



Exhibition Place

Item No. 10

June 21, 2011

To: The Board of Governors of Exhibition Place

FOR INFORMATION

From: Dianne Young
Chief Executive Officer

Subject: **Internal/External Audit Policy, Controls and Practices**

Summary:

This report provides information with respect to the Internal/External Audit Policies Controls and General Practices for Exhibition Place.

Financial Implications and Impact Statement:

There are no financial implications arising from this report.

Decision History:

At its meeting of May 13, 2011, the Board in considering the 2010 year end financial statements and audit results requested staff to provide information on the internal/external audit policies, controls and general practices followed by Exhibition Place

Issue Background:

As part of the 2009 Strategic Plan, Exhibition Place has a Goal of *Sustaining a high-performing organization through alignment of people, processes and systems and through the recognition of our dedicated and excellent staff* and pursuant to that Goal will *continuously improve governance mechanisms including strengthening of internal and financial controls and effectively monitor and control costs and the steward of public funds responsibly.*

Comments:

The Board's Financial By-Law 2-07 confers certain authorities and responsibilities with respect to the appropriation and commitment of funds, the payment of accounts and the procurement of goods and services. Management throughout Exhibition Place are responsible for and have established the appropriate processes and controls, and continuously monitors the system and process of internal controls to ensure proper stewardship, improve transparency and accountability over the use of public monies. The Board provides an oversight role in these areas; accordingly staff ensures compliance with all the requirements of Financial By-Law 2-07, works within generally accepted accounting principles and generally accepted auditing standards, which include being independent, objective, and exercise of due care and professional judgment in the performance of job functions.

External Attest Audit:

The City of Toronto through its *Municipal Act* requires that the financial controls be examined and Financial Statements for Exhibition Place consolidated operations be audited by an external auditor. The City external auditor of record, Price Waterhouse Coopers LLP, conducted this

audit for their first year in 2010. The final result of the audit is an opinion from the auditors that the consolidated financial statements presents fairly in all material respecting the financial position of Exhibition Place as at December 31, 2010 and its results of operations for the year then ended are in accordance with Canadian generally accepted accounting principles. As part of the audit examination and disclosure by staff, the auditor reviews and conducts comprehensive examination of the following:

- 1) The Board's accounting policies and having regard to possible alternative policies.
- 2) That all transactions have been recorded in the accounting records and are reflected in the financial statements to ensure completeness.
- 3) Internal controls over financial reporting designed on controls and procedures to provide reasonable assurance regarding the reliability of financial reporting and procedures to provide reasonable assurance that material information relating to the Board is made known and that no material control deficiencies exist in its operations.
- 4) All contracts and related data.
- 5) Information regarding significant transactions and arrangements that are outside the normal course of business.
- 6) Minutes of all Board meetings to ensure significant items and compliance with Board/City directives are accounted for and appropriately reflected in the accounting records/financial statements and are disclosed properly.
- 7) Assessment of fraud and risks that the financial statements may be materially misstated and review of all information involving management employees who have significant roles in internal controls.
- 8) Compliance or non-compliance with all aspects of laws, regulations and contractual agreements that may affect the preparation of the financial statements.
- 9) Related party transactions which include members of management.
- 10) That Board control of all assets has satisfactory title and that all liens or encumbrances have been disclosed.
- 11) Receivables recorded represent bona fide claims against debtors for sales and other charges and do not include amounts that are non-collectible.
- 12) All liabilities (payables) are recorded or disclosed as appropriate, including any contingencies, all known or possible litigation and claims.
- 13) That all cash and banks and bank indebtedness transactions are properly recorded and are free from assignment or other charges.
- 14) Lease Agreements.
- 15) That all property and equipment represent actual cost of additions.
- 16) Risk analysis and management override of internal controls.

The interim audit (October 2010) and the year end audit (March 2011) approach consist of a mixture of key controls, reliance testing and substantive detail testing. The Audit Results presented to the Board at its meeting of May13, 2011, for 2010, indicate the auditors did not discover any significant weakness in the current control environment.

Internal Audit:

On an annual basis, at the request of CNEA, the City Internal Audit Division has conducted annual reviews of internal and financial controls pertaining to the Fair since 2004. The objectives of the review are to:

- 1) Assess the adequacy of internal controls with respect to the accuracy and completeness of key revenue transactions, including those processed by the cash office and midway operator given the large amount of cash processed during the 18 days.

- 2) Determine whether management expenditure control procedures are adequate, especially in the areas of payroll, given the nature of the Fair.
- 3) Assist the CNEA Audit Manager in identifying key risk areas that should be monitored by CNE auditors and review of related audit working papers.
- 4) Follow up on prior year audit recommendations.
- 5) Review of training and procedure manuals.
- 6) Review of admission ticketing system

Since 2004, the annual audit review indicates that the controls pertaining to all key areas are adequate and notes areas where controls can be further enhanced which management implements.

Financial By-Law # 2-07 & Purchasing Procedures:

The Board's Financial By-Law which was previously provided to each Board member at the first Board meeting of the year, outlines, processes, procedures, authorities and responsibilities that staff must comply with in respect to appropriation and commitment of funds, payment of accounts and procurement of goods, and services.

In addition, the Board has a Purchasing Procedures which are attached as Appendix "A" to this report. One 2012 Objective undertaken by the CFO and Purchasing Manager was to do an internal audit of all purchasing practices in all Departments. Because of this review, purchasing requirements were reinforced with all Departments and all senior management.

The external and internal audit process is done independently, it is an objective assurance activity, and is designed to add value and improve on the Board's operations including control and governance processes.

The Board's internal control framework is comprised of a system of checks and balances designed to mitigate risks in order to safeguard the Board and City resources and assets from loss or inappropriate use, and to ensure value for money is achieved in conducting its operations. Senior Management, including the CEO, CFO, Corporate Secretary, General Managers and Division Managers are collectively responsible for establishing, maintaining and monitoring the Board's internal control system. Specifically, the CEO, in consultation with the senior management team is responsible for identifying the areas of greatest risks and for ensuring that adequate controls are in place to safeguard the Board/City assets. The CFO is responsible for designing, implementing and supporting effective internal controls regarding policies and procedures for all financial transactions.

In summary, the key components of the internal control framework include:

- 1) Effective policies, procedures and processes.
- 2) Staff training and development at various levels to obtain and develop core competencies required to perform job function, including training with respect to conflict of interest, ethics, health and safety, service orientation, procurement, contract and financial management. All non-union staff is required to sign a declaration that they are aware of and will comply with the Conflict of Interest Policy.
- 3) Clear defined responsibilities and accountabilities.
- 4) Supervision and oversight.
- 5) External and Internal audit review to help mitigate risks and improving the integrity, reliability and effectiveness of the Board's processes

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Dianne Young
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Appendix "A"
 THE BOARD OF GOVERNORS OF EXHIBITION PLACE
 PURCHASING PROCEDURE

1. PURPOSE

To outline the systems and procedures for the acquisition of goods and services in accordance with the Board of Governors of Exhibition Place Financial Control By-law 2-07.

2. DISTRIBUTION

All Board of Governors employees, contract or permanent.

3. DEFINITIONS

In this document:

- a. "Account" means a financial liability of the Board arising from a commitment and evidenced by an invoice, pay sheet, receipt or other document indicating payment is due for the goods or services specified in the account.
- b. "Accountability" means to be held accountable and subject to audit.
- c. "Board" means the Board of Governors of Exhibition Place.
- d. "Commitment" means any action or document, which binds the Board for goods or services.
- e. "Contract" means a written agreement entered into pursuant to tender.
- f. "Goods" means all manner of property both real and personal and tangible and intangible.
- g. "Procurement Agent" means the Purchasing and Material Supply Division (PMSD) of the Finance Department of the City of Toronto.
- h. "Master Agreement" means a blanket commitment under a purchase order for the provision of specific services or supplies.
- i. "Purchasing Division" means the Purchasing Division within the Finance Department at Exhibition Place.
- j. "Qualified Bidder" means potential supplier of goods or services listed on the PMSD commodity mailing list.
- k. "Quotation" (informal) means an offer, presented either orally and recorded or submitted in writing (informal).
- l. "Quotation" (formal) means an offer presented in writing on a prescribed form, delivered to a specific location by a specified time and date.
- m. "Services" means any matter in respect of which the Board may incur a financial obligation except for the provision of property.

4. ACQUISITION POLICY

4.1 Authority

The Exhibition Place Purchasing Division may issue a Purchase Order on behalf of the Board of Governors of Exhibition Place provided that:

- a) The Board has approved the program and the funding in the Operating or Capital budget; and,
- b) The Purchase Order does not exceed \$50,000.00

4.2 Policy Statement

The acquisition of goods and services for Exhibition Place under this Policy shall be conducted in a manner that is open and accessible to the general public and fair, and in compliance with:

- Provincial Occupational Health and Safety Legislation, where suppliers of certain services much provide clearance certificates from the Workers Safety Insurance Board.
- Workers' Rights and Fair Wage and Labour Trades, where suppliers of certain goods and services must pay a fair wage and observe the rights of Workers. (see appendix #1)
- Toronto Licensing Requirements, where suppliers of certain services must be licensed by the Licensing Commission, (see appendix #2).
- Ethno-Racial and Aboriginal Access, where consideration may be given, to suppliers whose goods and services are provided by Ethno-Racial and Aboriginal Groups, when evaluating quotations.
- All policies of the Board of Governors of Exhibition Place.

4.3 Forms of Commitment

The Exhibition Place Purchasing Division may authorize commitments by the issuance of the following Orders forms:

Toronto Clerks Printing or Service authorization form for all commitments relating to printing or supply services offered by the City of Toronto.	<ul style="list-style-type: none"> • form filled in and attached to the top copy of the purchase requisition (or completed by end user) and forwarded to the Toronto Clerks Department Printing and Reproductions Services Division. • the Requisition number is the reference/invoice number.
City of Toronto Material Supply Requisition form for the purchase of supplies from the City of Toronto's Warehouse System	<ul style="list-style-type: none"> • multipart (5) part form completed by Purchasing and approved by the Purchasing Manager. • used to purchase supply items from the City's Warehouse System. • bottom copy retained. • receiving copy signed by the originator of the purchase requisition. • receiving copy forwarded to the Accounting Department.
Exhibition Place Sub-Order draws for the purchase of goods and or services against a previously executed Master Agreement	<ul style="list-style-type: none"> • where staff are authorized by Purchasing to draw goods and services from vendors with whom Master Agreements (open orders) have been established by either the Purchasing Division on the Procurement Agent.
Exhibition Place Purchase Order for goods and services for a value up to \$50,000 per transaction in accordance with the appropriate method of procurement.	<ul style="list-style-type: none"> • form completed by the Purchasing Division under the following guidelines: <u>Transactions up to \$3,000.00</u> <ul style="list-style-type: none"> • Noncompetitive, or at the discretion of the Purchasing Manager, after competitive prices are obtained with the lowest bidder. This action will also be dependent on the nature of the requirement, urgency and quality. <u>Transaction up to \$50,000.00</u> <ul style="list-style-type: none"> • the order is placed after a minimum of three letter quotes are obtained.

4.4 Accountability

The Purchasing Division is responsible for the procurement of goods and services at the best available price meeting specification and delivery, all in accordance with the procedures described herein.

4.5 Approved Suppliers

Wherever possible, the Purchasing Division shall only issue commitments to approved vendors who are listed as current suppliers under contract to the City of Toronto.

4.6 Fair Wage

The Purchasing Division shall seek Fair Wage approval from the Fair Wage and Labour Trades Office prior to issuing Departmental Purchase Orders for commitments that include a labour component.

4.7 Toronto Licensing

Where applicable (appendix #2) the Purchasing Division shall ensure that firms contacted are registered with and meet the approval of the Toronto Licensing Commission.

THE PROCUREMENT AGENT

The Purchasing Division shall engage the service of the City of Toronto's Finance Department, Purchasing, and Material Supply Division as a "Procurement Agent".

5.1 Role of the Procurement Agent

The Procurement Agent shall provide by agreement to Exhibition Place Purchasing Division the following services:

- Handle the Board's requirements for goods and services that exceed \$50,000.00 per transaction by way of formal quotations, tenders and proposal calls, or any other manner deemed acceptable by the Procurement Agent, as outlined in section 5.2.
- Issue formal Purchase Orders for all commitments made on behalf of the Board. The form is distributed as outlined in section 8.5.2.
- Issue Master Purchase Orders for participation by Exhibition Place in bulk purchase agreements for commodities (lumber, cleaning supplies, bottled gases, lubricants, etc.), where it is economically feasible to do so. In these instances the Master Order may be less than (50,000.00 in value.
- Provide Fair Wage and Labour Trades Approval.
- Provide disposal services of real property by Public Auction or sealed bid sales quotations.

5.2 Competitive Bid Processes

Upon receipt of a purchase requisition from Exhibition Place, the Procurement Agent may exercise the following options in obtaining competitive pricing:

5.2.1 Request for Quotations (RFQ)

Formal request for firm prices used at the discretion of the Procurement Agent for goods and/or services, when in the opinion of the Procurement Agent due to the value of the item, urgency of the requirement or nature of good or service or market condition, it is effective to issue an RFQ.

Function - Used in the acquisition of supply items, contracted services, equipment and construction. Noted examples are Roof Repairs, Underground Sewer and Watermain Contractors, Elevator Maintenance, light bulbs, paper toweling, vehicles and repairs to buildings.

Form Used - RFQ is initiated by a purchase requisition which identified in detail usually in the form of a specification or scope of work the type of service or product required.

Routing - Requisitions are forwarded to the Procurement Agent where formal quotation request documents are prepared and issued to qualified bidders and firms recommended by the user. Upon closing, quotations are opened at City Purchasing, summarized, and forwarded to Exhibition Place for recommendation. (see section 5.2.2).

Board Approval - As per By-Law No. 2-07.

Form of Agreement - Official Purchase Order issued by the Procurement Agent upon recommendation and Board approval (if required).

Negotiation - Not Allowed.

Award Criteria - Unconditionally lowest price meeting specifications or intended application (if requested), delivery time frame, WSIB clearance and Toronto licensing conditions. Also, a favourable report from the Fair Wage and Labour Trades Office is required before an RFQ can be awarded.

Recommendation Process

Once a quotation has closed, the Procurement Agent will:

- Summarize the bids
- And check the status of the appropriate Toronto Licenses along with Workers Compensation Board and Fair Wage/Labour Trades approvals
- Forward the complete quotation package to the Purchasing Division for recommendation

Once the quotation package has been received by the Purchasing Division:

- A recommendation page is prepared and it along with the quotation package are forwarded to the Originator of the purchase requisition for recommendation.
- The Originator will then recommend the lowest acceptable bidders meeting specifications and forward the complete package through their respective Department / Divisional hierarchy for approvals, after which is forwarded to the Purchasing Division.
- The Purchasing Manager will review the recommendations and forward the package to the CEO for final approval.
- Once returned to the Purchasing Division a photocopy is made of all the relevant information and the complete package is returned to the Procurement Agent with the recommendation for concurrence by the Procurement Agent and the issuing of a Purchase Order.

5.2.2 Request for Tenders (RFT)

A formal request in the form of an unconditional offer to execute work or supply high value goods and major equipment.

Function - Used for major construction projects, service and maintenance agreements, capital acquisitions and the high value purchases. Noted examples are projects undertaken by the Capital Works Division of the Exhibition Place Operations Department such as the paving of parking lots and renovations to buildings.

5.2.3 Request for Proposals (RFP)

This process is utilized when the perceived requirements or services cannot be clearly defined or specified and where such proposals would likely result in specific offers to fulfill the requirements at a particular price.

Function - Used for meeting the requirements of creative and conceptual design projects, professional/consulting services and all other requirements where the requester can define the desired end result but not the means in obtaining this result.

Board Approval - As per By-Laws No. 2-07 Proposal awards in excess of \$50,000.00 are presented by staff, upon Committee recommendation, to the Board for approval prior to execution.

Form of Agreement - The formal agreement issued upon award can be either a purchase order prepared by Exhibition Place or a contract prepared and executed by the solicitor for Exhibition Place. This action is dependent on the nature and value of the requirement.

Negotiations - Allowed, after approval from the Board.

Award Criteria - The criteria for award is based on the proponent's presentation, design, content, experience of proponent's staff, program implementation, time frame, references, and all other variables that the Committee deems necessary to obtain the desired result. Lowest price is not necessarily the determining factor as basis for award.

5. MASTER AGREEMENTS

Wherever cost effective the Purchasing Division shall establish Master Agreements for the supply of goods and services in order to satisfy the ongoing and emergent needs of Exhibition Place. The Purchasing Division shall authorize certain Departments / Divisions to draw against these Master Agreements.

6. PURCHASE REQUISITIONS

6.1. Application

In accordance with the Board's By-Law No. 2-07, a purchase requisition must be initiated for all purchases of goods and services, except in those cases where it is not usual to issue purchase orders. Examples of these exceptions are: travel expenses, utility payments, temporary employment contracts, subscriptions etc.

6.2 Purpose of Form

A purchase requisition serves the following purpose:

- It communicates a need, be it for product or service.
- It provides an audit trail which leads to either a purchase order, sub-order or other form of commitment, or all of which can be cross referenced.
- It may identify the budget line for payment of invoices relevant to the requirement.
- It indicates the approximate cost (if actual is unknown) of the product or service requested.
- It is the vehicle used to encumber funds against the budget line specified.
- It indicates the status of the request, that is, if it has been completed (a confirmation) or received under a master agreement, or if the request is for quotation purposes or to be executed in accordance with the procurement process.
- It identifies the name of the Originator, the Originator's Department and Division and intended location or delivery point of the service or product requested.
- It provides for approvals by Management for the Purchasing Division to proceed in satisfying the request or, for approvals of invoice for services confirmed under Master Agreements.

6.3 Form Preparation

Each requisition, when prepared, shall show the following information:

- Originating Department and Division;
- The originator or contact person, and their respective phone number;
- The location for delivery or completion of work;
- The estimated cost or actual if known (exclusive of HST);
- The full account number to be charged and a description of that account;
- Authorized signature.

6.4 Confirmation Requisitions

Where a commitment has been made by an end user with a pre-approved supplier under a Master Agreement, the Originator shall complete and issue a confirmation purchase requisition relevant to that transaction by the following business day.

Commitments involving contracted ongoing services under Master Agreements shall be confirmed by purchase requisition by the originator (client) after receipt of an invoice substantiating that service. The purchase requisition shall refer to that invoice.

Examples of on-going contracted service include waste removal, pest control, scheduled servicing, and any other manner of service that is scheduled on a regular basis and not unique as a one-time transaction.

6.5 Approvals

Each purchase requisition is to be authorized by the individual department signatories in accordance with Board's Delegation Schedule.

7. PROCEDURE

All purchasing activities for the Board shall be handled through the Purchasing Division. Upon receipt of a purchase requisition the Purchasing Division shall determine whether to:

- issue a commitment in accordance with the Acquisition policy, or
- use the services of the Procurement Agent.

If the purchase requisition has been confirmed by the Originator with a supplier under an existing Master Agreement, the Purchasing Division shall:

- verify prices;
- prepare and issue a payment release;, or
- issue a partial payment release (where funds have been encumbered).

If the purchase requisition has been confirmed by the Originator with an approved supplier under emergency circumstances, the Purchasing Division shall:

- verify prices where possible;
- prepare and issue a formal purchase order;
- insure that proper documentation is provided to support the actions taken by the Originator.

The Purchasing Division shall review the estimated cost indicated on the purchase requisition. The originating department will be advised if the estimated cost differs by 20% or \$1,000.00, whichever is less.

8. CONFIRMATION OF SERVICES

The Finance Department shall forward to the Purchasing Division copies of all invoices that relate to services.

If the invoice relates to services under a Master Agreement, the Purchasing Division shall match the invoice with the confirming purchase requisition and submit for payment or partial release.

Where payment approvals are not noted, the purchase requisition copy along with the invoice copy shall be forwarded to the Originator for approval prior to being sent to the Finance Department for payment.

If the invoice relates to an ongoing contracted service under Master Agreement, the Purchasing Division shall forward the invoice copy to the Originating Department for issuance of a purchase requisition.

If the invoice relates to a service under a separate purchase order the Purchasing Division shall forward the invoice copy along with receiving copy of that purchase order to the Originator for approval prior to being sent to the Finance Department for payment.

9. PETTY CASH TRANSACTIONS

In accordance with By-Law No. 2-07, payments by petty cash may be made for transactions up to \$500.00 in any one instance.