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<p><b>1.1.1 Accounting system in relation to matching revenues and expenses</b></p> <p>Per discussion with management and observation, the accounting system used at the Town is Vadim Software (iCity), within which the Town uses the general ledger, payroll, accounts payable, accounts receivable and property tax modules. Original migration to the system occurred in 2002/2003 and since that time there have been two upgrades (one major and one minor). Individual employees vary in their experience with using the system. Two individuals had been identified as system experts; however, one individual has departed creating a gap in available internal expertise. Currently, there is no reporting from the system available for budget-to-actuals, except for general ledger inquiries. In order to create budget-to-actual reports, a data extract is taken from the system and an excel spreadsheet uses formulas to format the report.</p>	<p>Without deep internal understanding of the system's full capabilities, there is a risk to the operating effectiveness of controls in Finance due to reliance on manual processes, over use of Excel and under leveraging the investment in Vadim.</p>	<p>Management should identify additional individuals to develop internal Vadim expertise, and ensure that additional system training is made available to these individuals.</p> <p>Management should investigate potential of additional system functionality in order to fully utilize the Vadim system. For example, functionality related to procurement, budget reporting, budget checking of transactions and asset management.</p>	<p>Administration has secured F9 an advance report writing tool to add onto the Town's Vadim software. Vadim visited the Town in early September 2014 to provide Administration with a demonstration on the software. Administration has consulted with neighboring municipalities using F9 for feedback. The F9 function will be implemented in the Q1 reports for fiscal 2015. The use of F9 will assist in the preparation and development of year end audit schedules. Management training was provided on October29th,2014.Administration will continue to train all users on the software to ensure it is being used to its fullest capacity.</p> <p>The Town has Secured two piece of software to help mitigate and better manage HR and Payroll as well as manage capital and prepare long range capital forecast.</p>			
<p><b>1.2.1 Adequacy of controls to govern current operating expenses</b></p> <p>Per discussion with management and sample testing of controls, it was determined that accounts payable procedures and controls are not documented or tested on a regular basis. The key control identified through interview for the payment of invoices is the approval and coding by the budget manager. Once an invoice is received, either directly by the operational department or by Finance and forwarded to the operational department, the budget manager is responsible for coding the invoice to the appropriate general ledger account and providing sign-off on the expense. The approved invoice is submitted to Finance for payment. From a randomly selected sample of five invoices, each invoice contained general ledger coding and a signature with no exceptions noted.</p>	<p>Without a formal policy and standard operating procedure, the knowledge transfer of the accounts payable processes to new staff and management is impeded, and increases the risk that actions are performed in a manner inconsistent with management's intentions. Furthermore, there is risk of potential errors with regards to accuracy, completeness and/or period end cut-off dates for expense payments.</p>	<p>Management should formalize the accounts payable policy for consistency in application and guidance to current and future Town staff. The policy should then be reviewed and revised (if required) on an annual basis to ensure it remains applicable.</p> <p>Management should complete the formalization of procedures required for accounts payable processes. These detailed step-by-step procedures will include screen-shots where applicable to provide additional clarity. In addition, the procedures should be used for any future transition of accounts payable process responsibility.</p> <p>In addition, management should undertake an exercise to formally identify and document internal controls within the accounts payable process to mitigate the risks of inaccuracy, incompleteness and/or period end cut-off for expense payments.</p>	<p>Accounts Payable Policy developed and Passed By Council. Internal controls are built into the process and practices outlined in the Flow Charts.</p>			
<p><b>1.2.2 Adequacy of controls to govern current operating expenses</b></p> <p>Per discussion with management, it was noted that there is no formal control for variance reporting or review of changes in operating accounts in order to ensure that entries are accurately posted. It is seen as an accountability of operational management to approve and properly code all invoices prior to payment processing.</p> <p>The 2014 budget has established a more comprehensive process, and management has plans to provide monthly budget-to-actual reporting to operations and quarterly budget-to-actual reporting to Council (refer to 1.4.1 on page 7. This should be extended to include variance reporting and analysis of changes within operational accounts.</p>	<p>Without consistent management reporting and variance analysis of expense there are increased risks, such as:</p> <ul style="list-style-type: none"><li>• Budget overruns;</li><li>• Unauthorized charges;</li><li>• Amounts posted incorrectly; and</li><li>• Ineffective decision making.</li></ul>	<p>Management should formally identify and document an internal control related to regular variance reporting and analysis of changes within operating accounts.</p> <p>For example, as part of a monthly process currently being established to provide management with monthly reports on budget-to-actuals, management should also consider formally assigning responsibility to the budget line manager to analyze both the percentage of progress of actuals to budget, and the percentage of change in current actuals from the previous year in order to identify and investigate any unusual account movements.</p>	<p>Quarterly variance reporting comparing budget to actuals has been implemented, Reports to Council will be provided approximately 1 ½ months after the end of each quarter. These reports identify budget to actuals and a forecasted year end variance analysis.</p>			
<p><b>1.3.1 Town's tax policies</b></p> <p>Per discussion with management and review of policy and documentation, it was noted that a tax collection policy is in place, but there was no evidence of a tax rate policy. The current tax collection policy posted to the website is dated March 23, 2010, and states that the guidelines in the policy are meant to supplement situations where provincial legislation provides a choice of options or is silent. Legislation to be reviewed within the context of the policy is the <i>Municipal Act 2001</i>, Parts VIII, IX, X, and XI.</p> <p>In addition, management has initiated documentation of procedures for various tax processes in order to address the lack of such procedures. This remains an ongoing project to ensure a complete set of procedures.</p> <p>However, it was identified that currently there is no policy, either approved or in draft, prepared by management in regards to cash handling of monies received by the Town for tax and other revenues.</p>	<p>Without standard operating policies and procedures, the knowledge transfer of the tax processes to new staff and management is impeded, and increases the risk that actions are performed in a manner inconsistent with management's intentions. Furthermore, there is risk of potential errors with regards to accuracy, completeness and/or period end cut-off dates.</p> <p>Without formal cash handling controls there is increased risk that physical cash received may be more vulnerable to theft or misplacement.</p>	<p>Management should complete the formalization of procedures required for tax and cash handling processes. These detailed step-by-step procedures should continue to include screen-shots where applicable to provide additional clarity. In addition, the procedures should be used for any future transition of process responsibility.</p> <p>Additionally, management should develop a tax rate policy and a cash handling policy for consistency in application and guidance to current and future Town staff. The policy should then be reviewed and revised (if required) on an annual basis to ensure it remains applicable.</p>	<p>Accounts Receivable Collections, Accounts Receivable Billings and Cash Handling Policy Developed and passed by Council.</p>			





<p><b>1.4.1 Whether Council has the right information to determine if current levels of taxation and other non-tax revenues including fees and charges related to the waste water treatment plant and water treatment plant are adequate for current and projected capital and operating expenses</b></p> <p>A delay was noted in terms of the audited financial statements being presented to Council, for example the 2010 statements were brought to Council on September 24, 2012, the 2011 statements on May 13, 2013, the 2012 statements on August 12, 2013. In addition, ongoing reporting of budget-to-actual variance has not been provided from management to Council since August 2013. Council noted that over the past year varying financial information had been provided for their review, including varying accounts of the level of debt and availability of cash flow and reserves, which in turn would impact the level of comfort with financial decisions. However, the budget process as introduced for the 2014 fiscal year and the current Finance team have returned a measure of credibility to the financial information presented.</p>	<p>Without regular financial reporting to management and Council, there are increased risks, such as:</p> <ul style="list-style-type: none"> <li>• Spending beyond budgets,</li> <li>• Over-committing the organization on capital projects;</li> <li>• Cash flow issues due to high bank indebtedness; and</li> <li>• Non-compliance with legislation and bank covenants.</li> </ul>	<p>Management should meet commitments to provide budget-to-actual reporting to Council on a regular basis, i.e. monthly (as per 1.2.2 on page 6. Upon review of the budget-to-actual reports, Council should provide commentary and feedback to management in terms of the effectiveness of the report format and any suggested changes for further clarity. These reports should then be utilized to determine if current levels of taxation and non-tax revenue are adequate for current capital and operating expenses.</p> <p>In addition to the annual budget presented to Council for approval, management should prepare and present a Long Term Financial Plan to Council for their review. The exercise of preparing and reviewing a long-term Financial Plan would encourage both management and Council to consider if current levels of taxation and non-tax revenue are adequate for projected capital and operating expenses.</p> <p>Furthermore, Council should consider implementation of a Finance sub-committee to share the workload of the Treasurer in managing and monitoring the Town's finances. It also provides an opportunity for detailed discussion and consideration of financial matters, with regular reporting to the full Council.</p>	<p>Administration has developed a strategic financial plan for the Town of Amherstburg. The plan will be a comprehensive document that will provide Council a roadmap to build reserves and address the Town's capital needs. The Plan was presented in draft to Council In December.</p> <p>Continued Maintenance of this Plan is needed but the item remains substantially completed</p> 
<p><b>1.4.2 Information used to determine adequacy of current levels of revenue and expense</b></p> <p>It was observed that the forecasted development charges provided by a contracted third party were overestimated resulting in management's overestimated projections of the number of capital improvement projects which could be undertaken and paid for by development charge monies.</p>	<p>Relying on a third party's aggressive growth estimates without management sensitivity analysis and benchmarking increases the risk of over-extending the amount of capital projects undertaken and therefore over extending the municipality's debt load.</p>	<p>Management should consider performing an annual sensitivity analysis and peer benchmarking to compare actual collected versus projected development charges, in order to conclude on whether third party estimations remain appropriate and applicable.</p>	<p>A report has been developed by Administration reconciling the development charges and a plan to fund them, Council receives a report on cash reserve balances for each reserve by quarter.</p> 
<p><b>1.5.1. Business decision support</b></p> <p>As noted through Observations 1.4.1, 2.2.6, 4.3.1 and 6.2.1, there is limited material available to management to provide business decision support. The 2014 budget process introduced increased communication between Finance and the Operations departments to provide support from a budget perspective. However, additional business decision support is a gap identified by management, but not yet remedied.</p>	<p>Lack of business decision support may result in actions taken by management that are inconsistent with the long-term strategic objectives of the Town.</p>	<p>Management should prepare a roadmap and robust work plan to mature the business decision support provided over the next 2-3 years. This should address both the day-to-day business decisions that are performed and the long-term strategic planning decisions that are required.</p>	<p>A New Council report templates commenced in December 2014. All Council reports impacting finances will require Finance Department sign off prior to reports being presented to council. This enhanced reporting requirement will ensure that the Finance Department supports and participates in all business decisions of the town.</p> 
<p><b>1.5.2 Cost reduction/cost savings potential</b></p> <p>Through discussion with management, it was noted that the Town does not have a Long Term Financial Plan that would provide for future revenue estimations and capital expenditure requirements.</p> <p>Management indicated that they are aware that strategies for cost reduction/cost savings are required although no formal plan is currently in place.</p>	<p>Without a Long Term Financial Plan, there is increased risk of compromising meaningful governance and financial planning, potentially resulting in reactive use of reserves and debt to manage annual capital and operating needs.</p>	<p>Management should develop a Long Term Financial Plan to begin anticipating the future financial needs/expenditures of the Town and implement a process and strategy for long term financial planning. This will assist in anticipating the reserve funds that are needed.</p>	<p>The draft strategic financial plan will serve as Town guideline to address the Town's financial stability going forward. Administration further anticipates that all cost savings realized through operational efficiencies will be utilized to further enhance Town reserve funds.</p> <p>Continued Maintenance of this Plan is needed but the item remains substantially completed</p> 
<p><b>1.5.3. Finance function effectiveness</b></p> <p>Over the course of 2013 and 2014 there has been significant turnover of the management personnel within the Finance department. This high turnover has contributed to the identification of lack of documented institutional knowledge of Finance procedures, as well as impacting the ability of management to complete Finance functions in a timely fashion, i.e. financial statement preparation, budget preparation, and budget-to-actual reporting.</p>	<p>Without consistency in Finance management and staff, there is increased risk of ineffectiveness in the Finance function.</p>	<p>Management should prepare a roadmap and robust work plan to mature the Finance Function over the next 2-3 years. This should address both the day-to-day operations that need to be maintained and the initiatives/projects that need to be undertaken.</p>	<p>The Town has placed individuals in senior financial positions of the Finance Department with professional designations ( CA, CPA ; CMA, CPA). Staffs are competent and turnover in this area are not anticipated.</p> <p>This Staffing has remained consistent for over a year and a half now</p> 
<p><b>1.5.4. Operations effectiveness</b></p> <p>Through discussions with management it was identified that continuous improvements to processes and controls was lacking with prior management. There was no commitment to continual change and improvements to work towards efficient operations.</p> <p>The current management team recognizes a tremendous amount of change is required to processes and controls and is currently in clean-up mode making changes as issues are identified.</p>	<p>Without identifying operational effectiveness the Town may not have the required skill sets or core competencies needed to implement or identify the required changes.</p>	<p>Management should document a formal strategy for identifying the processes that require improvements within the Town. Management will also need to ensure that the staff are aware of the operational changes needed and the required effort and cultural commitment to implement the changes.</p>	<p>The Town has initiated a change in culture to develop and implement process improvements that will enhance controls. Administration is working diligently to improve and update Town policies and procedures with best practices. This process is underway and is anticipated to continue in 2015 and beyond</p> 



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<b>2.1.1 Controls in place to govern the spending and accounting for capital funds</b> Through discussions with management and staff, it was identified that there are no standard management reports for capital project spending against budget and no variance analysis being performed by Finance. It was noted that some managers have been trained to extract financial data relating to their projects from the Vadim software, and it is their responsibility to do so. Management is working towards formalizing standard management reports which will include project financial reporting.	Without consistent reporting and review of project expenditures, there is risk that capital project spend is exceeding budget and/or the percentage completion of the project. Without regular review of expenditures against progress, there is a higher risk of project overruns.	Management should develop standard capital project spending reports and meet with the staff assigned to lead capital projects on a regular basis to review the project expenditures against percentage completion of the projects. Additionally, there should be regular progress reporting of the capital project expenditures to Council.	A report on capital spending and project update has been provided to Council. These types of information reports will be provided to Council quarterly.			
<b>2.1.2 Controls in place to govern the spending and accounting for capital funds</b> Through discussions with management and staff, it was identified that the capital project accounts are not reviewed regularly to ensure that only expenditures related to the project are being posted and to make sure that project expenditures are not being posted to Operating accounts in error.	Without regular review, there is a risk that operating and/or capital expenditures are being misclassified, impacting variance reporting and capitalization of assets.	Management should conduct a monthly review of capital and operating accounts to make sure that transactions are being classified correctly.	A process has been implemented to review account allocation on a quarterly basis. This review is required to prepare the reports identified above.			
<b>2.2.1 Policies and practices related to long-term debt</b> Through review of policies and discussion with management, it was noted that the Town has a Capital Budget Financing Policy published and adopted by Council in 2008. The policy outlines requirements for a debt management strategy to be followed. The current policy is outdated and requires updating to reflect current fiscal realities, management structures and council expectations. There was no evidence that this policy was being followed or aligned with Council's expectations. Management recognizes that the capital budgeting process has changed substantially in previous years and the policy needs revising.	In the absence of a current policy, standard operating procedures and management decision making may not align with Council expectations as it relates to managing long-term debt. As an example, limits on annual debt servicing and loan/asset ratios need to reflect current Council's expectations for the fiscal strength of the Town.	Management should update the policy and engage Council in discussion on the appropriate debt management parameters and approval procedures that should be implemented for managing long-term debt. Additionally, management needs to develop standard operating procedures to operationalize the policy.	Capital Financing Policy Passed by Council, outlines debt management parameters and the use of capital financing for projects			
<b>2.2.2 Policies and practices related to procurement</b> The Town has a defined Procurement policy that was adopted and made effective by Council in January 1, 2005. Currently management is making revisions to this policy. Through discussion with management and staff, it was noted that the procurement policy is not being actively enforced and there are no compliance measures in place to ensure that items being procured above the defined dollar thresholds are subject to competitive buying procedures.	In the absence of standard operating procedures, there is an increased risk that the Town is not following the procurement policy which is designed to ensure efficiency and effectiveness of the Town's procurement spend.	Management should finalize updates to their procurement policy and implement standard operating procedures that will provide Council with comfort that the policy is operating effectively. Additionally, management needs to begin performing vendor and purchasing analysis to identify opportunities where savings can be achieved through leading procurement approaches.	A new procurement policy for the town has been presented to Council and is approved			
<b>2.2.3 Policies and practices related to asset management</b> Through discussion with management and review of the Asset Management Plan and related documents, it was noted that asset management practices have improved at the Town over the past four years. However, there are still known deficiencies related to physical asset safeguarding, performing regular asset counts/reconciliations and automation of asset maintenance, planning and forecasting processes.	In the absence of formalized asset counts and safeguarding, there is a risk that municipal assets are unaccounted for and overstated financially. There is also inefficiency and increased risk in the manual procedures and over-use of Excel for maintaining asset management information.	Management should implement standard operating procedures for asset counts and prioritize capital projects that are needed to better safeguard and manage municipal assets throughout the asset lifecycle. This will require investment in technology and security measures.	A New Tangible Capital Asset Policy has been approved by Council			
<b>2.2.4 Policies and practices related to capital budgeting</b> Through discussion with management and review of documentation, it was noted that the 2014 capital and operating budget process was based on new procedures which provided more inclusion of management and council and more ownership for the budget outside of just Finance. This was noted as an improvement by many interviewees. The new process needs to be formalized as standard operating procedures so it can be leveraged and enhanced in future years.	Without specific definition and updates to policy and standard operating procedures, the new approach may not benefit next year's budgeting process.	Management should formalize the new operating and capital budgeting process and procedures for use in future years. This also needs to be supplemented with a Long Term Financial Plan as noted in Recommendation 1.5.2.	The Steps in the Budget Process have been presented and approved by Council in a Budget Planning memo in September of 2015  The Long Term Financial Plan has been prepared and presented and the outcomes of these plans where used in the preparation of the 2016 Budget			
<b>2.2.5 Policies and practices related to unfinanced capital</b> Based on the review of documentation and discussions with management policies and practices related to unfinanced capital do not exist. Formal reporting is also not prepared.	Without regular visibility into unfinanced capital management and Council will not have the true picture of the Town's current financial position.	Given the financial position of the Town it is recommended that a formal policy and practice regarding unfinanced debt be established. Regular unfinanced capital reporting to Council should also be established.	Capital Project Reporting has been done Quarterly and has also been formalized in the Internal Control Reporting Policy.  The Town has cleared up all unfinanced capital, and funding sources are determined for each project.			
<b>2.2.6 Policies and practices related to long term financial planning</b> Through discussion with management it was noted that there is no Long Term Financial Plan that provides a view on long-term revenue, expenditures and capital requirements. This is a gap identified by management, but not yet remedied.	Without a Long Term Financial Plan, annual decisions related to prioritization of capital projects are being based on short term objectives which may not align with the long-term needs of the Town.	Management should develop a Long Term Financial Plan as noted in Recommendation 1.5.2. As well, management should develop a process to maintain its currency.	The Long Term Financial Plan has been substantially completed			





<p><b>2.2.7 Policies and practices related to investments</b></p> <p>Through discussion with management it was noted that there are no policies or practices related to investments. There is no cash flow forecasting that would assist in managing the debt loads and cash levels in order to earn investment income where possible. Likewise, as reserves are not being managed in separate bank accounts, there has not been a focus on investment management.</p>	<p>Without regular visibility on cash flow needs and optimization of cash and investment levels, the Town could find itself in cash flow shortages and/or not optimizing cash on hand from an interest earning perspective.</p>	<p>Management should develop an Investment policy and related procedures for review and approval by Council.</p>	<p>Investment Policy Presented to and approved by Council</p> 
<p><b>2.2.8 Policies and practices related to performance management</b></p> <p>Through discussion with management it was noted that there is no policy related to performance management and that the organization does not have performance indicators formally defined and managed.</p> <p>When management submits the Financial Information Return (FIR), the Municipal Performance Measurement Program (MPMP) templates are also completed and submitted. The Town was behind in completing the FIR and the MPMP (refer to 5.5.1).</p>	<p>Without a formalized performance measurement framework, there is increased risk of inconsistent management of performance throughout the organization. Managers default to managing performance against budget rather than outcomes or service levels.</p>	<p>Management should develop a performance management framework for review and approval by Council.</p>	<p>Town non-union staff have annual reviews and performance management work plans if needed. A new performance management tool was introduced in 2014, and has been used to evaluate staff in 2014 and 2015.</p> <p>Performance reviews for 2015 completed in March of 2016</p> 
<p><b>2.2.9 Federal gas tax funds</b></p> <p>Management has compiled a binder of the project costs that support the gas tax funds for 2013 and assessed prioritized 2014 capital projects for gas tax funding availability. To make sure this new process is sustainable; management needs to formalize the procedures.</p> <p>The independent auditor's report to the Association of Municipalities of Ontario (AMO) was also reviewed which outlined the opinion that as of December 31, 2013 the Town was in compliance, in all material respects, with the criteria as outlined from the Municipal Funding Agreement for the Transfer of Federal Gas Tax Revenues Under the New Deal for Cities and Communities, dated December 13, 2005 between the AMO and the Town.</p>	<p>Without formalizing the procedures, there is a risk that gas tax refunds will not be fully considered in the funding portion of the capital budgeting process and the application for gas tax funds will not be defensible to random audits.</p>	<p>Management needs to formalize the procedures for gas tax funds and ensure the responsibility is embedded in the appropriate job description of a Finance team member.</p>	<p>Gas Tax Account is now a segregated cash account, and is formalized in the Bank Account Policy as Well as the Reserve and Restricted Funds Policy.</p> <p>Gas Tax Reporting is done Quarterly to Council and the Annual Report is submitted by the Treasure.</p> <p>This was done on time for 2014 &amp; 2015</p> 



Observation	Implication	Recommendation	Solution	Complete	WIP	To Do
<p><b>3.1.1 Policies and Practices related to reserve and reserve funds</b></p> <p>Through discussions with management and staff it was identified that there are no formal policies and practices documented related to accounting for reserve and reserve funds (currently as of the 2013 published financial statements referred to by management as 'non-cash reserves' and 'cash reserves').</p> <p>Based on discussions and review of documentation it was identified that the general practice by prior finance management was to book a journal entry to reserves and the corresponding entry to a capital budget line item or expenditure. Segregated bank accounts were not set-up for the reserves prior to 2013.</p>	<p>Without policies and practices, there is risk that finance reserve accounting may not be performed consistently as management intends due to the lack of documented procedures.</p> <p>There is a risk that reliance on personal knowledge of accounting for reserves leads to inconsistencies and inaccurate bookkeeping from year-to-year.</p>	<p>Management should document the policies and practices for reserve and reserve funds within the Town. The policies and practices should be reviewed annually and approved by council. The <i>Municipal Act</i> should be followed as appropriate.</p>	<p>Reserve and Restricted Funds Policy completed an approved by Council</p>			
<p><b>3.1.2 Policies and Practices related to reserve and reserve funds</b></p> <p>Through discussions with management there was an implied understanding that when Council approved the budget, they were approving the use of reserve funds. Some members of Council conveyed an expectation to approve the use of reserve funds as needed throughout the year.</p> <p>Based on investigation it can be concluded that there was a misunderstanding between Council and management in terms of their knowledge and working understanding of reserve funds. Council and operational management both held misconceptions that reserves can be considered like a "savings account," or an amount of surplus cash that has been set aside in a separate bank account.</p>	<p>There is a risk that the Council and operational management do not have a complete understanding of Municipal financial management and reserve accounting.</p>	<p>Management should create detailed reporting for Council that outlines the reserve and reserve fund balances on a quarterly basis, including all transfers that have been made. Management should also continue with their efforts on educating the Council on cash versus non-cash reserves.</p> <p>Also, Council members should attend financial management training to gain a better understanding of municipal finance and be able to ask the necessary questions of management.</p>	<p>Quarterly Reserve and Restricted Cash Reports are brought to Council and have been formalized in the Internal Controls Reporting Policy, Policy has been granted Council Approval</p>			
<p><b>3.2.1 Accounting Processes to determine if the municipality is following its policies and practices.</b></p> <p>Prior to this year, the reserve funds were not segregated into separate bank accounts, all cash was deposited into the operating account. No documentation could be produced that outlined how the reserve funds were being tracked or restricted by the prior Treasurer. In regards to Ranta Memorial Park the original donation of \$166,666.67 from June 2004 was deposited to the operating account in the general ledger, management was not able to locate the bank statement from their archives to validate the deposit. The bank statement outlining the deposit for the additional donation of \$40,188.34 received in September 2010 was obtained, reviewed and validated that it was deposited into the operating account. A memo had been prepared in 2009 outlining the eligible expenses posted to the Ranta Park reserve which totaled \$73,454.08. The difference of \$133,400.93 remaining in the reserve was transferred from the operating account into a separate bank account in May 2014.</p>	<p>Lack of adequate formal accounting processes and documentation to track and monitor reserve account activity increases the risk of deficits, and does not provide an accounting audit trail for record keeping and reconciliation purposes.</p>	<p>Management should formalize standard operating procedures for managing compliance to policies and practices. Management should consider having an independent third party (i.e. External Auditor) review processes and controls in place within the finance function on an annual basis until comfort is gained that processes are working appropriately. The process and control review can then be performed on a rotational basis.</p>	<p>During the 2014 Audit KPMG the Town's External Auditors assessed the findings in Deloitte Financial Practices Reviews when conducting their Audit Planning.</p> <p>No Unadjusted errors or significant internal control concerns were noted in the 2014 Audit Report.</p> <p>It should be noted that for 2015 the preliminary audit field work has been completed by KPMG and No Unadjusted errors or significant internal control concerns were have been expressed to date</p> <p>Further review is still possible at Council desire, at additional undetermined expense</p>			
<p><b>3.3.1 Reserve and reserve fund balances to ensure segregated accounts are used as appropriate</b></p> <p>As per discussions with management, prior practice for managing reserves from 2009 to 2013 was in Excel and documentation such as tracking analysis has been difficult to obtain based on turnover in staff.</p> <p>Current management has recognized the need to make changes and improvements to the accounting for reserves within the Town. New management has established more detailed accounting and tracking spreadsheets for reconciliation purposes.</p> <p>Also as of 2013, Amherstburg management has segregated the reserves into reserve and reserve fund and has also created separate bank accounts to correspond to certain reserve funds. The cash set aside in the separate bank accounts are restricted and can only be used for the purpose outlined as per discussions with management. There was evidence produced that verifies cash for the Ranta Memorial Park and Post-Employment benefits has been segregated to separate bank accounts.</p>	<p>The lack of documented practices and procedures compromises meaningful governance and financial oversight.</p>	<p>Management should document the policy and practices to identify when segregated accounts are to be used for reserve funds. When segregated accounts are created the following should be also be created by management:</p> <ul style="list-style-type: none"><li>• Tracking spreadsheets;</li><li>• Monthly reconciliations; and</li></ul> <p>Approval requirements to withdraw funds.</p>	<p>A full reconciliation has been completed on the main reserve, the development charge reserve and a plan to fund it in place. All other cash reserves and restricted funds have now been established and reconciled.</p> <p>And follow the Reserve and Restricted Cash Policy. This policy formalizes the use of the reserves.</p>			

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<p><b>4.1.1 Municipal policies and practices related to reporting procedures and the annual budget</b></p> <p>There is no specific policy or formal practice for reporting financial information and the annual budget to Council. Through review of previous agendas and information provided to Council, reporting of financial information is not regularly scheduled and formats of financial reporting are not consistent.</p>	Without regular financial performance and forecasting updates from management, there is increased risk that Council could be making decisions with financial implications without all the relevant information required and placing too much reliance on management.	Management should follow through on their verbal commitment to providing quarterly financial updates to Council and has recently demonstrated increased due diligence in responding to Council questions related to the finances of the organization. Management should develop a formal policy, schedule and procedures relating to the presentation of financial information to Council. Peer benchmarking and examples would be an excellent source of information in responding to this recommendation.	<p>Management has developed Quarterly reports, and the budget.</p> <p>To support this the Internal Controls Reporting Policy was developed to formalize the timelines</p>			
<p><b>4.2.1 Adequacy of policies and procedures in place for staff to report to council on financial issues in a timely and transparent manner and ensure that council members have a clear understanding of the municipality's financial position</b></p> <p>As noted above, there are no specific policies or procedures in place. The format and content of reporting to council has changed considerably through recent changes in management. Current management have demonstrated a commitment to more regular, transparent and understandable communication as demonstrated through the 2014 budget preparation and approval process and a tracking process has been put in place to manage Council requests through to completion. Formalizing this commitment with a defined schedule and format for financial reporting with Council's input would further strengthen communication with Council.</p>	Without the regular provision and discussion of financial performance and forecast information, Council's understanding and comprehension of Municipal financial matters remains limited and could impair decision making.	<p>In addition to Recommendation 4.1.1 regarding formalizing policies and procedures, Management needs to develop standard financial reporting formats and templates and educate Council further on specific Municipal Finance and Accounting topics on a regular basis with reporting of performance.</p> <p>Additionally, Council should improve their understanding of Municipal Finance and Accounting, and assess the committee structures to determine if a Finance and Audit committee is required. Such a committee could include non-Council membership in order to leverage Finance/Audit expertise in the local business community. Comparator Municipalities such as Owen Sound has a Financial Advisory Committee, Blue Mountains has a Committee of the Whole for Finance/Administration/Fire and Essex has a Standing Committee. The Town could look to these as possible examples to review and leverage as needed.</p>	<p>Council training has been done on issues facing the municipality and more user friendly budget to actual reports have been implemented</p> <p>Further Educational Training as council is still scheduled however item is substantially complete.</p>			
<p><b>4.2.2 Adequacy of policies and procedures in place for staff to report to council on financial issues in a timely and transparent manner and ensure that council members have a clear understanding of the municipality's financial position</b></p> <p>Per discussion with management and review of Council minutes, it was noted that a new process for tracking issues and questions raised by council has been implemented recently. Inquiries are tracked via spreadsheet by the CAO's office and the CAO has accountability to ensure that all questions are being answered and all questions are to be directed to the CAO from Council. This spreadsheet will also be used at senior management meetings to track open inquiries.</p>	Without a formal tracking process Council inquiries and concerns may go unaddressed which increases the risk of impairing the decision making of Council, as well as delays in the approvals of financial information.	To ensure this new process is sustainable, management should formalize the procedures. Council should formally assess the new process that has been put in place and provide feedback to the CAO in terms of improvements and timeliness of responses.	Council action items are reviewed by the SMT, and maintained by the assistant to the CAO. A formal policy is tabled with this update.			
<p><b>4.3.1 Whether budgets are structured in a way to provide clear understanding and accountability for staff, management and council</b></p> <p>Through discussion with management and review of budget documentation for years 2009-2013, the budget workbook appears to have provided sufficient detail, structure and consistency for year over year comparisons and conveyed increases and decreases. The reserve transfers are noted but not explained as being funded or non-funded and did not imply whether reserves were considered cash or non-cash (equity) in nature. For these years, operational managers conveyed that Finance prepared and provided them with the budget without much interaction, as such accountability and understanding of the budget by department leaders was questionable. The budgeting process for 2014 was redesigned to get more inclusion of managers and Council, in order to increase understanding and accountability. Additionally, Finance is planning on issuing monthly financial reports to departments and quarterly financial reports to Council.</p>	Prior to the 2014 budget preparation process, Finance was seen as architect and owner of the budget with little input from operations. This increased the risk that operational management and Council did not understand their budget and potentially impairing accountability.	<p>Management should formalize the new budgeting process for consistency in future years as noted in Recommendation 2.2.4, and can look to automate some of the budget preparation and collection of data to streamline the process further as it matures.</p> <p>Additionally, the development of a Long Term Financial Plan should provide a positive impact on the Town's ability to develop a multi-year budget as noted in Recommendation 1.5.2.</p>	The budget processes has been documented and are retained in the procedure binder in the finance department. Changes will be updated for 2016 Budget as required. In addition to the budget,.			

Observation	Implication	Recommendation	Solution	Complete	WIP	To Do
<p><b>5.1 Use of Federal gas tax funds in light of the agreement governing the use of such funds</b></p> <p>The 2013 revenue for gas tax was \$1,067,391.84, and the funds were allocated to expenses of five projects as outlined in the documentation provided by management. The independent auditor's report to the Association of Municipalities of Ontario (AMO) was also reviewed which outlined the opinion that as of December 31, 2013 the Town was in compliance, in all material respects, with the criteria as outlined from the Municipal Funding Agreement for the Transfer of Federal Gas Tax Revenues Under the New Deal for Cities and Communities, dated December 13, 2005 between the AMO and the Town.</p> <p>In May 2014 a report was provided to Council which outlined the capital projects that will be funded by the 2014 federal gas taxes. The report was approved by Council.</p>	<p>Non-compliance with the clauses as stated in the Municipal Funding Agreement for the Transfer of Federal Gas Tax Funds could result in the Town not receiving allocated funds.</p>	<p>Management should document procedures with respect to ongoing maintenance of separate records in relation to the annual gas tax receipts and claims in order to ensure sufficient documentation is available in the event that the Town is subject to a random audit by the AMO as per the agreement.</p> <p>In addition, Management should allocate the gas tax funds into a gas tax reserve fund in order to comply with the AMO agreement and for ease of gas tax fund tracking and reporting.</p>	<p>Gas tax funds have been separated and now remain in a segregated account. This account is presented quarterly in the reserve account updates to Council.</p> <p>Gas Tax and Grant Reporting are all up to date as of March 31, 2016</p>			
<p><b>5.2 Use of bequests and/or donations (e.g. Ranta Memorial Park Libro Complex)</b></p> <p>The Town does not have an agreement, policy, or procedure currently in place with respect to the use and accounting of bequests or donations. The original cheque for the \$166,666.67 donation to the K.W. Ranta Memorial Park was dated June 30, 2004. The bank statement outlining the original deposit to the general bank account was not available from the records. The bank statement outlining the deposit for the additional donation of \$40,188.34 received in September 2010 was obtained and reviewed. A memo had been prepared in 2009 outlining the eligible expenses posted to the Ranta Park reserve which totaled \$93,212.59. The \$133,400.93 difference remaining in the reserve was transferred from the operating account to a new separate bank account on May 16, 2014; therefore the funds have now been physically separated from the operating account.</p> <p>The Amherstburg Community Foundation was established in August 2009 to raise funds for various projects within the Town. Per discussion with Management, from 2009 to 2011 the funds raised and transferred to the Town were used for the construction of the Libro Complex. The audited financial statements from 2009 to 2012 were obtained for the Amherstburg Community Foundation. The transfers to eligible donors were traced to the general ledger account detail for the following accounts (a) transfers to operations fund and/or (b) general capital reserve. The operations fund was used for fundraising expenses and the capital fund was used for construction expenses. Discussion with management noted that a detailed reconciliation of expenses drawn on the Libro Complex had not been performed.</p>	<p>The lack of policy and standard operating procedures increases the risk that actions are performed in a manner inconsistent with the donator/bequestor's intentions. Furthermore, lack of physical segregation of donation/bequest funds from the general operating account impacts the ability of Management to accurately track whether the funds are used solely for eligible expenses and to ensure that the funds are available when eligible expenses occur.</p>	<p>Management should formalize the donation/bequest policy for consistency in application. The policy should then be reviewed and revised (if required) on an annual basis by Council.</p> <p>Management should formalize the standard operating procedures required for donation/bequest processes. These detailed step-by-step procedures should include screen shots where applicable to provide additional clarity.</p> <p>In addition, as already initiated with the Ranta Memorial Park donation and aligned with steps taken for reserve accounting, management should ensure that all future funds received which are specified to certain expenses (i.e. donations/bequests, etc.) are maintained in physically separate bank accounts to provide support for timely reporting on availability of funds and eligibility of expenses.</p>	<p>A separate account has been set up with funds dedicated for Ranta Memorial Park. Interest has also been calculated on this account, and will be transferred to this account upon the approval of council.</p> <p>This Reserve has also been formalized in the Reserve and Restricted Cash Policy</p>			

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<b>5.3.1 Town's Internal Compliance management strategies</b> Through discussion with management it was identified that there is not a consistent and comprehensive understanding of the policies, practices and by-laws that are required of the Municipality.	Lack of formal processes, policies and procedures increases the risk of inconsistencies, inefficiency and errors.	Management should develop an Internal Compliance management strategy and policy management framework.	A formal policy for Internal Controls has been developed and approved by Council			
<b>5.3.2 Town's Internal Compliance management strategies</b> Through discussion with management it was identified that no formal strategy is in place for monitoring adherence to policies, procedures and by-laws. Management is aware this is needed but is focused on other priorities at this time.	Lack of adequate formal processes to track and monitor control and policy compliance increases the risk of processes not being followed.	Management should have the external auditor complete extended or specified audit procedures on a set number of processes/controls annually to obtain additional compliance coverage on the controls in place within the finance function.	<p>During the 2014 Audit KPMG the Town's External Auditors assessed the findings in Deloitte Financial Practices Reviews when conducting there Audit Planning.</p> <p>No Unadjusted errors or significant internal control concerns were noted in the 2014 Audit Report.</p> <p>It should be noted that for 2015 the preliminary audit field work has been completed by KPMG and No Unadjusted errors or significant internal control concerns were have been expressed to date</p> <p>Further review is still possible at Council desire at an additional undetermined expense</p>			
<b>5.4 Policies and collective agreements with respect to post-employment benefits including whether best practices are being followed</b> In discussions with Human Resource Management it was noted that the Town is behind in formalizing a process for ensuring compliance with the non-union policy and collective agreement and changes that are made from time to time. Best practices were also not being followed as the Town did not institute a process to segregate the funds and manage them accordingly. The collective agreement language is also very burdensome as it notes that each employee's contributions need to be managed separately.	Insufficient investment returns earned on the contributed funds in the post-employment benefits account may jeopardize the expectation of an employee to fully fund the purchase of an independent benefits package on retirement.	<p>Management should formalize a process and procedures for ensuring compliance with the collective agreements and post-employment benefits. The process should also outline how to ensure changes are captured and updated accordingly.</p> <p>In addition, management should include consideration of the needs of the post-employment benefits account when developing an investment policy as noted in Recommendation 2.2.7.</p>	The funds for post-employment benefits have now been segregated into a separate bank account. Administration has develop an investment policy for Council's approval to ensure that these funds are invested properly.			
<b>5.5.1 Whether financial statements and financial information returns are completed by the required timelines</b> Based on a discussion with management and a review of the published financial statements and financial information returns it was identified that for the years, 2009, 2010, 2011, 2012 the financial information was not filed on time. <b>Financial Statements</b> <b>2009</b> Published January 2011 <b>2010</b> Published September 2012 <b>2011</b> Published May 2013 <b>2012</b> Published August 2013 <b>Financial Information Return</b> <b>2009</b> Submitted February 2011 <b>2010</b> Submitted October 2012 <b>2011</b> Submitted May 2013 <b>2012</b> Submitted June 2014 It was determined that prior management was behind in completing the financial statements and processing the necessary transactions. Under the current management the 2013 financial information return was filed and published in June 2014.	The lack of documented practices and procedures compromises meaningful governance and financial oversight.	<p>Management should create a monthly reporting checklist and year-end reporting timeline that is presented to council and approved yearly. These checklists will provide visibility for council into the reporting timelines and requirements that need to be met as well as provide accountability for management. Quarterly reporting to council will also ensure the financial records are being kept up to date.</p> <p>It is also recommended that council receive a quarterly financial reporting package. Timelines and requirements should be established yearly.</p>	<p>All outstanding Financial Statements and FIR submission are now complete. Planning meetings have commenced with KPMG for December 31, 2014 year end. Audit timeline has been established with KPMG for early April 2015 to begin with completion by May or June. This timeline has been established to ensure the FIR is completed for June deadline.</p> <p>The 2014 FIR and Financial Statements were filled on time. In June and July of 2015</p>			



Observation	Implication	Recommendation	Solution	Complete	WIP	To Do
<b>6.1.1 Fraud prevention/detection, internal controls, audit and quality assurance</b> From discussions with management it was identified that there are no formal processes in place to ensure that controls are being adhered to or that quality assurance over transactions and processes are being followed. Management has attested that controls do exist over processes, but they are not formally documented. Internal controls over financial reporting processes are also not documented.	Without a defined set of internal controls, there is risk of management not understanding accountabilities and oversight for processes as well as a misappropriation of assets.  In addition to manage the controls in a process effectively, individual departments need to work together to increase issue awareness, strengthen communication, reduce opportunity for fraud and ensure a more comprehensive and robust internal control process.	Management should identify their internal controls over financial reporting processes. Once the controls are documented the information should be presented and approved by Council. There should also be a policy created that outlines the responsibilities of council, finance and management in terms of creating and enforcing the internal controls within the Town.	Internal Controls Policy Tabled and awaiting Council Approval	✓		
<b>6.2.1 General quantitative, financial business and management analysis and advice</b> From discussions with management and the review of documentation it was determined that general quantitative, financial management analysis and advice was limited only to the budget preparation.	Financial analysis assists with controlling resources, people and finances. Without the proper analysis, there is an increased risk of poor decision making.	Management should implement at a minimum the following mechanisms to provide financial business and management analysis and advice on their processes and results: <ul style="list-style-type: none"> <li>• Comparative analysis;</li> <li>• Performance analysis;</li> <li>• Ratio analysis;</li> <li>• Variance analysis;</li> <li>• Exception analysis;</li> <li>• Break-even analysis;</li> <li>• Risk and Return analysis;</li> <li>• Financial forecasting; and</li> <li>• Benchmarking analysis.</li> </ul>	The quarterly reports have incorporated variance, performance, and comparative analysis and also have incorporated financial forecasting. Business analysis tools will continue to be used into the future by the finance department.	✓		
<b>6.3.1 Financial and operational effectiveness including benchmarking and best practices</b> Management has indicated that there are no formal benchmarks or best practice sources that they rely on. When needed to be able to validate approaches or look for assistance in terms of making changes to current processes or policies, management will consult other local towns to discuss practices and determine what would be feasible to implement within Amherstburg.	Benchmarking helps an organization become better at achieving goals through comparison with more successful organizations. Without benchmarking the Town may be missing out on opportunities for improvement.	Management should identify comparator data to use to benchmark against. Senior Management should set goals on how to improve internal operations and use comparable data to set the expectations and changes required.	These types of analysis are being built into the strategic financial plan, the 2015 Budget and will be part of future long term planning.  The Long Term financial plan sets out goals and benchmarks	✓		
<b>6.4.1 Municipal processes for addressing questions and issues raised through the audit of municipal financial statements</b> Through discussion with management it was identified that management is aware of the management letter points provided by the external auditor but there is no formal plan to address them.	Lack of adequate formal processes to track and monitor audit issues increases the risk of changes not being implemented.	Management should create a plan that addresses audit issues and timing for implementing the changes required from the management letter points. The plan to address the management letter points should be shared with the external auditor each year and changes should be implemented prior to the next audit.	Issues outlined in the 2013 Audit Recommendation letter have been addressed and corrected  No issues noted in the 2014 Audit Recommendation letter	✓		
<b>6.5.1 Implementation plans for any audit management letters the council/CAO received over the past five years</b> Having an understanding of the internal controls in place over financial processes is a requirement. Management recognizes the need to document their internal controls as well. An initiative called “service level review” was to incorporate this initiative but since the departure of the director responsible for this initiative it needs to be reassigned and reprioritized.	Without a defined set of internal controls, there is risk of management not understanding accountabilities and oversight for processes as well as a misappropriation of assets.  In addition to managing the controls in a process effectively, individual departments need to work together to increase issue awareness, strengthen communication, reduce opportunity for fraud and ensure a more comprehensive and robust internal control process.	As noted in 6.1.1 above, management should document their internal controls over financial reporting. Once the controls are documented, benchmarking to other towns or municipalities would be effective to identify control gaps that should be remediated.	Internal Controls Policy and Internal Controls Reporting Policy have been tabled to Council and are pending final approval	✓		
<b>6.6.1 Decision – making processes for council regarding the budget</b> From 2009 to 2013 the budget was built primarily by Finance using detailed workbooks and management was told what their budgeted figures were and in some cases management was not aware of the purpose of certain budget line items and why funds had been allocated accordingly.  When the past budgets were presented to Council, and when questions were asked of the prior Treasurer about certain amounts; Council was informed that there was money available in the reserves for the projects.  In 2014, the current management changed the budgeting process. Current management worked with the directors to build the budget numbers and the directors were present when the information was presented to Council. Management worked to make revisions and consolidate information as needed.	Without the regular provision and discussion of financial performance and forecast information, there is increased risk that Council understanding and comprehension of Municipal Finance matters remains limited and could impair decision making.	Management should work towards finalizing the quarterly packages to be presented to Council and agree upon a timeline yearly as outlined in recommendation 5.5.1. In addition, the budget-to-actual analysis should be presented monthly to council and directors should be available to answer questions as required.	The budget to actual reporting packages has been formalized and implemented, along with variance analysis and forecasting.	✓		

Observation	Implication	Recommendation	Solution	Complete	WIP	To Do
Comparisons for 2013 to 2014 budget amounts have been difficult to produce as the mapping has changed and it is difficult to account for items one-to-one based on presentation in prior budgets. As of the date of this review, the 2014 budget-to-actual analysis has not been provided to Council although it has been completed by management as of the end of June 2014 and is currently undergoing review. The most recent report to council on budget-to-actual figures was presented in August 2013 outlining the 2013 budget variance as at July 31, 2013.						