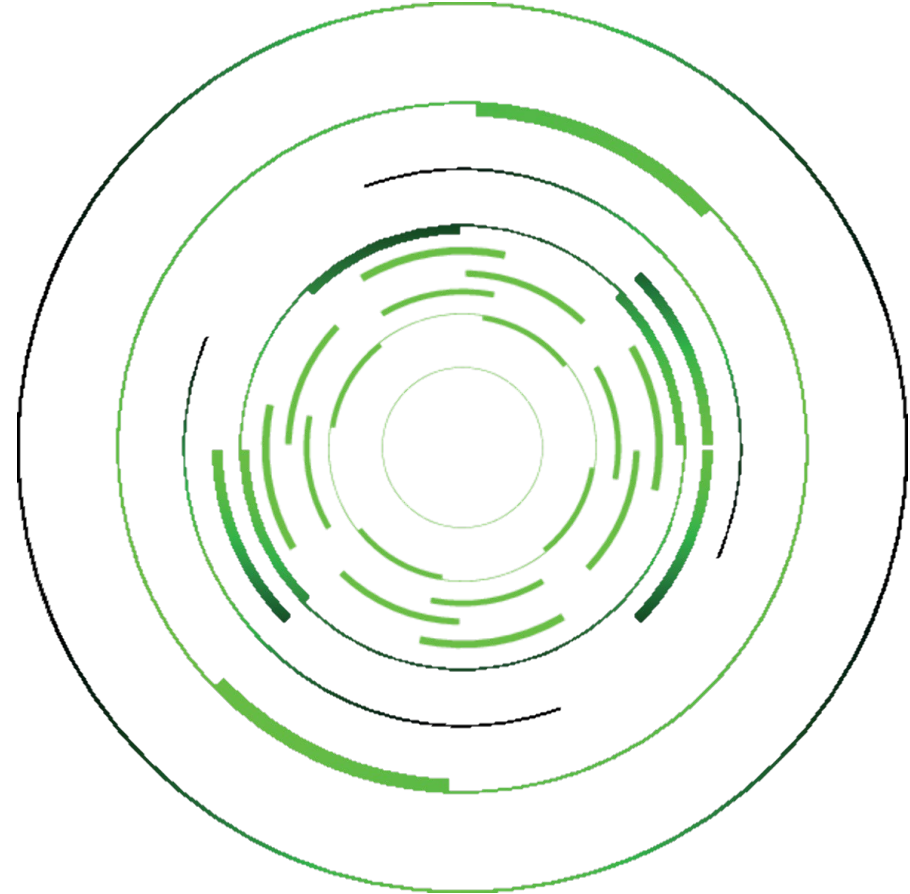




# City of Chestermere Municipal Inspection Report Executive Summary

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May 3, 2024



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# Executive summary

We have completed our municipal inspection pursuant to Ministerial Order MSD005/24. The following summarizes highlights from our report dated May 3, 2024.

## Background and Approach

- On March 14, 2023, the Minister of Municipal Affairs issued 12 binding directives to City of Chestermere Council and Chief Administrative Officers.
- On December 4, 2023, the Minister of Municipal Affairs dismissed four Councillors and three Chief Administrative Officers for non-compliance with some of the directives and supervision of the Official Administrator.
- On January 17, 2024, the Minister of Municipal Affairs appointed Deloitte to conduct a second inspection of the City of Chestermere's financial policies, controls and governance, as well as certain financial transactions, in the period from October 18, 2021 to December 4, 2023.
- Our inspection procedures included interviews with current and former City of Chestermere employees and officials, review of certain City of Chestermere bylaws and administrative policies, testing of financial controls and transactions using methods such as process walkthroughs and sample testing of transaction records, and review of correspondence. Throughout this work, we validated our findings with current and former members of City of Chestermere Administration, as well as individuals named within our report (see Appendix C).
- Our inspection procedures were completed over the course of 15 weeks. These procedures included more than 30 interviews, 80 tests of controls, over 1,000 tests of financial transactions, and over 10,000 items of correspondence reviewed. We also reviewed available information with respect to 17 matters that we consider of public interest such as major capital projects or notable financial transactions.

- Our inspection was not limited in any way by a lack of cooperation from current City of Chestermere employees and the official administrator in place. Our inspection findings were limited by the following challenges. If not for these challenges, we may have identified additional findings:
  - Availability of information and records: The policies in place during the period in scope of our inspection did not require retention of written documentation for certain types of transactions.
  - Retention of information and records: We observed instances where document retention policies were not followed during the period in scope of our inspection.
  - Availability of information technology logging: We observed that the City of Chestermere did not have processes commonly established by municipalities across Alberta to track transaction activity with an appropriate audit trail.
  - Access to personnel: There were instances where we could not access individuals with direct knowledge of transactions due to employee turnover at the City of Chestermere (more than 110 terminations/resignations during the period in scope of our inspection).
- Our inspection considered whether the financial management of the City of Chestermere was appropriate based on relevant legislation, bylaws and administrative policies, and common practices for municipalities. We consider it irregular, improper or improvident in instances where:
  - During and as at the end of the period in scope of our inspection, the City was non-compliant with relevant legislation or its own bylaws and administrative policies; or
  - During and as at the end of the period in scope of our inspection, the City was clearly lagging compared to practices commonly followed by municipalities across Alberta.

# Executive summary

We have completed our municipal inspection pursuant to Ministerial Order MSD005/24. The following summarizes highlights from our report dated May 3, 2024.

## Summary Findings

### Financial policies and controls

- Clear policies and procedures are the foundation for establishing and maintaining an effective internal control environment.
- The financial policies and controls in place during the period in scope of our inspection do not align with practices commonly followed by Alberta municipalities. For example:
  - The most recent update to the 65 administrative policies we reviewed in Appendix B happened on average more than ten years ago, before Chestermere became a City.
  - We identified instances where policies lagged compared to common practices, providing insufficient guidance in areas such as terminations and severance.
  - No established policies were in place to assess, evaluate or monitor the effectiveness of the City of Chestermere's control environment over time. These types of processes are needed to ensure the control environment becomes more sophisticated as organizations grow.
  - Of the 13 information technology policies commonly implemented by municipalities across Alberta, three were in place during the period in scope of our inspection and zero (0) were up to date. The City of Chestermere did not have appropriate policies or tools with respect to data loss prevention or transaction logging, which are critical elements of an effective control environment.
  - Of the more than 80 internal controls tested, 8 were found to be designed and implemented effectively during the period in scope of our inspection.

### Financial transactions

- Transactions should be carried out in accordance with legislation, policies and practices to safeguard public assets, provide transparency and ensure value-for-money.
- We identified instances during the period in scope of our inspection where transactions executed did not adhere to relevant legislation, policies or processes. Examples include:
  - We tested 115 operating expense transactions, finding that zero (0) had documented evidence to support that all procurement practices required by City of Chestermere policy were followed, and that three did not have a valid business purpose.
  - We tested 35 capital purchases, finding that zero (0) had documented evidence to support that all procurement practices required by City of Chestermere policy were followed, and that three (3) did not have a valid business purpose, such as renovations to create a Council office wing at City hall (approximately \$63,000).
  - We identified expenditures made without appropriate approval, such as purchase of four buses (Molly Trolleys) for public transportation (approximately \$123,000) or legal fees in excess of \$75,000 on a judicial review.
  - We identified an instance where a transaction was completed with a company owned by a senior employee and the invoice was approved by the same employee.
  - We tested 565 Council expenses undertaken by the Mayor and councillors and found that one (1) was documented, reviewed and approved in accordance with policy.
  - We identified Council, Chief Administrative Officers, and non-elected official expenses that were non-compliant with City of Chestermere policies, such as travel expenses for an employee's spouse, or registration for social events.

# Executive summary

We have completed our municipal inspection pursuant to Ministerial Order MSD005/24. The following summarizes highlights from our report dated May 3, 2024.

## Summary Findings (continued from prior page)

### Financial transactions (continued from prior page)

- We observed that Mayor expenses in 2022 and 2023 were more than 2 times higher than chief elected officers from comparable municipalities over the same period.
- We tested 25 employee hires and found that 0 were fully compliant with the City policy surrounding job postings, references, and interviews, among others.
- We tested 11 employee terminations and found that 0 samples had appropriate documentation of the rationale for dismissal prior to termination.
- We tested payroll expenses for 7 hourly employees and found that timecards could not be provided for 3 employees, which is non-compliant with City policy. Of the remaining 4 employees, the timecard did not agree with the pay slip and pay register for 3 employees and no documentation could be provided to explain the differences.
- We observed high turnover at the City of Chestermere, with more than 150 hirings and 110 terminations/resignations during the period in scope of our inspection, as well as six Chief Financial Officers and four City Directors of Corporate Services.

### Financial governance

- We identified instances during the period in scope of our inspection where the actions taken by City of Chestermere Council and Administration did not adhere to relevant legislation or common practices. Examples include:
  - The Mayor executing an agreement to sell the Webster lands without an approved Council resolution then engaging directly with legal counsel on terms.
  - The Mayor engaging directly with a private landowner to complete services on their land at the City's expense without an approved Council resolution.
  - The Mayor engaging directly with vendors, such as a carnival provider, without an approved budget or Council resolution.
  - The Mayor requesting access to corporate emails of 9 terminated employees, including a former Mayor, and requesting access to the personal information of a resident raises concerns around compliance with the FOIP Act.
  - The Mayor obtaining legal opinions from external counsel where there is no evidence that the opinions were shared with the rest of council prior to debate on issue.

## Overall Conclusion

Based on the evidence obtained through our inspection procedures, we have identified 31 findings that are detailed in this report. These findings are supported by one or more instances of non-compliance with enacted legislation or City of Chestermere bylaws and administrative policies. The evidence obtained through our inspection procedures demonstrates that there has been a pervasive lack of financial control and governance during the period in scope of our inspection. In addition, there are numerous instances where the enacted bylaws or administrative policies do not align with the practices commonly followed by other municipalities in Alberta of a similar nature, size, and complexity. Sample testing identified instances where elected or non-elected officials were not in compliance with the Municipal Government Act, City of Chestermere bylaws, or administrative policies. Our findings include instances where the Council and Chief Administrative Officers in place during the period in scope of our inspection failed to uphold their responsibilities in accordance with Sections 201 and 207 of the Municipal Government Act.

**On this basis, our procedures confirm that the financial management of the City of Chestermere during the period in scope of our inspection has been irregular, improper and improvident.**



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