



Township of Adelaide Metcalfe

Financial Services Review

Final Report
February 22, 2021



Disclaimer

This report has been prepared by KPMG LLP (“KPMG”) for The Township of Adelaide Metcalfe (“Client”) pursuant to the terms of our engagement agreement with Client dated December 21, 2020 (the “Engagement Agreement”). KPMG neither warrants nor represents that the information contained in this report is accurate, complete, sufficient or appropriate for use by any person or entity other than Client or for any purpose other than set out in the Engagement Agreement. This report may not be relied upon by any person or entity other than Client, and KPMG hereby expressly disclaims any and all responsibility or liability to any person or entity other than Client in connection with their use of this report.

This report is based on information and documentation that was made available to KPMG at the date of this report. KPMG has not audited nor otherwise attempted to independently verify the information provided unless otherwise indicated. Should additional information be provided to KPMG after the issuance of this report, KPMG reserves the right (but will be under no obligation) to review this information and adjust its comments accordingly.

Pursuant to the terms of our engagement, it is understood and agreed that all decisions in connection with the implementation of advice and potential courses of action as provided by KPMG during the course of this engagement shall be the responsibility of, and made by, The Township of Adelaide Metcalfe. KPMG has not and will not perform management functions or make management decisions for The Township of Adelaide Metcalfe.

Comments in this report are not intended, nor should they be interpreted, to be legal advice or opinion.

KPMG has no present or contemplated interest in The Township of Adelaide Metcalfe nor are we an insider or associate of The Township of Adelaide Metcalfe. Accordingly, we believe we are independent of The Township of Adelaide Metcalfe and are acting objectively.



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Township of Adelaide Metcalfe

Financial Services Review

Chapter I
Introduction



Introduction

A. Overview of our engagement

KPMG has been retained by the Township of Adelaide Metcalfe (the “Township”) to undertake a review of its current processes within the finance department, including:

- Accounts Receivable
- Accounts Payable
- Bank Reconciliations
- Budgeting
- Cash Handling
- Debentures
- Drainage
- Employee Expense Reimbursement
- Financial Reporting
- Fuel Tank Usage
- Grants
- Month-End Close
- Payroll
- Procurement
- Property Taxation
- User Fees

The terms of reference for our review is based on our engagement letter dated December 21, 2020.

Our review relied heavily on the contributions and knowledge of Township personnel and we would like to express our sincere appreciation and thanks for the assistance provided to us by staff.

Introduction

B. Our approach

Our review involved a series of facilitated working sessions with Township staff to discuss the current processes used by the Township for the delivery of various financial services. During these working sessions, KPMG facilitated discussion with Township staff to identify the individual steps in the process under review, as well as any issues that were perceived as impacting operating efficiencies, customer service, internal controls or risk management.









The approach adopted to review the Township's processes reflected the LEAN concept of value-stream mapping. While there are many different definitions of LEAN, we define LEAN thinking as the belief that there is a simpler, better way through a continuous drive to identify and eliminate waste, or inefficiencies and errors, in day-to-day work. It is about making work environments efficient and effective, so organizations can provide higher quality of services to their customers. LEAN helps create time for quality improvement to be part of everyday routine activity.

There are five common principles of LEAN thinking:

1. Value is defined by the **voice of the client**. If a process or function doesn't create value for the client (recognizing that clients can be internal or external), the question is why is it being performed.
2. LEAN requires that you **understand your process**. Process mapping allows you to have a picture of your process so that you can begin to make improvements. Without this understanding, it is difficult to have transparency and see where the problems are. It also helps teams gain an understanding of everyone's involvement in the process.
3. LEAN seeks to develop **flow**, so that products or services move fluidly and without interruptions through the process.
4. LEAN seeks to establish **pull**, so that activities are undertaken in response to what a client needs when they need it, by reacting to a trigger. This is contrary to how many processes are structured, which involves a push to the next user regardless of whether they are ready or not.
5. LEAN is a means of **continuous improvement**. When done right, LEAN is not a one-time event but rather a journey to continually improve processes and constantly strive to supply value, from the perspective of the client.

Introduction

LEAN methodologies are intended to help organizations identify and address one of eight typical types of inefficiencies.

| Inefficiency | Description | Examples |
|--|---|---|
|  Defects | Work or services that are not completed correctly the first time. | Departments key in hours worked incorrectly, requiring payroll to fix errors. |
|  Overproduction | Doing more than what is required to complete the task. | Generating reports that are not used by management. |
|  Waiting | Idle time when material, information, people or equipment are waiting. | Waiting for approvals prior to issuing cheques. |
|  Non-utilized talent | Not utilizing all of the skills of employees. | Incurring overtime because staff working in other departments cannot be used. |
|  Transportation | Moving equipment, supplies or equipment from place to place. | Transferring paper files from one location to another rather than using email. |
|  Inventory | Having more material and supplies on hand than what its needed. | Stocking extra stores inventory to prevent stockouts caused by poor order management. |
|  Motion | Unnecessary movement by employees to complete an activity. | Having staff attend meetings in person rather than by video or teleconference. |
|  Extra processing | Spending extra time and effort for an activity, including duplication of efforts. | Developing Excel spreadsheets to track information that is already available in MIS. |

Introduction

C. How to read our report

For each process under review, we have provided process maps that outline the individual worksteps undertaken as part of the process in Chapter III. These maps are outlined in flowchart form and are intended to assist in understanding (i) the individual worksteps performed by Township personnel; (ii) the sequential ordering of the worksteps; and (iii) decision points included in the process.

Where an area for potential improvement has been identified, they have been indicated in the process maps through the following markers:



Process inefficiencies, which may include duplication of efforts, manual vs. automated processes and the performance of work with nominal value



Financial risk, representing areas where the Township's system of internal controls is insufficient to prevent the risk of financial loss



Client service limitations, representing aspects of the Township's operations that may adversely impact on customer satisfaction



Litigation risk, consisting of potential areas where the Township's processes may expose it to risk, including areas where existing measures to mitigate risk are considered insufficient

Included with the process maps are the potential areas for improvements, as well as potential courses of action that could be adopted by the Township to address the identified issues.



Township of Adelaide Metcalfe

Financial Services Review

Chapter II
Key Themes



Chapter II - Key Themes

During the course of our review, a number of key themes emerged which we have summarized below:

1 - A number of the Township's processes may benefit from a shift away from manual processes and toward the implementation of the use of technology.

KPMG conducted a series of workshops with Township staff with the objective of breaking down various finance processes into the individual work steps required to complete a task. In many cases, we found that the Township uses manual based processes such as maintaining hard copy records in binders and/or books versus making use of technology and storing information in a digital format. Shifting away from manual work steps within processes provides the Township with the ability to potentially free up capacity to address other organizational needs as well as reducing potential risk and/or duplication of work efforts and saving costs on things like paper, envelopes, postage, and physical storage space.

Based on the results of the FSR and the identification of numerous process changes, the Township may want to consider exploring an administrative review across the entire organization; a project such as this may be potentially funded through the Province of Ontario's recent announcement of a second intake under their Municipal Modernization Program.

2 - The Township would benefit from having a full time Treasurer with financial expertise.

Currently the Township has an Acting Treasurer whose regular role is that of the Clerk. Municipal finance has evolved over time and as a result, it has become more resource intensive with a high degree of reporting and other complexities. Additionally, many of the process recommendations that we put forward, particularly those around regular review of documents, segregation of duties, as well as budget development, require the time and knowledge of an experienced Treasurer. A full time Treasurer provides the opportunity to shift resources away from Council involvement brought forward within the report and focus on other areas including the policy development. Based on our comparative analysis, 8 of the 9 comparator municipalities appear to have a dedicated Treasurer within their respective organizational structures; the one municipal comparator has a Chief Administrative Officer-Treasurer. Prior to the creation of this position, the Township may want to investigate as to the other responsibilities

3 – The involvement of a full time Treasurer with financial expertise will free up time and capacity for Council to focus on their governance role.

The role of Council is to provide governance oversight to the Township. We understand that the lack of finance personnel has resulted in Council's role extending to day-to-day decision making, as required. Under the current model, there are several processes that require Council approval which are better suited for internal authorization/approval. Shifting away from the current model will enhance the flow of processes since approvals will not be delayed as a result of waiting for Council's approval. By modifying processes to allow internal approvals, Council will have additional capacity to focus on higher risk areas (such as performing review of interim financial statements, establishing grant priorities, overseeing the development of a capital asset management plan etc.) and strategic priorities.

Chapter II - Key Themes (Continued)

4 - The Township would benefit from enhanced tracking of grant applications, outcomes and progress against completion.

It is our understanding that the Township does not have a formal mechanism in place to track grant applications, outcomes and progress against completion. This can be seen in the comparative analysis for Capital Grants as a % of Capital Expenditures as well, where it appears that the Township is not taking advantage of capital funding in the same way its peer group is. A formal grant strategy and robust processes to support the strategy are integral parts of enabling the Township to provide maximum benefit to its residents. We recommend the Township consider the following:

- Formal guidance to establish grant priorities provided by Council – Clearly established priorities will allow the Township to focus efforts on initiatives that are high priority.
- Track all applications and perform a debrief of unsuccessful grants – Determining the reason for failed applications can identify the strengths and weakness in the application process and will assist with improved grant submission outcomes in the future.
- Increased focus on capital grant applications – As noted in Chapter IV - Financial Indicators and Benchmarking of this report, the Township does not utilize capital grants regularly, or to the same extent as its comparative municipalities.
- Perform a review of the current process for tracking project costs – It is our understanding that, under the current process, the tracking of expenses is manual and consumes time and resources. As part of the Township's process review, the Township may consider performing a full review of the chart of accounts. This would include discussion regarding the appropriate naming convention for accounts that are used to track project costs for financial reporting purposes.

Chapter II - Key Themes (Continued)

5 - An element of effective internal controls is the proper segregation of duties.

The basic premise of segregating duties is to prevent situations where an employee has the ability to perpetrate an error or irregularity and to conceal it as well. Proper segregation of duties provides for a system of checks and balances such that the functions by one employee are subject to review through the performance of the interrelated functions of another employee. In the course of our examination, we noted several situations involving conflicting duties. Each of the situations could result in an intentional or unintentional error or irregularity going undetected.

To mitigate the risk related to inappropriate segregation of duties, the Township should look to modify some responsibilities as noted in the process potential courses of action, and to ensure that appropriate internal review and approval controls are incorporated into financial services policies. We understand that the Township's Financial Services staffing may present a challenge to the appropriate segregation of duties but the potential exists to address this with additional resources to the team, including a full-time Treasurer as discussed more fully above.

6 – In order to ensure that the Township is appropriately recovering the costs of its services, the Township should consider having fee rate studies performed for its various user fees which would benchmarking them against comparator municipalities.

During our review of the landfill user fee process we noted that the Township has not changed its tipping fee rates for over 20 years. We understand that the fee structures for water, sewer, development charges, planning and fire have also not been updated in many years. This could lead to the Township inadvertently subsidizing the costs of these services to residents at a higher level than desired. Having a fee rate study done will help the Township determine whether changes to the user fee structures need to be made, while supporting that any changes are in line with what other municipalities are charging based on similar services being delivered.



Township of Adelaide Metcalfe

Financial Services Review

Chapter III
Process Maps and Potential Courses of Action

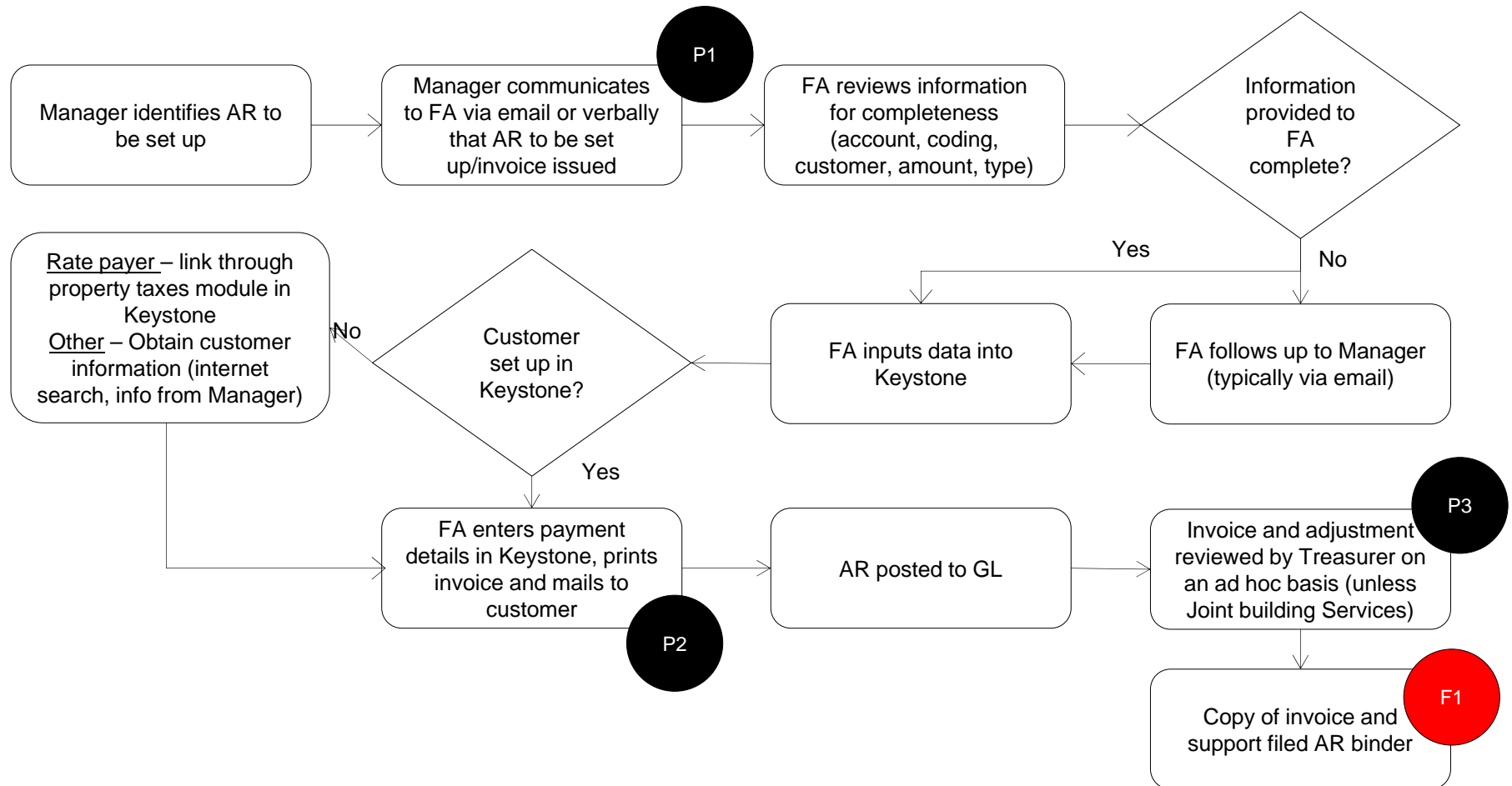


Chapter III - Process Maps and Potential Courses of Action

Abbreviations

| | |
|------|--------------------------|
| AA | Administrative Assistant |
| COM | County of Middlesex |
| DS | Drainage Superintendent |
| FA | Financial Assistant |
| P.O. | Purchase order |
| AR | Accounts Receivable |

Accounts Receivable - Posting

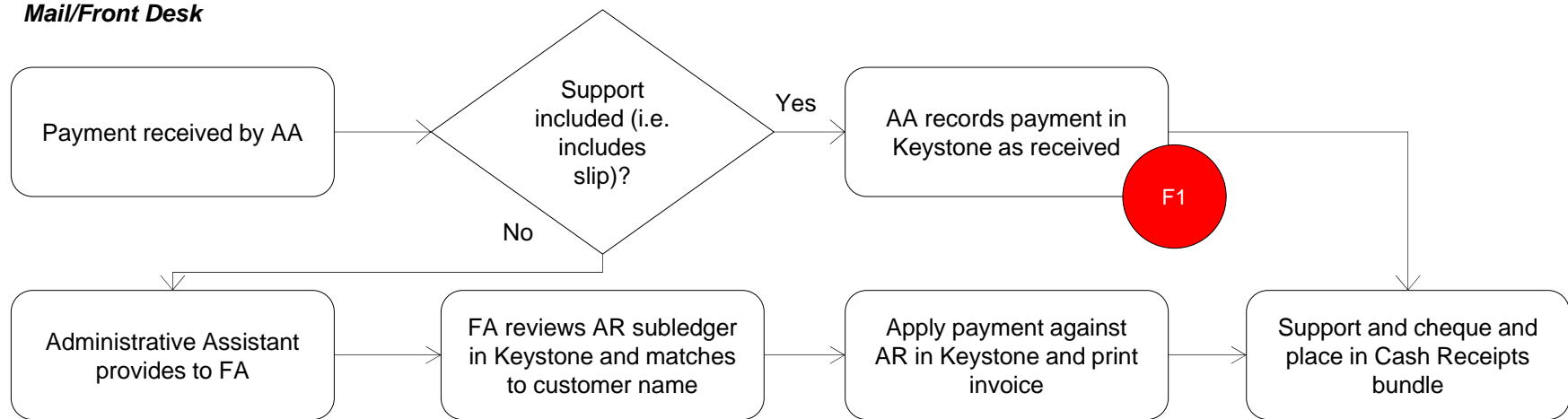


Accounts Receivable - Posting - Potential Courses of Action

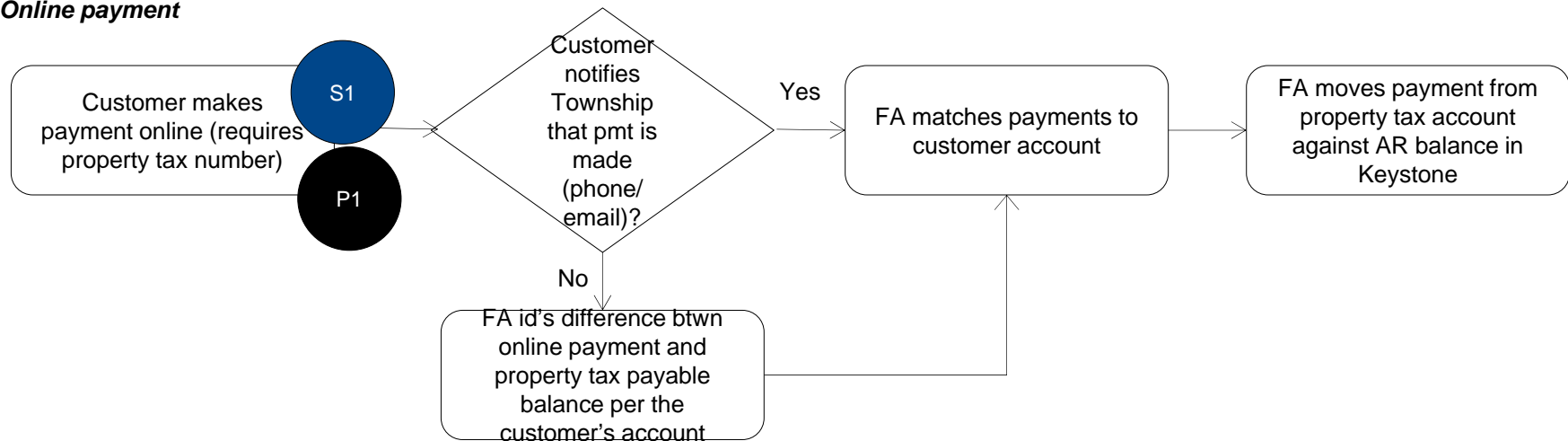
| Issue | Potential Course of Action |
|---|---|
| <p>P1 Multiple submission options as requests can be sent via email or communicated verbally to FA. This creates the risk of loss of documents/information and increased need for tracking of verbal requests. In addition, requests may be incomplete and require follow up by the FA which results in additional effort.</p> | <p>The Township should consider implementing an electronic AR request form. Implementation of a standardized form will ensure consistency within the process and that all required inputs are provided. The use of a standardized form will also help to mitigate the risk of error since all inputs will be clearly documented. All requests should be communicated via email or through a shared electronic database.</p> |
| <p>P2 AR adjustments and invoices are reviewed by the Treasurer on an ad hoc basis. This can result in inappropriate adjustments or invoices being sent out.</p> | <p>The Township should consider drafting formal Accounts Receivable process documents that clearly detail roles and responsibilities. The process documentation should include thresholds for review by the Treasurer.</p> |
| <p>P3 Many of the Township's processes are paper based, with physical copies maintained. This represents a potential inefficiency as the process consumes time and resources associated with the transfer of paper documents internally and the cost associated with storing physical files.</p> | <p>The Township should consider the use of electronic files to replace many of the paper-based systems. Electronic documents can be emailed or uploaded to a central server to eliminate the need for physical movement of documents.</p> <p>If the Township uploads documents to a central server, it is prudent to ensure that appropriate access restrictions are in place.</p> |
| <p>F1 No formal process in place to perform regular review of AR aging or follow up on overdue accounts. Failure to follow up on overdue accounts may result in financial loss to the Township.</p> | <p>The Township should consider establishing a process to facilitate regular review of the AR aging. When the Township becomes aware of overdue amounts an effort should be made to connect with the customer to coordinate payment.</p> |

Accounts Receivable - Receipt

Mail/Front Desk



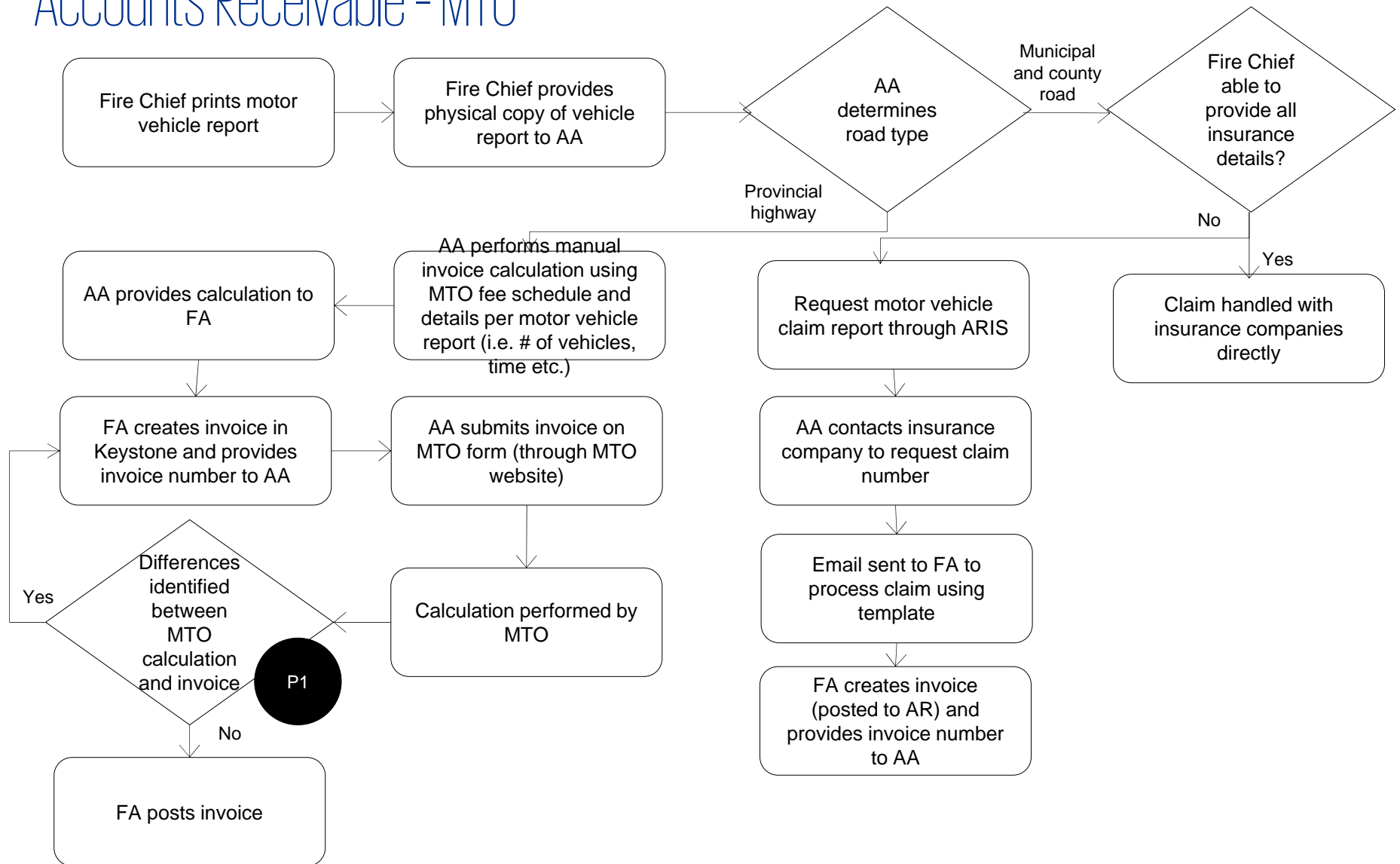
Online payment




Accounts Receivable - Receipt - Potential Courses of Action

| Issue | Potential Course of Action |
|--|--|
| <p>P1</p> <p>All payments made via online banking can only be attached to a property tax number and not an AR invoice. This results in additional time and work effort for the FA to review tax accounts and transfer payments against the appropriate AR.</p> | <p>Review functionality in Keystone to confirm whether the system has capabilities to link payments directly to outstanding AR balances</p> |
| <p>F1</p> <p>An element of effective internal controls is the proper segregation of duties. The basic premise of segregating duties is to prevent situations where an employee has the ability to perpetrate an error or irregularity and to conceal it as well. Proper segregation of duties provides for a system of checks and balances such that the functions by one employee are subject to review through the performance of the interrelated functions of another employee. In the course of our examination, we noted several situations involving conflicting duties, such as:</p> <ul style="list-style-type: none"> • The individuals responsible for maintaining the accounts receivable records also are responsible for handling, processing and recording of cash receipts and preparing bank deposit slips. • Accounting personnel initiate transactions and also perform related data entry on the computer <p>Each of the above situations could result in an intentional or unintentional error or irregularity going undetected.</p> | <p>While the size of the Township's accounting function prohibits complete adherence to this concept, the following practices could be implemented to improve existing internal control without impairing efficiency:</p> <ul style="list-style-type: none"> • Mail is opened by the AA and should not be entered into Keystone by this individual. An excel spreadsheet could be maintained by the AA to track cash/cheques received. The spreadsheet should track payment details i.e. date, payee, amount paid. Cash receipts should be recorded in Keystone by the FA. At month-end, another employee should perform a review to reconcile cash recorded in Keystone to cash recorded per the tracking spreadsheet. • Journal entries should be approved by an employee other than the one who prepared the entry. |
| <p>S1</p> <p>All online payments are required to be attached to a property tax number. This provides a limitation for customers making payments for items other than property tax.</p> | <p>Review functionality with banking institution and Keystone to allow customers the options to link payments using AR invoice numbers.</p> |

Accounts Receivable - MTO

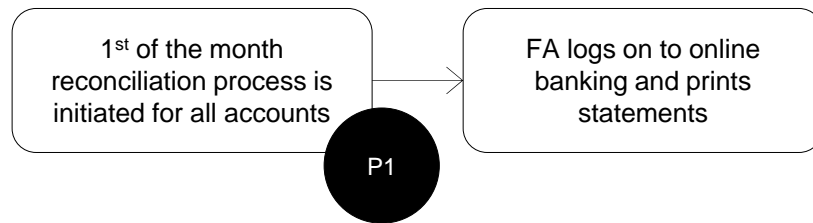


Accounts Receivable - MTO - Potential Courses of Action

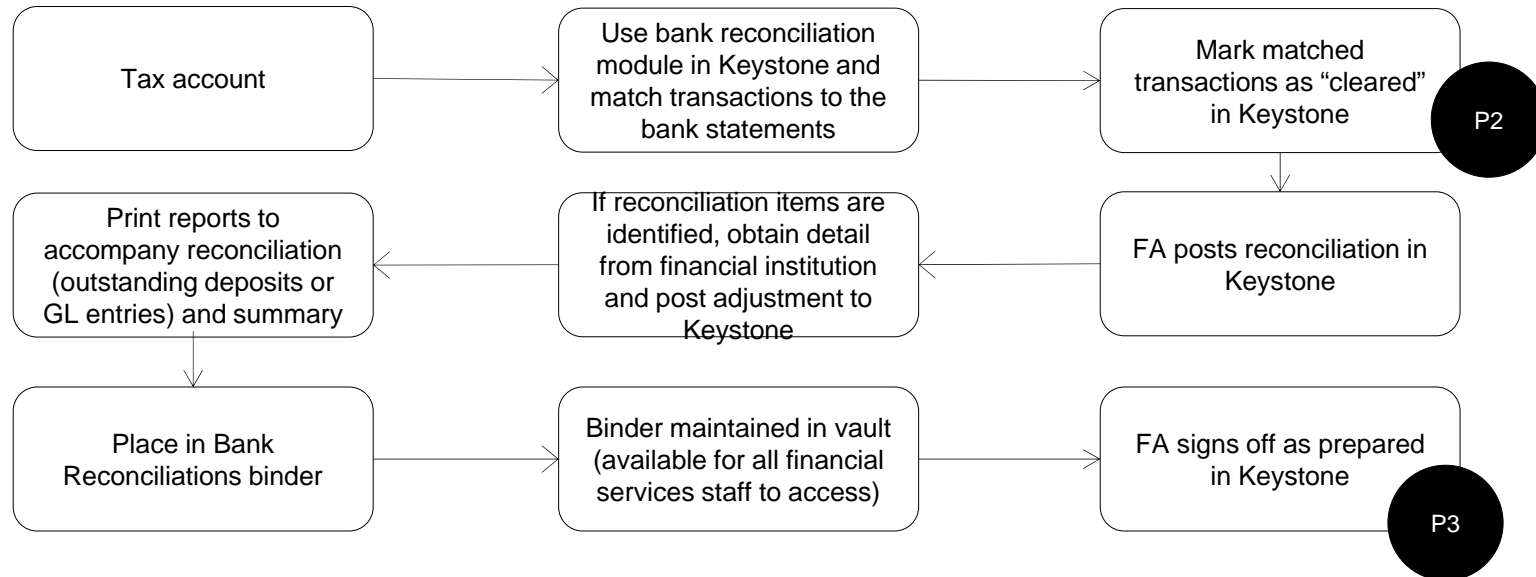
| Issue | Potential Course of Action |
|--|--|
| <p> It is our understanding that information cannot be put into the MTO system without an invoice # having been generated, and that differences are frequently identified between reimbursement amounts calculated by MTO and initial calculations performed by the Township. This represents an inefficiency since rework is required to issue revised invoices.</p> | <p>The Township should inquire as to whether a copy of the MTO template can be obtained. If so, the initial calculation should be performed using the MTO template prior to issuing an invoice number. Using the MTO template to perform the initial calculation will help to reduce the inefficiency related to issuing corrected/revised invoices.</p> |

Bank Reconciliations

All Accounts

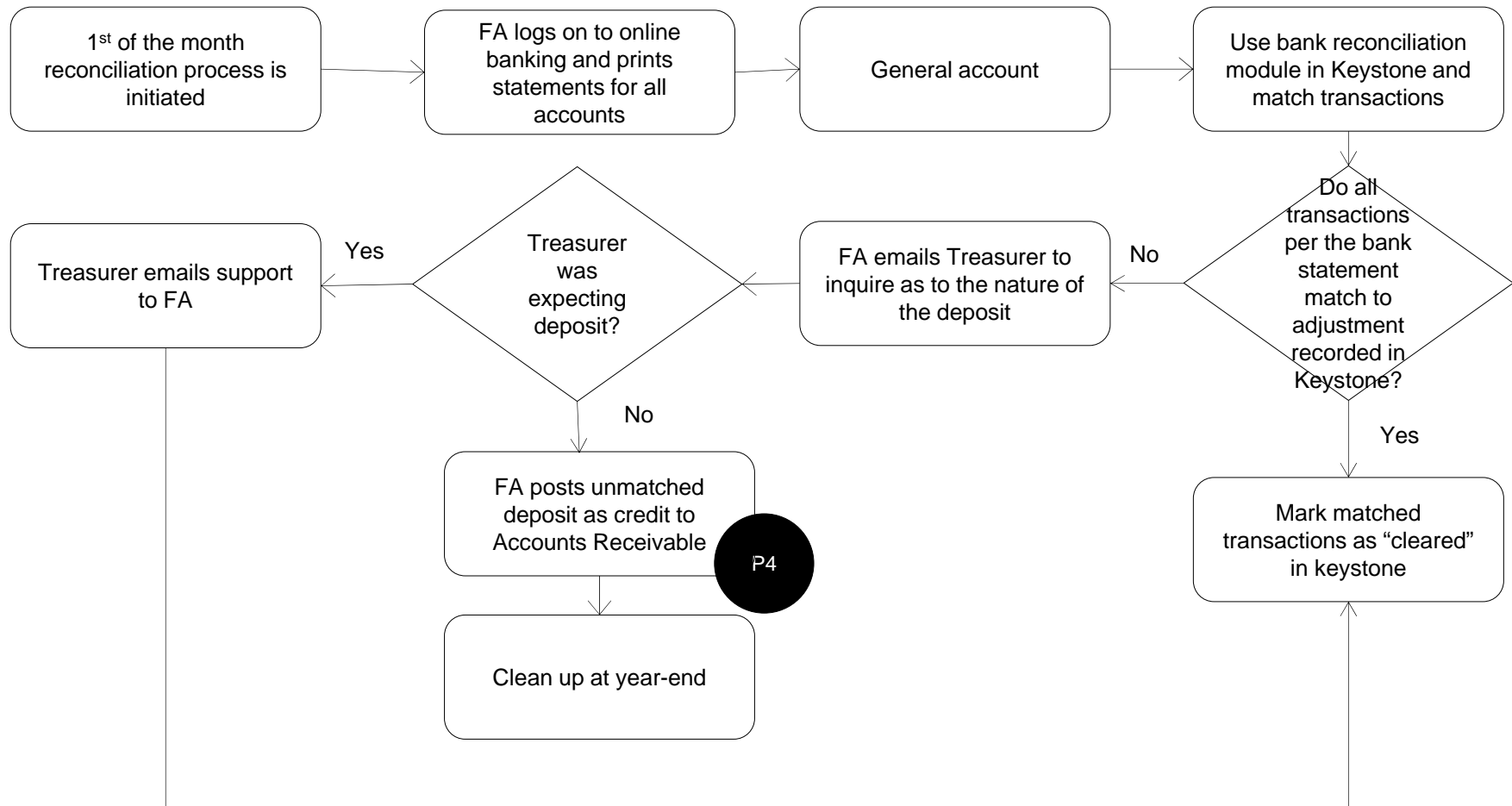


Tax Account Reconciliation



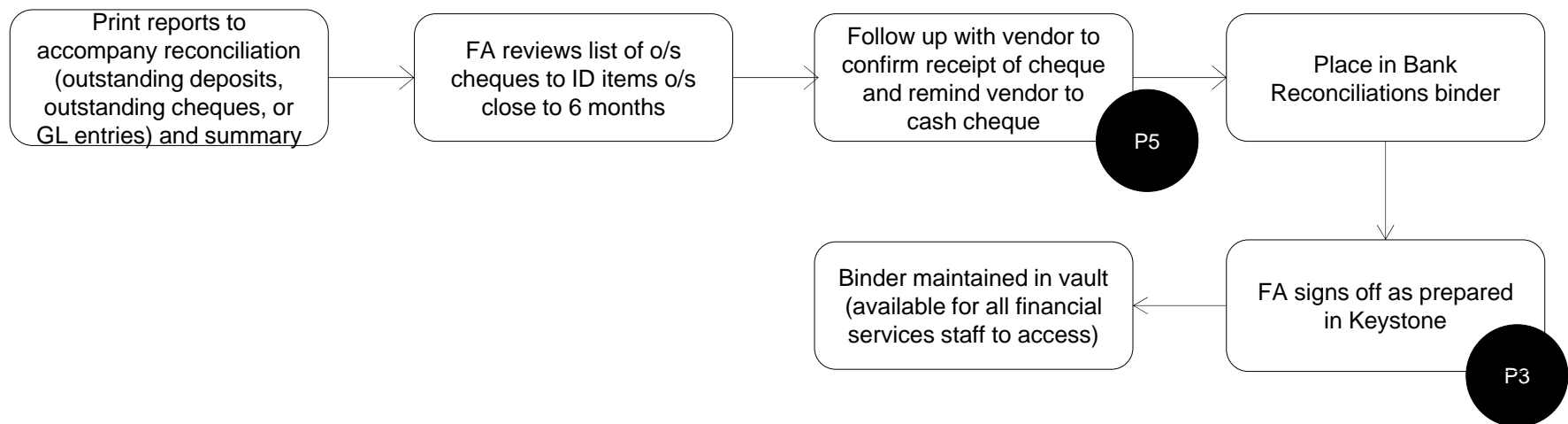
Bank Reconciliations (Continued)

General Account Reconciliation



Bank Reconciliations (Continued)

All Accounts



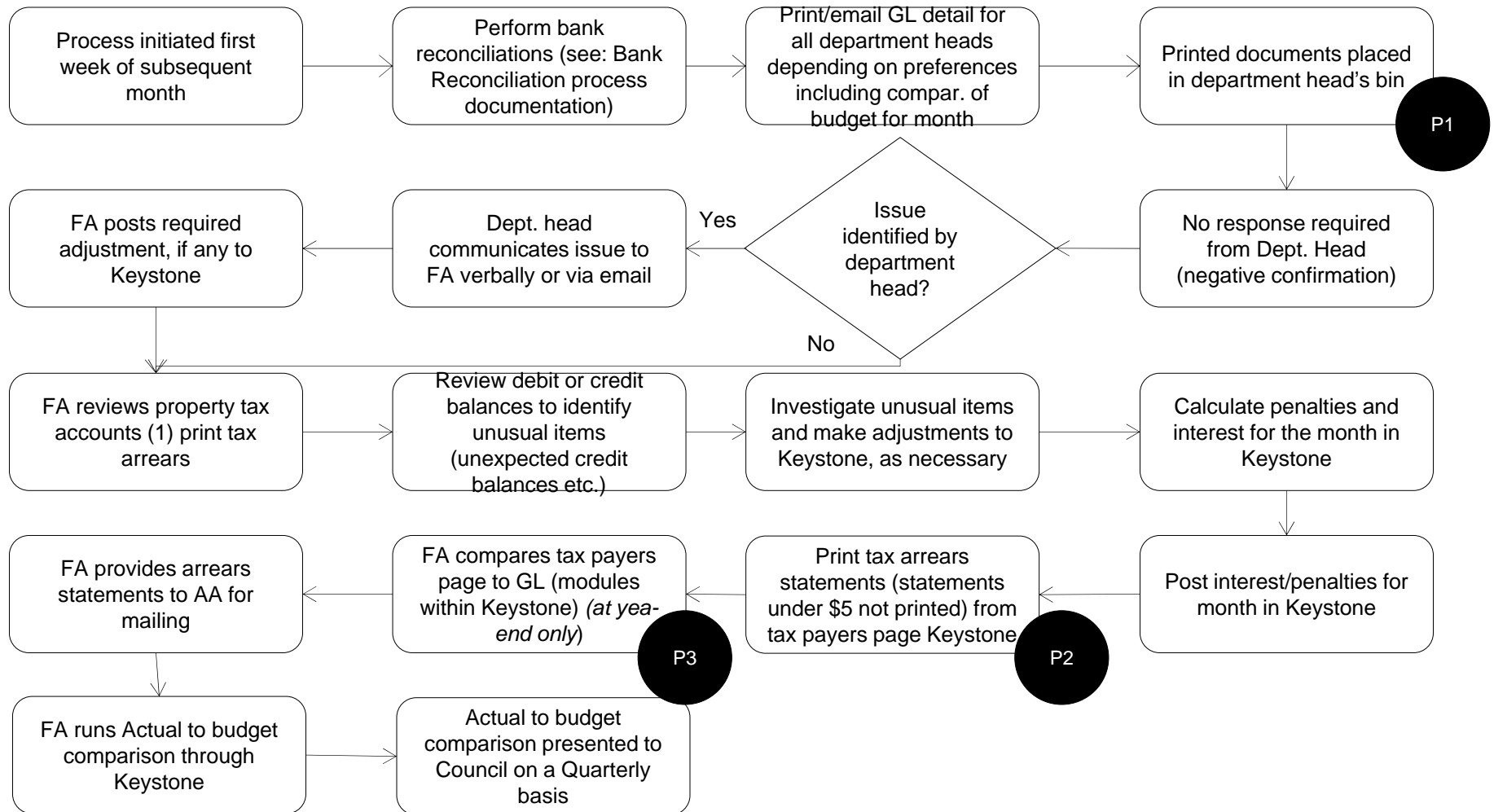
Bank Reconciliations - Potential Courses of Action

| Issue | Potential Course of Action |
|--|---|
| <p>P1</p> <p>Monthly bank reconciliations are performed for all bank accounts. This represents a possible inefficiency since there is limited risk related to the reconciliation of inactive accounts.</p> | <p>The Township may want to consider updating their process such that reconciliation of inactive accounts (earning interest and dividends only) is performed on a less frequent basis (i.e. quarterly).</p> |
| <p>P2</p> <p>Bank reconciliations are reconciled to the penny. This can add excess time to the process with little additional benefit.</p> | <p>The Township should implement a de minimis rule such that trivial differences may be posted to a reconciliation account.</p> |
| <p>P3</p> <p>Bank reconciliations are performed by the FA. The FA is also responsible for processing payments.</p> <p>It is our understanding that monthly bank reconciliations are not subject to review. Limited segregation of duties and lack of review may result in undetected errors and may increase the Township's exposure to fraud risks.</p> | <p>The Township should implement a control whereby bank reconciliations are subject to review. Unusual items should be followed up on by the reviewer. Functionality in Keystone can be leveraged to document the review as completed. Using Keystone to document the performance of review will serve as evidence that the control has been performed.</p> |
| <p>P4</p> <p>In certain instances, the Township has received funding for which there is no corresponding supporting documentation. Unreconciled deposits are posted as a credit to accounts receivable and will be reconciled as part of the Township's year-end close out procedures. It is our understanding that the current unallocated balance is ~\$60,000.</p> <p>Lack of information regarding the nature of funding received may impact the Township's ability to appropriately account for the transaction (i.e. amounts restricted for certain purposes should be accounted for as deferred revenue). Further, lack of clarity regarding the purpose of funding received may result in inappropriate spending. This exposes the Township to potential liability at a future date</p> | <p>Unreconciled cheques/deposits should be followed up on in a timely manner. The Township should implement a process to track grant applications which will assist with the reconciliation of funding received to funding source.</p> |

Bank Reconciliations - Potential Courses of Action

| Issue | Potential Course of Action |
|---|--|
| <p data-bbox="233 394 348 509">P5</p> <p data-bbox="384 399 1163 561">FA follows up on outstanding cheques when they are approaching 6 months. It is our understanding that a significant number stale-dated cheques dated 2018-2019 have carried forward as reconciling items for several months. The approximate value of these cheques is ~\$75,000.</p> | <p data-bbox="1192 399 1877 662">The Township may consider implementing a process whereby cheques are followed up on prior to the 6-month mark (i.e. 3 months). Performing timely follow up may reduce duplication of effort if fewer cheques need to be re-issued after becoming stale dated. In consideration of capacity constraints in the Financial Services function, the Township may consider whether the AA has capacity to perform follow up procedures.</p> |

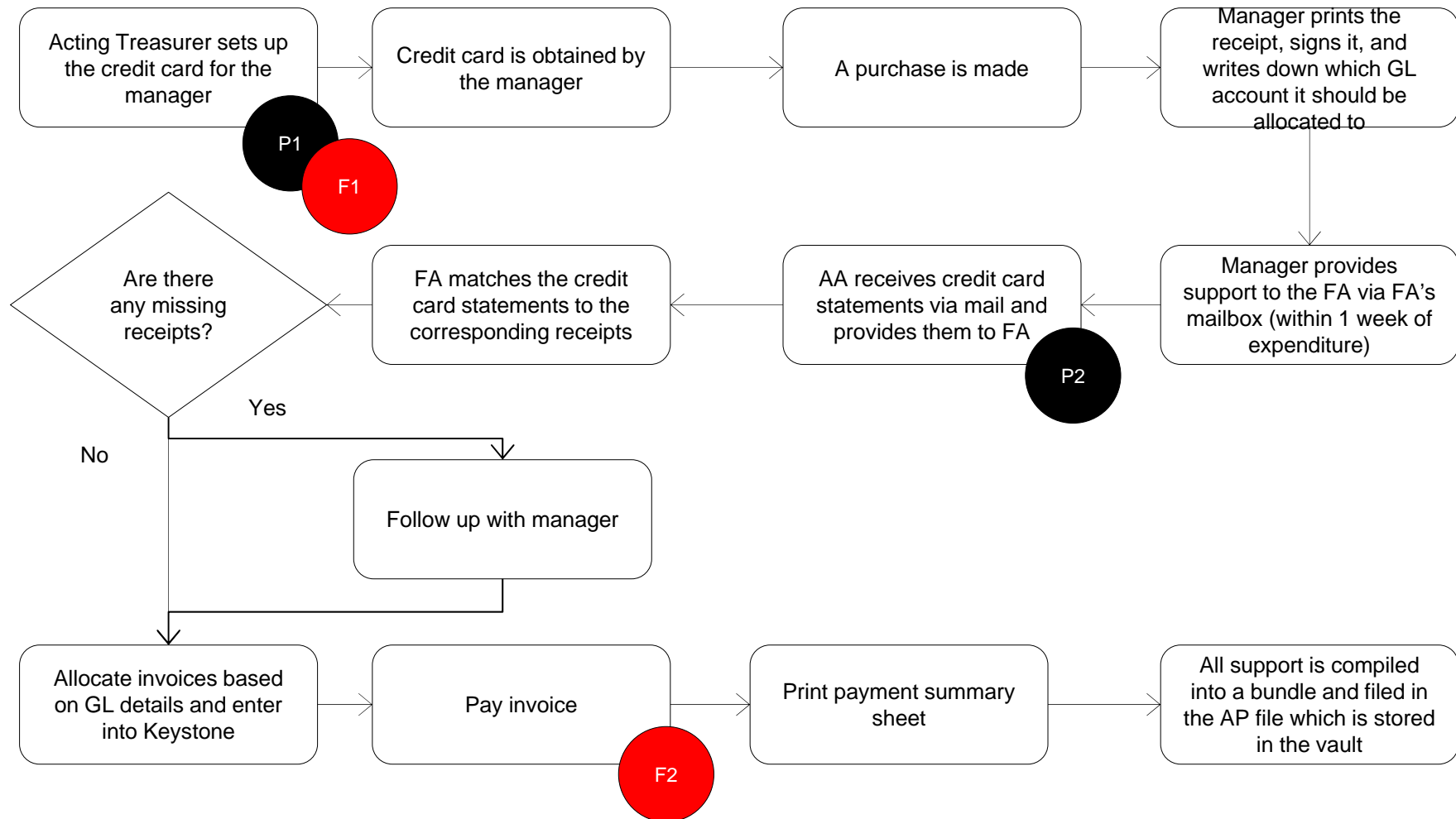
Month-End Close



Month-End Close - Potential Courses of Action

| Issue | Potential Course of Action |
|---|--|
| <p>P1 Response from department heads to confirm concurrence with monthly GL transaction detail is not required. This could mean that balances are not being reviewed on a regular basis and could contain errors that go undetected.</p> | <p>Department heads should respond to confirm that review of monthly GL transaction detail has been performed. Monthly review and approval of transaction detail will help to ensure that discrepancies are resolved in a timely manner and avoid additional effort required at year-end.</p> |
| <p>P2 Monthly tax arrears statements are mailed to taxpayers with outstanding balances >\$5. This represents a significant cost (time, printing, postage etc.) to the Township.</p> <p>It is our understanding that small balance write offs are performed on an annual basis. The threshold for write off is not documented within the Township's processes and is subject to professional judgment.</p> | <p>The Township should consider whether the \$5 threshold for follow up is appropriate.</p> <p>The threshold used to perform annual small balance write offs should be clearly documented in the Township's policies. A summary of all balances written off should be subject to review and evidence of review should be maintained.</p> |
| <p>P3 It is our understanding that the tracking of taxpayer balances is not fully integrated within Keystone with respect to tracking of payment dates and due dates.</p> | <p>The Township should ensure that the taxpayers and GL modules in Keystone are appropriately integrated in order to prevent conflicting information.</p> |

Accounts Payable - Credit Cards



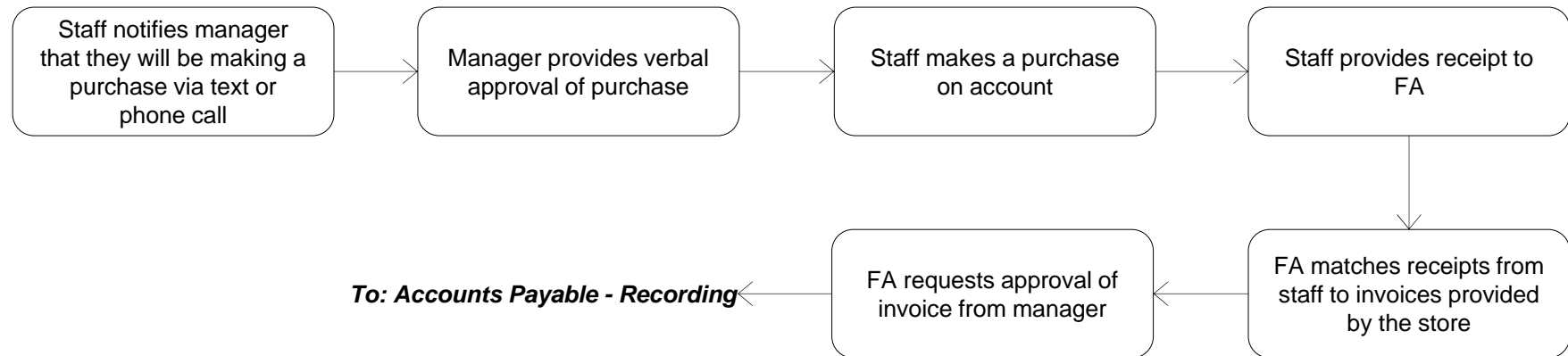
Accounts Payable - Credit Cards - Potential Courses of Action

| Issue | Potential Course of Action |
|--|--|
| <p>P1</p> <p>The Township's Credit Card Policy states that:</p> <ul style="list-style-type: none"> • Only employees specifically authorized by resolution of Council will be provided use of a credit card • Council will determine the allowable credit limits <p>The burden of seeking Council authorization consumes time and resources and may delay the authorization of credit cards.</p> <p>While it may be appropriate for Council to approve the Township's credit card policy, the issuance of credit cards is operational in nature. The role of Council is to provide governance to the Township. As a best practice, Council's role should not extend to day-to-day decision making.</p> | <p>The Township should review the Credit Card Policy to list those employees to whom a credit card should be issued (i.e. Department Heads). Issuance of credit cards should be approved internally by the Treasurer or CAO, as appropriate. It is our understanding that this is the current process. Council approval should only be required in limited circumstances. For example, when a request is made to issue a credit card to an employee other than those listed in the policy or for an amount that is greater than the allowable credit limits.</p> |
| <p>P2</p> <p>Many of the Township's processes are paper based, with physical copies maintained. This represents a potential inefficiency as the process consumes time and resources associated with the transfer of paper documents internally and the cost associated with storing physical files.</p> | <p>The Township should consider the use of electronic files to replace many of the paper-based systems. Electronic documents can be emailed or uploaded to a central server to eliminate the need for physical movement of documents.</p> <p>If the Township uploads documents to a central server, it is prudent to ensure that appropriate access restrictions are in place.</p> |

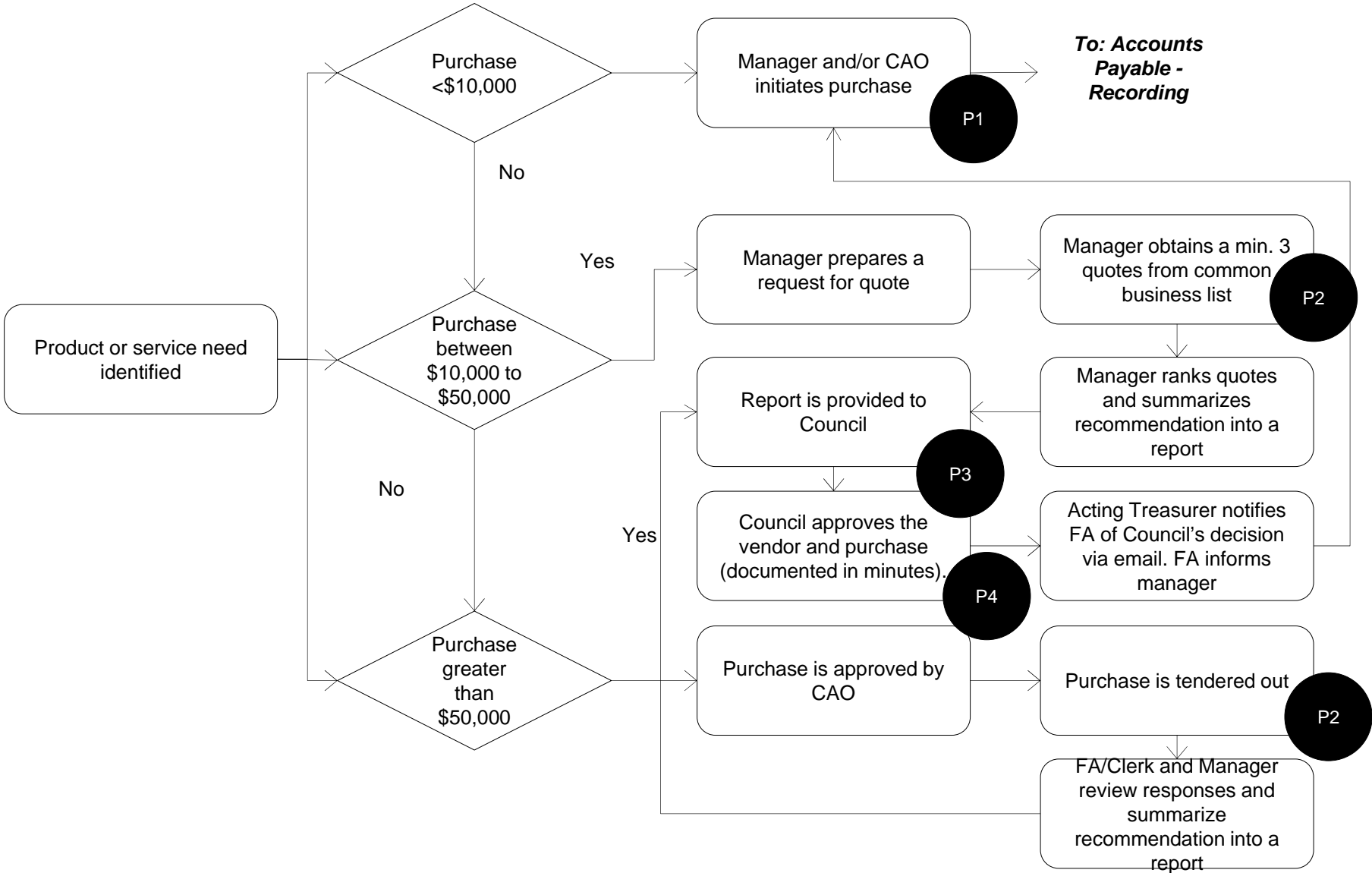
Accounts Payable - Credit Cards - Potential Courses of Action

| Issue | Potential Course of Action |
|---|---|
| <p>F1</p> <p>The Township's Credit Card Policy states that:</p> <ul style="list-style-type: none"> • Council will determine the allowable credit limits <p>The burden of seeking Council's guidance to set credit limits consumes time and resources.</p> <p>We noted that credit card limits are clearly documented by role in the Township's Procurement Policy. If both policies are not referenced concurrently, there is a risk that a card may be issued with a limit that exceeds amounts listed in the Township's Procurement Policy.</p> | <p>The Township should consider updating the Credit Card Policy to either reference limits noted in the Procurement Policy or summarize these limits in the Credit Card Policy itself.</p> <p>Council approval should only be required in limited circumstances. For example, to request a credit card limit that exceeds what is outlined in the policy.</p> |
| <p>F2</p> <p>Credit card statements are paid before being approved. This can result in potentially inappropriate expenditures being paid and processed if not identified.</p> | <p>All credit card statements and supporting documentation should be reviewed by the Treasurer prior to payment being processed. This will ensure that only authorized payments are prepared and processed.</p> |

Accounts Payable - Purchases on Account



Accounts Payable - Procurement



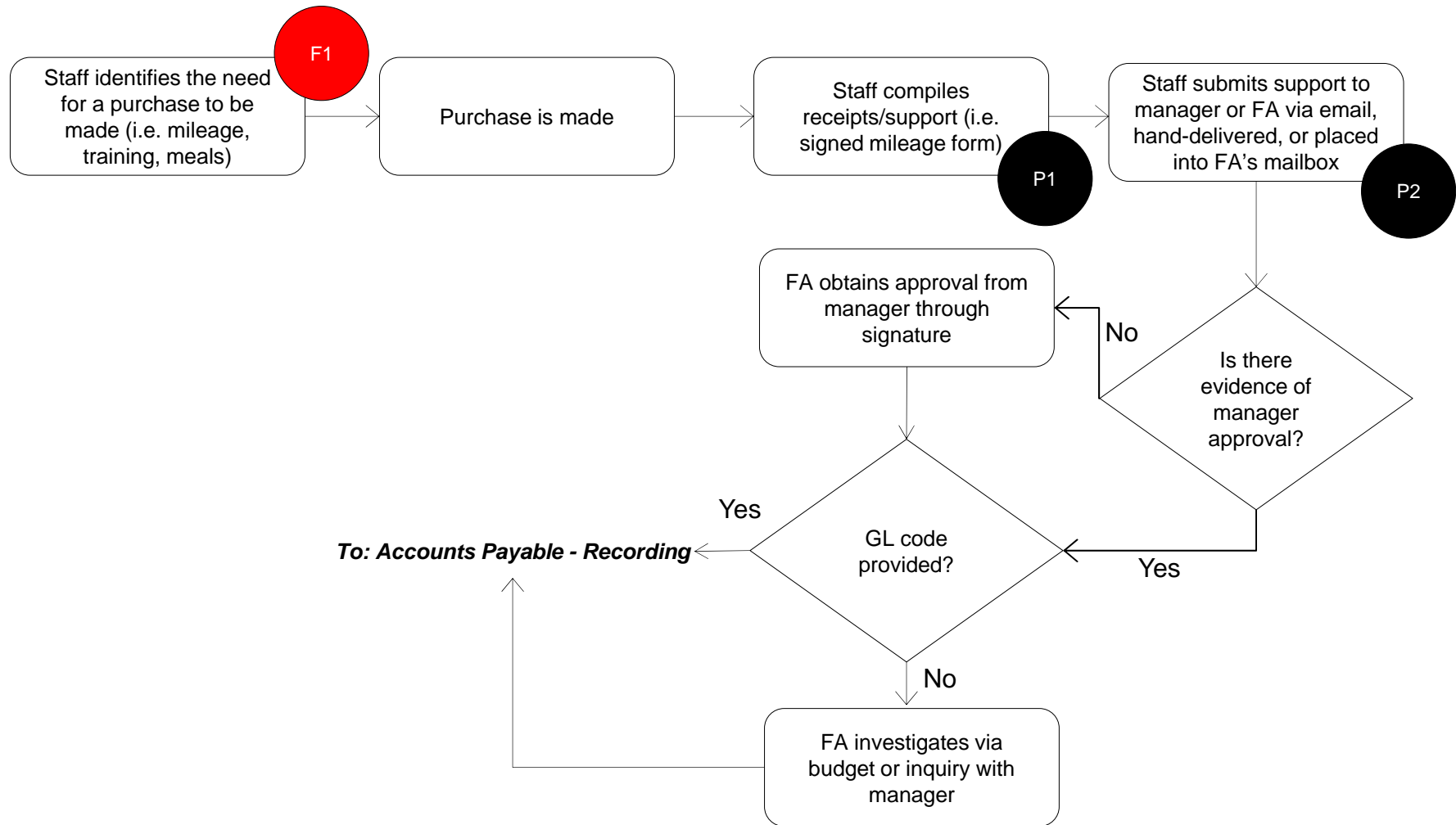
Accounts Payable - Procurement - Potential Courses of Action

| Issue | Potential Course of Action |
|--|--|
| <p data-bbox="222 383 338 496">P1</p> <p data-bbox="375 388 1167 651">The Township does not use purchase orders for procurement. As such, there is a risk that departments will purchase goods or services without sufficient budget room. The absence of purchase order requirements also exposes the Township to risk in the event that unauthorized purchases are made as it has no current process for monitoring commitments made by personnel until after the goods or services are received (which may commit the Township to the expenditure).</p> | <p data-bbox="1205 388 1906 651">The Township may wish to consider the implementation of a formal purchase order system that requires personnel to obtain approval prior to the ordering of goods and services. If adopted, suppliers should be advised of the requirement that all invoices must quote a P.O. number in order for payment to be received. The purchase order system would include the following controls:</p> <ul data-bbox="1205 656 1913 1352" style="list-style-type: none"> • Establish a dollar value threshold over which P.O.'s are required. • P.O.'s should be numbered sequentially, required for all purchases of inventory and supplies, controlled numerically, and bear the appropriate documented approval from the appropriate responsible official. • Personnel requesting and approving P.O.'s should be independent of the individuals in the receiving area, to allow for a proper segregation of duties. • Vendor invoices received should be matched with the attached purchase order and receiving report and the procedure documented on the invoice to determine that the invoice reflects the merchandise ordered and received. • A centralized purchasing function should be used to allow the Township to take advantage of volume discounts through group purchasing of large quantities. It would also ensure purchases are made only when inventory levels have declined to the appropriate reorder quantity and reduce the amount of cash invested in excess inventories |

Accounts Payable - Procurement - Potential Courses of Action

| Issue | Potential Course of Action |
|--|--|
| <p>P2 It is our understanding that an RFQ or Tender process is completed for many of the Township's recurring contracts on an annual basis. A significant amount of effort is required to complete the review of vendor responses. There is also a risk that the Township is not receiving optimal value when purchasing products or services from vendors by entering into short-term contracts.</p> | <p>The Township should perform a review of contracts that are tendered annually and consider where the use of multi-year contracts may be appropriate. Tendering product purchases and/or recurring services for an extended period may provide the Township an opportunity to negotiate discounts. As a best practice, multi-year contracts should not extend beyond 3 years to allow the Township to test the market and ensure the municipality is receiving best value for purchased goods and services.</p> |
| <p>P3 Management initiates RFQ and Tender processes before the underlying purchases are approved by Council. This may result in an ineffective use of resources if the purchase is not ultimately approved by Council.</p> | <p>RFQ and Tender processes should only be initiated once the underlying purchase has been approved by Council.</p> |
| <p>P4 All non-budgeted expenditures require Council approval. The burden of seeking Council approval consumes time and resources. Further, waiting for Council approval may result in project or other delays.</p> | <p>The Township may consider implementing an internal approval process whereby the CAO has authority to approve non-budgeted purchases under a determined threshold.</p> |

Employee Expense Reimbursement

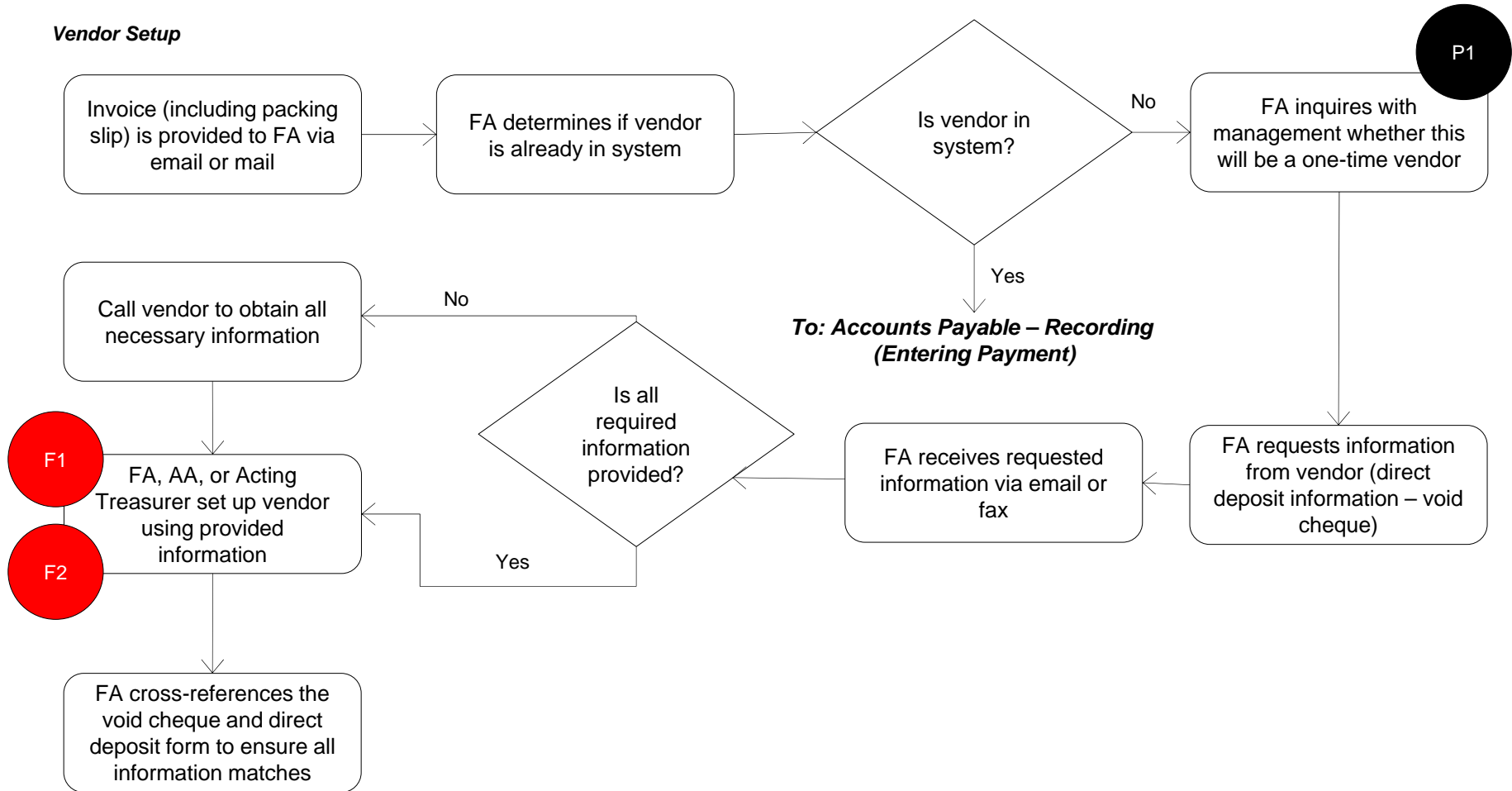


Employee Expense Reimbursement - Potential Courses of Action

| Issue | Potential Course of Action |
|--|---|
| <p>P1</p> <p>It is our understanding the Township does not use a standard expense reimbursement form. This represents a potential inefficiency since lack of clarity may result in incomplete requests being submitted to the FA that require additional time to follow up.</p> | <p>The Township should consider the using a standard expense reimbursement form. The form should include instructions with respect to supporting documents that are required to be attached and provide guidance with respect to approvals that should be obtained prior to submitting the form for processing. Standardizing this process will reduce the inefficiency from follow up that is required when incomplete requests are submitted.</p> |
| <p>P2</p> <p>We understand that there is a lack of consistency and clarity with respect to the expense reimbursement process. For example, staff are unclear whether requests should be submitted to the FA or their Department Head for processing.</p> | <p>We recommend that the Township adopt a formal expense reimbursement policy. The policy should note that the onus is on staff (not the FA) to obtain appropriate departmental approvals prior to submitting the request.</p> |
| <p>F1</p> <p>It is our understanding that the Township does not have an expense reimbursement policy. The absence of a clearly documented policy may lead to confusion with respect to what is considered an allowable expense. In the absence of a formal policy, there is a risk that inappropriate expenses may be reimbursed.</p> | <p>The Township should develop a formal expense reimbursement policy. The policy should be distributed to all staff and saved on a central server so that it can be accessed by staff on an as needed basis.</p> |

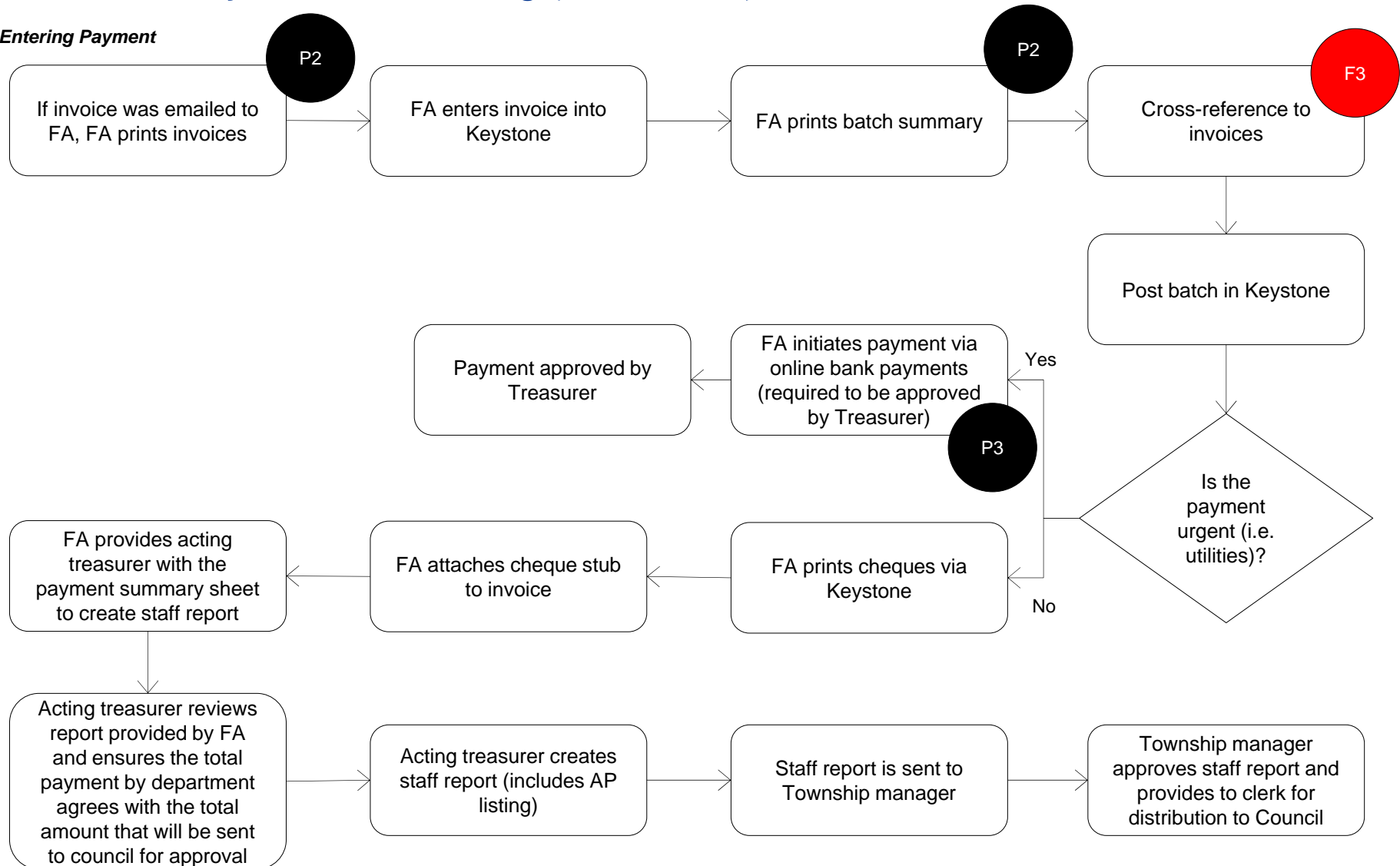
Accounts Payable - Recording

Vendor Setup



Accounts Payable - Recording (Continued)

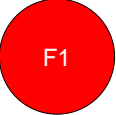

Entering Payment



Accounts Payable - Recording - Potential Courses of Action

| Issue | Potential Course of Action |
|---|--|
| <p>P1 Lack of clarity with respect to when it is appropriate to use the “one-time vendor” profile to process payments in Keystone.</p> | <p>The Township should consider updating their AP process to include guidance with respect to when it is appropriate to process payment using the “one-time vendor” profile in Keystone. The Township should establish a dollar value threshold over which vendor profiles (subject to internal controls over setup - see F1) are required.</p> |
| <p>P2 Many of the Township’s processes are paper based, with physical copies maintained. This represents a potential inefficiency as the process consumes time and resources associated with the transfer of paper documents internally and the cost associated with storing physical files.</p> | <p>The Township should consider the use of electronic files to replace many of the paper-based systems. Electronic documents can be emailed or uploaded to a central server to eliminate the need for physical movement of documents.</p> <p>If the Township uploads documents to a central server, it is prudent to ensure that appropriate access restrictions are in place.</p> |
| <p>P3 It is our understanding that utilities invoices are often processed urgently in order to avoid incurring late fees and penalties.</p> | <p>We recommend considering use of pre-authorized payments to pay the Township’s utilities invoices. Pre-authorized payments should only be used for recurring expenses which are approved through the annual budget. Using pre-authorized payment will reduce the time and effort required to process payments.</p> |

Accounts Payable - Recording - Potential Courses of Action

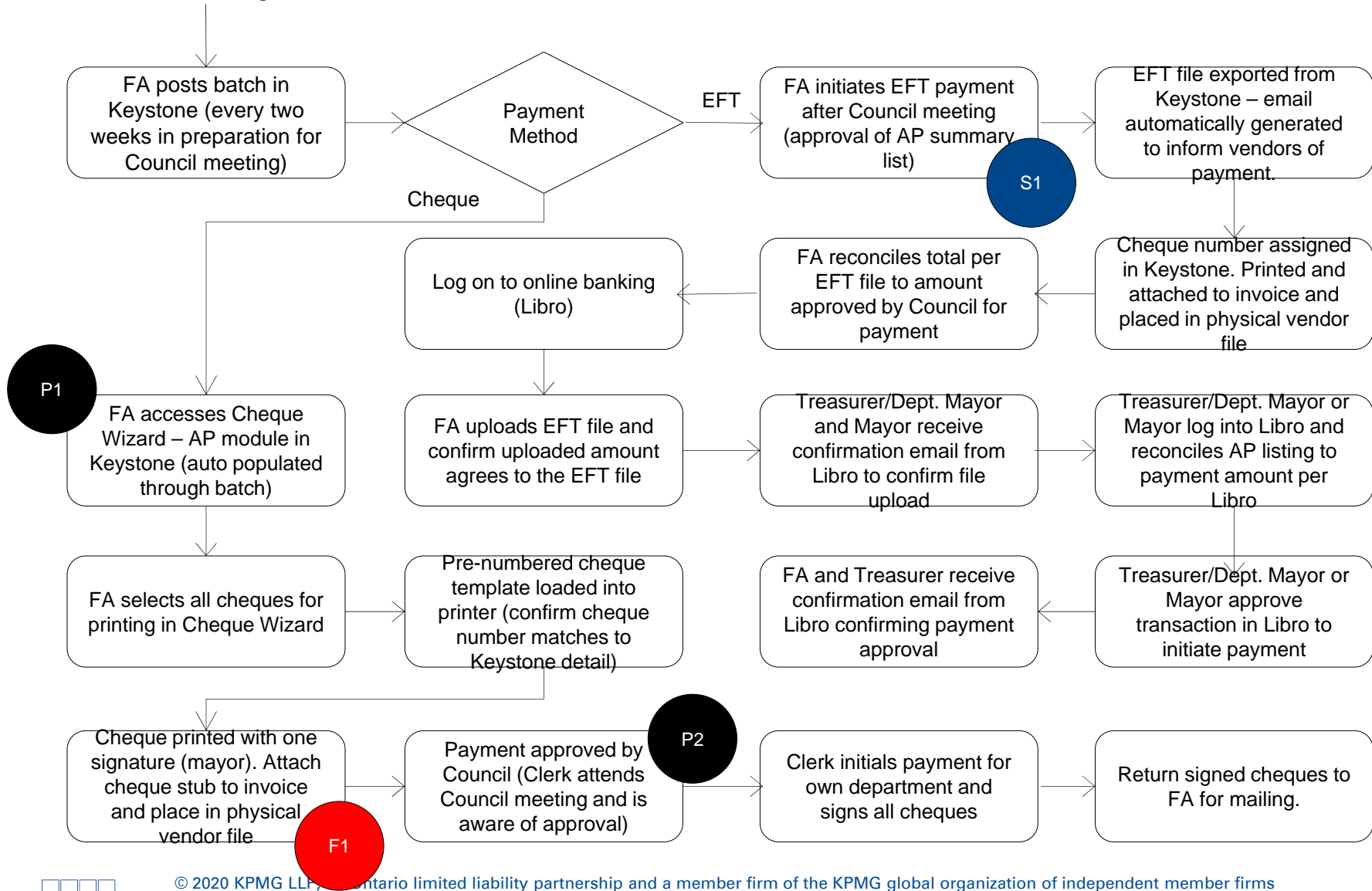
| Issue | Potential Course of Action |
|---|---|
| <p> There is a lack of clarity around which employees have authority to add or update the vendor list in Keystone. This presents a risk that payment information for a vendor could be edited and may result in payment not being directed to the appropriate account (misappropriation of funds).</p> | <p>The Township should perform a review of access rights in Keystone. The ability to update the vendor list should be restricted to only appropriate staff (i.e. Treasurer and FA). Further, a periodic formal review of the vendor list should be performed to ensure the information in the listing is accurate and appropriate.</p> <p>Vendors who have not been used in the last 24 months should be removed.</p> |
| <p> Lack of internal controls over the Township's process for new vendor set-up. The lack of internal controls, including lack of review and/or authentication procedures, may provide an opportunity for staff to purchase goods or services from related parties or false vendors.</p> | <p>The Township may wish to establish a process whereby new vendor set-up requires certain verification procedures, including proof of operation and reviews of potential conflicts of interest.</p> <p>The listing of active vendors in Keystone should be reviewed regularly for accuracy and independence. Vendors that have not been used over the last 24 months should be removed.</p> |

Accounts Payable - Recording - Potential Courses of Action

| Issue | Potential Course of Action |
|---|---|
| <p data-bbox="222 428 338 545">F3</p> <p data-bbox="373 428 1146 753">An element of effective internal controls is the proper segregation of duties. The basic premise of segregating duties is to prevent situations where an employee has the ability to perpetrate an error or irregularity and to conceal it as well. Proper segregation of duties provides for a system of checks and balances such that the functions by one employee are subject to review through the performance of the interrelated functions of another employee. In the course of our examination, we noted several situations involving conflicting duties, such as:</p> <ul data-bbox="373 760 1146 857" style="list-style-type: none"> • The individuals responsible for vendor setup/editing vendor profiles is also responsible for processing invoices and initiating vendor payment <p data-bbox="373 863 1008 922">The above situation could result in an intentional or unintentional error or irregularity going undetected.</p> | <p data-bbox="1192 428 1881 656">While the size of the Township's accounting function prohibits complete adherence to this concept, the Township may implement internal controls without impairing efficiency. This may include reviewing access rights to ensure that employees who have access to set up and edit vendor profiles are not also responsible for posting and processing payments.</p> |

Accounts Payable - Payment

From: Accounts Payable – Recording

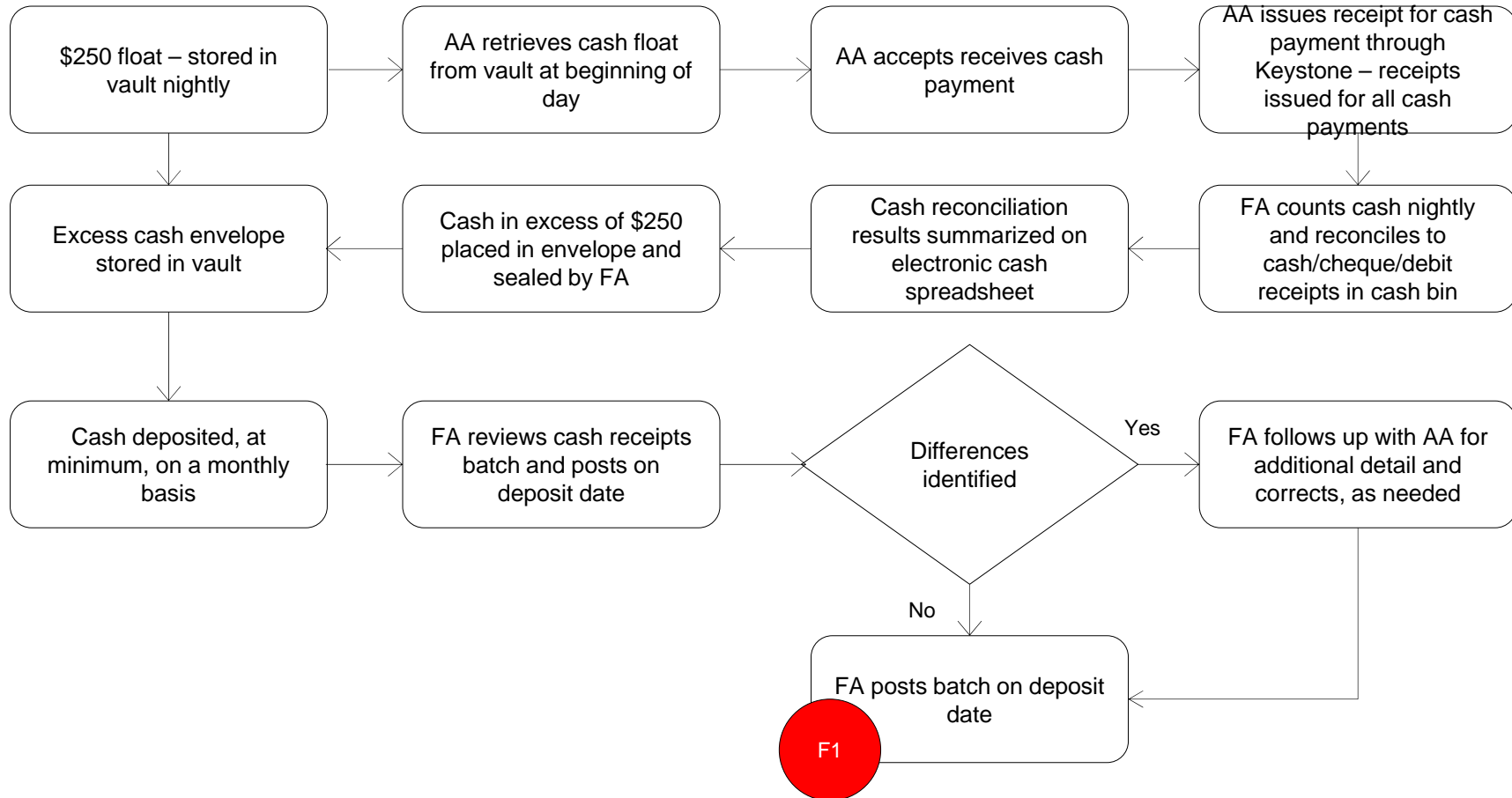


Accounts Payable - Payment- Potential Courses of Action

| Issue | Potential Course of Action |
|--|---|
| <p>P1 A number of transactions are paid by Cheque. This represents a potential inefficiency due to additional effort and time required to process a payment in this manner, as well as additional costs for mailing.</p> | <p>The Township should perform a review of it's vendor list to identify vendors who are currently paid via cheque and provide them the option to switch to EFT going forward.</p> |
| <p>P2 All AP batch payments are reviewed and approved by Council. While it is appropriate for Council to approve the Township's overall operating and capital budgets, the issuance of cheques for payments in the normal course of operations is operational in nature. The role of Council is to provide oversight to the Township. As a best practice, Council's role should not extend to day-to-day decision making.</p> | <p>We recommend that going forward, the Township move away from the current model whereby Council is actively involved in day-to-day operations. Vendor payments within the normal course of operations should be reviewed and approved internally by the CAO and/or Treasurer.</p> |
| <p>S1 The FA is the only employee with access to initiate EFT payments. This represents a client service limitation if payments are delayed in circumstances where the FA is not available to initiate payments.</p> | <p>We recommend cross training so that another employee has authority to initiate EFT payments in circumstances where the FA is not available.</p> |
| <p>F1 It is our understanding that cheques are stored in the vault and are accessible to all administrative employees who have access to the vault. This presents a risk that an unauthorized employee may have access to the cheques and presents an opportunity to misappropriate funds.</p> | <p>Access to the Vault should be restricted to a limited number of employees. Cheques should be further secured in a safe or locked box within the vault.</p> |

Cash Handling

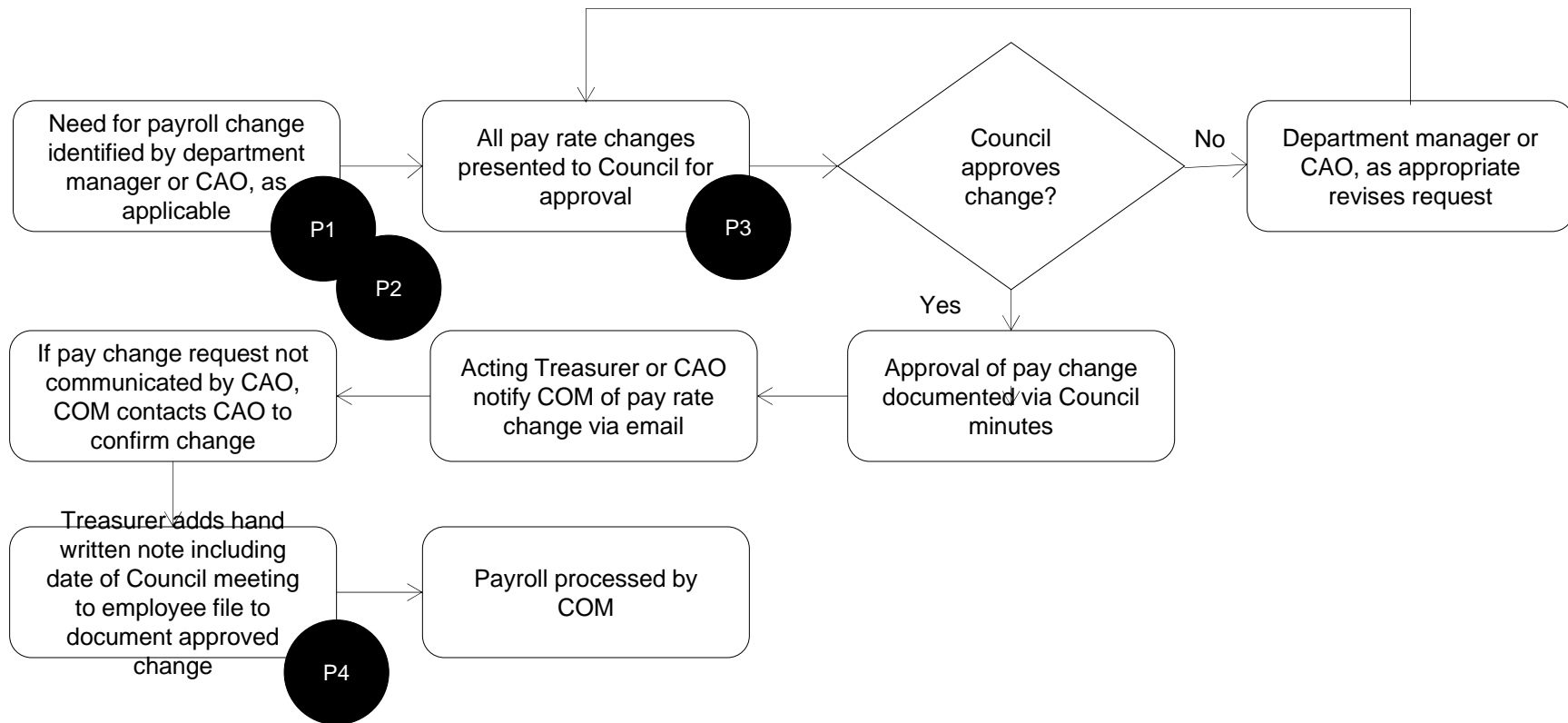
Township Office



Cash Handling- Potential Courses of Action

| Issue | Potential Course of Action |
|--|--|
| <p data-bbox="222 418 338 529">F1</p> <p data-bbox="373 423 1146 748">An element of effective internal controls is the proper segregation of duties. The basic premise of segregating duties is to prevent situations where an employee has the ability to perpetrate an error or irregularity and to conceal it as well. Proper segregation of duties provides for a system of checks and balances such that the functions by one employee are subject to review through the performance of the interrelated functions of another employee. In the course of our examination, we noted several situations involving conflicting duties, such as:</p> <ul data-bbox="373 756 1146 951" style="list-style-type: none"> <li data-bbox="373 756 1146 886">• The individuals responsible for maintaining the accounts receivable records also are responsible for handling, processing and recording of cash receipts and preparing bank deposit slips. <li data-bbox="373 889 1146 951">• Accounting personnel initiate transactions and also perform related data entry on the computer <p data-bbox="373 959 1146 1016">Each of the above situations could result in an intentional or unintentional error or irregularity going undetected.</p> | <p data-bbox="1188 423 1839 545">While the size of the Township’s accounting function prohibits complete adherence to this concept, the following practices could be implemented to improve existing internal control without impairing efficiency:</p> <ul data-bbox="1188 553 1881 951" style="list-style-type: none"> <li data-bbox="1188 553 1881 886">• Mail is opened by the AA and should not be entered into Keystone by this individual. An excel spreadsheet could be maintained by the AA to track cash/cheques received. The spreadsheet should track payment details i.e. date, payee, amount paid. Cash receipts should be recorded in Keystone by the FA. At month-end, another employee should perform a review to reconcile cash recorded in Keystone to cash recorded per the tracking spreadsheet. <li data-bbox="1188 889 1881 951">• Journal entries should be approved by an employee other than the one who prepared the entry. |

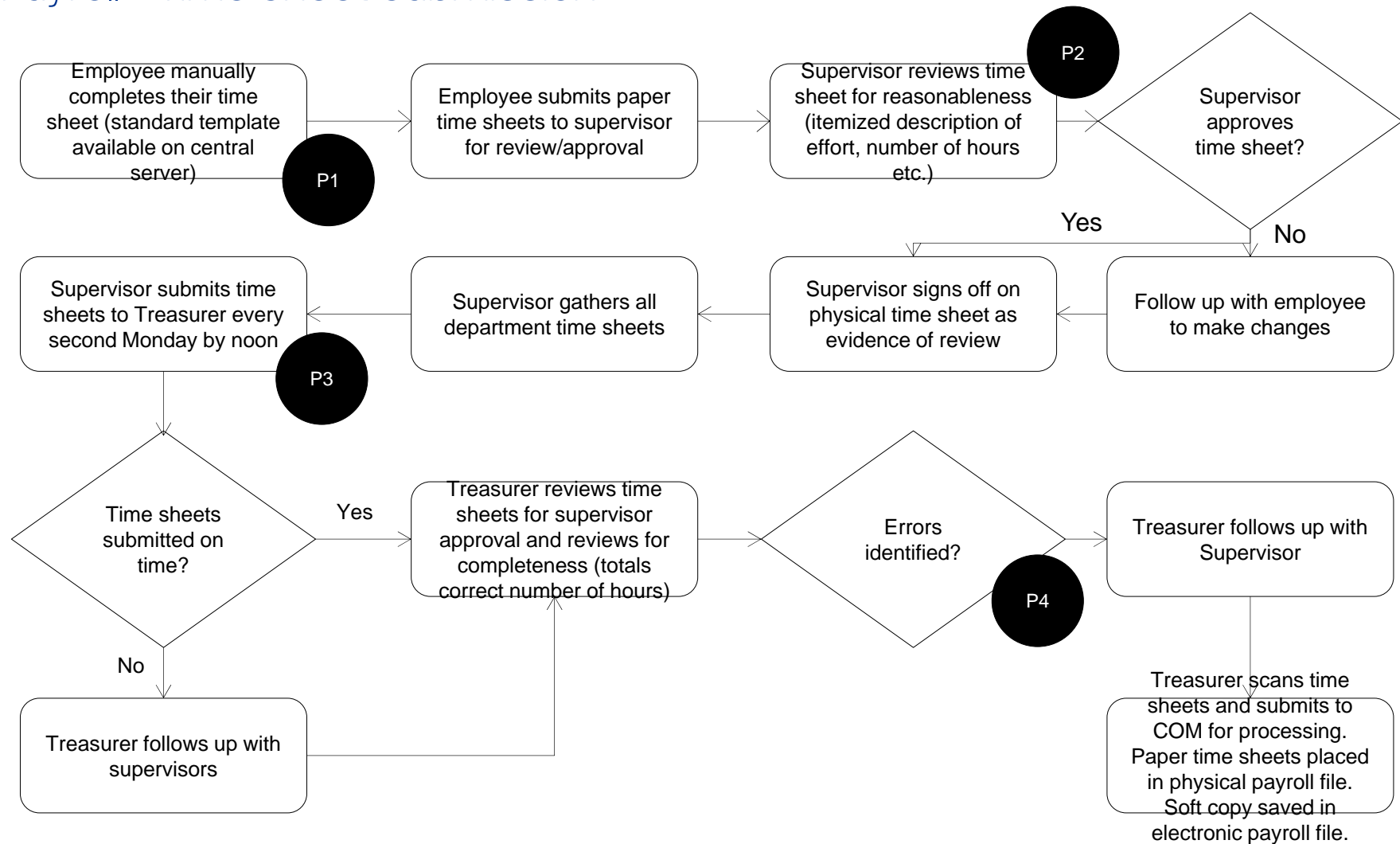
Payroll Changes



Payroll Changes - Potential Courses of Action

| Issue | Potential Course of Action |
|--|---|
| <p>P1</p> <p>The Township does not have a standard pay rate change request form.</p> | <p>We recommend that the Township implement a standard pay rate request form. Using a standard template will help to ensure that all requests include appropriate documentation and authorizations and limit the inefficiency related to follow up if incomplete requests are submitted.</p> |
| <p>P2</p> <p>We understand that the Township does not have a formal process in place to complete annual employee performance reviews. Regular and transparent discussions regarding performance are an integral part of an effective HR function.</p> | <p>The Township should consider implementing a formal employee review process. A performance management system is critical to the effective and efficient delivery of municipal services. The intent of a performance management system is to effectively evaluate the performance of staff where an employee's performance is discussed in a meaningful way. Areas where employees excel and/or may require attention should be discussed with plans to address those areas which may need to be improved.</p> |
| <p>P3</p> <p>Council approval is required for all pay rate changes. While it is appropriate for Council to approve the Township's annual salary budget, approval of individual employee salaries is operational in nature. The role of Council is to provide governance to the Township. As a best practice, Council's role should not extend to day-to-day decision making.</p> | <p>We recommend that going forward, the Township move away from the current model whereby Council is actively involved in operational decision making. Department Heads should be given autonomy to determine individual employee salaries within the constraints of their departmental budgets. Salary adjustments should be approved internally by the CAO and/or Treasurer.</p> |
| <p>P4</p> <p>Many of the Township's processes are paper based, with physical copies maintained. This represents a potential inefficiency as the process consumes time and resources associated with the transfer of paper documents internally and the cost associated with storing physical files.</p> | <p>The Township should consider the use of electronic files to replace many of the paper-based systems. Electronic documents can be emailed or uploaded to a central server to eliminate the need for physical movement of documents.</p> <p>If the Township uploads documents to a central server, it is prudent to ensure that appropriate access restrictions are in place.</p> |

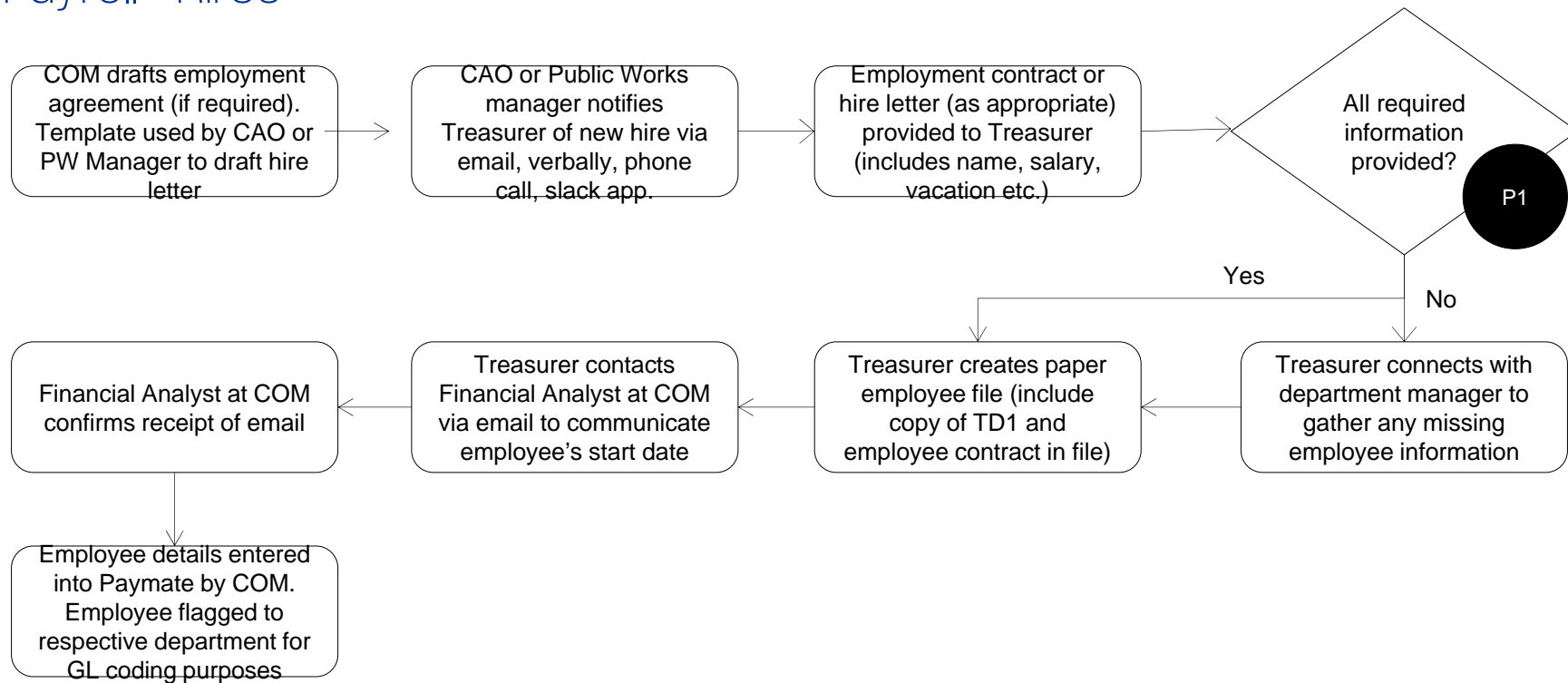
Payroll - Time Sheet Submission




Payroll - Time Sheet Submission - Potential Courses of Action

| Issue | Potential Course of Action |
|---|--|
| <p>P1 Time sheet templates are available in electronic format. However, we understand that time sheets are prepared and submitted in paper form. Manual preparation of time sheets increases the risk that inaccurate (i.e. total hours does not sum to 70) or incomplete time sheets are being submitted.</p> | <p>Time sheets should be submitted electronically, restricting submission until all errors, missing information or discrepancies have been addressed.</p> |
| <p>P2 Staff do not code time to specific projects on their time sheets. It is important to track salaries at the appropriate level of detail to assist with tracking expenses incurred on conditional grant projects that require financial reporting on project costs.</p> | <p>The Township should perform a review to identify circumstances where it is appropriate for staff to code time by project on their time sheet. Project codes should be set up in Keystone with applicable expenses (wages and other) applied to these project codes. This will provide for more up to date and accurate costing information to determine if projects are on budget.</p> <p>Maintaining detailed tracking of staff time will further assists with budgeting and staffing needs assessments performed by department.</p> |
| <p>P3 Supervisors deliver hard copies of employee time sheets to the Treasurer. Time sheets are often delivered late and require follow up.</p> | <p>Set up a shared folder on the Township's server for Supervisors to upload and save approved employee timesheets. Electronic signoffs should be used as evidence of supervisor approval. The Treasurer can then retrieve time sheets from this folder to eliminate the need for physical movement of documents.</p> <p>It is prudent to ensure that appropriate access restrictions are in place over the shared folder.</p> |
| <p>P4 Time sheets submitted to the Treasurer are often incomplete and/or missing required information. Following up on inaccurate/incomplete time sheets consumes time and resources.</p> | <p>The Township may consider implementing refresher training for staff to review time sheet completion. Written instructions should also be available on the server for staff to reference as needed.</p> |

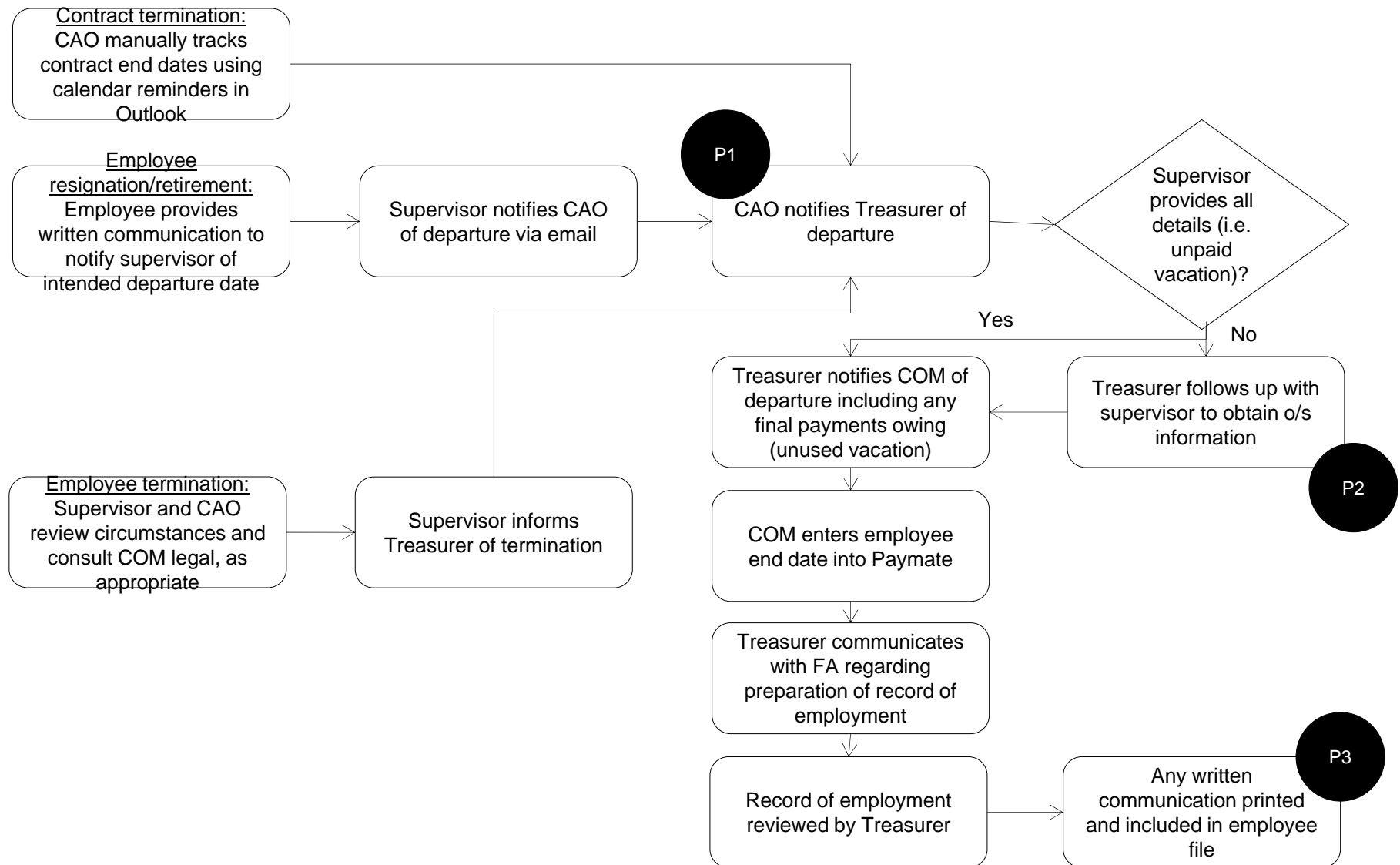
Payroll - Hires



Payroll - Hires - Potential Courses of Action

| Issue | Potential Course of Action |
|--|---|
| <p> P1</p> <p>The Township's process to set up new employees is email driven and involves informal internal communication. This represents a potential inefficiency if additional time is required to follow up on incomplete and/or inaccurate requests.</p> | <p>The Township should develop standard electronic templates or checklists (e.g. word, fillable PDFs, etc.) to communicate information regarding new hires internally and to the COM to be added to payroll processing. The use of standard templates will help to limit the number of touchpoints required to set up the new hire.</p> |

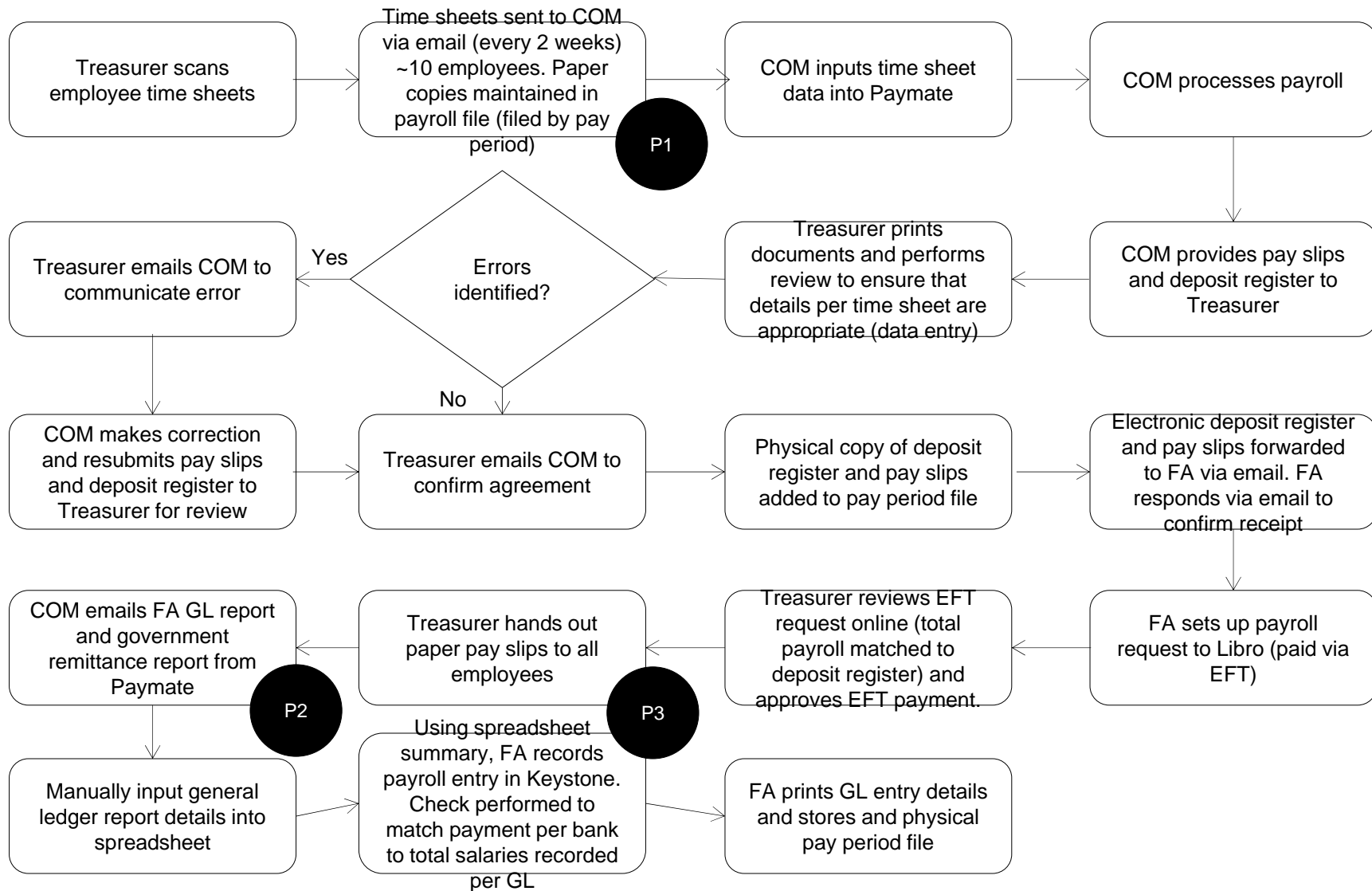
Payroll - Terminations



Payroll - Terminations - Potential Courses of Action

| Issue | Potential Course of Action |
|--|--|
| <p>P1</p> <p>The Township's process to remove employees from payroll is email driven and involves informal internal communication. This represents a potential inefficiency if additional time is required to follow up on incomplete and/or inaccurate requests.</p> | <p>The Township should develop standard electronic templates or checklists (e.g. word, fillable PDFs, etc.) to communicate information regarding employee terminations. The use of standard templates will help to limit the number of touchpoints required to process the employee termination.</p> |
| <p>P2</p> <p>It is our understanding that follow up is often required to confirm unused vacation balances. This represents an inefficiency since following up on incomplete requests consumes time and resources.</p> | <p>The implementation of a standard template (see P1) will help to ensure that the Treasurer receives all information required to process the termination without having to follow up.</p> |
| <p>P3</p> <p>Payroll backup is stored in both paper and electronic format. This results in inefficiencies due to the cost of storage and duplication of effort to file documents.</p> | <p>We recommend that payroll information is only stored in electronic format. It is imperative that appropriate access restrictions are in place over payroll files.</p> |

Payroll Processing

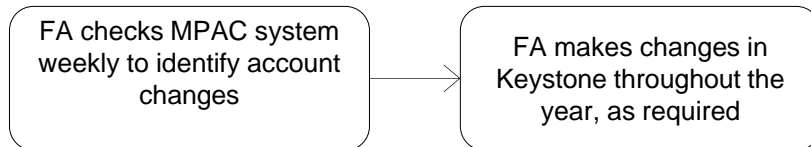


Payroll Processing - Potential Courses of Action

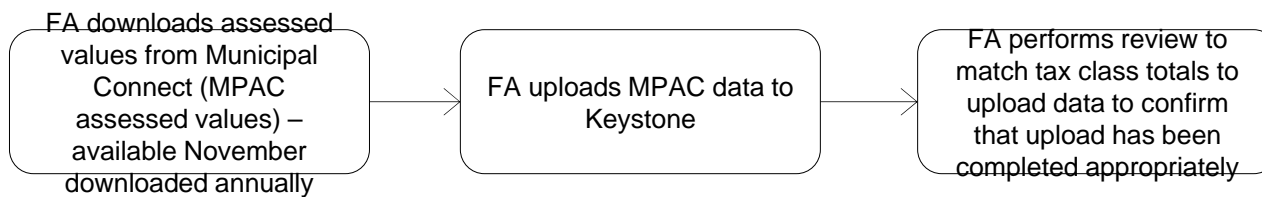
| Issue | Potential Course of Action |
|---|---|
| <p>P1 Payroll backup is stored in both paper and electronic format. This results in inefficiencies due to the cost of storage and duplication of effort required to maintain two filing systems.</p> | <p>We recommend that payroll information is only stored in electronic format. It is imperative that appropriate access restrictions are in place over electronic payroll files.</p> |
| <p>P2 The current process involves manual manipulation of Paymate data to update the spreadsheet required for upload to Keystone</p> | <p>Review functionality in Keystone to confirm whether integration exists between Paymate and Keystone. Leveraging functionality in Keystone to upload reports directly from Paymate will reduce effort required to manually update the excel spreadsheet</p> |
| <p>P3 Physical pay stubs are distributed to all employees.</p> | <p>Employees should be provided with an electronic pay stub to allow for a reduction in the use of paper and eliminate the need for physical movement of documents.</p> |

Property Taxation - Assessment and Mailing

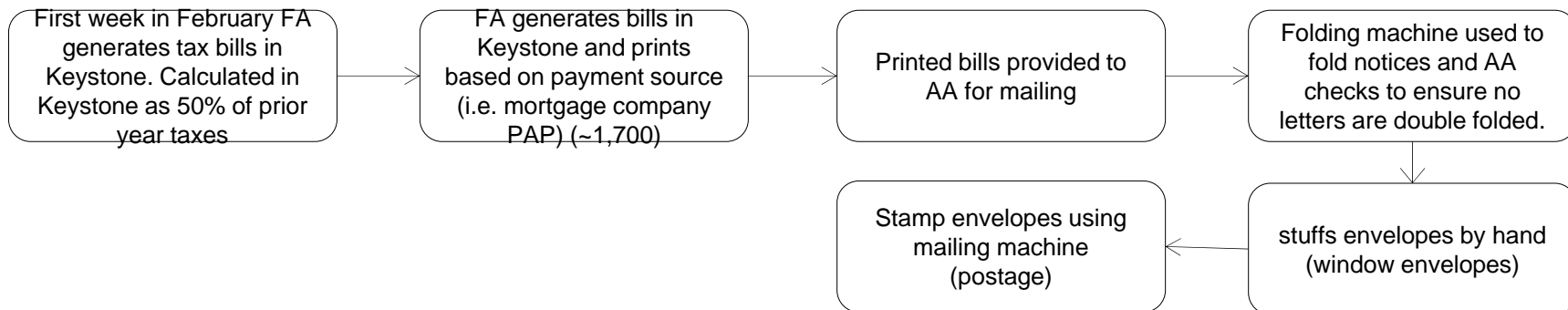
Property ownership changes



Assessed valued

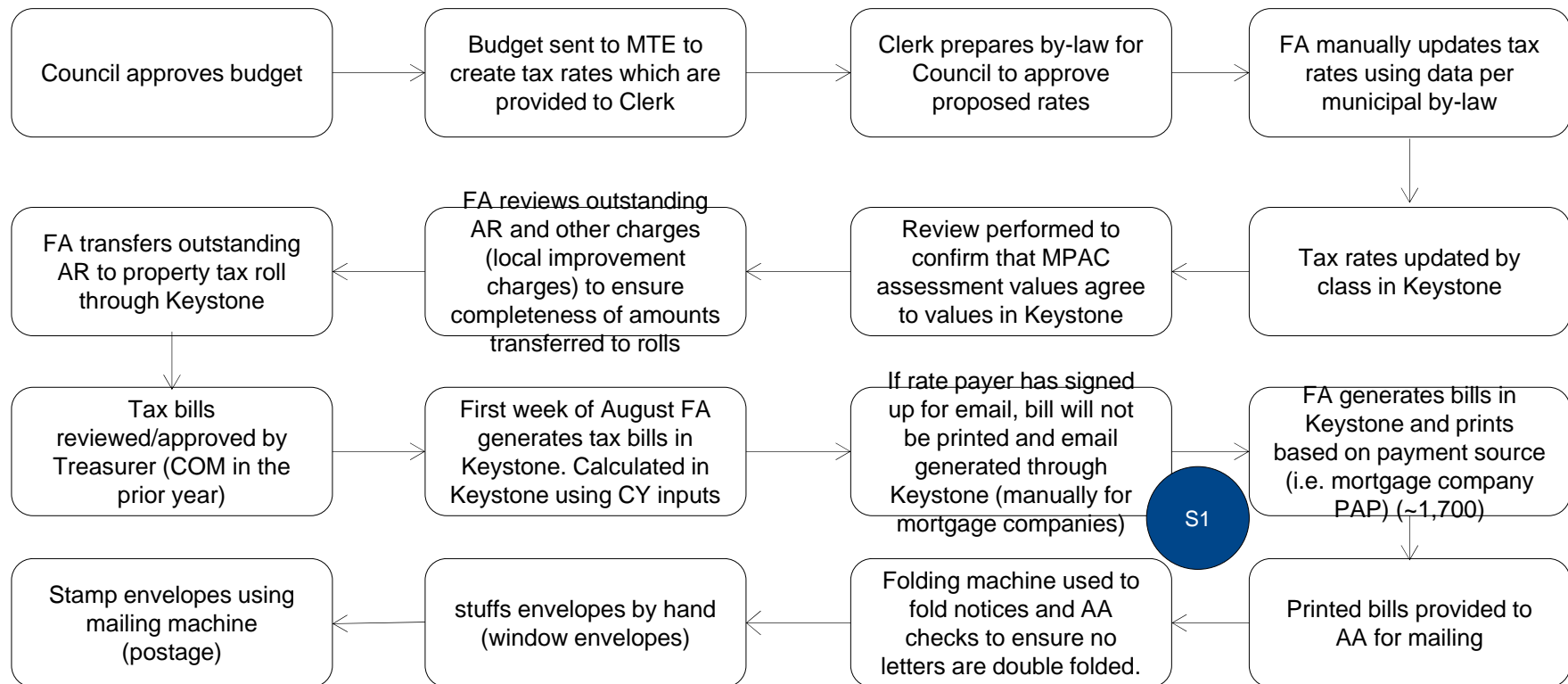


Interim Billing



Property Taxation - Assessment and Mailing

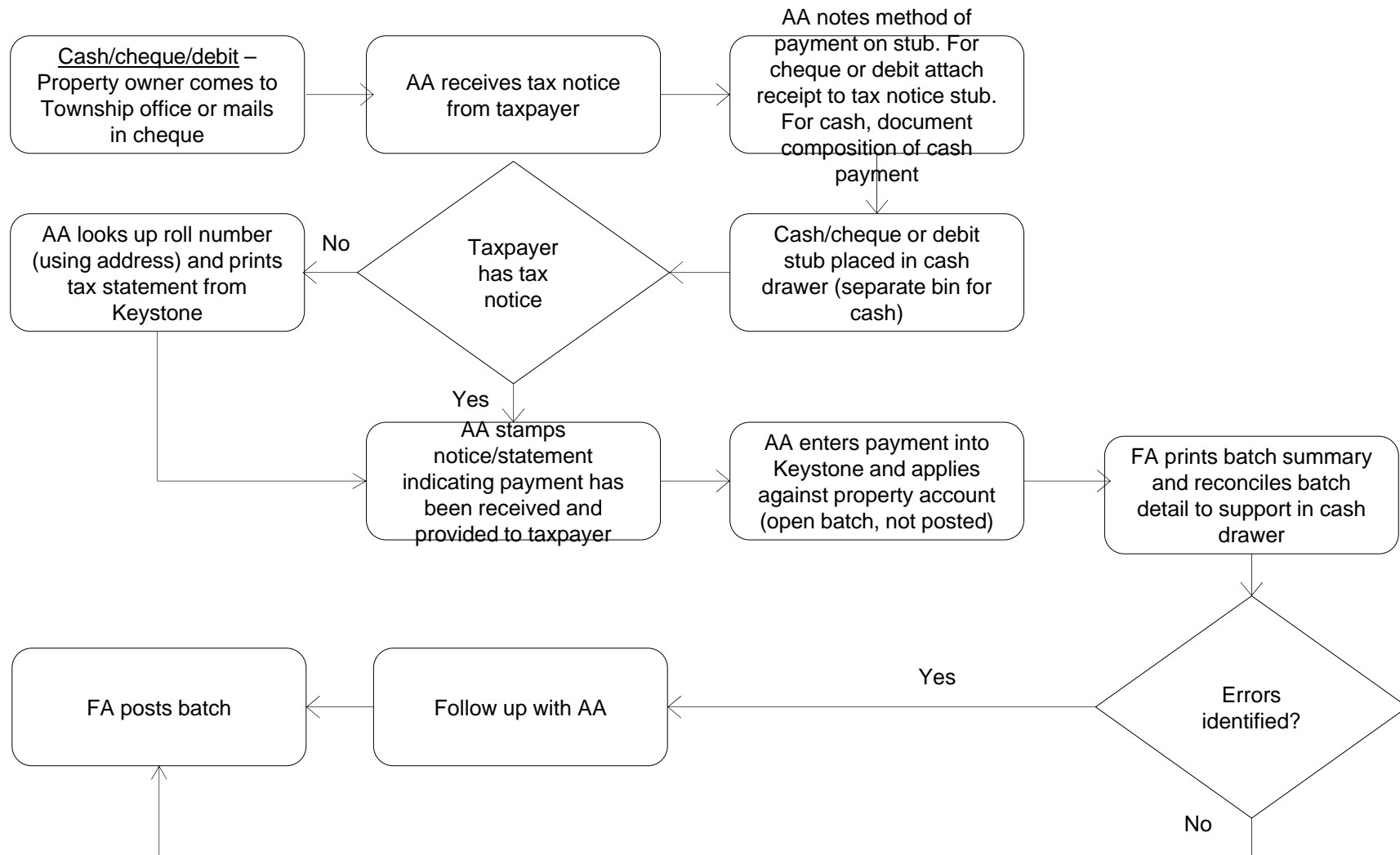
Final Billing



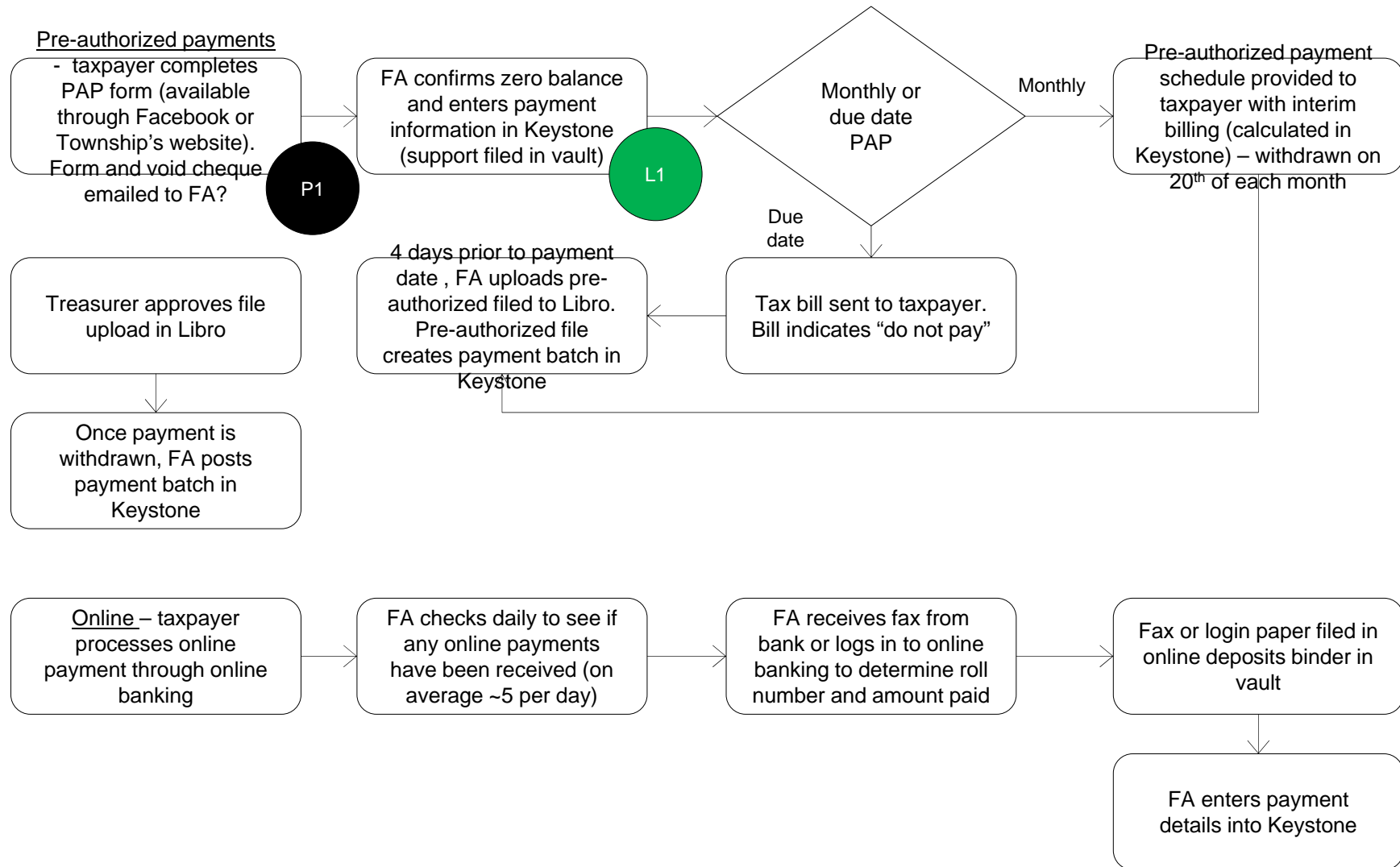
Property Taxation - Assessment and Mailing - Potential Courses of Action

| Issue | Potential Course of Action |
|--|---|
| <p>S1 It is our understanding that ~10 residents are registered to receive tax bills via email. Printing, folding and stuffing envelopes consumes time. In addition, the Township incurs costs for printing, envelopes and postage.</p> | <p>The Township should continue to encourage users to receive bills electronically through email. System generated emails can be produced that will send users their bills electronically reducing costs associated with paper and postage and the time required to prepare and mail the bills.</p> |

Property Taxation – Billing and Collection

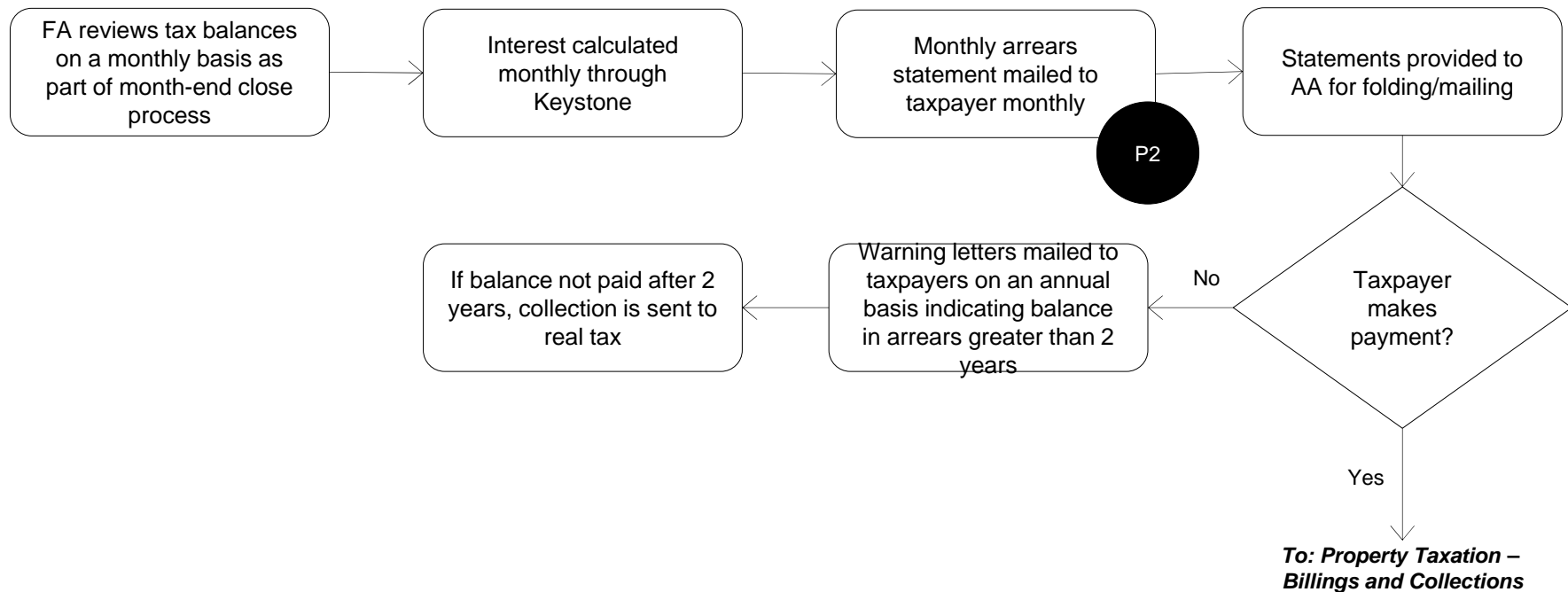


Property Taxation – Billing and Collection (Continued)



Property Taxation – Billing and Collection (Continued)

Tax Arrears

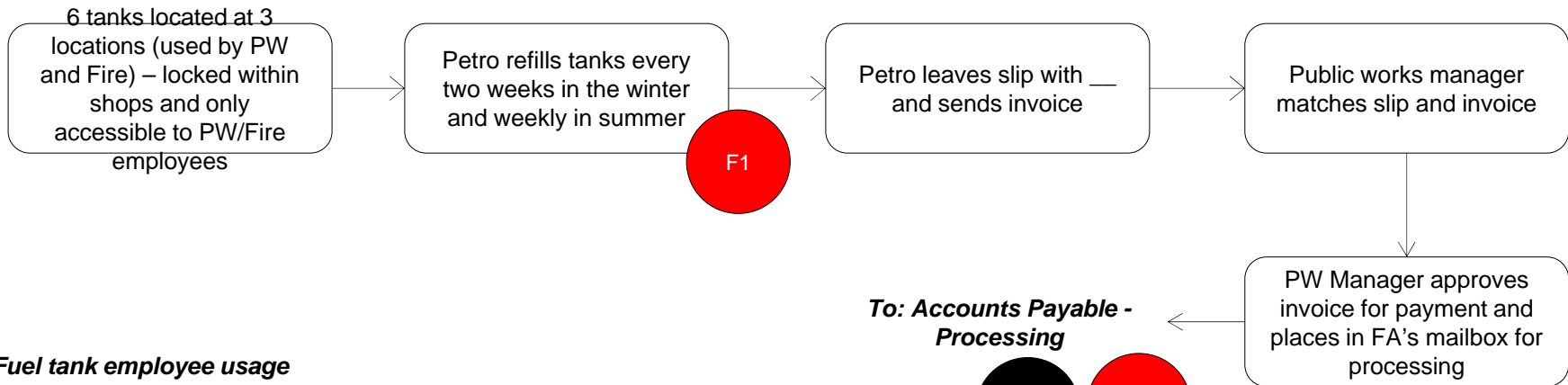


Property Taxation – Billing and Collection - Potential Courses of Action

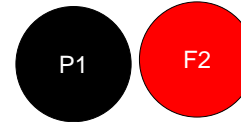
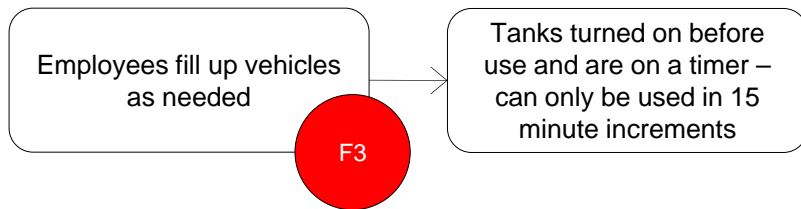
| Issue | Potential Course of Action |
|--|--|
| <p>P1 The Township should continue to promote the use of pre-authorized payments.</p> | <p>Increasing the number of pre-authorized payments received will help to reduce the amount of time spent processing property tax payments. A further benefit of pre-authorized payments will be to reduce the number of late payments received from taxpayers and follow up statements required.</p> |
| <p>P2 Arrears statements are currently manually prepared and sent by mail to all taxpayers in arrears. This results in additional time and postage costs incurred by the Township.</p> | <p>Allow users to receive statements electronically through email. System generated emails can be produced that will send users their statements electronically thereby reducing costs associated with post and the time required to prepare and mail the bills.</p> <p>Further, the Township may consider applying de minimis rule such that letters are not sent for trivial balances.</p> |
| <p>L1 It is our understanding that pre-authorized payment information, including void cheques, is stored in the vault. There is a risk associated with the storage of this sensitive data. As a best practice, the Township should not store taxpayer's financial information (including void cheques) unless absolutely necessary.</p> | <p>Once a taxpayer's banking information is input into Keystone, void cheques should be shredded.</p> |

Fuel Tank Usage

Fuel tank management




Fuel tank employee usage



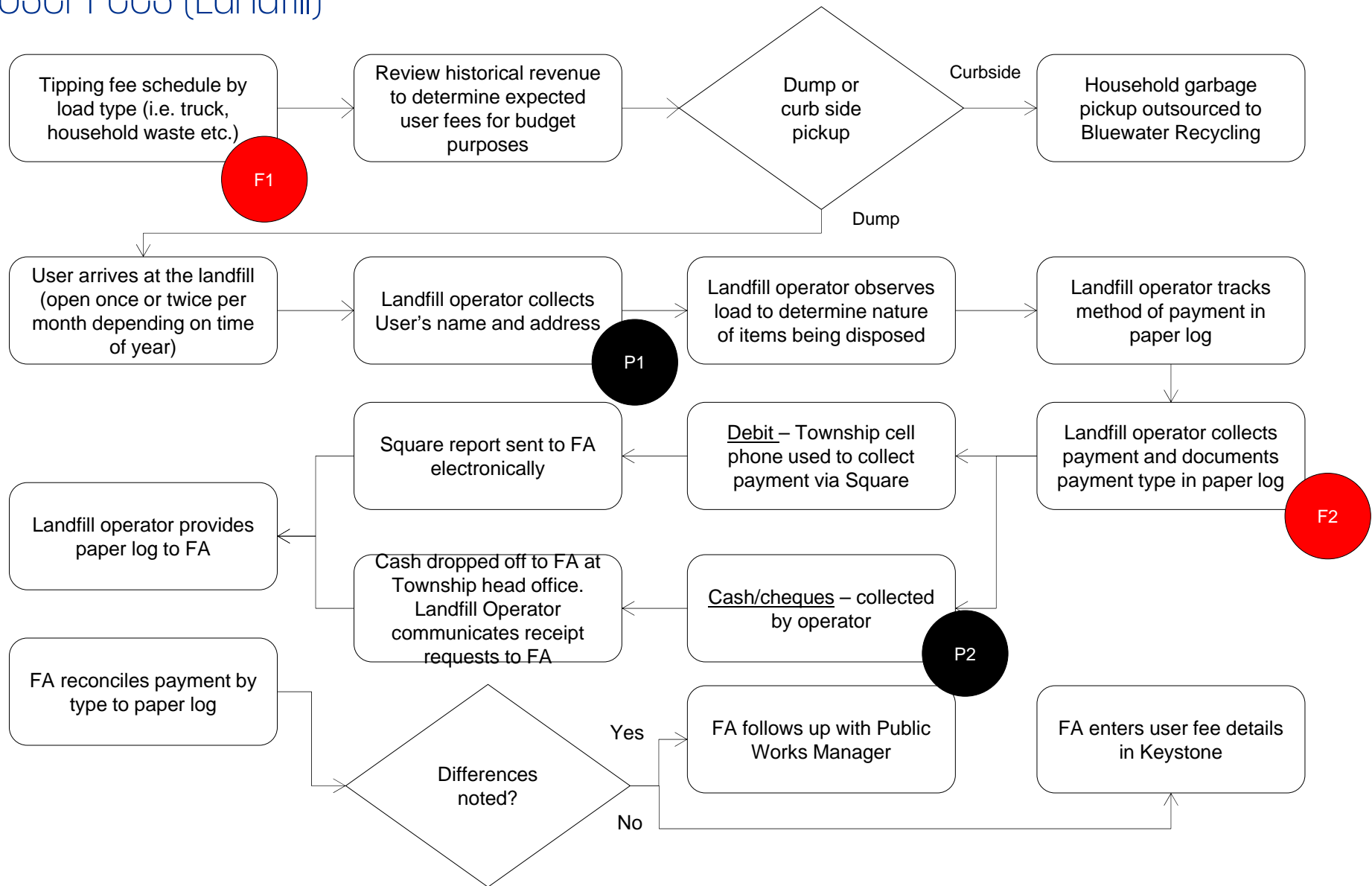
Fuel Tank Usage - Potential Courses of Action

| Issue | Potential Course of Action |
|--|--|
| <p>P1</p> <p>Due to the lack of processes and controls over fuel tank usage, the Township is exposed to the following risks:</p> <ul style="list-style-type: none"> - Costs inappropriately allocated amongst departments as there is no means of tracking who is using the fuel - Understatement of fuel tank inventory at year-end in the financial statements, as this inventory is not currently being recognized as an asset | <p>The Township should implement processes and controls sufficient to ensure fuel is appropriately accounted for. The Township may consider the following:</p> <ul style="list-style-type: none"> - Usage tracking should provide sufficient information for costs to be allocated by department - Fuel on hand at year-end should be counted and reported as inventory on the statement of financial position |
| <p>F1</p> <p>An annual inventory count is not performed to track/reconcile inventory held at year-end. It is our understanding that fuel is recorded as an expense on a cash basis which may result in an understatement of fuel tank inventory at year-end.</p> | <p>The Township should measure fuel tank inventory at minimum on an annual basis.</p> |
| <p>F2</p> <p>All fuel tank costs are currently charged to the Public Works Department. It is our understanding that other departments, including Building Services and Fire have access to fuel tanks. The current method results in an increased amount of fuel expense being allocated to the Public Works Department. Further, given Building Services is a shared service, the Township may be missing out on recovering costs that should be shared with other municipalities.</p> | <p>The Township should implement a system to track fuel tank usage (see F3) by individual. Tracking usage at the appropriate level will help to ensure that fuel expenses are appropriately allocated between departments and recovered, where appropriate.</p> |

Fuel Tank Usage - Potential Courses of Action

| Issue | Potential Course of Action |
|--|--|
|  <p>Given the Township does not track fuel tank usage, there is a risk that inappropriate usage of fuel (such as for personal use) could occur and would not be detected.</p> | <p>The Township should implement a system to track fuel tank usage. It is our understanding that systems are available that require the use of a fob and key code prior to fueling. This type of system allows fuel usage to be tracked automatically. We understand however cost estimates for this system are significant (\$15K - \$75K).</p> <p>If an automated tracking system is not feasible, the Township should implement a manual tracking sheet. The tracking sheet should be updated each time an individual utilizes fuel from the tank. Required fields should include the date, quantity of fuel used, the individual's department and last name.</p> |



User Fees (Landfill)



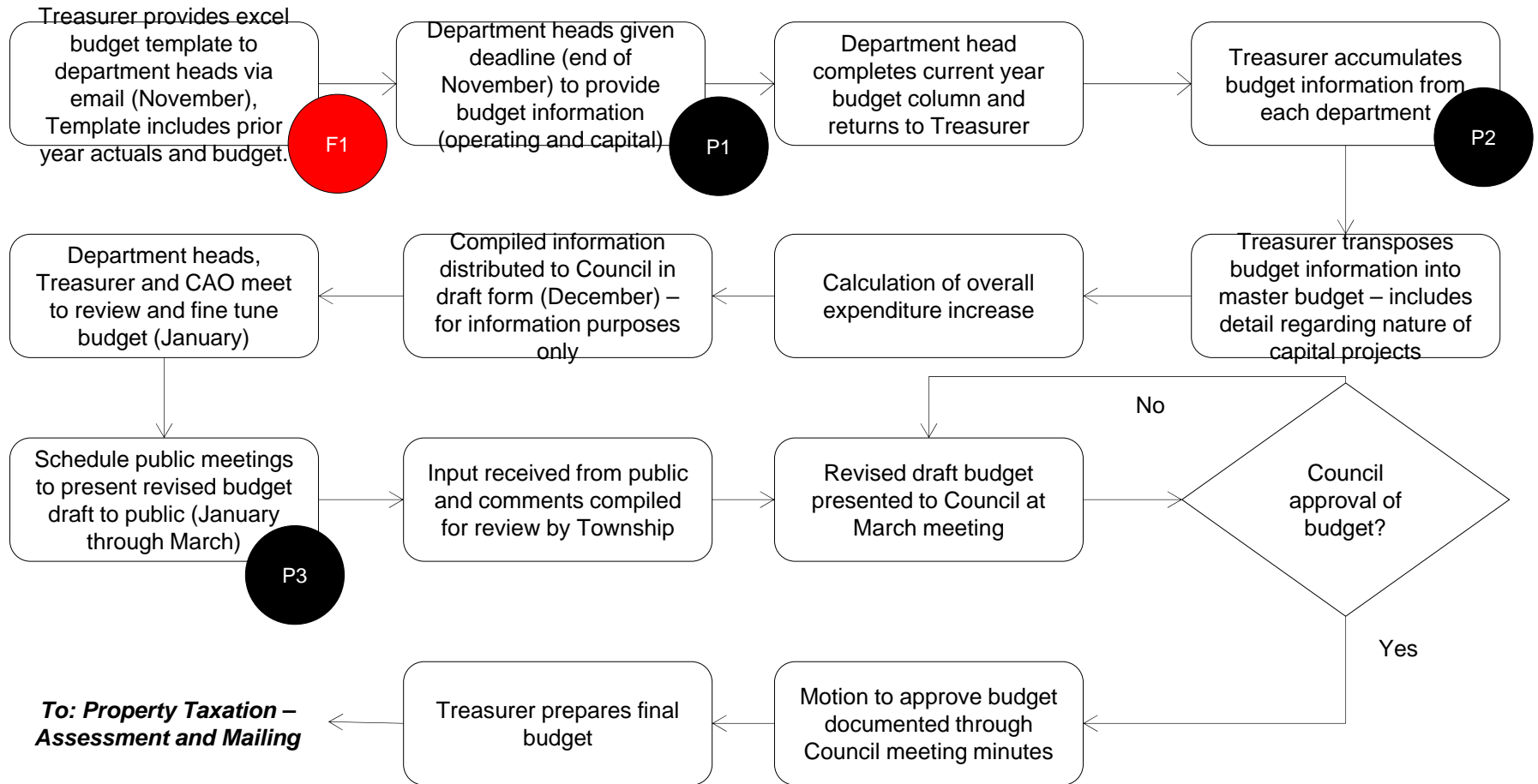
User Fees (Landfill) - Potential Courses of Action

| Issue | Potential Course of Action |
|---|---|
| <p>P1</p> <p>It is our understanding that landfill users are not required to provide proof of address. There is a risk that the Township is subsidizing disposal costs for non-residents.</p> | <p>The Township may want to explore transforming how residents access the landfill site. The Township may want to consider the following access controls:</p> <ul style="list-style-type: none"> • Issuing colour-coded access cards to residents on an annual basis. Issuing colour-coded cards will assist in identifying expired cards; • The landfill operator may have access to a list of resident postal codes. The landfill operator should obtain identification from users and cross reference the user's postal code to the list |
| <p>P2</p> <p>The following circumstances provide an opportunity to misappropriate funds:</p> <ul style="list-style-type: none"> - Receipts are not issued at the landfill. If a user requests a receipt, the landfill operator communicates the request to the FA who prepares the receipt. There is a risk that tipping fees are collected but never remitted to the Township - The Landfill operator brings cash home on Saturdays and delivers funds to the Township the following week | <p>Receipts should be issued by the Landfill Operator for all tipping fees and reconciled to payments received.</p> <p>In the longer term, we recommend that the Township not accept cash payments at the landfill. We understand that cash payments are minimal. All payments for tipping fees should be paid by cheque or debit/credit.</p> |

User Fees (Landfill) - Potential Courses of Action

| Issue | Potential Course of Action |
|--|--|
| <p> The Township's tipping fee schedule has not been updated for more than 20 years. Current fees charged to landfill users may not appropriately reflect the current cost of waste management. Using an out-of-date fee schedule may result in lost revenue for the Township.</p> | <p>It is our understanding that the Township plans to undertake an internal review of the tipping fee schedule. The fee schedule should be reviewed for reasonability compared to neighboring municipalities on an annual basis and adjusted for inflation, as appropriate.</p> |
| <p> There is no mechanism in place to track the number of cars entering the landfill. As a result, it is not possible to reconcile the number of users entering the landfill to the number of users recorded in the daily log book. Given the lack of controls, it is not possible to identify errors or omissions in the log book.</p> | <p>Simple technology can be used to track the number of vehicles entering and exiting the landfill site. Once this tracking is in place, the Township should implement a control to reconcile the number of vehicles entering the landfill site to the number of transactions recorded in the daily log.</p> |

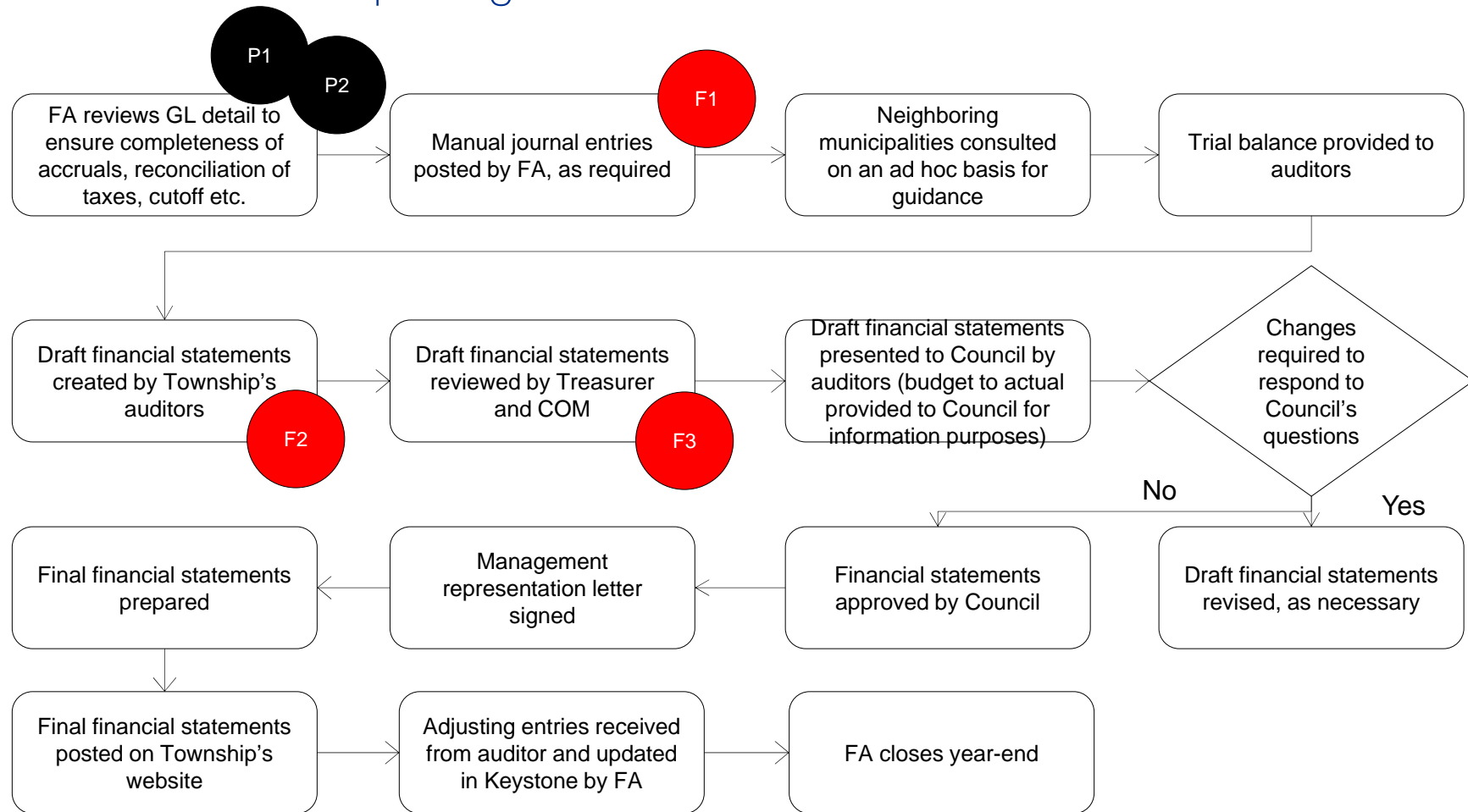
Budgeting



Budgeting - Potential Courses of Action

| Issue | Potential Course of Action |
|--|--|
| <p>P1</p> <p>The Province of Ontario requires the development and adoption of asset management plans for municipalities seeking capital funds. It is our understanding that the Township is in the process of developing an asset management plan.</p> <p>In the absence of an asset management plan, the Township may not appropriately anticipate infrastructure needs. This represents a risk that the Township will not properly adjust the capital levy if needs aren't appropriately anticipated.</p> | <p>The Township should continue to develop and implement an asset management plan.</p> <p>With the implementation of an asset management plan, the Township may consider a model whereby separate operating and capital budgets are prepared. Under this model, the Township should consider the use of a multi-year capital budget which will result in time savings for staff and Council.</p> |
| <p>P2</p> <p>The Township's budgeting process is completed in Excel (spreadsheet with 25 tabs).</p> | <p>Consideration should be given to the use of a budgeting software to facilitate the budget preparation process. This would reduce the amount of time and effort in the manual updates required each time a change to the individual department budget is made.</p> |
| <p>P3</p> <p>It is our understanding that multiple (~3) public meetings are held to present the annual budget detail. Further, we understand that there is little attendance/engagement on the part of the public at these meetings. This process consumes a significant amount of time on the part of staff and Council and delays the budget approval process.</p> | <p>The Township should perform a review to ensure that departmental presentations for the public meeting provide the appropriate level of detail. The time allocated to each department should be reduced such that the entire budget presentation can be condensed into one meeting.</p> |
| <p>F1</p> <p>We understand that the Township does not currently have a budget policy in place to oversee their budgeting process.</p> | <p>A budget policy establishes the processes of the annual budget and encourages long-range planning of operating expenditures and effective planning, analysis, and allocation of the Township's limited financial resources.</p> |


Annual Financial Reporting



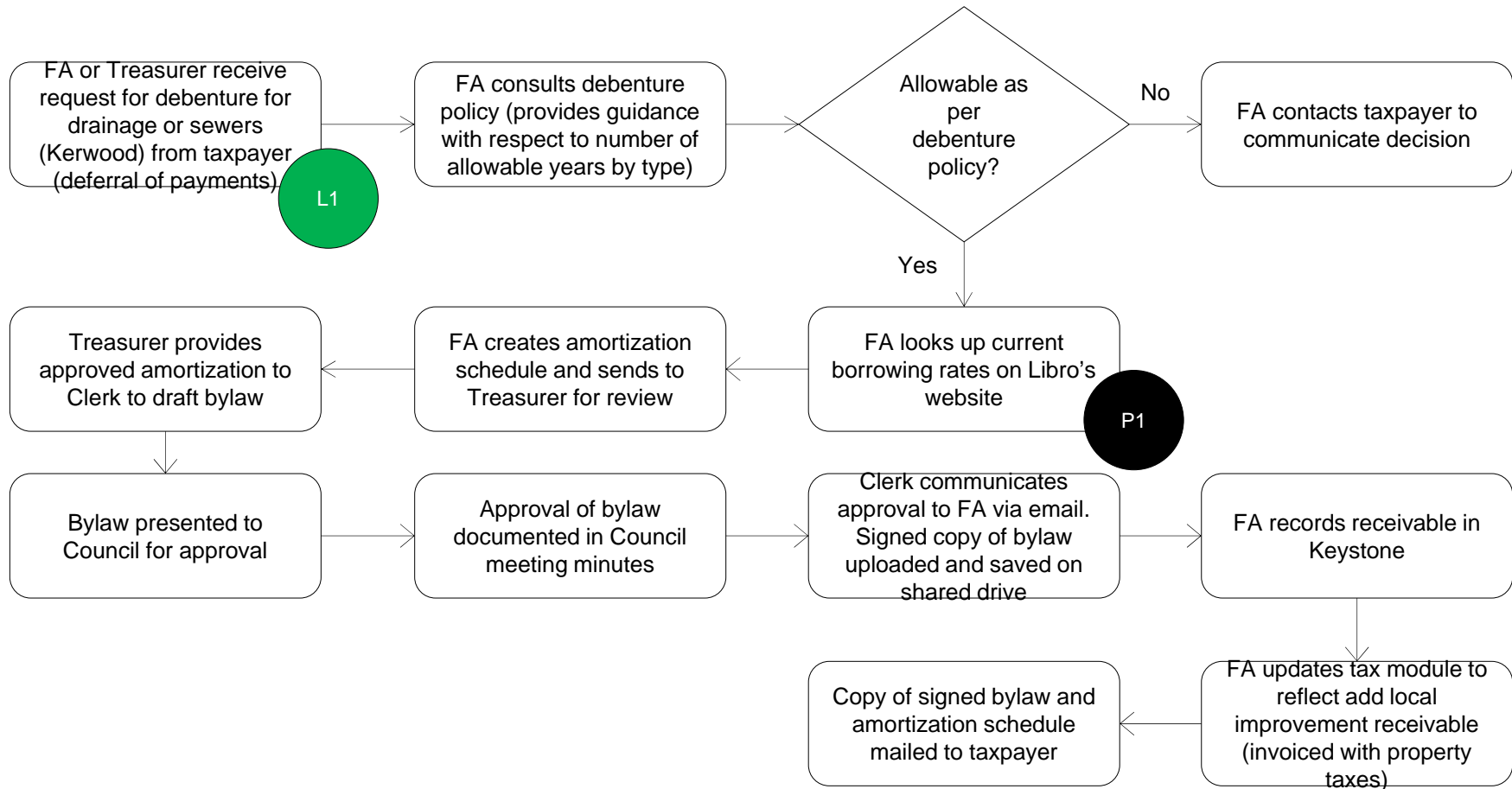
Annual Financial Reporting - Potential Courses of Action

| Issue | Potential Course of Action |
|--|---|
| <p>P1 It is our understanding that miscellaneous departmental accounts are frequently used to record expenses. Review and reallocation of costs posted to miscellaneous accounts is performed as part of the Township's year-end close out procedures. The reallocation of costs results in rework and consumes time.</p> | <p>Miscellaneous accounts should only be used in limited circumstances such for as one-time, small dollar value transactions. A review of the Township's chart of accounts would help to ensure that GL accounts are sufficiently aggregated to allow staff to easily determine the appropriate GL account.</p> |
| <p>P2 It is our understanding that the Township's chart of accounts has not been reviewed for some time. Creating and maintaining an appropriate chart of accounts is an integral part of the financial services function. A chart of accounts that includes duplicate accounts or does not aggregate accounts to the appropriate level of detail may cause confusion and lead to inaccurate or cumbersome financial reporting.</p> | <p>The Township should consider performing a review of their chart of accounts. Given internal capacity constraints, it may be appropriate to outsource this review.</p> |
| <p>F1 The Township does not have a formal process in place to facilitate the regular review of journal entries. This represents a risk that erroneous journal entries are being recorded.</p> | <p>We recommend that the Township implement review criteria such that all significant unusual transactions are reviewed and approved by the Treasurer or CAO. Documentation should be maintained to support the review/approval process.</p> |
| <p>F2 It is our understanding that the Township's auditors generally propose several adjusting entries. Some of the identified differences are corrected in the financial statements and some are not. The identification of financial reporting differences may result in incremental time and fees required to complete the year-end audit.</p> | <p>The Township should obtain an understanding of the nature of adjustments proposed as part of prior year audits. On a go forward basis, the Township should strive to post recurring bookkeeping adjustments (i.e. amortization expense) prior to providing the trial balance to the audit team. As a best practice, all identified misstatements should be recorded in the financial statements unless there is a reasonable justification for not doing so.</p> |

Annual Financial Reporting - Potential Courses of Action

| Issue | Potential Course of Action |
|---|---|
|  Draft financial statements are provided to the County of Middlesex via email for review. There is a risk that draft documents could be shared with or intercepted by an unintended recipient. | Sensitive information shared via email should be password protected. The password should only be available to the intended recipient only. This will ensure confidentiality of sensitive information. This can be done using existing features of Adobe Acrobat when sending documents in pdf format. |

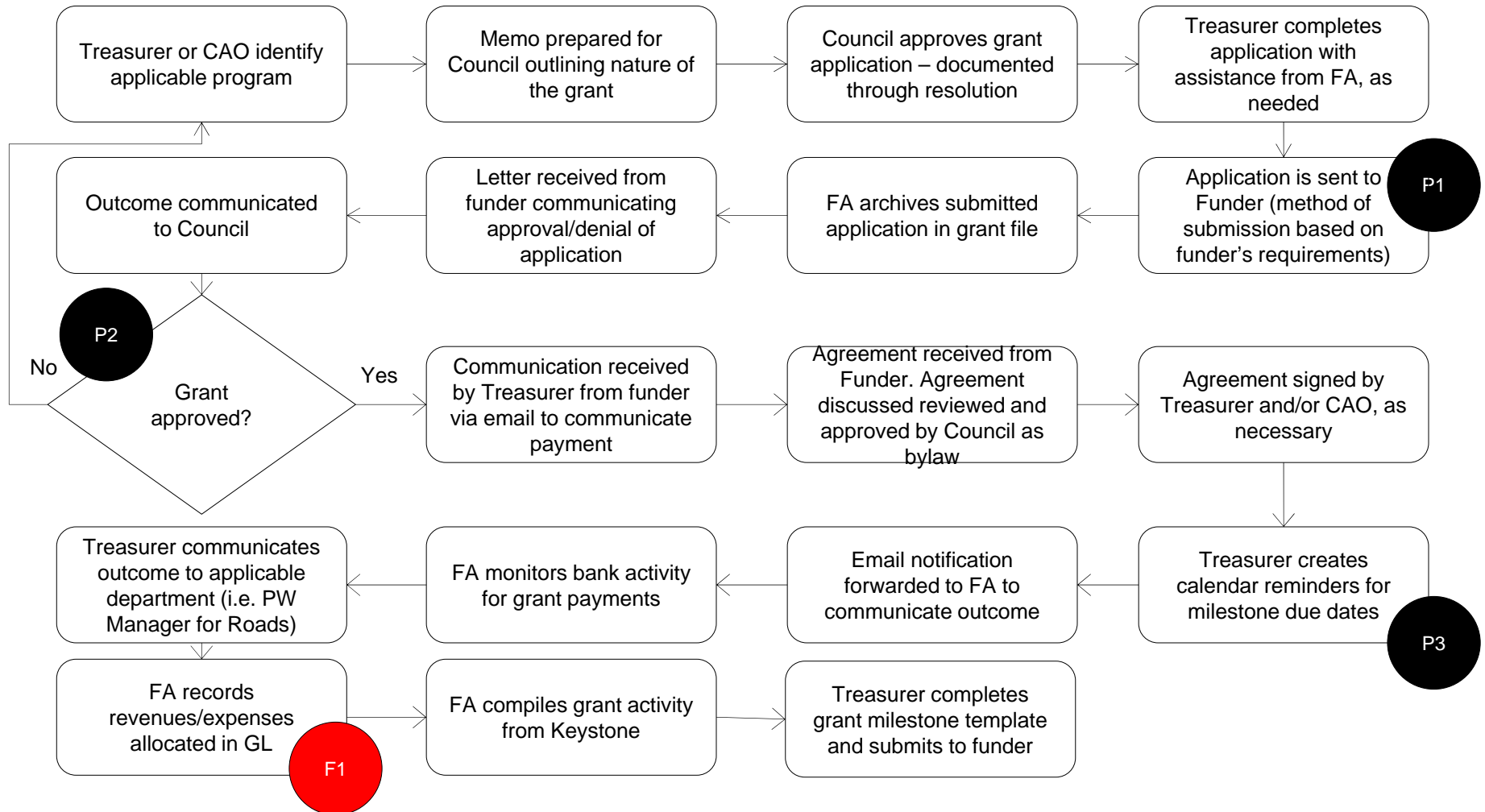
Debentures Receivable



Debentures Receivable - Potential Courses of Action

| Issue | Potential Course of Action |
|--|---|
| <p>P1</p> <p>The Township's Municipal Drain Assessment Billing, Payment and Debenture Policy notes that the "interest rate shall be determined by the Treasurer with regard to current borrowing rates". There is ambiguity with respect to what sources should be consulted to determine an appropriate interest rate. This represents a risk that the methods used to determine appropriate interest rates are not consistently applied.</p> | <p>The Township should review the Municipal Drain Assessment Billing, Payment and Debenture Policy. The Policy should be updated to include guidance with respect to <i>how</i> interest rates shall be determined by the Treasurer including which sources may be consulted.</p> |
| <p>P2</p> <p>The Township does not have a documented debentures payable process.</p> | <p>The Township should have a documented policy that outlines when the use of debentures is appropriate and the required controls that need to be adhered to when a debenture is initiated. The policy should be in accordance with the Municipal Act.</p> |
| <p>L1</p> <p>The Municipal Drain Assessment Billing, Payment and Debenture Policy states that "the assessed property owner is required to advise the Treasurer in writing of the intent to have drain construction assessments debentured before the invoice due date.". It is our understanding that documentation is not always obtained in writing to support the property owner's intent to enter into a debenture agreement. Further, the policy does not provide guidance with respect to documentation that should be maintained to support the property owner's acknowledgment of the terms and conditions of the agreement. This represents a potential exposure for the Township.</p> | <p>We recommend that the Policy is updated to include the following:</p> <ul style="list-style-type: none"> - Application – all requests should be completed using a template application form. All applications should be reviewed and signed by the Treasurer as evidence of approval. - Agreement - upon Council approval, the agreement, including any Applicable terms and conditions, should be signed by both parties (property owner and representative of the Township (Treasurer or CAO)) <p>The completed documents should be filed in a secured manner.</p> |

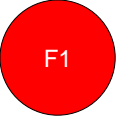
Grants



Grants - Potential Courses of Action

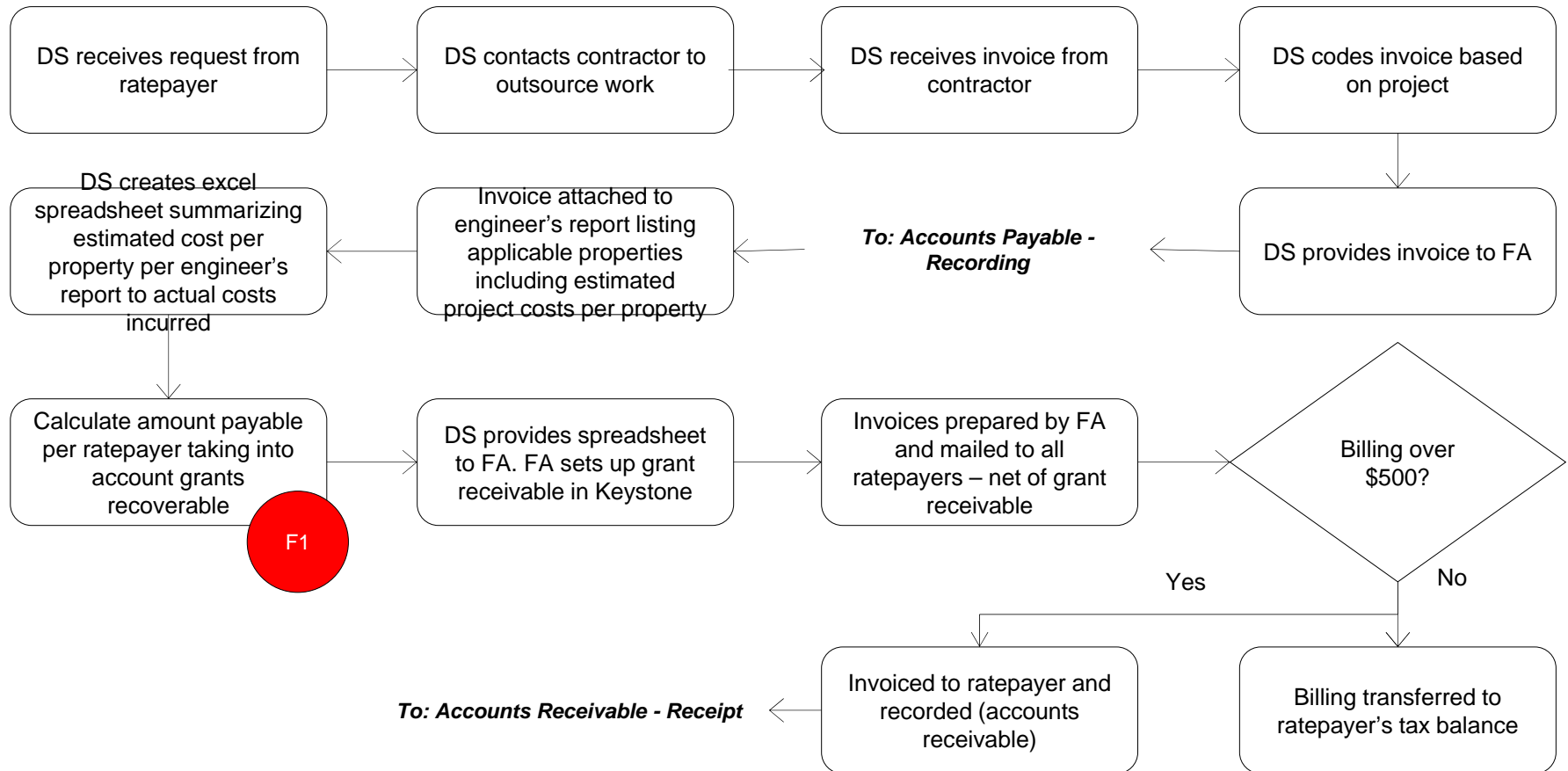
| Issue | Potential Course of Action |
|---|---|
| <p>P1 It is our understanding that grant application submissions are not always tracked. In certain circumstances, funding has been received by the Township and there is not sufficient information available to tie these amounts to a specific funder or agreement (See: Bank Reconciliations P4)</p> | <p>The Township should implement a process to track grant application which will assist with the reconciliation of funding received to funding source. The Township should review functionality in Keystone to determine whether a grant module is available for tracking applications.</p> |
| <p>P2 Currently, a debrief of unsuccessful grant applications does not occur. Determining the reason for the failed application can identify the strengths and weaknesses in the application and will assist with improved grants submissions in the future.</p> | <p>Department Heads should prepare the grant applications since they typically have the knowledge and expertise related to specific projects. This will reduce the amount of time spent coordinating between the Finance Department at the Department Head.</p> <p>The Township may implement the following process steps:</p> <ul style="list-style-type: none"> • Have Department Heads prepare the initial grant application and then submit to the Treasurer for review and submission • Track grant application submissions and review outcomes to identify trends • The Treasurer and Department Head should debrief all unsuccessful grant applications in excess of a reasonable threshold (i.e. \$25,000). This will help to identify items to improve on further applications. |
| <p>P3 There is no formal process in place to track grant milestones and upcoming reporting deadlines. Under the current process employees manually track upcoming grant milestones using calendar reminders in Outlook. There is a risk that not all employees responsible for grant tracking have access to these reminders which may result in missed reporting deadlines.</p> | <p>It is our understanding that the Township plans to leverage functionality in Laser Fiche to track important dates. It is important that all individuals involved in the reporting process receive notification of upcoming due dates</p> |

Grants - Potential Courses of Action

| Issue | Potential Course of Action |
|---|--|
|  <p>The current process for tracking project costs for financial reporting purposes is cumbersome and not streamlined. As a result, project costs at a point in time are not always known and comparisons to budget can not be completed accurately.</p> | <p>The Township should develop and implement a grant tracking system which would detail grants that have been applied for, received, and related expenditures that have been incurred.</p> |

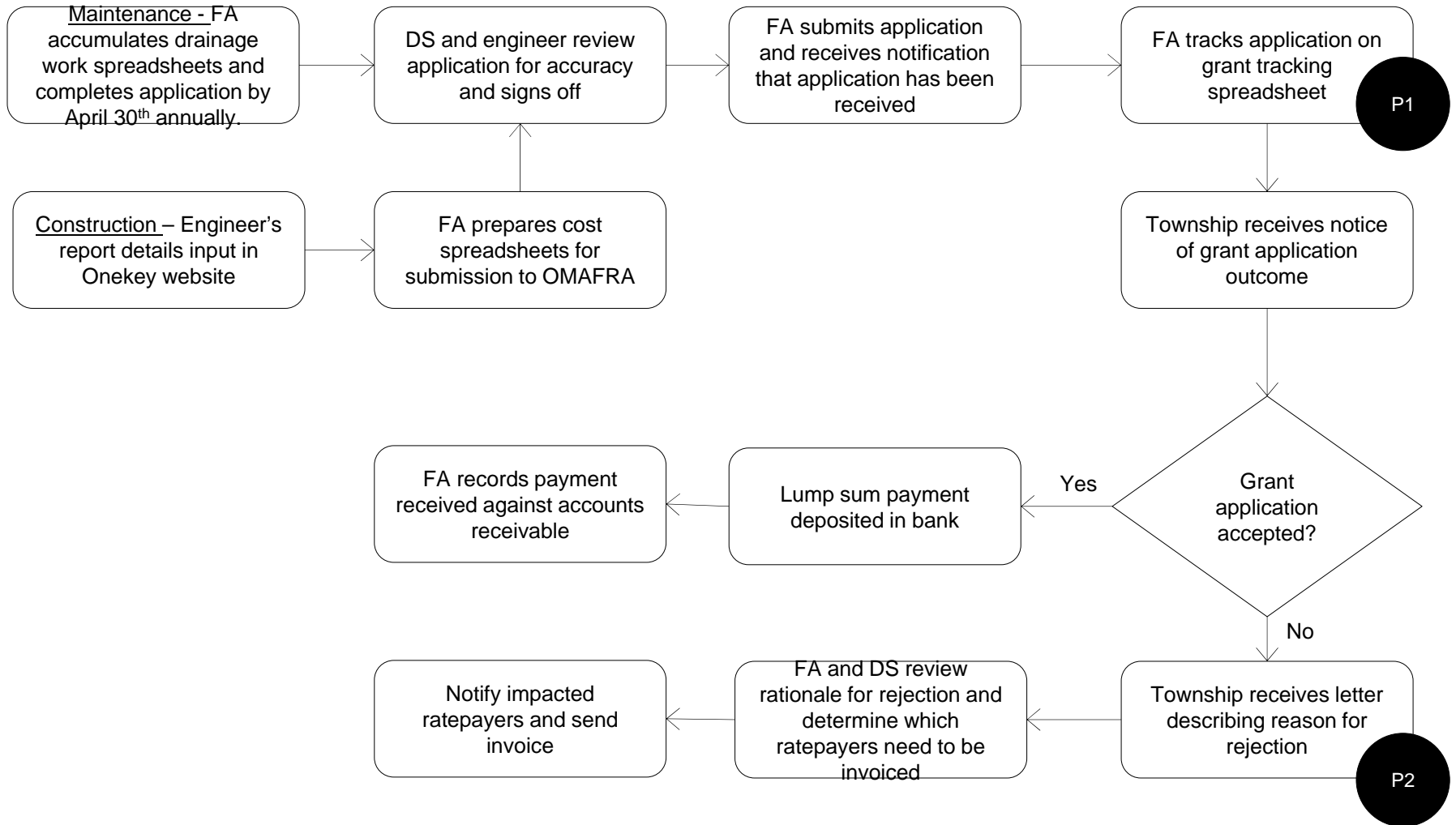
Drainage Billings

Maintenance



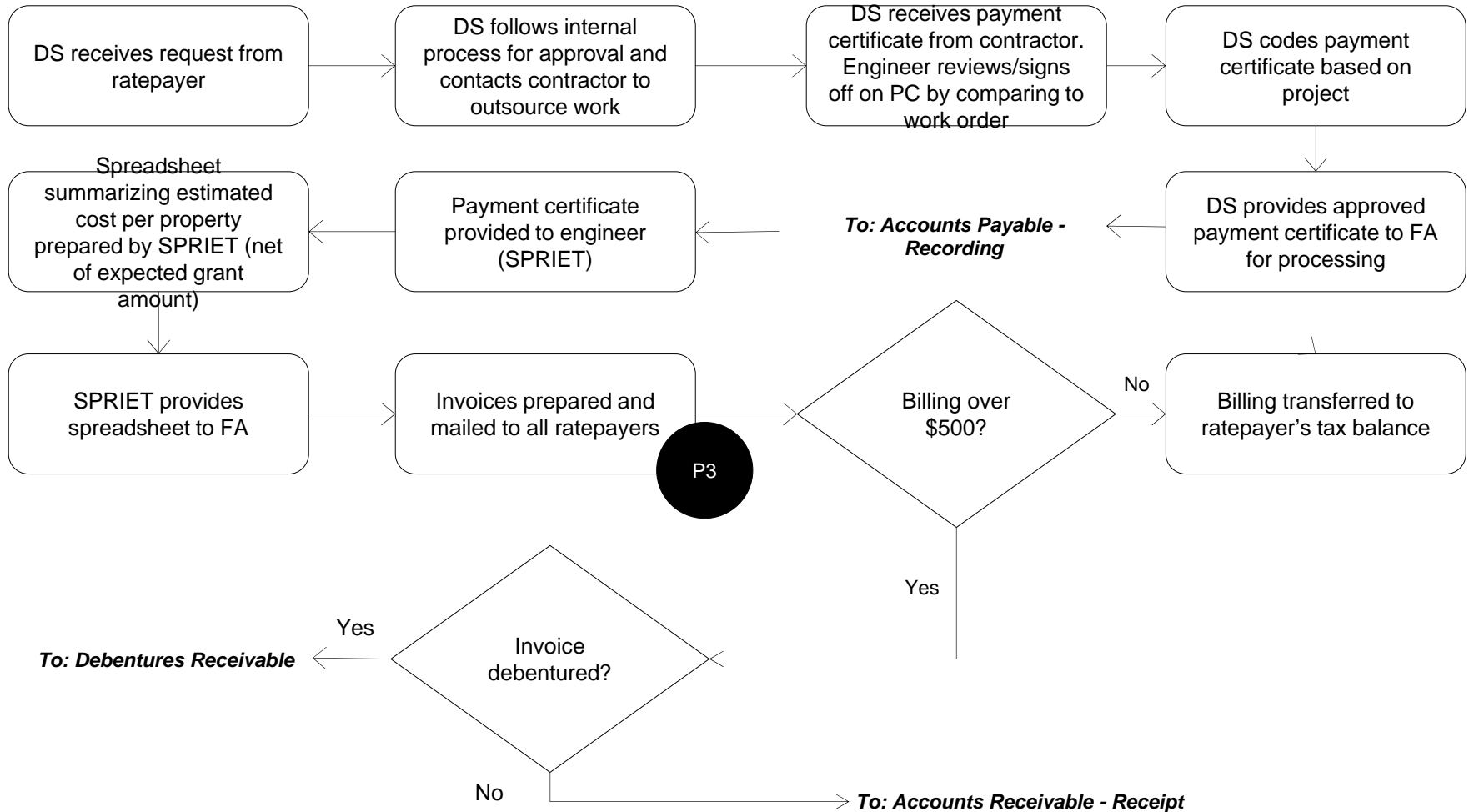
Drainage Billings (Continued)

Grants receivable



Drainage Billings (Continued)

Construction



Drainage Billings - Potential Courses of Action

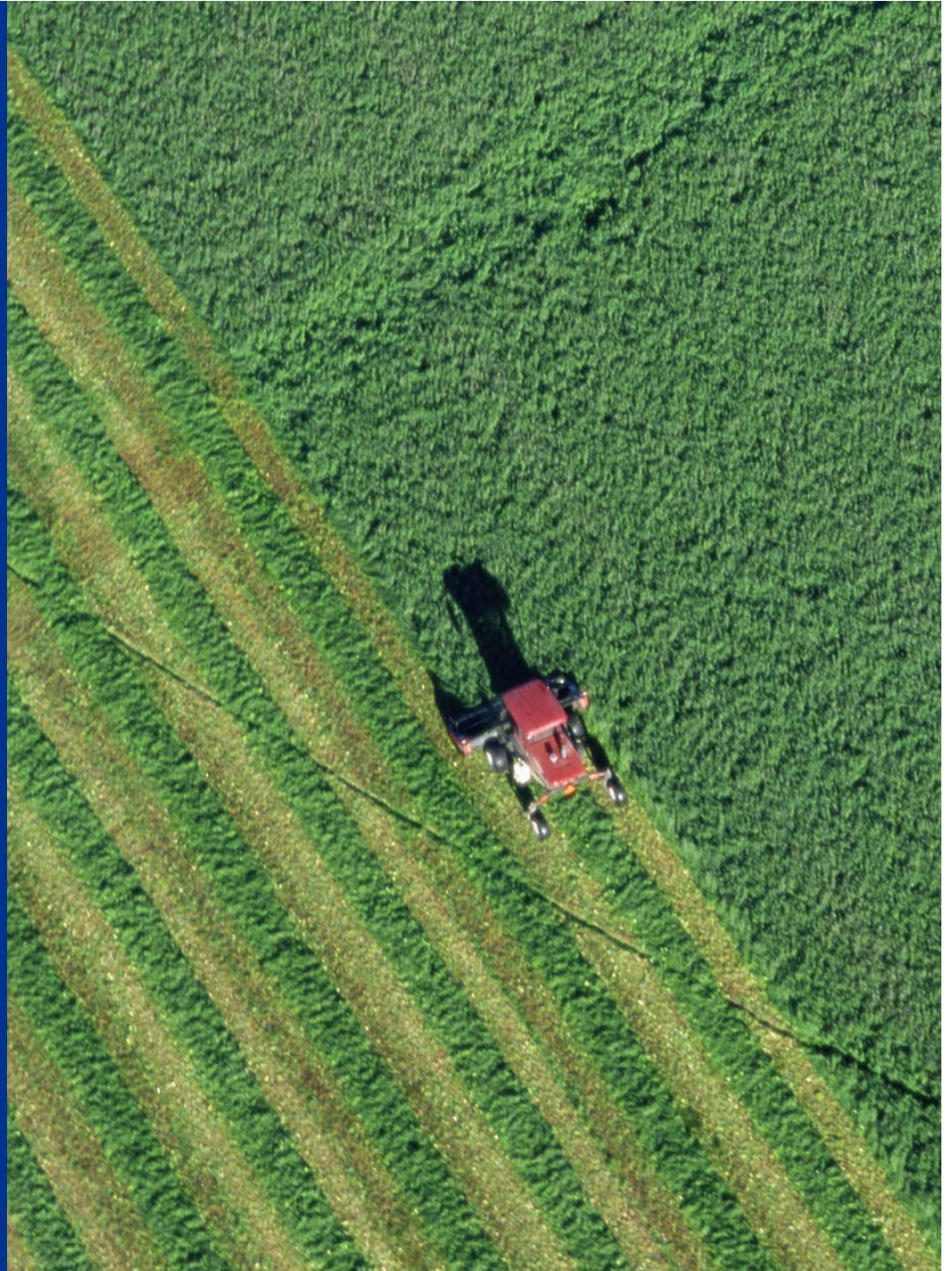
| Issue | Potential Course of Action |
|---|--|
| <p>P1 It is our understanding that there is no formal process in place to track grant applications.</p> | <p>We recommend that the Township review functionality in Keystone to determine whether a module exists that can be used to assist with tracking of grants. This will help to provide more accurate information for reporting purposes and reduce the time and effort required to manually track grant outcomes.</p> |
| <p>P2 Currently, a debrief of unsuccessful grant applications does not occur. Determining the reason for the failed application can identify the strengths and weaknesses in the application process and will assist with improved grants submissions in the future.</p> | <p>The Township should implement procedures to track grant application submissions and review outcomes. As part of the Township's outcome review process, the Treasurer and Department Head should debrief all unsuccessful grant applications. This debrief process will help to obtain an understanding of the reason for unsuccessful applications and improve outcomes on future applications.</p> |
| <p>P3 Drainage invoices are mailed to all ratepayers. Printing, folding and stuffing envelopes consumes time. In addition, the Township incurs costs for printing, envelopes and postage.</p> | <p>For balances transferred to a ratepayer's tax balance, the Township should consider including a description of amounts owing on regularly scheduled tax invoice. This would eliminate the time and cost associated with mailing separate drainage invoices.</p> |
| <p>F1 We understand there is a significant time lag between when credits are given to ratepayers for drainage grants and when grant funding is received (3-4 years). This represents a financial risk to the Township if grant applications are not approved. In cases where grant funding is not approved, the Township needs to recover previously issued credits from ratepayers which consumes time and resources and often leads to disgruntled ratepayers.</p> | <p>The Township should consider whether gross amounts can be invoiced to ratepayers. Credits or refunds can be issued once grant funding is received.</p> |



Township of Adelaide Metcalfe

Financial Services Review

Chapter IV
Financial Indicators and Benchmarking
Analysis



Chapter IV - Financial Indicators and Benchmarking Analysis

In order to provide additional perspective on the Township's financial performance and position, we have included in this chapter an analysis of financial indicators for the Township and other comparative municipalities.

In Canada, the development and maintenance of principles for financial reporting fall under the responsibility of the Accounting Standards Oversight Council ('AcSOC'), a volunteer body established by the Canadian Institute of Chartered Accountants in 2000. In this role, AcSOC provides input to and monitors and evaluates the performance of the two boards that are tasked with established accounting standards for the private and public sector:

- The Public Sector Accounting Board ('PSAB') establishes accounting standards for the public sector, which includes municipal governments; and
- The Accounting Standards Board ('AcSB'), which is responsible for the establishment of accounting standards for Canadian entities outside of the public sector.

In May 2009, PSAB released a Statement of Recommended Practice that provided guidance on how public sector bodies should report on indicators of financial condition. As defined in the statement, financial condition is '*a government's financial health as assessed by its ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others*'. In reporting on financial condition, PSAB also recommended that three factors, at a minimum, need to be considered:

- **Sustainability.** Sustainability is the degree to which the Township can deliver services and meet its financial commitments without increasing its debt or tax burden relative to the economy in which it operates. To the extent that the level of debt or tax burden grows at a rate that exceeds the growth in the Township's assessment base, there is an increased risk that the Township's current spending levels (and by association, its services, service levels and ability to meet creditor obligations) cannot be maintained.
- **Flexibility.** Flexibility reflects the Township's ability to increase its available sources of funding (debt, taxes or user fees) to meet increasing costs. Municipalities with relatively high flexibility have the potential to absorb cost increases without adversely impacting on affordability for local residents and other ratepayers. On the other hand, municipalities with low levels of flexibility have limited options with respect to generating new revenues, requiring an increased focus on expenditure reduction strategies.
- **Vulnerability.** Vulnerability represents the extent to which the Township is dependent on sources of revenues, predominantly grants from senior levels of government, over which it has no discretion or control. The determination of vulnerability considers (i) unconditional operating grants such as OMPF; (ii) conditional operating grants such as Provincial Gas Tax for transit operations; and (iii) capital grant programs. Municipalities with relatively high indicators of vulnerability are at risk of expenditure reductions or taxation and user fee increases in the event that senior levels of funding are reduced. This is particularly relevant for municipalities that are vulnerable with respect to operating grants from senior levels of government, as the Municipal Act does not allow municipalities to issue long-term debt for operating purposes (Section 408(2.1)).

Chapter IV - Financial Indicators and Benchmarking Analysis

As a means of reporting the Township's financial condition, we have considered the following financial indicators (*denotes PSAB recommended financial indicator).

| Financial Condition Category | Financial Indicators |
|------------------------------|---|
| Sustainability | <ol style="list-style-type: none"> 1. Financial assets to financial liabilities* 2. Total reserves and reserve funds per household 3. Total operating expenses as a percentage of taxable assessment* 4. Capital additions as a percentage of amortization expense |
| Flexibility | <ol style="list-style-type: none"> 5. Residential taxes per household 6. Residential taxation as a percentage of average household income 7. Total long-term debt per household 8. Total taxation as a percentage of total assessment* 9. Debt servicing costs (interest and principal) as a percentage of total revenues* 10. Net book value of tangible capital assets as a percentage of historical cost of tangible capital assets* |
| Vulnerability | <ol style="list-style-type: none"> 11. Operating grants as a percentage of total revenues* 12. Capital grants as a percentage of total capital expenditures* |

A detailed description of these financial indicators is included on the following pages, including a comparison of the Township's performance and position against other municipalities. From an overall perspective, we note that:

- The Township does not appear to be facing sustainability issues, as its level of financial assets and reserve funds is consistent with or above the average of the comparator group and its operating costs as a percentage of taxable assessment are lower than many of the comparator municipalities.
- The Township's flexibility indicators are less favourable, with residential taxes being on the high end compared to comparator municipalities, indicating the ability to fund future operations by increasing tax levies may be limited.

Financial Indicators and Benchmarking

FINANCIAL ASSETS TO FINANCIAL LIABILITIES

This financial indicator provides an assessment of the Township's solvency by comparing financial assets (including cash, investments and accounts receivable) to financial liabilities (accounts payable, deferred revenue and long-term debt). Low levels of financial assets to financial liabilities are indicative of limited financial resources available to meet cost increases or revenue losses.

TYPE OF INDICATOR

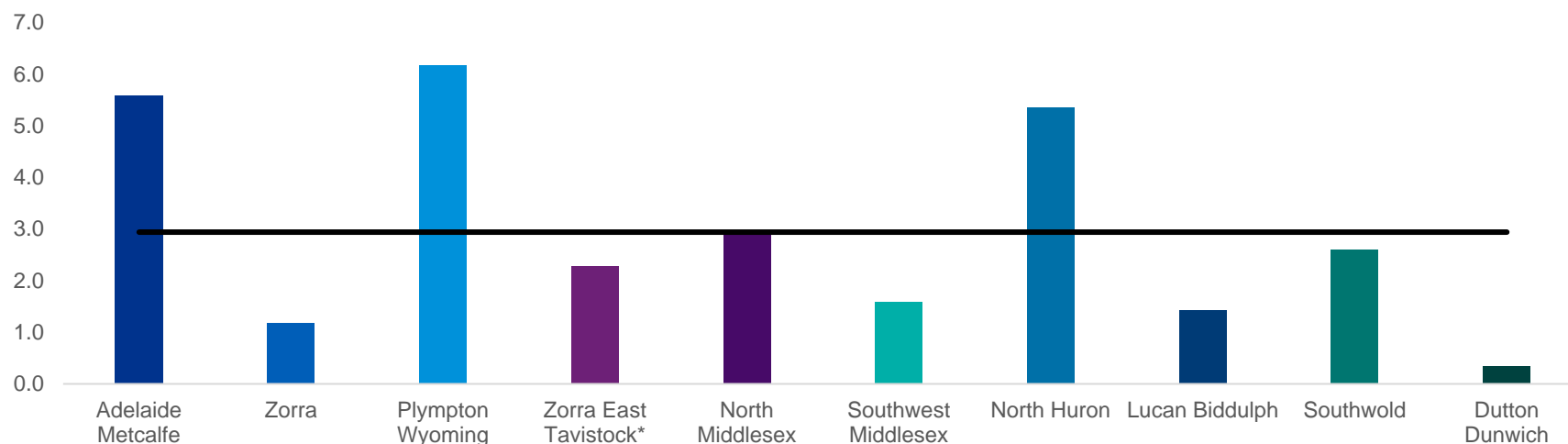
Sustainability ✓
Flexibility
Vulnerability

FORMULA

FIR Schedule 70, Line 9930,
Column 1 divided by FIR
Schedule 70, Line 9940,
Column 1

POTENTIAL LIMITATIONS

- Financial assets may include investments in government business enterprises, which may not necessarily be converted to cash or yield cash dividends
- Financial liabilities may include liabilities for employee future benefits and future landfill closure and post-closure costs, which may (i) not be realized for a number of years; and/or (ii) may not be realized at once but rather over a number of years



* Please note that 2018 data was used for Zorra East Tavistock as that is the most recent data available at this time.



Financial Indicators and Benchmarking

TOTAL RESERVES AND RESERVE FUNDS PER HOUSEHOLD

This financial indicator provides an assessment of the Township's ability to absorb incremental expenses or revenue losses through the use of reserves and reserve funds as opposed to taxes, user fees or debt. Low reserve levels are indicative of limited capacity to deal with cost increases or revenue losses, requiring the Township to revert to taxation or user fee increases or the issuance of debt.

TYPE OF INDICATOR

Sustainability ✓
 Flexibility
 Vulnerability

FORMULA

FIR Schedule 70, Line 6420,
 Column 1 divided by FIR
 Schedule 2, Line 40, Column 1

POTENTIAL LIMITATIONS

- Reserves and reserve funds are often committed to specific projects or purposes and as such, may not necessarily be available to fund incremental costs or revenue losses
- As reserves are not funded, the Township may not actually have access to financial assets to finance additional expenses or revenue losses



* Please note that 2018 data was used for Zorra East Tavistock as that is the most recent data available at this time.



Financial Indicators and Benchmarking

TOTAL OPERATING EXPENSES AS A PERCENTAGE OF TAXABLE ASSESSMENT

This financial indicator provides an assessment of the Township's solvency by determining the extent to which increases in operating expenses correspond with increases in taxable assessment. If increases correspond, the Township can fund any increases in operating costs without raising taxation rates.

TYPE OF INDICATOR

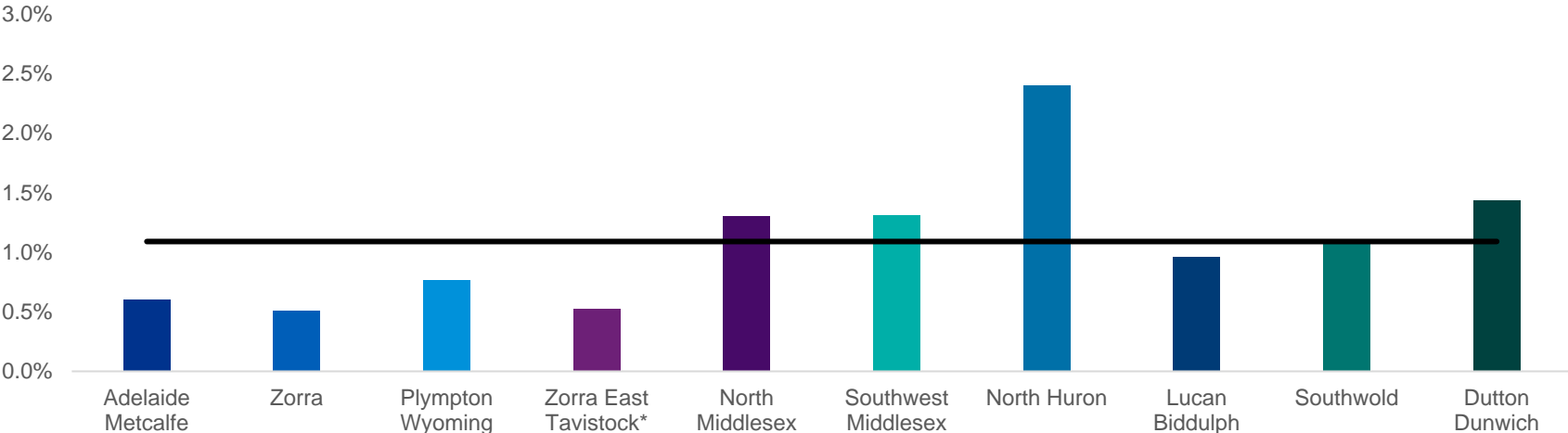
Sustainability ✓
 Flexibility
 Vulnerability

FORMULA

FIR Schedule 40, Line 9910, Column 7 less FIR Schedule 40, Line 9910, Column 16 divided by FIR Schedule 26, Column 17, Lines 9199 and 9299

POTENTIAL LIMITATIONS

- As operating expenses are funded by a variety of sources, the Township's sustainability may be impacted by reductions in other funding sources that would not be identified by this indicator.



* Please note that 2018 data was used for Zorra East Tavistock as that is the most recent data available at this time.

Financial Indicators and Benchmarking

CAPITAL ADDITIONS AS A PERCENTAGE OF AMORTIZATION EXPENSE

This financial indicator provides an assessment of the Township's solvency by assessing the extent to which it is sustaining its tangible capital assets. In the absence of meaningful reinvestment in tangible capital assets, the Township's ability to continue to deliver services at the current levels may be compromised.

TYPE OF INDICATOR

Sustainability ✓
Flexibility
Vulnerability

FORMULA

FIR Schedule 51, Line 9910,
Column 3 divided by FIR
Schedule 40, Line 9910,
Column 16

POTENTIAL LIMITATIONS

- This indicator considers amortization expense, which is based on historical as opposed to replacement cost. As a result, the Township's capital reinvestment requirement will be higher than its reported amortization expense due to the effects of inflation.
- This indicator is calculated on a corporate-level basis and as such, will not identify potential concerns at the departmental level.



* Please note that 2018 data was used for Zorra East Tavistock as that is the most recent data available at this time.



Financial Indicators and Benchmarking

RESIDENTIAL TAXES PER HOUSEHOLD

This financial indicator provides an assessment of the Township’s ability to increase taxes as a means of funding incremental operating and capital expenditures.

TYPE OF INDICATOR

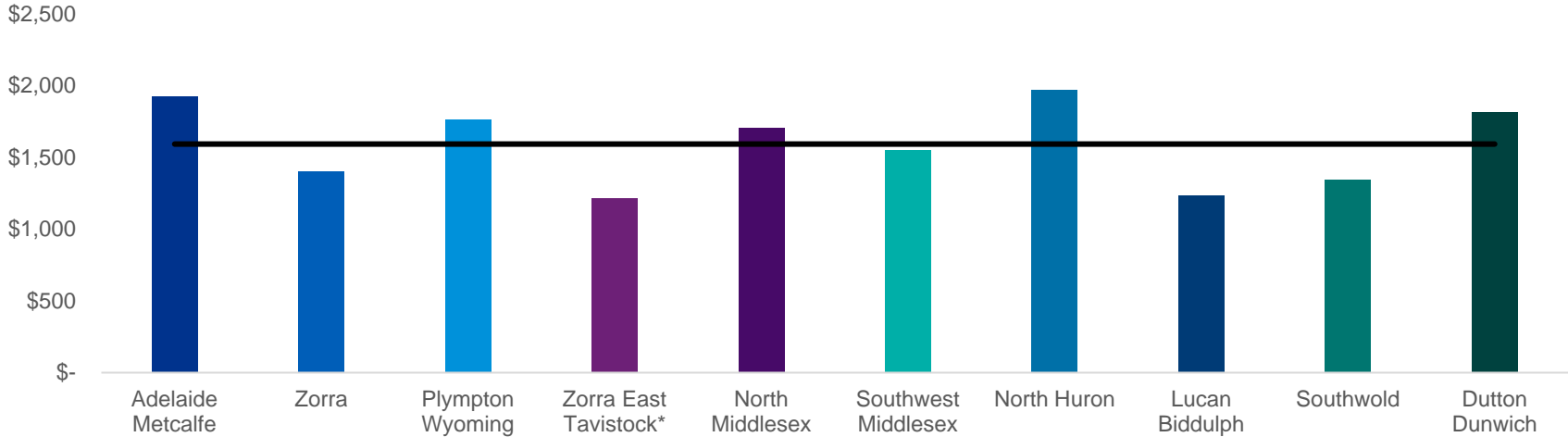
Sustainability
 Flexibility ✓
 Vulnerability

FORMULA

FIR Schedule 26, Line 0010 and Line 1010, Column 4 divided by FIR Schedule 2, Line 0040, Column 1

POTENTIAL LIMITATIONS

- This indicator does not incorporate income levels for residents and as such, does not fully address affordability concerns.



* Please note that 2018 data was used for Zorra East Tavistock as that is the most recent data available at this time.



Financial Indicators and Benchmarking

RESIDENTIAL TAXATION AS A PERCENTAGE OF HOUSEHOLD INCOME

This financial indicator provides an indication of potential affordability concerns by calculating the percentage of total household income used to pay municipal property taxes.

TYPE OF INDICATOR

Sustainability
Flexibility ✓
Vulnerability

FORMULA

FIR Schedule 26, Line 0010 and Line 1010, Column 4 divided by FIR Schedule 2, Line 0040, Column 1 (to arrive at average residential tax per household). Average household income is derived from the National Housing Survey.

POTENTIAL LIMITATIONS

- This indicator considers residential affordability only and does not address commercial or industrial affordability concerns.
- This indicator is calculated on an average household basis and does not provide an indication of affordability concerns for low income or fixed income households.



* Please note that 2018 data was used for Zorra East Tavistock as that is the most recent data available at this time.



Financial Indicators and Benchmarking

TOTAL LONG-TERM DEBT PER HOUSEHOLD

This financial indicator provides an assessment of the Township's ability to issue more debt by considering the existing debt loan on a per household basis. High debt levels per household may preclude the issuance of additional debt.

TYPE OF INDICATOR

Sustainability
Flexibility ✓
Vulnerability

FORMULA

FIR Schedule 70, Line 2699,
Column 1 divided by FIR
Schedule 2, Line 0040, Column
1

POTENTIAL LIMITATIONS

- This indicator does not consider the Provincial limitations on debt servicing cost, which cannot exceed 25% of own-source revenues unless approved by the Ontario Municipal Board



* Please note that 2018 data was used for Zorra East Tavistock as that is the most recent data available at this time.



Financial Indicators and Benchmarking

TOTAL TAXATION AS A PERCENTAGE OF TOTAL ASSESSMENT

This financial indicator provides an indication of potential affordability concerns by calculating the Township's overall rate of taxation. Relatively high tax rate percentages may limit the Township's ability to general incremental revenues in the future.

TYPE OF INDICATOR

Sustainability

Flexibility ✓

Vulnerability

FORMULA

FIR Schedule 26, Line 9199 and Line 9299, Column 4 divided by FIR Schedule 26, Line 9199 and 9299, Column 17.

POTENTIAL LIMITATIONS

- This indicator considers the Township's overall tax rate and will not address affordability issues that may apply to individual property classes (e.g. commercial).



* Please note that 2018 data was used for Zorra East Tavistock as that is the most recent data available at this time.



Financial Indicators and Benchmarking

DEBT SERVICING COSTS (INTEREST AND PRINCIPAL) AS A PERCENTAGE OF TOTAL REVENUES

This financial indicator provides an indication as to the Township's overall indebtedness by calculating the percentage of revenues used to fund long-term debt servicing costs. The Township's ability to issue additional debt may be limited if debt servicing costs on existing debt are excessively high.

TYPE OF INDICATOR

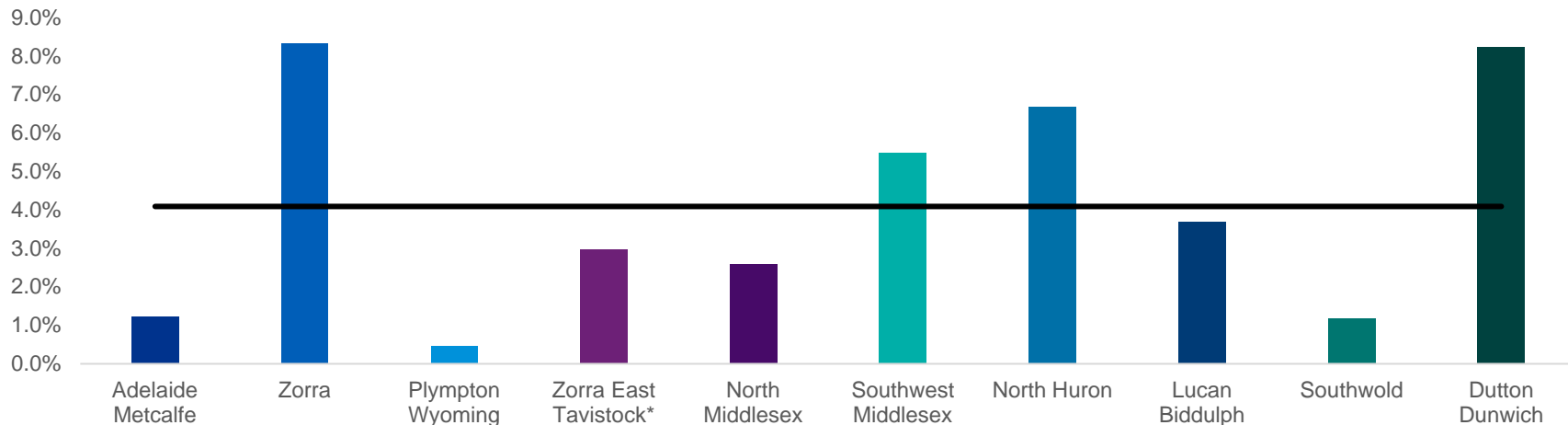
Sustainability
Flexibility ✓
Vulnerability

FORMULA

FIR Schedule 74C, Line 3099, Column 1 and Column 2 divided by FIR Schedule 10, Line 9910, Column 1.

POTENTIAL LIMITATIONS

- No significant limitations have been identified in connection with this indicator



* Please note that 2018 data was used for Zorra East Tavistock as that is the most recent data available at this time.



Financial Indicators and Benchmarking

NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS AS A PERCENTAGE OF HISTORICAL COST OF TANGIBLE CAPITAL ASSETS

This financial indicator provides an indication as to the extent to which the Township is reinvesting in its capital assets as they reach the end of their useful lives. An indicator of 50% indicates that the Township is, on average, investing in capital assets as they reach the end of useful life, with indicators of less than 50% indicating that the Township's reinvestment is not keeping pace with the aging of its assets.

TYPE OF INDICATOR

Sustainability

Flexibility ✓

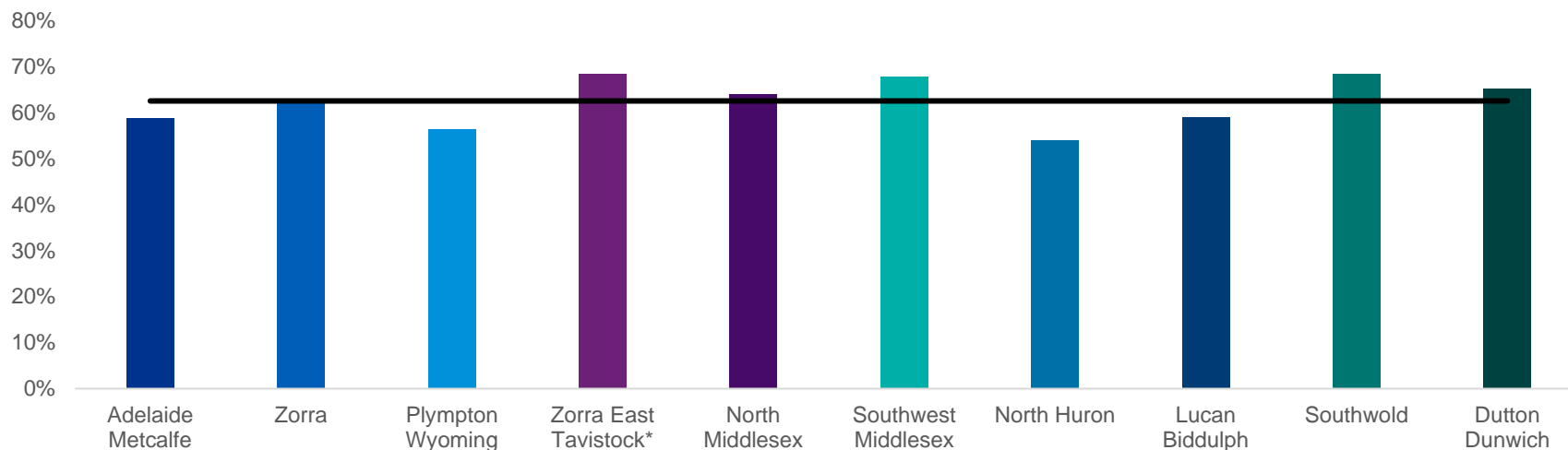
Vulnerability

FORMULA

FIR Schedule 51A, Line 9910, Column 11 divided by FIR Schedule 51A, Line 9910, Column 6.

POTENTIAL LIMITATIONS

- This indicator is based on the historical cost of the Township's tangible capital assets, as opposed to replacement cost. As a result, the Township's pace of reinvestment is likely lower than calculated by this indicator as replacement cost will exceed historical cost.
- This indicator is calculated on a corporate-level basis and as such, will not identify potential concerns at the departmental level.



* Please note that 2018 data was used for Zorra East Tavistock as that is the most recent data available at this time.



Financial Indicators and Benchmarking

OPERATING GRANTS AS A PERCENTAGE OF TOTAL REVENUES

This financial indicator provides an indication as to the Township's degree of reliance on senior government grants for the purposes of funding operating expenses. The level of operating grants as a percentage of total revenues is directly proportionate with the severity of the impact of a decrease in operating grants.

TYPE OF INDICATOR

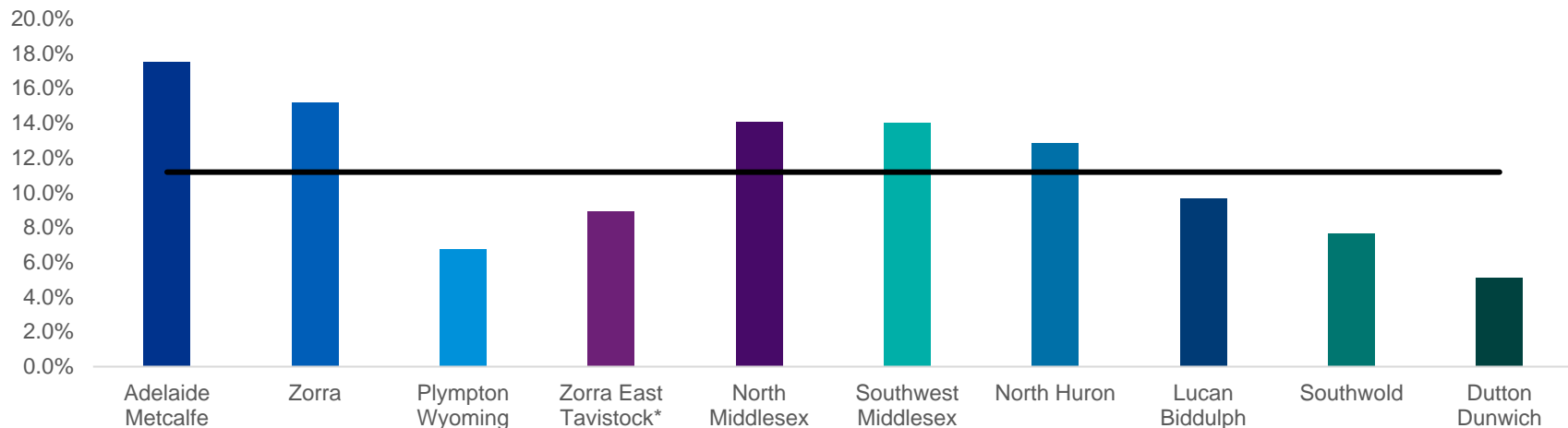
Sustainability
Flexibility
Vulnerability ✓

FORMULA

FIR Schedule 10, Line 0699,
Line 0810, Line 0820, Line
0830, Column 1 divided by FIR
Schedule 10, Line 9910,
Column 1.

POTENTIAL LIMITATIONS

- To the extent possible, the Township should maximize its operating grant revenue. As such, there is arguably no maximum level associated with this financial indicator.



* Please note that 2018 data was used for Zorra East Tavistock as that is the most recent data available at this time.



Financial Indicators and Benchmarking

CAPITAL GRANTS AS A PERCENTAGE OF TOTAL CAPITAL EXPENDITURES

This financial indicator provides an indication as to the Township's degree of reliance on senior government grants for the purposes of funding capital expenditures. The level of capital grants as a percentage of total capital expenditures is directly proportionate with the severity of the impact of a decrease in capital grants.

TYPE OF INDICATOR

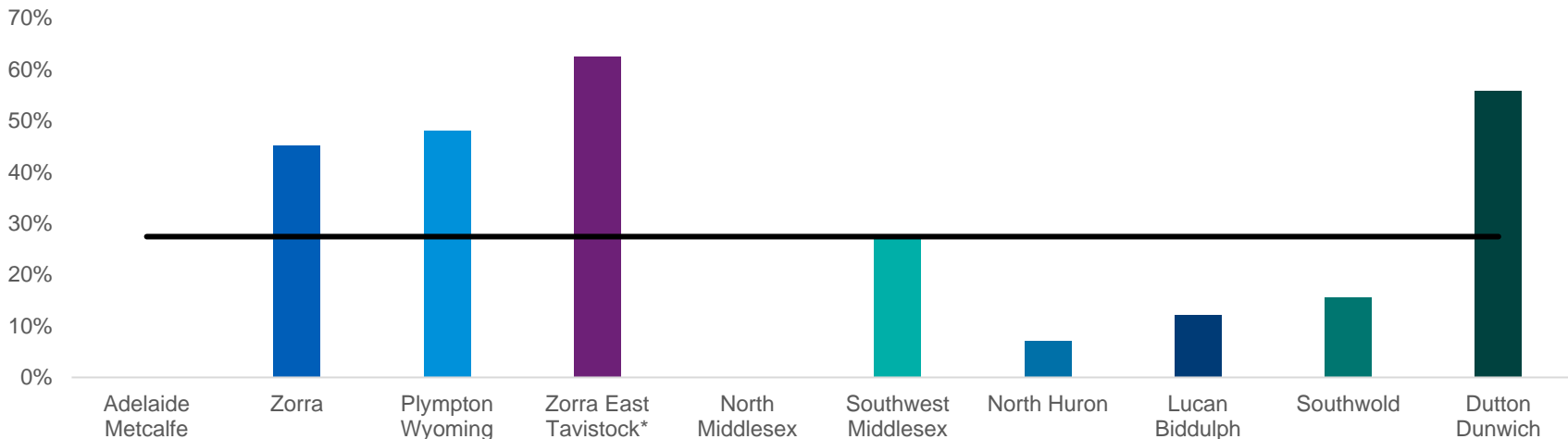
Sustainability
Flexibility
Vulnerability ✓

FORMULA

FIR Schedule 10, Line 0815,
Line 0825, Line 0831, Column
1 divided by FIR Schedule 51,
Line 9910, Column 3.

POTENTIAL LIMITATIONS

- To the extent possible, the Township should maximize its capital grant revenue. As such, there is arguably no maximum level associated with this financial indicator.



* Please note that 2018 data was used for Zorra East Tavistock as that is the most recent data available at this time.





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