474,644	2,320,214	2,192,836	2,163,018
Total Spending (Oct-Dec)	<b>573,444</b>	<b>573,444</b>	<b>681,771</b>	<b>681,771</b>	<b>641,299</b>	<b>641,299</b>	<b>560,318</b>	<b>560,318</b>
% of Spending to Budget/Actual	25%	23%	28%	25%	26%	28%	26%	26%
<b>505102 ■ Beer purchases (Beverages)</b>								
Total Actual and Budget	80,000	65,621	80,000	68,701	60,000	77,135	60,000	65,899
Total Spending (Oct-Dec)	<b>18,537</b>	<b>18,537</b>	<b>4,859</b>	<b>4,859</b>	<b>9,402</b>	<b>9,402</b>	<b>22,762</b>	<b>22,762</b>
% of Spending to Budget/Actual	23%	28%	6%	7%	16%	12%	38%	35%
<b>505984 ■ Program Supplies</b>								
Total Actual and Budget	2,497,311	2,239,336	2,415,457	2,175,960	2,162,968	1,878,508	1,563,552	1,729,277
Total Spending (Oct-Dec)	<b>494,702</b>	<b>494,702</b>	<b>810,566</b>	<b>810,566</b>	<b>611,615</b>	<b>611,615</b>	<b>659,479</b>	<b>659,479</b>
% of Spending to Budget/Actual	20%	22%	34%	37%	28%	33%	42%	38%
<b>505990 ■ Office Supplies</b>								
Total Actual and Budget	1,773,414	1,378,753	1,842,950	1,456,442	1,791,367	1,482,608	2,154,665	1,537,036
Total Spending (Oct-Dec)	<b>460,221</b>	<b>460,221</b>	<b>539,663</b>	<b>539,663</b>	<b>389,293</b>	<b>389,293</b>	<b>578,692</b>	<b>578,692</b>
% of Spending to Budget/Actual	26%	33%	29%	37%	22%	26%	27%	38%
<b>505991 ■ Computer Supplies</b>								
Total Actual and Budget	522,392	189,906	540,959	358,364	513,708	337,108	526,920	386,924
Total Spending (Oct-Dec)	<b>15,934</b>	<b>15,934</b>	<b>83,998</b>	<b>83,998</b>	<b>105,961</b>	<b>105,961</b>	<b>119,325</b>	<b>119,325</b>
% of Spending to Budget/Actual	3%	8%	16%	23%	21%	31%	23%	31%
<b>505995 ■ Misc. Supplies</b>								
Total Actual and Budget	2,005,109	787,569	2,128,041	802,387	2,593,382	1,568,237	2,861,506	1,963,777
Total Spending (Oct-Dec)	<b>174,054</b>	<b>174,054</b>	<b>160,059</b>	<b>160,059</b>	<b>142,304</b>	<b>142,304</b>	<b>242,926</b>	<b>242,926</b>
% of Spending to Budget/Actual	9%	22%	8%	20%	5%	9%	8%	12%
<b>506173 ■ Office Furniture &amp; Equip.</b>								
Total Actual and Budget	299,052	424,205	319,555	567,381	292,629	454,676	331,799	313,578
Total Spending (Oct-Dec)	<b>123,010</b>	<b>123,010</b>	<b>323,087</b>	<b>323,087</b>	<b>148,893</b>	<b>148,893</b>	<b>336,876</b>	<b>336,876</b>
% of Spending to Budget/Actual	41%	29%	101%	57%	51%	33%	102%	107%
<b>506175 ■ Comp/Periph/Software</b>								



	2007		2006		2005		2004	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Total Actual and Budget	830,855	1,795,449	875,703	2,366,289	468,879	892,071	465,084	1,949,309
Total Spending (Oct-Dec)	832,852	832,852	878,090	878,090	846,187	846,187	483,031	483,031
% of Spending to Budget/Actual	100%	46%	100%	37%	180%	95%	104%	25%
<b>506178 ■ Miscellaneous Equip.</b>								
Total Actual and Budget	1,887,191	1,324,345	1,894,141	1,761,869	1,947,317	1,953,502	1,167,514	738,465
Total Spending (Oct-Dec)	234,385	234,385	387,679	387,679	224,520	224,520	222,365	222,365
% of Spending to Budget/Actual	12%	18%	20%	22%	12%	11%	19%	30%

### **Recommendation 1**

**That the City fully review and validate the data generated for this audit to ensure it is complete and accurate for any future year-end spending analysis.**

#### **Management Response**

Management agrees with this recommendation. Management has reviewed and validated the data to ensure it is complete and accurate for any future year-end spending analysis.

### **3.2 Overspent Budgets**

Although no pattern of excessive fourth quarter spending was observed, the analysis does show that the total annual budget for certain accounts are regularly overspent, in some cases by significant amounts. These areas are highlighted in the table above and include: Conferences and Conventions, Consultants, Receptions/Luncheons, Office Furniture and Equipment, and Computers/Peripherals/Software.

### **Recommendation 2**

**That the City ensure appropriate budgeting practices are followed for all accounts.**

#### **Management Response**

Management agrees with this recommendation. In 2008 a Budget Challenge Working Group was formed to undertake a review of the 2009 Budget and as part of the 2010 budget challenge process there will be an analysis of overspending/underspending of major account groupings. A review of planned versus actual spending will assist in establishing an appropriate base for the succeeding budget.

City of Ottawa budgeting policy and practice directs management to maintain appropriate budget levels to support City operations. Expenditures against budgets are monitored on an ongoing basis with variances reported and

explained on a quarterly basis through status update reports to Council. When permanent changes are identified, budget adjustments are processed updating the annual provision requested. Budget adjustments are not, however, processed for minor variations reflecting temporary situations.

The accounts reviewed by the Auditor demonstrated that the budgets are adjusted regularly. The overspending highlighted by the Auditor is a corporate total whereas budgets are built at the cost centre level (approximately 2,500 cost centres). For example, the cost element for Conferences and Conventions was used in 284 cost centres in 2007. Overspending or underspending at the cost element level varies from year to year and budgets are only adjusted if any overspending is known to be of a permanent nature. The analysis provided by the Auditor General for the Conferences and Conventions element highlights that the budget has been adjusted each year and the variance between budget and actual has been reduced from \$201,000 in 2004 to \$35,000 in 2007. Certain accounts may be overspent, however, this can vary by branch each year depending on program requirements.

Management monitors their budgets for the purchases of materials, supplies and services on a bottom line basis. If there is overspending in one cost element typically there is underspending in another to ensure it does not result in a bottom line deficit.

It should be noted that the analysis included the BIAs and the Pineview Golf Course. Management would like to clarify that the beer purchases referenced in Table 2 were for the Golf Course.

### 3.3 Fleet Data

To assess fourth quarter spending for fleet, it was necessary to review transactions from the M4/M5 system as well as SAP. Although payments ultimately are generated from SAP, transaction details reside within this feeder system.

In March 2007, municipal operations migrated from the M4 to the M5 Fleet Management Information System. One of M4/M5 system's application is the control of the municipal fleet stores' inventory. As such, details of purchases are captured in M4/M5 with payments being processed through SAP. As shown in the table below, the M4/M5 2007 total dollars varied from SAP figures for fleet. It is unclear why these figures do not match.

**Table 3: M4/M5 vs. SAP Data**

Year	M4/M5*	SAP Fleet*	SAP Clearing Account*
2007	\$1,658,153	\$1,475,048	\$1,776,526
2006	\$1,580,208	\$1,515,139	\$2,006,271

Year	M4/M5*	SAP Fleet*	SAP Clearing Account*
2005	\$1,540,207	\$1,535,941	\$1,694,940
2004	\$1,905,654	\$0	\$1,151,390

\* Excludes taxes

In addition, we have reservations with regards to the M4/M5 controls relating to goods receipt and recording and its interface to SAP for payment. The OAG will consequently undertake an audit of the M5 system in its 2010 work plan.

**Recommendation 3**

**That the City reconcile M5 data with that in SAP at least twice a year.**

**Management Response**

Management agrees with this recommendation. Reconciliation of data between M5 and SAP was conducted as part of the SAP implementation in October 2008. Regular inventory reconciliations were conducted within SAP (including Fleet inventory) as part of the December 31, 2008 year-end. Future reconciliation will be completed at least twice a year commencing in 2009.

**3.4 Purchasing, Credit and Travel and Vehicle Cards**

As with Fleet data, purchasing, credit and travel, and vehicle card transactions are captured through a separate system, in this case the Access Direct System. Three monthly electronic transfers are processed through SAP directly to US Bancorp; one for purchasing cards; one for credit and travel cards and one for fuel cards.

Two concerns were identified with the Access Direct files. Firstly, due to the payment cycle of credit card expenditures (mid-month to mid-month), the files provided were not a direct extract and had been manipulated. Financial Services deleted those transactions, which did not pertain to the requested period. Although transactions from the Ottawa Police Service and the Ottawa Public Library were not to be considered in the analysis, these data were included in the information provided.

**4 CONCLUSION**

Although there were challenges and obstacles that had to be overcome for Financial Services to gather and provide the requested information, the analysis indicates that fourth quarter spending was consistent and reasonable. Of greater concern is the fact that for a number of the accounts selected for review; the total annual budgets were regularly overspent, albeit not as the result of excessive year-end spending. In addition, as a result of concerns with respect to the Fleet system (M5) and its interface to the City’s financial system, the Office of the Auditor General will undertake an audit of the M5 system in its 2010 work plan.

Finally, the difficulties encountered in producing useable data for this audit is cause for concern. It raises questions about the City's financial system and whether its current functionality is adequate to efficiently provide accurate and timely information to inform management decision-making in the future.

## **5 ACKNOWLEDGEMENT**

We wish to express our appreciation for the cooperation and assistance afforded the audit team by management.