



CITY OF HAMILTON
CITY MANAGER'S OFFICE
Audit Services

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| TO: | Chair and Members Audit, Finance and Administration Committee |
| COMMITTEE DATE: | January 19, 2015 |
| SUBJECT/REPORT NO: | Report 2014-15 - Review of Hamilton Police Service (HPS) Issues Identified by Mr. Chandrashekar (AUD15001) (City Wide) |
| WARD(S) AFFECTED: | City Wide |
| PREPARED BY: | Ann Pekaruk 905-546-2424 x4469 Amy Bodner 905-546-2424 x4438 |
| SUBMITTED BY: | Ann Pekaruk Director, Audit Services City Manager's Office |
| SIGNATURE: | |

RECOMMENDATION

- (a) That Report AUD15001, respecting Report 2014-15 Review of Hamilton Police Service (HPS) Issues Identified by Mr. Chandrashekar be received; and
- (b) That Report 2014-15 (attached as Appendix "A" to Report AUD15001) be referred to the Police Services Board for further consideration.

EXECUTIVE SUMMARY

On the direction of City Council approved on September 24, 2014, Audit Services undertook a review of the issues identified by Mr. Chandrashekar in correspondence provided by the Hamilton Police Services Board. A list of statements made by Mr. Chandrashekar and Audit Services' comments for each claim are presented in Report 2014-15 attached as Appendix "A" to Committee Report AUD15001.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS (for recommendation(s) only)

Financial: Not Applicable.

Staffing: Not Applicable.

Legal: Not Applicable.

HISTORICAL BACKGROUND (Chronology of events)

On July 21, 2014, the Police Services Board (PSB) approved the following motion:

"That the Board request the City of Hamilton Internal Auditor review the issues identified by Mr. Chandrashekar and confirm they are satisfactory."

Correspondence (including details of Mr. Chandrashekar's presentation to PSB on November 18, 2013) from Lois Morin Administrator, Hamilton Police Services Board, on September 18, 2014 respecting the Board's request was approved by City Council on September 24, 2014 with the motion that the correspondence

"Be received and referred to the City's Internal Auditor for review and a report to the Audit, Finance and Administration Committee."

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Not applicable.

RELEVANT CONSULTATION

The review performed by Audit Services included discussions with Mr. Chandrashekar and relevant Hamilton Police Services and City of Hamilton staff.

The City's external auditor, KPMG, was contacted by Audit Services to provide a quote for the cost of a separate audit on HPS' financial operations. The above discussion and fee quotation were incorporated into Audit Services' comments contained in Appendix "A" to Report AUD15001.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

(Include Performance Measurement/Benchmarking Data if applicable)

On September 24, 2014, Hamilton City Council directed Audit Services to review the issues identified by Mr. Chandrashekar in correspondence provided by Lois Morin, Administrator, Hamilton Police Services Board. Any other issues raised by Mr. Chandrashekar during the course of the review were not included in the scope of this project.

Audit Services summarized Mr. Chandrashekar's statements and claims and provided comments based upon findings from the investigation performed. A summary of Mr. Chandrashekar's claims and details of Audit Services' comments are presented in Report 2014-15 attached as Appendix "A" to Committee Report AUD15001. These details were grouped under six general headings: external financial statement audit, 2011 budget, 2014 budget, merging departments, distribution of surplus or deficit and sick leave.

The work performed by Audit Services does not represent an internal audit, a value for money audit or an operational review of Hamilton Police Service.

ALTERNATIVES FOR CONSIDERATION

(Include Financial, Staffing, Legal and Policy Implications and Pros and Cons for each alternative)

Not applicable.

ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN

Strategic Priority #2

Valued & Sustainable Services

WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.

Strategic Objective

2.2 Improve the City's approach to engaging and informing citizens and stakeholders.

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report AUD15001

APPENDIX "A"
CITY OF HAMILTON
REPORT 2014-15
REVIEW OF HAMILTON POLICE SERVICE ISSUES
IDENTIFIED BY MR. CHANDRASHEKAR

On September 24, 2014, Hamilton City Council directed Audit Services to review the issues identified by Mr. Chandrashekar as provided in correspondence from Lois Morin, Administrator, Hamilton Police Services (HPS) Board.

In the report that follows, Audit Services has:

- Summarized the statements or claims of Mr. Chandrashekar;
- Grouped each statement or claim into one of the following subject categories: external financial statement audit, 2011 budget, 2014 budget, merging departments, distribution of surplus or deficit and sick leave; and
- Provided comments based upon findings from Audit Services' review.

The work performed by Audit Services does not represent an internal audit, a value for money audit or an operational review of HPS. Audit Services has carried out work to investigate the issues raised by Mr. Chandrashekar. Any other further claims raised by Mr. Chandrashekar during the course of the review were not included in the scope of this project.

EXTERNAL FINANCIAL STATEMENT AUDIT

Claim: Mr. Chandrashekar believes that an independent external audit should be carried out on HPS' financial transactions in order to:

- Provide the HPS Board with a level of comfort with its operation;
- Provide assurances to the taxpayers of Hamilton;
- Satisfy the need for public trust, accountability and transparency;
- Identify efficiencies and provide an assessment of strengths, weaknesses and recommendations in an annual management letter to the HPS Board; and
- Bring attention to many accounting policies in the process.

Comments: The HPS Board is provided with opportunities throughout the year to ask questions pertaining to the financial operations of the police service. A review of the Board minutes did not indicate any lack of comfort or accountability in regard to operational results expressed by the HPS Board. HPS' financial results are included in the City's consolidated financial statements which are audited by KPMG. Audit Services was unable to locate specific provisions in the *Police Services Act* requiring or preventing the HPS Board from performing a separate audit.

The purpose of an external financial statement audit is to obtain an independent opinion on whether the financial statements prepared by management are, in all material respects, compiled and presented in accordance with the Canadian accounting standards for the public sector. Auditors are bound by professional standards to communicate certain matters which were encountered during the financial statement audit to management and those charged with governance. The annual management letter may include matters such as:

- Identified or suspected fraud identified during the audit;
- Significant identified or suspected non-compliance with laws or regulations;
- Significant internal control deficiencies; and
- Significant matters arising during the audit.

These standards are followed for all financial statement audits (including the City's) performed with the level of materiality adjusted accordingly for the particular client.

The HPS Board must consider whether the current process provides adequate assurance or whether this scope and subject matter for a separate external financial statement audit is required to meet its assurance needs or if another type of assurance engagement may be tailored to better meet the specific requirements of the HPS Board.

Mr. Chandrashekar was unable to provide Audit Services with a list of specific accounting policies that would be identified as part of the financial statement audit that are not currently disclosed in the notes to the City's consolidated financial statements.

Claim: Mr. Chandrashekar believes that an independent external audit will re-examine the method of accounting for HPS reserves as the current accounting practice has resulted in a considerable loss of interest. Mr. Chandrashekar believes that:

- Funds provided for in the HPS operating budget related to a reserve (e.g. expected payout of unused accumulated sick leave) should be allocated to the reserve immediately following approval of the budget;
- Expenditures for sick leave paid throughout the year should accumulate in a clearing account in the operating budget; and
- The clearing account should be closed to the reserve fund at the year-end.

This process allows funds to remain in the reserve for a longer period of time and thus be allocated more interest income.

Comments: Reserve funds are included in the City's investment management program. The City's Reserve Policy *Administration of Financial Reserves and Reserve Funds* outlines that interest earned from this program is allocated to each reserve based on the reserve's month end balance for the previous 12 months. Any additional interest earned would be allocated amongst all reserves, which may not result in a significant increase in interest revenue for HPS reserves.

Audit Services was unable to identify evidence that the accounting treatment of reserves is materially misstated. KPMG issued an unqualified opinion on the consolidated financial statement, which includes reserves and did not issue communications to management identifying non-compliance or expressing concern regarding the current accounting treatment of reserves.

Claim: Mr. Chandrashekar surveyed several police services to determine whether their financial statements are audited by an independent external auditor. Mr. Chandrashekar stated that none of the surveyed police services have a separate audit opinion issued on their financial transactions. The Toronto Police Service and the Ontario Association of Police Service Boards (OAPSB) explained that a municipality generally includes their police service in the scope of the annual consolidated financial statement audit. In addition, the OAPSB indicated that the Ministry of Community Safety and Correctional Services runs a province-wide inspection program.

Comments: Except for Toronto, Mr. Chandrashekar was unable to provide Audit Services with emails or other written correspondence to substantiate his survey results.

The Niagara Regional Police Service (NRPS) has a separate audit opinion issued on its financial operations. Up until 2012, the NRPS prepared its own financial statements which were audited by KPMG. In order to reduce staff time commitments and costs, the NRPS decided to adjust the audit process in 2012 and pursue a separate specified audit procedures report on the NRPS statement of operations that simply identified variances between budget and actual figures.

The Ministry of Community Safety and Correctional Services inspects police services throughout the province on a five-year cycle in order to monitor compliance with legislative and regulatory requirements. None of the Ministry's previous three inspections of HPS included financial-related areas which would impact a financial statement audit.

Claim: Mr. Chandrashekar believes that the cost of an independent external audit on HPS' financial operations would cost less than \$30,000 based on:

- Confirmation from an "appropriate source" that it would cost less than \$30,000;
- The City's current annual auditing costs of \$225,000 which covers 49 external audits, including the consolidated financial statement for \$125,000;
- The Hamilton Public Library being similar to HPS and paying an annual audit cost of approximately \$7,000; and
- A reduction in audit costs as HPS does not have a separate bank account, assets used by HPS are accounted for by the City, and all payables, receivables, salaries and wages go through City books.

Comments: Mr. Chandrashekar consulted with Mike Zegarac (General Manager of Finance & Corporate Services, City of Hamilton), Fay Booker (Consultant with Booker & Associates) and Lois Ouellette (Assurance Partner, KPMG). Mr. Zegarac's estimate for an audit was indicated in an email as approximately \$25,000 but Mr. Chandrashekar was unable to provide Audit Services with emails or other written evidence to verify discussions held with Fay Booker and Lois Ouellette.

The City's external audit cost and number of audits performed stated by Mr. Chandrashekar are correct. Mr. Chandrashekar's consolidated audit cost of \$125,000 is overstated by \$43,700. The Hamilton Public Library's external audit cost as stated by Mr. Chandrashekar is also reasonable.

Depending on the type of audit performed, the external auditor may choose to gain assurance around cash balances, tangible capital assets, receivables, payables, salaries and wages before expressing an opinion.

Claim: Mr. Chandrashekar believes that HPS' audit cost estimate of \$250,000 is grossly overstated.

Comments: HPS' audit cost estimate of \$250,000 is comprised of the external audit fee and costs to hire additional internal staff. HPS explained that existing finance employees do not have the capacity to assist the external auditor by preparing financial statements, reconciliations, schedules and audit working papers in addition to gathering additional information and answering questions as are common in conducting an external financial audit.

Audit Services obtained a quote for the cost of a separate HPS financial audit from KPMG, the City's external auditor. KPMG provided the following two audit options:

1. KPMG may provide the HPS Board with an opinion on HPS' statement of financial position and statement of operations for \$17,200. KPMG has experienced difficulties providing this type of audit to other police services. Normally police services do not have their own statement of financial position, so one must be compiled by HPS or City staff. This involves separating assets and liabilities belonging to the police service from the City financials which becomes challenging and time consuming when splitting accounts receivables, accounts payables, tangible capital assets and employee future benefit liabilities.
2. KPMG may provide the HPS Board with an opinion on only HPS' statement of operations for \$10,000. KPMG has provided this type of report to other police services as it eliminates the need to compile a statement of financial position and segregate police-related assets and liabilities from City operations. The audit report will note that the effect of tangible capital assets and employee future benefits are excluded from the statement of operations and the audit.

In either of these cases, KPMG further explained that the above fees assume that staff (be it City of Hamilton staff or HPS employees) prepare HPS' financial statement and review all of the City accounts for police financial information that must be separated. Audit Services did not assess the amount of time that may be required to carry this out or whether capacity exists with current City and/or HPS staffing resources to provide this support. However, City staff incur considerable overtime in preparing similar documents for the City's financial statements. In addition, the above fees assume that tangible capital assets and employee future benefits will be excluded from the audit. If the HPS Board wishes to include these areas, the cost would increase by approximately \$4,000.

In summary, KPMG provided Audit Services with quotes for two different types of audits that will range in cost from \$10,000 - \$21,200. The cost of incremental City and/or HPS staff time spent compiling the financial statements, schedules, other documentation and support required by KPMG in order to complete an audit must be investigated further in order to understand the complete audit cost.

2011 BUDGET

Claim: Mr. Chandrashekar noted that the HPS Board and Hamilton City Council approved a \$130,752,220 HPS operating levy for the 2011 calendar year. The 2011 HPS operating levy reported in the 2012 budget submission [as the prior year comparator] was increased by \$469,770. Neither the HPS Board nor City Council approved this increase to the 2011 HPS budget. Mr. Chandrashekar believes that expenditures in the 2011 base budget were "artificially inflated" in order to report a smaller percentage increase when comparing the 2012 operating budget to the prior year. HPS explained to Mr. Chandrashekar that this budget base transfer was initiated by City staff in order for the police to assume their portion of costs related to the corporate radio system.

Comments: The increase identified by Mr. Chandrashekar pertains to a 2012 budget base transfer and the 2011 prior year reallocation of HPS' portion of charges associated with the corporate radio system. In order to produce a 2012 budget more reflective of actual HPS related expenditures, City staff ensured that HPS' portion of the cost recovery for infrastructure and equipment (\$469,770) and the annual maintenance fee (\$190,480) were included in HPS' operating budget. HPS' portion of the 2011 cost recovery for the radio infrastructure and equipment (\$469,770) was transferred from the "Corporate Financial" budget to ensure the comparability of the 2011 and 2012 expenses. The 2011 restated budget appeared in the 2012 budget documents provided to the HPS Board and City Council. Even though there was no indication that the HPS Board or City Council were explicitly informed of the budget base transfer, such actions appear reasonable and there does not appear to be any malicious intent to "artificially inflate" the budget.

Claim: Mr. Chandrashekar stated that "the manager of budget who originated the change conceded to the above."

Comments: Per email correspondence with Mr. Chandrashekar on July 28, 2014, Mike Zegarac (General Manager, Finance & Corporate Services, City of Hamilton) confirmed that the 2011 corporate radio budget restatement was presented to Hamilton City Council as part of 2012 preliminary budget.

As best as can be determined, the change originated with a Business Administrator in Corporate Services at the time.

Claim: Mr. Chandrashekar believes that this 2011 budget base increase was significant and should have been approved by the HPS Board and Hamilton City Council.

Comments: There were no policies or procedures in effect at the time that required either the HPS Board or City Council to approve this budget base transfer. Audit Services was unable to locate specific provisions in the *Police Services Act* or current policies governing HPS Board approval of budget base transfers initiated by the City. City Council has subsequently approved the *Corporate Budget Policy* on February 22, 2013 which stipulates when a budget amendment or restatement requires Council approval.

Claim: Mr. Chandrashekar stated that "this increase was to be discussed in the next meeting, however, to date, there have been no further sub-committee meetings."

Comments: As directed by the HPS Board, Members Whitehead and Juchniewicz and HPS staff met with Mr. Chandrashekar on December 11, 2013 to review his concerns. In the HPS Board update of January 21, 2014, overtime administration and the sick pay reserve were highlighted as areas to be reviewed and discussed in the future. The HPS Board meeting minutes did not provide direction to reconvene this "sub-committee" to further discuss the 2011 budget base transfer.

2014 BUDGET

Claim: Mr. Chandrashekar observed a difference of \$2.2 million between employee related costs reported in the 2014 operating budgets approved by the HPS Board and Hamilton City Council. The details provided by Mr. Chandrashekar are summarized below. Mr. Chandrashekar theorized that this discrepancy may be due to a lack of uniformity in the accounts HPS and the City group together to report total employee related costs, as the total overall budget (bottom line) reported by HPS and the City are the same.

| | Employee Related Costs |
|--|---------------------------|
| 2014 HPS Operating Budget approved by the HPS Board on Jan.21/14 (Item 6.3) – Page 51 | \$ 135,398,595 |
| 2014 City Tax Supported Budget Book – Page 219 | \$ 133,221,770 |
| Difference | \$ 2,176,825 |

Comments: As noted by Mr. Chandrashekar, the difference identified by him pertains to differences in the accounts which were grouped together by the HPS Board and the City to calculate total employee related costs. A build-up of the difference is provided below.

| | |
|---|--------------|
| Compensation provision (contingency) captured in HPS' employee related costs that was included in the City's "financial" cost budget category (unsettled contract). | \$ 4,455,820 |
| Accounts approved by the HPS Board that were not captured in HPS' employee related costs but were included in the City's "employee related costs" budget category: | |
| WSIB benefit recovery | (1,199,110) |
| Training | (798,425) |
| Clothing allowance | (160,000) |
| Parking expense | (75,000) |
| Meal allowance | (36,460) |
| Transportation | (10,000) |
| Difference | \$ 2,176,825 |

There is nothing illogical about this issue.

Claim: Mr. Chandrashekar believes that budget information presented to the HPS Board and Hamilton City Council should agree to avoid misleading the public.

Comments: Audit Services was unable to locate specific provisions in the *Police Services Act* governing the content or format of the budget submitted to the HPS Board. As communications are tailored to meet the needs of the audience, it is reasonable that presentation differences exist between the budgets provided to the HPS Board and City Council. It does not appear that this was done to mislead the public. In order to reduce further confusion, HPS is in the process of changing how budget information is presented to the HPS Board for the 2015 calendar year by aligning expense groupings consistent with those appearing in City's budget submission to Council.

MERGING DEPARTMENTS

Claim: Mr. Chandrashekar surveyed several police services to determine whether the *Police Services Act* permits the amalgamation of certain police service functions (e.g. legal counsel, human resources and accounting) with similar services provided by the Municipality or Region. Mr. Chandrashekar stated that none of the surveyed police services have amalgamated these functions with their municipal or regional counterparts. Except for Toronto and Ottawa, no municipal or regional body has brought forth this issue for public discussion. The Toronto Police Service explained that KPMG was retained to examine opportunities to share services within the City of Toronto.

Comments: Except for an email from the Toronto Police Service, Mr. Chandrashekar was unable to provide Audit Services with written correspondence to verify the survey results. KPMG was retained by the City of Toronto to conduct a core services review. KPMG recommended that the City of Toronto consider sharing critical Toronto Police Service infrastructure services (e.g. purchasing, payroll, accounting and hiring of non-uniformed officers) across various City departments. Toronto City Council decided to review shared services as part of a future service efficiency study. Audit Services was unable to locate updated information with regard to this initiative.

Claim: Mr. Chandrashekar stated that Hamilton City Council has the authority to merge legal, human resource and accounting functions with those at HPS without any changes to the *Police Services Act*.

Comments: Audit Services was unable to locate any specific provisions in the *Police Services Act* preventing or giving the authority for the amalgamation of police and municipal functions.

Claim: Mr. Chandrashekar stated that amalgamating departments with the City would save millions of taxpayer dollars by eliminating salaries and benefits associated with accounting, human resources and legal services at HPS.

Comments: The 2014 budgeted expenses for HPS' finance, legal and human resources departments totalled \$2,978,420. Of these expenses, \$2,330,740 relates to employee-related costs (e.g. salaries, benefits, pension, training, etc.). Before employee positions are eliminated as suggested by Mr. Chandrashekar, consideration should be given as to whether existing City employees have the expertise and capacity to absorb these HPS functions. If there is limited or no capacity, the City would need to hire additional staff or the existing HPS staff to handle the increase in workload. As a result, costs may shift from HPS to the City without significant savings on a consolidated basis. The feasibility and any potential cost savings from merging HPS and City departments requires a detailed rationalization study.

DISTRIBUTION OF SURPLUS OR DEFICIT

Claim: Mr. Chandrashekar surveyed several police services to determine whether they have a policy for the distribution of any year end surplus or deficit. Mr. Chandrashekar stated that some organizations have a policy while others do not.

Comments: Mr. Chandrashekar was unable to provide Audit Services with emails or any other written correspondence to support his survey results. In Hamilton, there is no written policy that states how HPS' year-end surplus or deficit should be distributed. The practice has been to allocate (fund) a surplus (deficit) to (from) HPS' reserves upon approval from the HPS Board. The City's General Issues Committee is informed of the disposition as part of the annual year-end budget variance report. HPS is in the process of formalizing a written policy that mirrors this current practice.

SICK LEAVE

Statement: Mr. Chandrashekar inquired of the Toronto Police Service whether their officers are entitled to accumulate sick leave benefits and, if so, whether accumulated credits are paid out on retirement. The Toronto Police Service explained that sickness credits and sick credit gratuities upon retirement are governed by their collective agreement. Sick credits are cumulative and a portion of unused credits are paid out on retirement.

Comments: Under the collective agreement, HPS' treatments of accumulated sick days and payout on retirement are comparable to those of the Toronto Police Service.

HAMILTON POLICE SERVICES BOARD**- RECOMMENDATION -**

DATE: 2015 February 26
REPORT TO: Chair and Members
Hamilton Police Services Board
FROM: Glenn De Caire
Chief of Police
SUBJECT: *Reward for Information - Unsolved Homicide – Michael Sullivan
(PSB 15-016)*

RECOMMENDATIONS:

- a) That the Board authorize a reward in the amount of \$50,000.00 for information leading to the arrest and conviction of person(s) unknown, responsible for the death of Michael Sullivan.
- b) That 20% of the reward money offered be transferred to Police Reward Reserve Account #11225, for a total of \$10,000.00.


Glenn De Caire
Chief of Police**FINANCIAL / STAFFING / LEGAL IMPLICATIONS:**

FINANCIAL – See Recommendations above.

STAFFING – n/a

LEGAL – n/a

BACKGROUND:

The Board previously approved that only 20% of the total reward money offered for public rewards be held in reserve (*see PSB #09-052*).

On Monday, July 29, 2013, at 3.10 p.m., police and emergency medical services responded to a 911 call to the rear lot of 927 Barton Street East, Hamilton. The victim, Michael Sullivan, was found at that location suffering from a head injury that was caused by him being thrown from his bicycle after being struck by a Black, Ford F150 pick-up truck. Michael Sullivan was transported to the Hamilton General Hospital and was placed on life support until he succumbed to his injury on Saturday, October 19, 2013.

The investigation revealed that Michael Sullivan interacted with some individuals in the area of Barton Street East and Lottridge Street a short time before he was discovered injured. It appears that the male driver of the Black, Ford F150 pick-up was provided with misinformation by those individuals and commenced pursuing Michael Sullivan around the surrounding streets. Surveillance footage from a number of local businesses shows Michael Sullivan being chased around the streets by the pick-up and ultimately behind the premises at 927 Barton Street East. The actions of the driver of the F150 were deliberate and caused the death of Michael Sullivan.

The driver of the pick-up was a male in his 20s or 30s with short hair. The Ford F150 involved in this incident has been recovered by police.

Investigators believe there are individuals in the community who have information about the person responsible for this homicide. It is believed that a reward for information regarding this unsolved crime will result in new leads, investigative avenues and ultimately, to a successful conclusion to the investigation.

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cc: Deputy Chief Eric Girt, Community Policing

John Randazzo, Chief Accountant

Staff Sergeant Maggie Schoen, Chief's Executive Officer