

# INVESTIGATION OF MANOTICK BUSINESS IMPROVEMENT AREA EXPENSES



**SEPTEMBER 2023**



**Office of the  
Auditor General**  
City of Ottawa

## Acknowledgement

The team responsible for this investigation was comprised of Raymond Chabot Grant Thornton Consulting Inc. (external consultant), under the supervision of Joanne Gorenstein, Deputy Auditor General and my direction. My colleagues and I would like to thank those individuals who contributed to this project, and particularly, those who provided insights and comments as part of this investigation.

Respectfully,



Nathalie Gougeon, CPA, CA, CIA, CRMA, B.Comm  
Auditor General

**Table of Contents**

Introduction ..... 1

Background and context..... 1

Investigation objective and scope ..... 2

Conclusion ..... 3

Investigation findings and recommendations ..... 4

1. Review of Expense Transactions ..... 4

1.1 Control Weaknesses over Expense Reimbursements ..... 5

1.2 MBIA’s Controls over Petty Cash Require Strengthening ..... 8

Appendix 1 – About the investigation ..... 11

## Introduction

As a result of a report to the City's Fraud and Waste Hotline (FWHL), the Office of the Auditor General (OAG) undertook an investigation to assess concerns related to expenses incurred by the Manotick Business Improvement Area (MBIA).

## Background and context

### Auditor General's Authority

The OAG received allegations in relation to potential inappropriate expenses incurred by the MBIA. The statutory authorities of the Auditor General apply to local boards of the City of Ottawa (City), which include Business Improvement Areas (BIA). Accordingly, the OAG conducted an investigation to assess or refute the allegations brought to its attention.

### Business Improvement Areas

The *Municipal Act* provides a local municipality with the authority to designate an area as an improvement. The purpose of a BIA is to:

- “oversee the improvement, beautification, and maintenance of municipally-owned land, buildings and structures in the area beyond that provided at the expense of the municipality generally; and
- promote the area as a business or shopping district to attract residents and visitors.”

BIAs work to identify and implement actions to support economic development and business growth and attract new businesses to the area.

BIAs engage in various activities to help achieve their mandate such as beautification, revitalization and maintenance, and marketing and promotion. Examples of actions BIAs may take to achieve their mandate include streetscape improvements such as seasonal decorations, enhanced street cleaning, or showcasing their shops and services through marketing and promotional activities. BIAs may also organize special events to attract community residents and visitors to experience the area such as parades and festivals.

### By-laws and Policies

Municipal and BIA by-laws and policies that govern BIA Boards of Management relative to financial management include the:

- BIA Governance By-law 2021-255 (BIA Governance By-law);

- *By-law 2018-399* (Code of Conduct for Members of Local Boards);
- BIA policies pursuant to Subsection 270(2) of the *Municipal Act, 2001* with respect to sale and other disposition of land, hiring of employees, and procurement of goods and services.

The *BIA Governance By-law* provides standardized governance requirements for Boards of BIAs and includes, but is not limited to, board composition, roles and responsibilities of the Board, roles and responsibilities of the Executive Director, financial requirements, and policy requirements.

The above-noted by-laws and policies are intended to provide a standardized approach to BIA governance and practices.

### **Investigation objective and scope**

The objective of this investigation was to review expense transactions in relation to concerns raised in a report received through the FWHL.

In response to the concerns raised in the FWHL report, we examined documentation for a sample of expense transactions in 2022 to ensure they were approved, supported by adequate documentation and in line with the spirit of the *BIA Governance By-Law*.

The expense transactions raised in the FWHL report spanned a period from 2018 to 2022. It is important to note that the MBIA financial statements are audited by the City's external auditors, Ernst and Young. As such, the scope of our investigation was limited to reviewing a sample of expense transactions in 2022 as this year had yet to be audited.

Our investigation focused on concerns of a financial nature only. Our investigation did not address other concerns raised in the FWHL report as these fell outside the purview of the Auditor General.

Readers are cautioned about the important distinction between an investigation and an audit. An audit is designed to provide a high level of assurance over its findings and will typically feature rigorous testing and analysis. While this investigation was conducted in a systematic and professional manner, the extent of activities undertaken by the OAG was narrow compared to an audit and focused solely on the concerns raised to our attention.

## Conclusion

The work performed highlighted a need for the MBIA to strengthen controls over the approval and reimbursement of expenses and petty cash. In several instances, there was a lack of sufficient and appropriate documentation to confirm that the expenses incurred were reasonable and directly related to MBIA business. Additionally, while petty cash transactions are low dollar, necessary controls over the MBIA's petty cash fund were missing and in specific cases, did not allow us to confirm that only expenditures incurred in the ordinary course of business were reimbursed.

Ultimately, the MBIA has not developed a policy that provides sufficient guidance on the acceptable types of expenses and expectations for oversight of expenditures.

We also identified areas where the City should play a greater role in supporting and enabling BIAs. This information has been reported to the City in a separate report.

## Investigation findings and recommendations

### 1. Review of Expense Transactions

We understand the MBIA's mandate is to promote the Village of Manotick as a shopping, dining and historical destination and to attract consumers, commercial tenants, and visitors. To help achieve its mandate, the MBIA engages in various activities such as advertising and promotion, beautification as well as organizing events and attractions within Manotick.

Each year, the MBIA Board prepares an annual budget which is approved by the BIA members at the Annual General Meeting and by City Council. Upon approval of the annual budget by the Board and by City Council, the BIA tax rate is calculated to produce the levy amount that is needed to fund the annual budget. The levies are collected by the City through the BIA members' property tax bill and are administered by the City. As the MBIA does not have a bank account, all expenses incurred and approved by the MBIA are paid through the City's standard payment process.

Members of the BIA expect that the funds collected by the City are spent in accordance with the BIA's approved annual budget and for expenses directly related to the MBIA's business activities, and for the mutual benefit of its taxpayers within the geographical boundary. Therefore, it is important that appropriate controls are in place so that expenses incurred undergo a sufficient level of scrutiny to ensure they are reasonable, in the ordinary course of business and within budget.

According to the MBIA's approved thresholds for the procurement of goods and services, as well as the *BIA Governance By-law*, expenditures must be approved as follows:

Amount	Process
<b>\$0 - \$2,499</b>	At the discretion of the Executive Committee or Executive Director
<b>\$2,500 - \$4,999</b>	Executive Committee approval required
<b>\$5,000+ or Contracts</b>	Minimum of two quotes required or rationale / justification for sole sourcing;  Selection of local businesses where reasonable and effective; and  A vote by the Board.

All invoices and receipts must be approved by the MBIA, in accordance with the thresholds noted in the table above, prior to submitting a payment request to the City. When the City receives invoices and/or receipts for payment, the City reviews the documentation to ensure that invoices are stamped, costs are categorized, forms are duly completed, and that appropriate approvals are documented. The City does not challenge the eligibility of the expenses as it is the MBIA's responsibility to incur, review and approve expenses.

## 1.1 Control Weaknesses over Expense Reimbursements

### Insufficient procurement policy

In June 2021, City Council directed each BIA Board to adopt and provide mandatory governance documents to City staff by March 31, 2022, including policies with respect to the procurement of goods and services. Following City Council's direction, City staff notified the MBIA of the new documentation requirements and, to an extent, provided policy language guidance and templates to facilitate the implementation.

We noted that a policy document was assembled and submitted to the City with respect to sale and other disposition of land, hiring of employees, and procurement of goods and services. However, the policy document only included the minimum requirements



as per the *BIA Governance By-law*. From an expenditure management<sup>1</sup> perspective, this policy document does not provide sufficient direction on the acceptable types of expenses in the ordinary course of business. This is necessary to ensure that spending is appropriate and allows approvers to ensure that the expenses are directly related to MBIA business and in line with the MBIA's budget. Such a policy would enable the MBIA to effectively monitor costs.

### **Lack of supporting documentation**

As noted above, the MBIA does not have a comprehensive policy that outlines the nature of acceptable expenses and expected documentation requirements to support the expenses incurred. In the absence of a policy that clearly outlines what would constitute an appropriate expenditure, we applied our professional judgement in the conduct of our work.

We examined a total of 23 purchases of goods or services based on the nature of the allegations that were brought to our attention. Fourteen (61%) of the expenses reviewed lacked sufficient evidence to conclude whether the expenses directly related to MBIA business activities. Examples included restaurant receipts that did not indicate the purpose of the expense or the attendees, and some credit or debit card receipts that did not have detailed information. We also observed gifts of a personal nature without sufficient evidence to link back to MBIA business. Without appropriate supporting documentation, the OAG was unable to determine if the transactions were aligned with the spirit of the *BIA Governance By-law* or aligned with the MBIA's mandate.

### **Inappropriate gifts**

During our testing, we noted instances in which the MBIA incurred expenditures approved by the Board that, while in the absence of prescribed definitions of appropriate expenses, we would deem inappropriate as they do not appear to align with a BIA's mandate.

One example included a retirement gift of \$2,400 in the form of a gift card that was approved by the Board for a staff member. While the MBIA does not have prescriptive guidance that stipulates the types of eligible expenses and allowable amounts, using the City of Ottawa's "Employee Recognition Program Guidelines" as a guide, this type of gift (i.e., a gift card) and the dollar value would not be acceptable.

---

<sup>1</sup> Expenditure management in this context relates to the procurement of goods and services, spending of available funds and the management of petty cash.

Other examples included expenses for flowers and salon/spa accessories that were gifted to Board members or their family members for compassionate reasons. While MBIA representatives indicated that these types of gifts are provided to support those within the community and their past contributions to the BIA, it is our professional opinion that such expenses are inappropriate and not aligned with the MBIA's mandate.

It is important to have a comprehensive expenditure management policy that defines acceptable types of expenses, dollar limits, and documentation requirements. Keeping detailed records ensures that adequate supporting documentation is available for an approver to assess that expenditures are appropriate, reasonable and directly related to MBIA business prior to being submitted to the City for payment.

### **RECOMMENDATION 1 – ESTABLISH POLICIES**

The MBIA Executive Director should establish an expenditure management policy including the procurement of goods and services so that acceptable expenses are clearly defined. Subsequent approval of the updated policy should be obtained by the Board and shared with City staff.

### **BOARD RESPONSE 1**

The Board of Directors acknowledges and agrees with the recommendation.

The Board of Directors is recommending the establishment of a small committee of 5 Board Members, chaired by the Chair of the Board to work on the development, strengthening and updating of all policies relating to financial management of the MBIA. For full board approval prior to the AGM.

The timelines for completion would be end of Q4 for presentation and approval at the AGM in January 2024.

### **RECOMMENDATION 2 – STRENGTHEN CONTROLS OVER EXPENSE REIMBURSEMENTS**

As part of the expenditure management policy, the MBIA Executive Director should clearly outline:

- Roles and responsibilities of staff and board members related to expense reimbursements and the associated review and approvals;
- The nature and dollar amount/limits of acceptable expenditures; and

- The required supporting documentation for all expenses.

## BOARD RESPONSE 2

The Board of Directors acknowledges and agrees with the recommendation and directs the new Board committee to assume responsibility for ensuring the new policies represent the strengthening of financial management of the MBIA including:

- Roles and responsibilities of staff and board members related to expense reimbursements and the associated review and approvals;
- The nature and dollar amounts/limits of acceptable expenditures; and
- The required supporting documentation for all expenses will be revised to ensure sufficient description of each expense.

The timelines for completion would be end of Q4 for presentation and approval at the AGM in January 2024.

### 1.2 MBIA's Controls over Petty Cash Require Strengthening

The MBIA has a petty cash fund of \$1,000 which is used to reimburse out-of-pocket expenses incurred by the Executive Director or Board Members. The custodian of the petty cash is the Executive Director who is responsible for the physical custody and administration of the petty cash. Examples of expenses reimbursed through petty cash include restaurant receipts, postage and supplies for promotional events.

It is important to have controls over petty cash to mitigate the risk of cash being used inappropriately. Given that there is only one full-time employee of the MBIA, there are inherent limitations with implementing strong controls over cash. However, to mitigate some of the risk, all petty cash spending requires approval by the Executive Director and one member of the Board's Executive Committee prior to requesting payment from the City to replenish the MBIA's petty cash.

As part of the City's petty cash replenishment process, the City verifies that the petty cash spending has been approved and is supported by receipts and invoices. The City does not verify the appropriateness of the expenditures.

We understand that the MBIA is one of the few BIAs that is still using petty cash whereas several other local BIAs are adopting a no-cash policy and using a credit card instead, which has some embedded controls.

Based on the results of testing, we found weaknesses with record-keeping and oversight by the MBIA related to petty cash transactions. One receipt we reviewed included expenses of a personal nature (unrelated to MBIA business) that were approved and reimbursed through the City's petty cash replenishment process. However, based on the MBIA's current petty cash processes:

- it is unclear who received the petty cash funds; and
- the extent of review of receipts as part of the approval of petty cash spending.

There is neither documentation that indicates the date of the reimbursement from the petty cash fund and the recipient of petty cash funds, nor evidence confirming receipt of cash by the recipient. These are important controls to track the movement of cash.

### **RECOMMENDATION 3 – STRENGTHEN CONTROLS OVER PETTY CASH**

Through the establishment of an expenditure management policy, the MBIA Executive Director should strengthen its controls over petty cash to ensure:

- There is adequate documentation for all receipts and reimbursements through petty cash;
- Petty cash dollar limits are defined; and
- Roles and responsibilities related to the review of petty cash receipts are clear and implemented.

### **BOARD RESPONSE 3**

The Board of Director agrees with this recommendation.

The Board of Director is recommending the elimination of petty cash, in favour of a MBIA credit card for the Executive Director.

The committee will establish a policy with defined explanations of what are approved BIA expenses and clear roles and responsibilities for those said expenses.

Completion of this would be by end of Q4.

**RECOMMENDATION 4 – CONSIDER ADOPTING A NO-CASH POLICY TO ALIGN WITH OTHER BIAS**

The MBIA Board should consider adopting a no-cash policy and use a credit card for low dollar value business expenditures.

**BOARD RESPONSE 4**

The Board of Director agrees with this recommendation.  
Please see response to recommendation #3.

## Appendix 1 – About the investigation

### Investigation objective

The objective of this investigation was to review expense transactions in relation to concerns raised in the report received through the FWHL.

### Scope

In response to the concerns raised in the FWHL report, we examined documentation for a sample of expense transactions in 2022 to ensure they were approved, supported by adequate documentation and in line with the spirit of the *BIA Governance By-Law*.

The expense transactions raised in the FWHL report spanned a period from 2018 to 2022. It is important to note that the MBIA financial statements are audited by the City's external auditors, Ernst and Young. As such, the scope of our investigation was limited to reviewing a sample of expense transactions in 2022 as this year had yet to be audited.

Our investigation focused on concerns of a financial nature only. Our investigation did not address other concerns raised in the FWHL report as these fell outside the purview of the Auditor General.

### Investigation approach and methodology

To assess the merit of the concerns outlined in the FWHL, we conducted the following:

**Review of information and documentation:** This included a detailed review of the FWHL report, relevant by-laws, policies, and financial records extracted from the City's financial system, SAP.

**Interviews, discussions and enquiries:** Interviews, discussions and enquiries were held with former and current Board members, MBIA staff, City staff, and the City's external auditors.

**Detailed testing:** Testing of a sample of expenses including examination of supporting documentation.

**Review of other relevant information:** Other relevant information included City Committee reports, financial statements, and minutes of Board meetings.

The **Fraud and Waste Hotline** is a confidential and anonymous service that allows City of Ottawa employees and members of the general public to report suspected or witnessed cases of fraud or waste 24 hours a day, seven days a week.

[www.ottawa.fraudwaste-fraudeabus.ca](http://www.ottawa.fraudwaste-fraudeabus.ca) / 1-866-959-9309

Visit us online at [www.oagottawa.ca](http://www.oagottawa.ca) and follow us on Twitter [@oagottawa](https://twitter.com/oagottawa)