



Village of South River
Municipal Financial
Management Practices and
Service Delivery Review



Municipal Financial
Management
Practices

November 23
Final Report



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Village of South River Municipal Financial Management Practices and Service Delivery Review



Chapter I: Introduction



Introduction

A. Overview of our engagement

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

- Purchasing and accounts payable
- Payroll
- Billing and Collections: Taxation Revenue, User Fees and Grants
- Month End Processing
- Operational and Capital budgeting

Our review is being undertaken in connection with funding received by the Village from the Province of Ontario for service modernization funding for small and rural communities (the “Fund”). The Fund was established by the Province to assist municipalities in identifying potential cost savings from operational efficiencies and other strategies. Pursuant to the provisions of the Fund, the Village is required to:

- Retain a third party advisor for the purposes of the review, rather than undertaking the review internally;
- Provide public disclosure as to the results of the review, including a statement from its advisors as to the quantum of potential cost savings; and
- Establish that front line service reductions and increases in user fees are not outcomes of the review.

The terms of reference for our review is based on our engagement letter dated April 30, 2020.

Our review relied heavily on the contributions and knowledge of Village personnel and we would like to express our 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 Village staff to discuss the current processes used by the Village within the administrative and finance areas. During these working sessions, KPMG facilitated discussion with Village 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 Village'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.
2. LEAN seeks to develop **flow**, so that products or services move fluidly and without interruptions through the process.
3. 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.
4. 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 II. These maps are outlined in flowchart form and are intended to assist in understanding (i) the individual worksteps performed by Village 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 Village's system of internal controls is insufficient to prevent the risk of financial loss |
|  | Client service limitations, representing aspects of the Village's operations that may adversely impact on customer satisfaction |  | Litigation risk, consisting of potential areas where the Village's processes may expose it to risk, including areas where existing measures to mitigate risk are considered insufficient |

Included as Chapter III is a summary of the potential areas for improvements, as well as potential courses of action that could be adopted by the Village to address the identified issues.

Introduction

D. Restrictions

This report is based on information and documentation that was made available to KPMG at the date of this report. We had access to information up to August 10, 2020 in order to arrive at our observations but, should additional documentation or other information become available which impacts upon the observations reached in our report, we will reserve the right, if we consider it necessary, to amend our report accordingly. This report and the observations and recommendations expressed herein are valid only in the context of the whole report. Selected observations and recommendations should not be examined outside of the context of the report in its entirety.

Our observations and full report are confidential and are intended for the sole use of the Village of South River's management team. We consider this report to be operational in nature and as such, intended for internal management use only. In order to satisfy the public reporting requirements of the Fund, key themes emerging from our review of the financial processes have been reported in a separate public document.

Our review was limited to, and our recommendations are based on, the procedures conducted. The scope of our engagement was, by design, limited and therefore the observations and recommendations should be in the context of the procedures performed. In this capacity, we are not acting as external auditors and, accordingly, our work does not constitute an audit, examination, attestation, or specified procedures engagement in the nature of that conducted by external auditors on financial statements or other information and does not result in the expression of an opinion.

Pursuant to the terms of our engagement, it is understood and agreed that all decisions in connection with the implementation of advice and opportunities as provided by KPMG during the course of this engagement shall be the responsibility of, and made by, the Village of South River. Accordingly, KPMG will assume no responsibility for any losses or expenses incurred by any party as a result of the reliance on our report.

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 Village of South River nor are we an insider or associate of the Village of South River or its management team. Our fees for this engagement are not contingent upon our findings or any other event. Accordingly, we believe we are independent of the Village of South River and are acting objectively.



Village of South River
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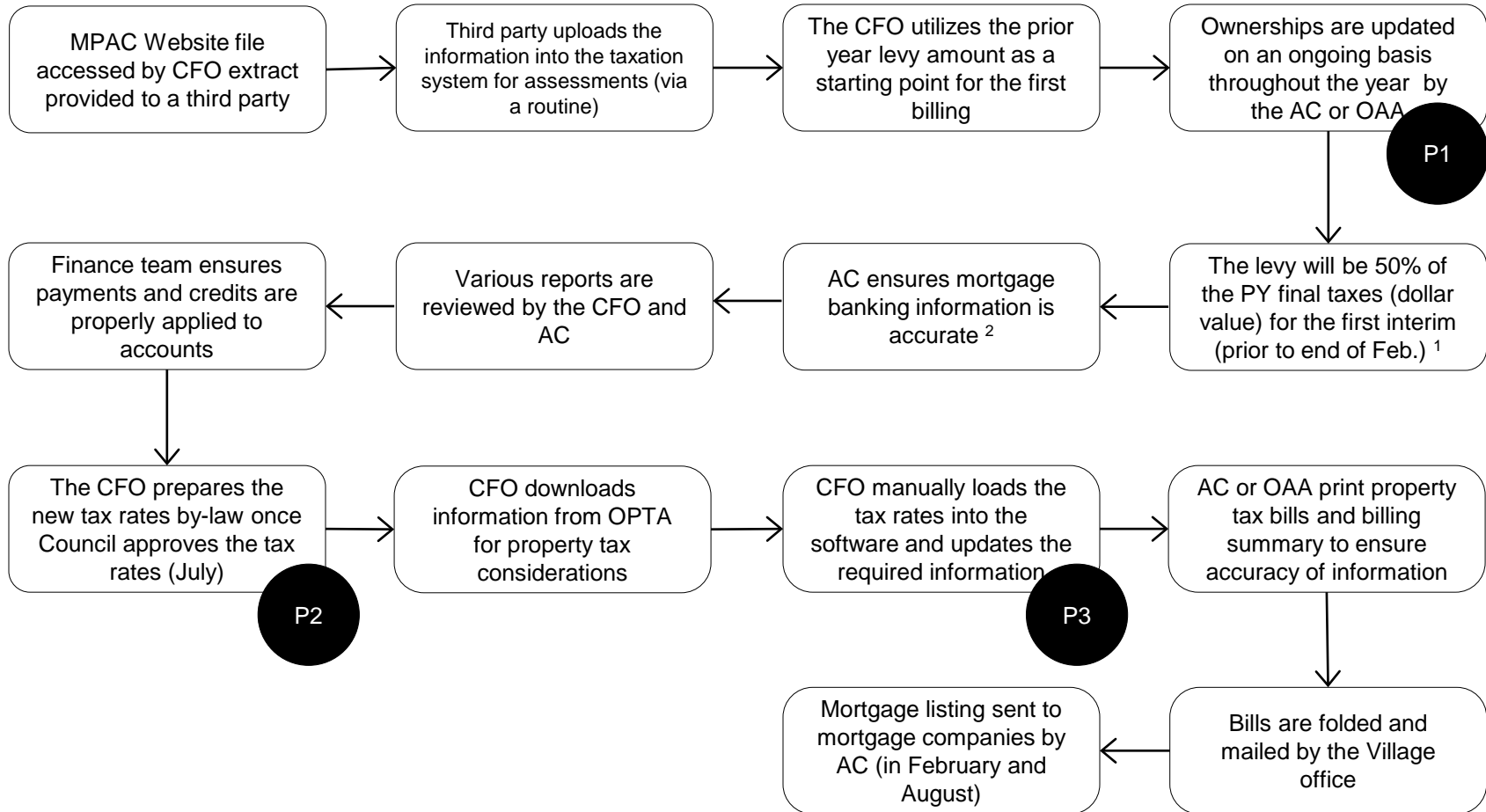
Chapter II:
Process Maps



Abbreviations

CFO	Chief Financial Officer
CA	Clerk-Administrator
AC	Accounting Clerk
OAA	Office Administrative Assistant
RM	Recreation Manager
PY	Prior year
DC	Deputy Clerk
DH	Department Head
WO	Work Order
CR	Cash Receipts
MIS	Management Information System

Billings and Collections: Property Taxation - Assessment



¹ Prior year final taxes are used to calculate the interim for the Village as the budget for the year is not approved until June/July of each year. Tax balances are finalized for the year based on the approved budget / taxes by council in July. Interim levies invoiced to residents are compared to the final calculated levies

² This process is completed on an ongoing basis throughout the year.

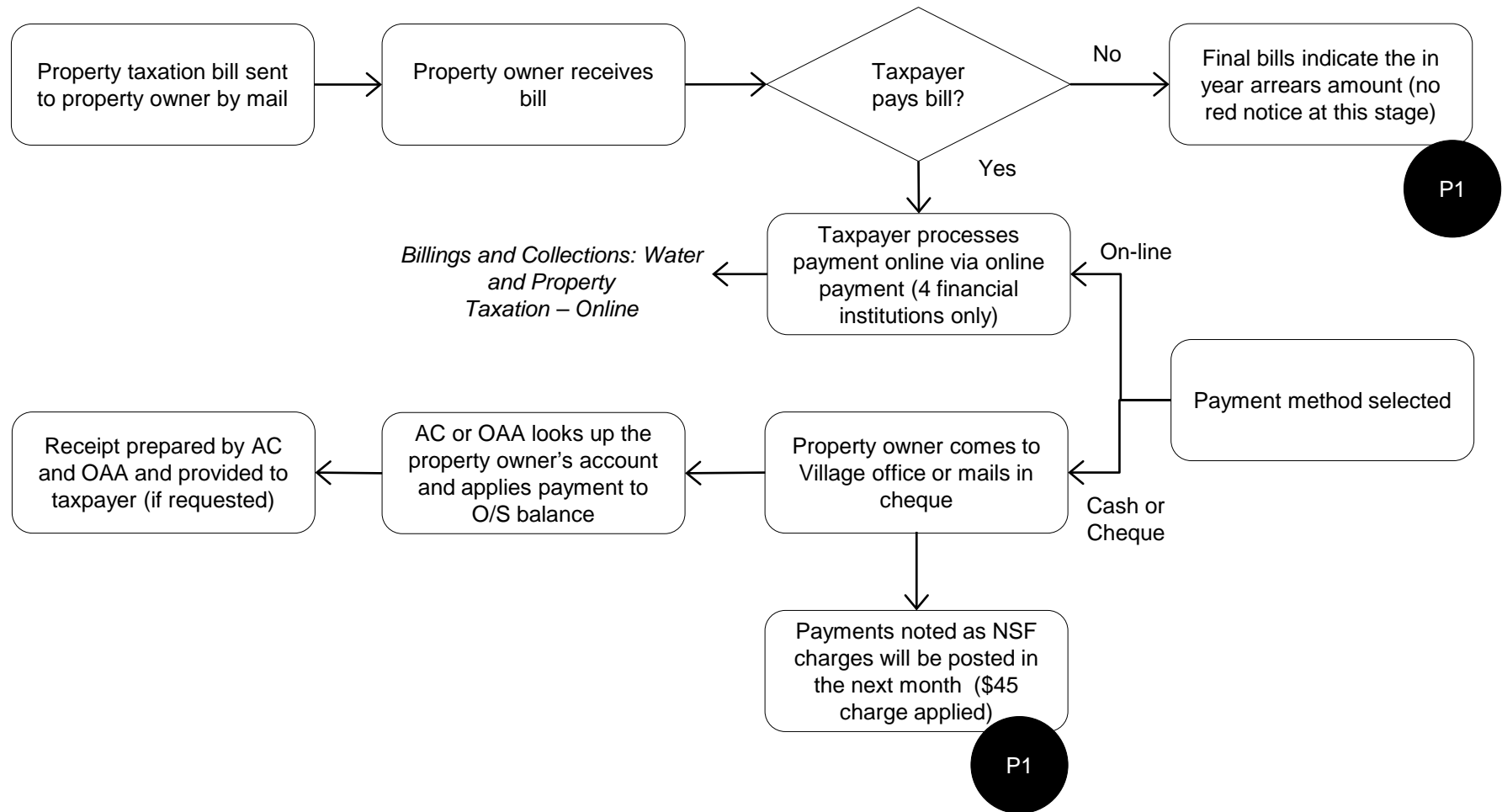
Potential Courses of Action

Issue	Potential Course of Action
<p data-bbox="98 408 210 522">P1</p> <p data-bbox="258 361 1070 451">It was noted internal updates to property ownerships are not completed / updated on a regular schedule. They are completed on an ad hoc basis which can result in non-timely updates to ownership.</p>	<p data-bbox="1112 361 1843 515">A schedule should be set as part of the month end processes to ensure the property ownerships are updated on a timely basis. A month end processes checklist should be developed which would include the requirement to update any changes to property ownerships noted in the month.</p>
<p data-bbox="98 718 210 832">P2</p> <p data-bbox="258 601 1064 722">Notices for arrears are sent to taxpayers when they have not made required tax and user charge payments by the appropriate due date. At the current time there is no standard timeline that is followed to dictate when the letter should be sent to the tax payer.</p> <p data-bbox="258 758 1054 879">Previous, the Village has not completed a follow up on the 2nd year outstanding bills. They have changed this process and have followed up on bills aged greater than 2 years and have made good progress on the collection of these balances.</p>	<p data-bbox="1112 601 1837 786">A tax and user charge collection policy should be formally documented and adhered to which includes timelines for the notice of arrears to be sent to the taxpayers. This will ensure a consistent approach is followed and can allow these tasks to be allocated to other individuals at the Village (i.e. the CFO can review the letters once prepared).</p> <p data-bbox="1112 822 1837 943">A listing of taxation balances in arrears over a certain age will need to be developed which aligns with the newly developed policy which will facilitate the preparation of the letters by the staff on a timely basis.</p> <p data-bbox="1112 979 1837 1072">The current practice with the red notice should continue to be used as the process has been noted to be effective in the past.</p>

Potential Courses of Action

Issue	Potential Course of Action
<p data-bbox="96 428 212 542">P3</p> <p data-bbox="258 359 1064 449">The finalized tax rates are manually entered by the CFO into the tax software. Manual entry of data can result in incorrect calculations should the data be incorrectly entered.</p>	<p data-bbox="1110 359 1843 514">A second individual should complete a check of the data input by the CFO to ensure the data is properly entered into the tax software. The review of the data should be evidenced via sign offs / tickmarks and scanned and saved with other taxation documentation to support the calculations.</p> <p data-bbox="1110 549 1808 606">Wherever possible there should be data import capabilities for the tax rates to avoid the need for manual inputs.</p>

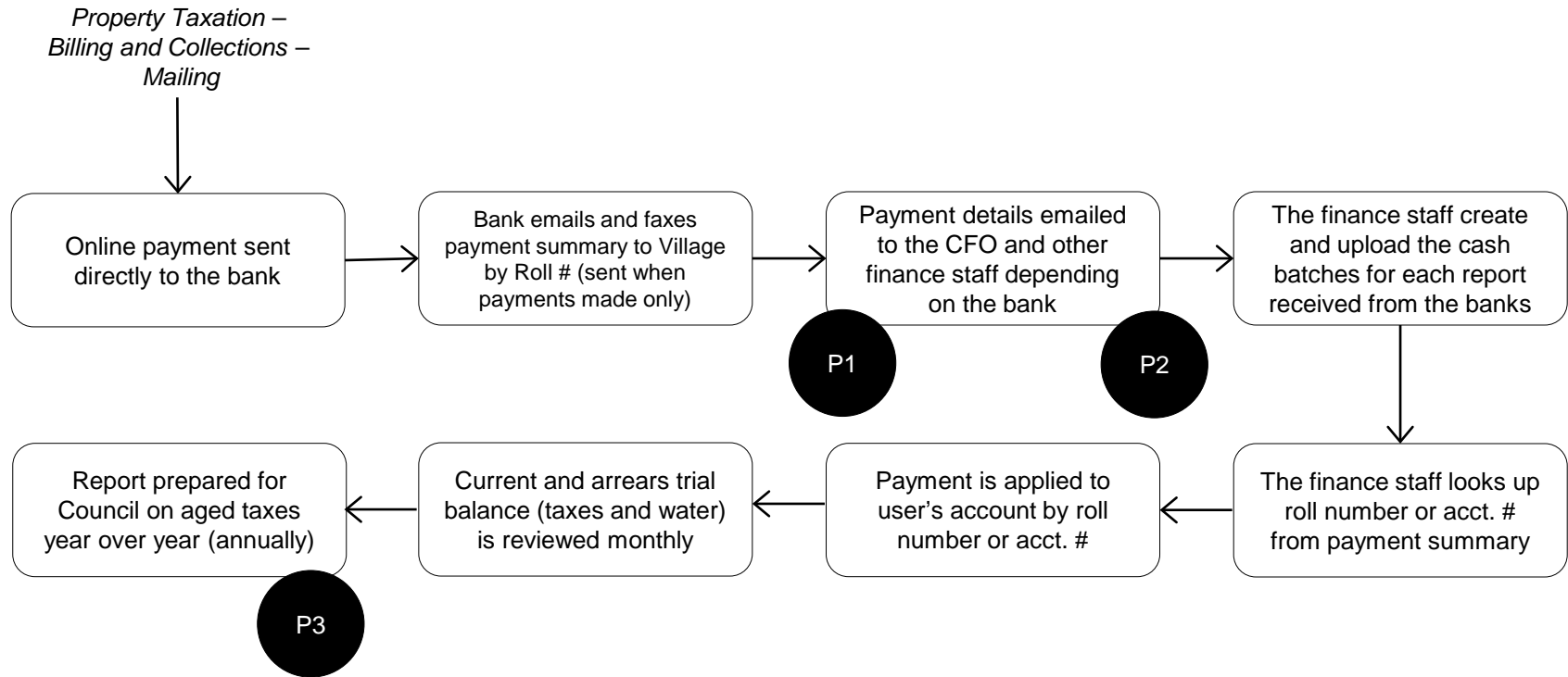
Billings and Collections: Property Taxation - Payment



Potential Courses of Action

Issue	Potential Course of Action
<p data-bbox="98 362 210 476">P1</p> <p data-bbox="258 362 1064 482">Notices for arrears are sent to taxpayers when they have not made required tax and user charge payments by the appropriate due date. At the current time there is no standard timeline that is followed to dictate when the letter should be sent to the tax payer.</p> <p data-bbox="258 519 1064 639">Previous, the Village has not completed a follow up on the 2nd year bills. They have changed this process and have followed up on bills aged greater than 2 years and have made good progress on the collection of these balances.</p>	<p data-bbox="1112 362 1837 546">A tax and user charge collection policy should be formally documented and adhered to which includes timelines for the notice of arrears to be sent to the taxpayers. This will ensure a consistent approach is followed and can allow these tasks to be allocated to other individuals at the Village (i.e. the CFO can review the letters once prepared).</p> <p data-bbox="1112 584 1837 704">A listing of taxation balances in arrears over a certain age will need to be developed which aligns with the newly developed policy which will facilitate the preparation of the letters by the staff on a timely basis.</p> <p data-bbox="1112 741 1837 832">The current practice with the red notice should continue to be used as the process has been noted to be effective in the past.</p>

Billings and Collections: Water and Property Taxation - Online Payment

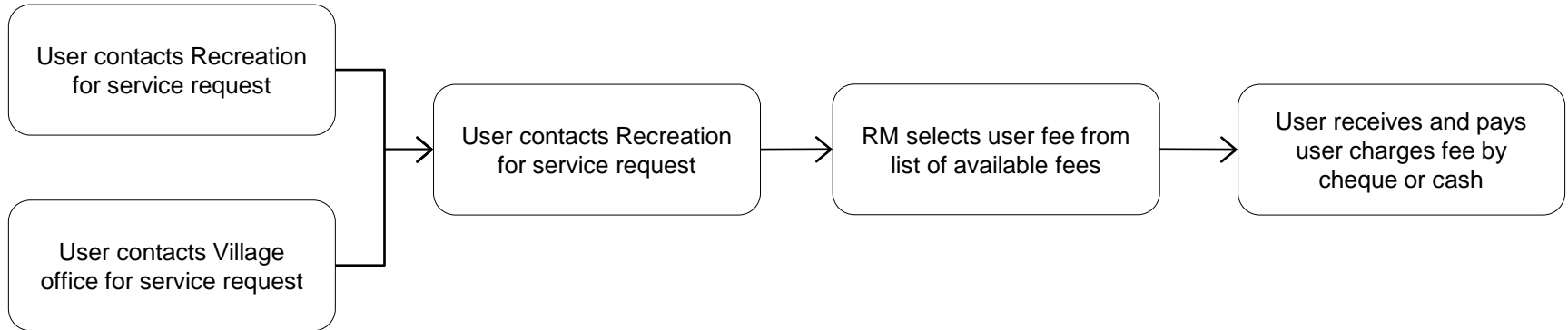


Potential Courses of Action

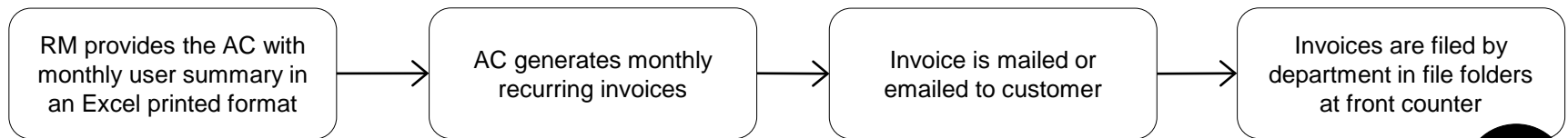
Issue	Potential Course of Action
<p>P1</p> <p>Online payment details are provided by the bank to support the payments made online. There is no separate email address for the Village for all online payment details (for both accounts receivable and accounts payable invoices provided). Certain payment summaries and details are emailed to the CFO and other payment details to other staff members. When individuals are away from the office this can create delays in the application of the payments associated with online payments and can create difficulties when completing the bank reconciliation given that payment details from the bank may not be followed up / entered on a timely basis.</p>	<p>A generic email address for the Village should be set up as the contact for all banks for the submission of online banking transactions. The email account should be accessed by the AC or OAA on a daily basis with these transactions entered into the accounting system by either the AC or OAA. The CFO should only be involved in the entering and follow up of the payments should an error be noted or follow up required.</p>
<p>P2</p> <p>Throughout the course of the process mapping it was noted the CFO is responsible for accessing the information from the banks relating to online payments given that a generic email address is not available for the submission of these reports. In addition, given that the CFO is provided with certain payment details, the CFO may be involved in the processing of these transactions within the accounting system.</p>	<p>As noted above, the AC and/or OAA should be responsible for accessing the payment details from the financial institutions are processing these payments within the accounting system. This would allow for the CFO to focus on situations where there are issues with the payments or focus on strategic items such as the tax and user charges collection and arrears process.</p>
<p>P3</p> <p>Notices for arrears are sent to taxpayers when they have not made required tax and user charge payments by the appropriate due date. At the current time there is no standard timeline that is followed to dictate when the letter should be sent to the tax payer.</p> <p>Previous, the Village has not completed a follow up on the 2nd year bills. They have changed this process and have followed up on bills aged greater than 2 years and have made good progress on the collection of these balances.</p>	<p>A tax and user charge collection policy should be formally documented and adhered to which includes timelines for the notice of arrears to be sent to the taxpayers. This will ensure a consistent approach is followed and can allow these tasks to be allocated to other individuals at the Village (i.e. the CFO can review the letters once prepared).</p> <p>A listing of taxation balances in arrears over a certain age will need to be developed which aligns with the newly developed policy which will facilitate the preparation of the letters by the staff on a timely basis.</p> <p>The current practice with the red notice should continue to be used as the process has been noted to be effective in the past.</p>

Billings and Collections: User Fees

One Time Users ¹/Out of Town Users



Monthly User Charges



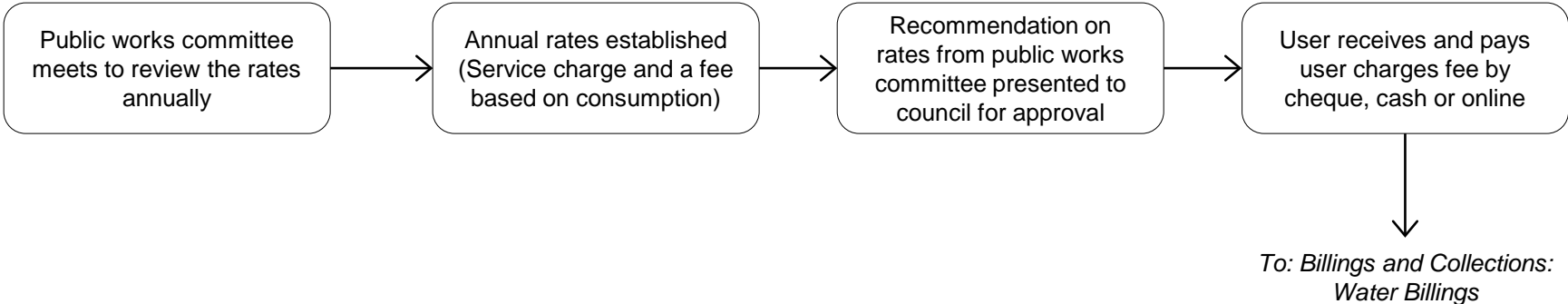
P1

¹ One time users can include such user fees as fees related to the fire department, insurance companies, MTO, inspection fees and training

Potential Courses of Action

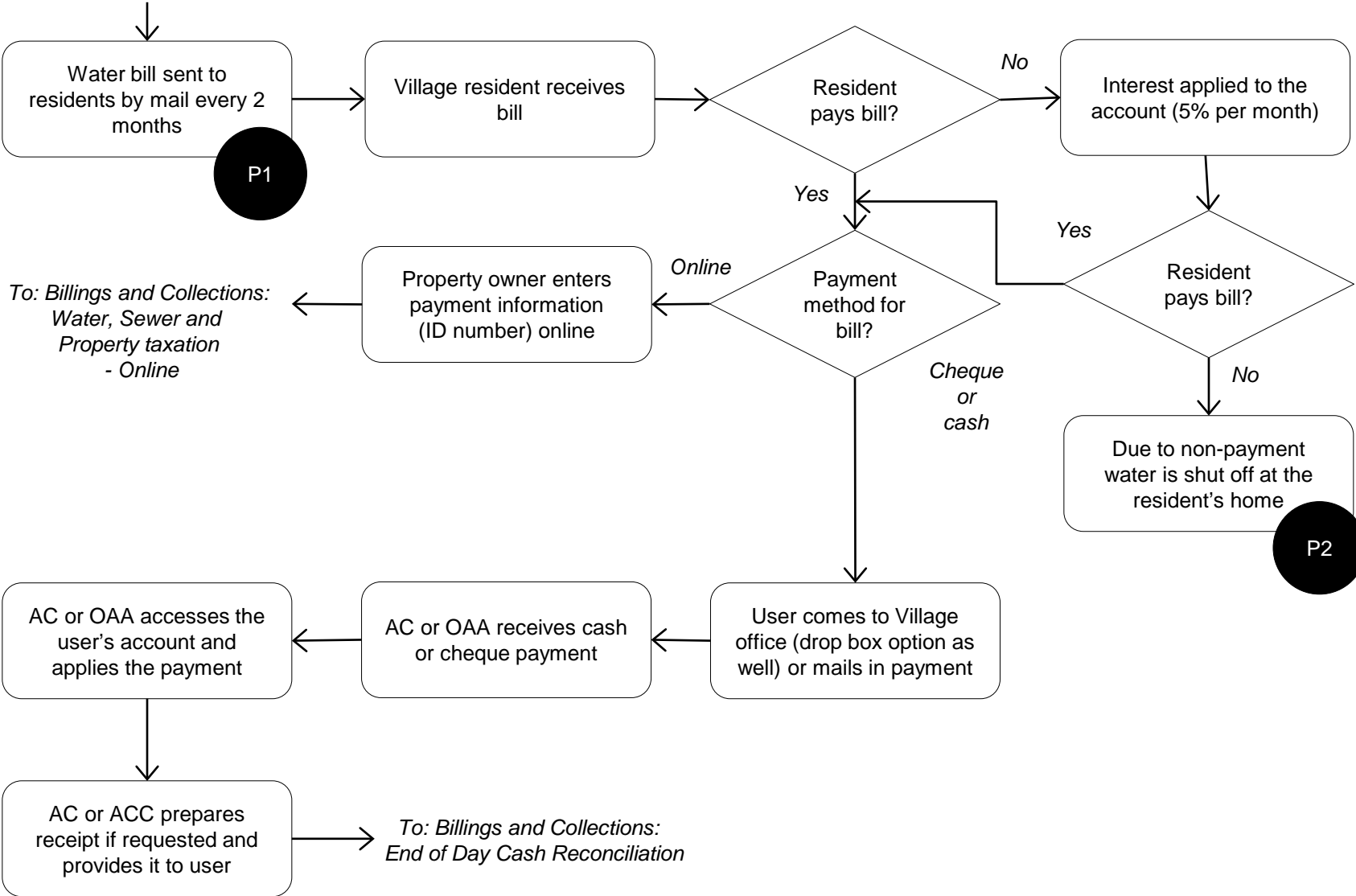
Issue	Potential Course of Action
<p data-bbox="98 332 214 448">P1</p> <p data-bbox="258 287 1070 436">There are three different file folders - one for arena, one for Fire and one for the Village. They are stored in order to match the invoice up to the payment that has been made. The invoice is pulled when the payment is made and this invoice is included with the payment details.</p>	<p data-bbox="1112 287 1837 375">It should be considered whether these invoices can be stored electronically as opposed to manually printing the invoices and storing these invoices in folders.</p> <p data-bbox="1112 411 1837 499">Each invoice can be stored as a pdf document within a folder with the payment details scanned in when the information is received.</p>

Billings and Collections: Water Fees



Billings and Collections: Water Billings

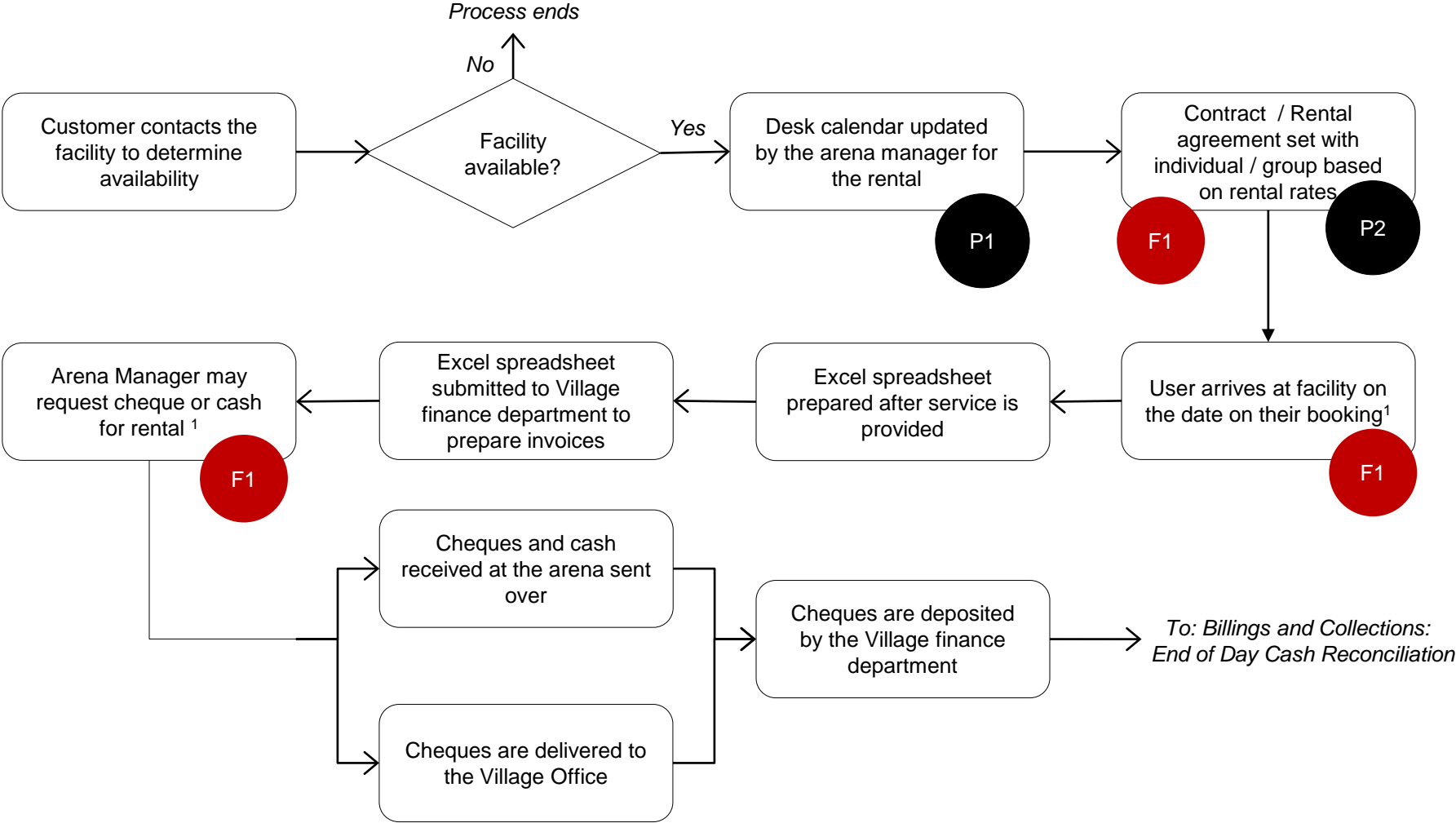
From: *Billings and Collections: Water Fees*



Potential Courses of Action

Issue	Potential Course of Action
<p data-bbox="227 275 915 365">All water bills are currently manually prepared and sent by mail. This results in additional time and postage costs incurred by the Village</p> <p data-bbox="92 479 214 596">P1</p>	<p data-bbox="967 275 1841 396">Allow users to receive bills electronically through email or “epost” through Canada Post. System generated emails can be produced that will send user’s their bills electronically reducing costs associated with post and the time required to prepare and mail the bills.</p> <p data-bbox="967 432 1841 715">Given the demographics of the Village it is noted that some residents will request a hard copy of the invoice given that they may not be able to access the billings electronically. It is noted online there are 500 individuals and businesses who utilize water services annually in the Village where a portion of these bills could be sent electronically resulting in lower postage and costs associated with printing of the bills. Additional discussions with regards to the software would be required to determine if this is possible and however this would require a cost benefit analysis comparing the cost of postage.</p>
<p data-bbox="227 739 929 953">By-law 5-2014 allows the Village to shut off the water supply upon default of payment. It was noted while the by-law exists, differing timelines can be adhered to for the follow up on non payment of water and property tax bills. This can lead to inconsistent methods used for collection and expose the Village to potential legal and reputational risks.</p> <p data-bbox="92 936 214 1053">P2</p> <p data-bbox="227 989 880 1051">Furthermore, the bylaw was approved in 2014 and may require review and updating.</p> <p data-bbox="227 1086 919 1333">The current process involves an arrears notice to be sent when there is \$200 owing on the account. A disconnect notice is provided when the balance owing is more than \$250, which includes a due date for the payment or the water will be shut off. The process differs within the winter months as the water cannot be turned off during these months. In addition, the by-law does require a \$250 deposit on account which is held by the Village.</p>	<p data-bbox="967 739 1644 765">The Village should implement the following process step:</p> <ul data-bbox="967 801 1841 986" style="list-style-type: none"> • Update the formal policy that is followed for Water arrears, similar to property taxation (e.g. notice of pass due amounts sent after 30 days, development of a payment plan after 60 days, water shutoff after 90 days). • The policy should be approved by council and made public to inform all users and residents of the process and policy in place. <p data-bbox="967 1022 1773 1079">Updating and adherence to a formal policy will allow staff to address operational matters in a more efficient and time sensitive manner.</p>

User charges - Arena and Community Centre Rentals



¹ Payment for the services can be received via cash or cheque. The payment can be made at the time the service is provided or at a later date (once invoice is received)

² Contracts are in place for the Hockey Opportunity Camp (“HOC”) and the Almaguin Spartans. No formalized agreements are in place for other rental arrangements.

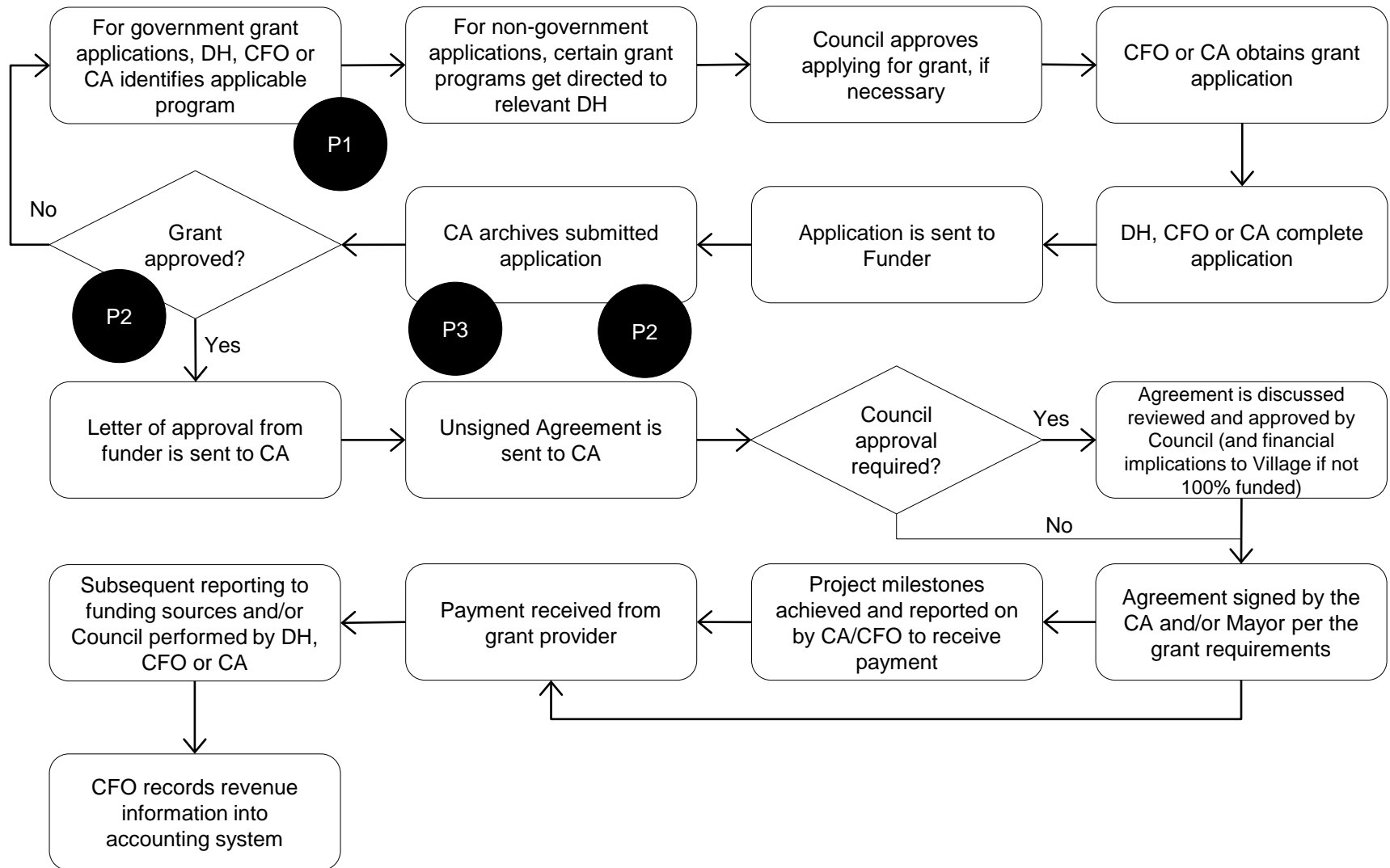
Potential Courses of Action

Issue	Potential Course of Action
<p data-bbox="98 362 214 479">P1</p> <p data-bbox="258 304 1074 646">Currently the process of booking ice time and community hall rentals South River – Machar Community Centre and Arena is based on cumbersome manual processes. The Village does not appear to use a technology solution in the scheduling resulting in confusion within the process if the manual tracking spreadsheets are not updated. Given the Hockey Opportunity Camp and the fact that the arena is used by two communities (South River and Machar), the arena is used for the majority of the year with a number of group and individual bookings. Additional time is spent by staff tracking the scheduled bookings and translating the bookings into invoices for the rentals.</p>	<p data-bbox="1112 304 1841 489">The Village may want to consider exploring the potential of acquiring recreational software which would then allow for bookings to be consolidated within the Village’s operations as well as potentially increase the user’s experience as they could potentially see when ice is available in live time opposed to having to be in contact directly with Arena staff.</p>
<p data-bbox="98 822 214 939">P2</p> <p data-bbox="258 704 1074 861">Throughout the course of the process mapping it was noted the scheduling process utilized for the arena and community centre rentals is a manual process. In addition, there is no formal systems utilized to track contracts in place with groups and individuals renting the facilities.</p> <p data-bbox="258 896 1074 1110">This has created inefficiencies within the process when information is not appropriately tracked or available when needed. In addition, given that the finance department is responsible for tracking the rentals and associated revenue within the accounting system there can be delays and inaccurate information processed given there is no formal process for the tracking of information associated with rentals.</p>	<p data-bbox="1112 704 1789 761">As indicated previously, the Village may want to consider exploring the potential of acquiring recreational software.</p> <p data-bbox="1112 803 1802 918">A contract for ice rentals has been used subsequent to the pandemic. It is recommended the contract continue to be used to assist with ensuring there is a documentation trail available for each rental.</p> <p data-bbox="1112 961 1821 1175">In addition, prior to a rental occurring, all contracts and agreements with the individual or group renting the facility should be documented and formalized. These agreements should be provided to the Village finance department for electronic storage of the contract / agreement. This will facilitate the process for invoicing for the rental and will help to ensure invoicing for rentals is not missed.</p>

Potential Courses of Action

Issue	Potential Course of Action
<p data-bbox="98 334 204 439">F1</p> <p data-bbox="258 305 1070 582">The current process allows for the Arena manager to have responsibility for booking the arena and community centre bookings, tracking the bookings in the manual schedule and potential collection of cash for the rental. In addition it was noted there are inconsistent processes in place for invoicing associated with the arena rentals where some individuals may pay for their rental on the date the service is provided. This provides an opportunity for the Arena Manager to retain the cash collected as there is no tracking of the rental in the system.</p> <p data-bbox="258 622 1070 773">This existing process results in a lack of segregation of duties as one individual has control over the process from start to finish. In addition, the Arena Manager has responsibility for the concession stand at the arena where there is no accountability for any over/under cash shortages at the current time.</p> <p data-bbox="258 813 1070 933">Given the current processes there is the potential for a booking not to be recorded and the cash payment misappropriated. Given the current process, this would not be identified by any current reconciliation steps within the Village finance department processes.</p>	<p data-bbox="1112 305 1831 554">Segregation of duties should be improved within the arena and community centre rental processes. Given that the current process is manual, until a new electronic scheduling process is implemented there should be no ability for the Arena Manager to collect cash payments for the rentals. On an interim basis, the process can continue with the use for the manual scheduling, however the process for collection of cash and cheques should change immediately.</p> <p data-bbox="1112 594 1831 739">Responsibility for cash collections should be completed by finance staff at the Village office only. Segregating these tasks will ensure individuals who are not responsible for both the booking / recording of the rental as well as the payment collection.</p>

Billings and Collections: Grants



Potential Courses of Action

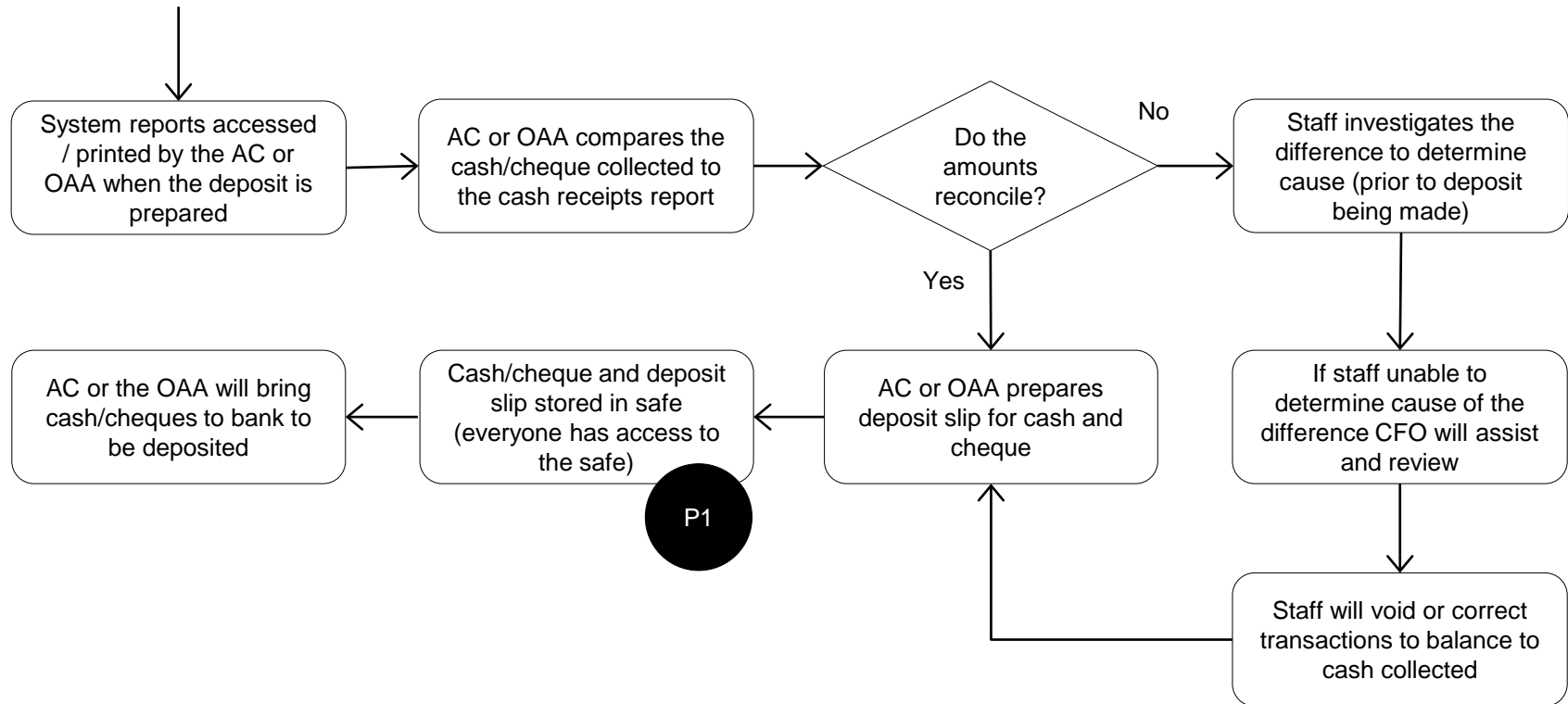
Issue	Potential Course of Action
<p data-bbox="102 365 218 482">P1</p> <p data-bbox="258 341 1049 462">A strategic plan has been drafted for the Village which can be used to determine the areas of focus. It was noted however there could be certain updates which are required (as it has not been updated within the current year).</p> <p data-bbox="258 501 1070 654">Currently there is no formal guidance provided by Council annually to establish grant priorities (operating, capital, job creation etc.) As a result, the CA, CFO and DHs may be focusing efforts on initiatives that are not a priority of the Village or applying for any grant available to increase funding levels overall for the Village.</p>	<p data-bbox="1110 341 1785 429">The following procedures should be developed to ensure priority areas are focused on for the grant search. This should include the following:</p> <ul data-bbox="1110 436 1843 682" style="list-style-type: none"> <li data-bbox="1110 436 1843 525">• Prior to the budgeting process, Council should set specific priorities for operating, capital and job creation to ensure grant research is focused on the relevant areas. <li data-bbox="1110 532 1843 621">• Assign accountability for the grant research by type (operating, capital and job creation to the DH, CFO and/or CA as applicable). <li data-bbox="1110 628 1843 682">• On a standing, monthly basis have an update presented to Council on the grant research and applications.
<p data-bbox="102 719 218 836">P2</p> <p data-bbox="258 709 1049 831">Currently, a debrief of unsuccessful grant applications does not always occur. Determining the reason for the failed application can identify the strengths, weaknesses in the application and will assist with improved grants submissions in the future.</p>	<p data-bbox="1110 709 1785 831">Follow up should be completed on all unsuccessful grant applications in excess of \$25,000 by the individual who completed the grant application. This will help to identify items to improve on further applications.</p>

Potential Courses of Action

Issue	Potential Course of Action
<p data-bbox="98 386 214 504">P3</p> <p data-bbox="258 339 1068 462">It was noted there is no formal tracking of the grant submissions and the status of the submissions. This can result in grants not being followed up on a timely basis and the information not available to provide an update to Council on the status of the grants.</p>	<p data-bbox="1110 339 1831 558">It is recommended a grant tracking sheet be maintained by the CA. This will ensure the status of the grant application is available on an as needed basis. It will also facilitate the follow up on successful and unsuccessful grants and can be used as a starting point when subsequent grant applications are submitted (so the successful grant applications are used as a starting point).</p>

Billings and Collections: End of Day Cash Reconciliation

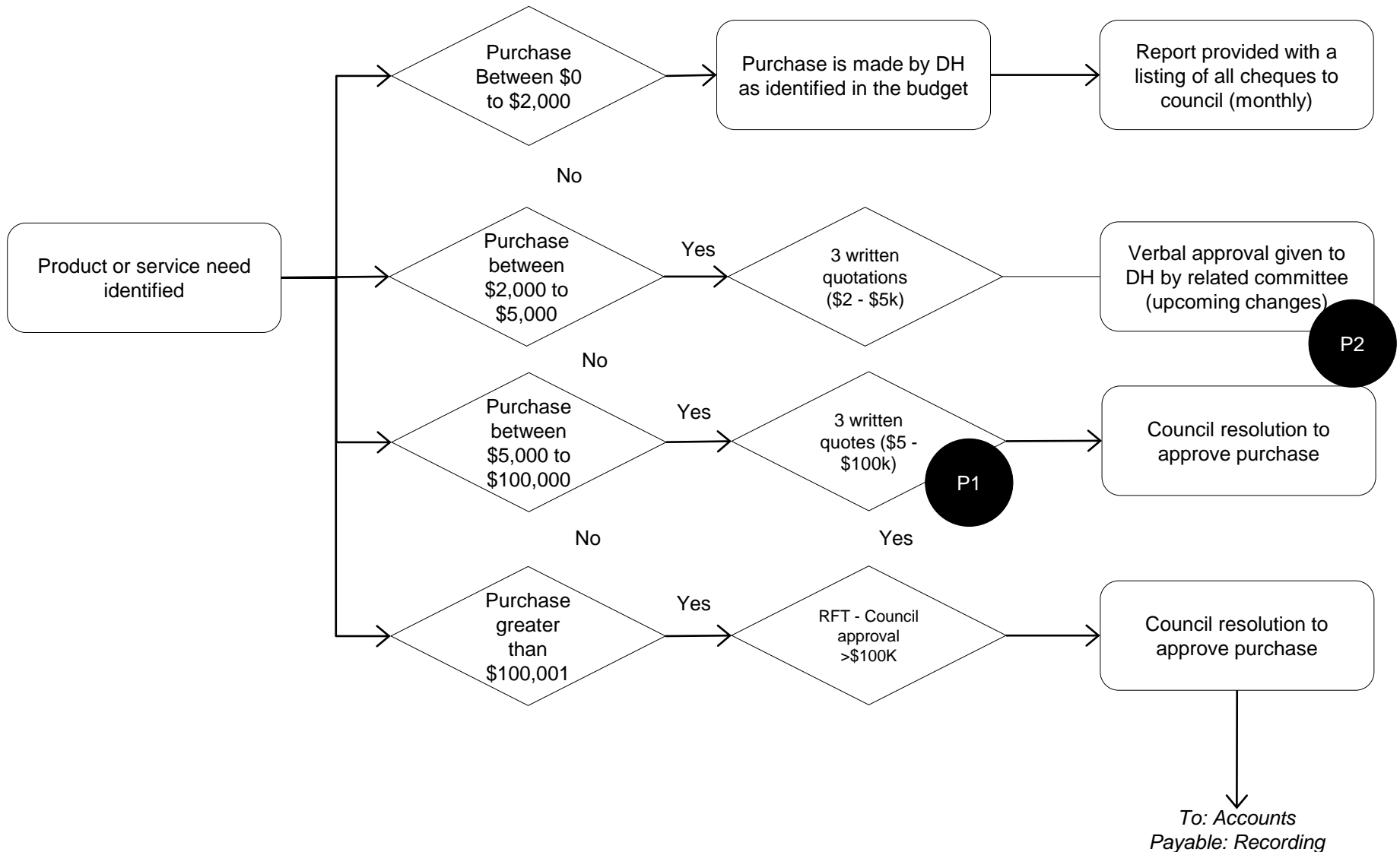
Billing and Collections – User fees
Billing and Collections – Property taxes
Billing and Collections – Water



Potential Courses of Action

Issue	Potential Course of Action
<p data-bbox="98 362 214 476">P1</p> <p data-bbox="258 362 1062 476">It was noted all staff within the finance department have access to the safe (which is a walk in vault) and are aware of the combination. While certain staff members have the combination, they do not use the combo and access the safe.</p> <p data-bbox="258 519 1052 634">It was noted also the walk in vault acts as a storage area where office supplies, tax files and cemetery information is included. As a result staff are required to enter the walk in vault on an ongoing basis.</p> <p data-bbox="258 676 1072 762">Given all staff are aware of the combination for the staff funds can be removed from the cash stored in the safe and there would be no way to determine who has accessed the safe of the cash.</p>	<p data-bbox="1112 362 1831 505">The access to the safe should be limited to individuals who are not preparing the cash deposit information. This is needed to ensure should cash be missing in the safe there would be a limited number of individuals who have access to the safe.</p> <p data-bbox="1112 548 1839 634">As noted previously, given that the safe is used to store office supplies and required files limiting the access to the vault would not be possible.</p> <p data-bbox="1112 676 1839 862">It is recommended a the lock box currently used for cemetery information is used for the storage of cash and cheques not yet deposited at the bank. The safe should be located within either the CFO or CA's office to ensure the safe combination is only known by individuals who are not part of the deposit process.</p>

Accounts Payable: Purchasing

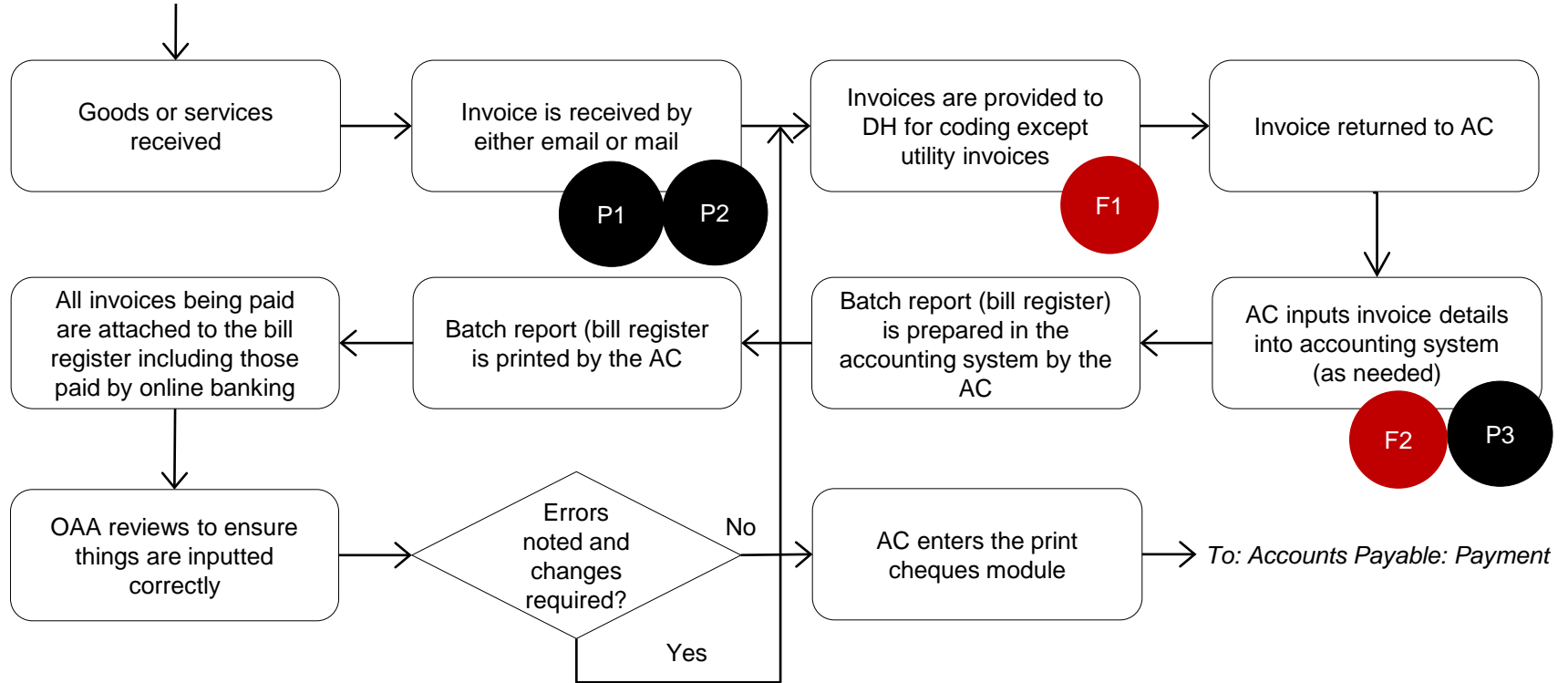


Potential Courses of Action

Issue	Potential Course of Action
<p>P1</p> <p>Council resolution is required for purchases greater than \$5,000. This may cause delays in purchasing while staff await council approval. This also may create redundancies if purchases were already identified and approved through the annual budgeting process.</p>	<p>We suggest considering amending the purchasing policy to adjust the procurement thresholds requiring council approval. To ensure adequate controls over purchasing in lieu of council approval, a purchase order system may be an appropriate alternative. See P2 below.</p>
<p>P2</p> <p>Several employees are responsible for authorizing the purchases and receiving the goods, in effect, authorization, receipt, and custody.</p>	<p>We suggest the Village implement a centralized purchase order and receipt system to improve internal accounting controls over purchasing of inventory and supplies. The purchase order system would include the following controls:</p> <ul style="list-style-type: none"> • Purchase orders 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 purchase orders should be independent of the individuals in the receiving area, to allow for a proper segregation of duties. • The receiving reports should be matched with the purchase order by the AC and this comparison documented on the receiving report. Any differences should be reviewed on a timely basis. • 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 Village 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: Recording

From: Accounts Payable Purchasing



Potential Courses of Action

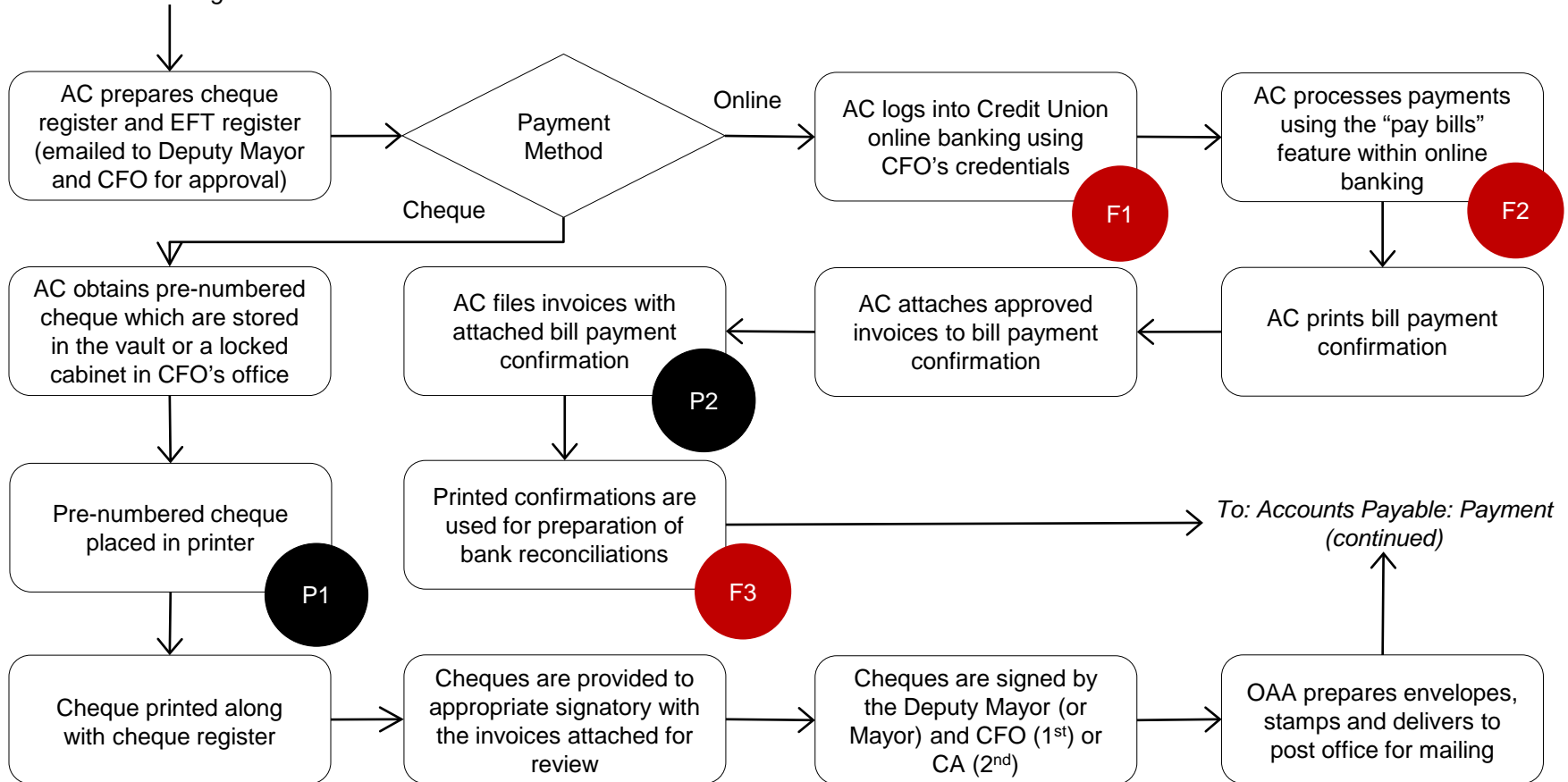
Issue	Potential Course of Action
<p>P1</p> <p>The Village's s account payable process is paper based, with emailed copies of invoices printed out for processing. This represents a potential inefficiency as (i) the process consumes time and resources associated with the printing of electronic invoices; and (ii) the approval process involves the physical movement of invoices as opposed to email.</p>	<p>The Village should consider the use of electronic invoices as opposed to paper copies, whereby invoices received by mail are scanned prior to processing.</p> <p>Invoices should be scanned and saved by date and vendor only. A naming convention should be developed that will allow for an efficient electronic search (e.g. vendor, amount, batch number, payment date, cheque number, etc.)</p> <p>Electronic invoices can also be submitted to a shared folder location with access restricted to only the Department Heads. Accounting Clerk can retrieve the documents from this location every week to prepare the payment batch.</p>
<p>P2</p> <p>It was noted that invoices are received both by mail and electronically and that electronic invoices are often sent to the Accounting Clerk's or the Village's general information email address. Receipt of the invoice to the Accounting Clerk's email address may result in delays should the Accounting Clerk be away from the office for an extended time.</p>	<p>We recommend creating a specific email address to collect and organize digital invoices as noted in P1 above. This will help centralize the receipt of invoices and create efficiencies in the invoice processing process as the Accounting Clerk will be able to direct the invoices to the appropriate Department Heads in a timely manner.</p>
<p>F1</p> <p>The Village does not currently have a purchase order system in place. While department heads have the authority to purchase up to \$2,000 based on their respective budgets without prior approval, these purchases would not be formally approved until payment is ready to be issued.</p>	<p>We recommend implementing a purchase order system which would enable purchases to be approved prior to the payment process. This in turn would also strengthen controls surrounding purchasing and mitigate potentially unnecessary purchases.</p>

Potential Courses of Action

Issue	Potential Course of Action
<p>F2</p> <p>The Village's process for new vendor set-up involves minimal controls and review and is initiated once an invoice is received. It is possible that staff can purchase goods or services from related parties or false vendors without independent due diligence into the vendor.</p>	<p>The Village 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 should be reviewed regularly for accuracy and independence. Vendors which have not been used over the last 24 months should be removed.</p>
<p>P3</p> <p>Invoices and payments are entered and processed on an 'as needed' basis or when time permitting. This take was completed on a weekly basis previously prior to issues surrounding water meters / billings / meter failures.</p> <p>Given both the volume of invoices and the availability of signing authorities, routine data entry and processing is considered time consuming especially during peak times when the Accounting Clerk's time is shared with other responsibilities such as coordinating day camp.</p>	<p>We recommend establishing a schedule both for entering invoices and processing payments on a weekly, biweekly, or monthly basis to ensure invoices are not missed to be entered, payments are made by the due date to ensure no unnecessary late fee charges are incurred, or payments are not duplicated to any given vendor.</p>

Accounts Payable: Payment

From: Accounts Payable:
Recording



Potential Courses of Action

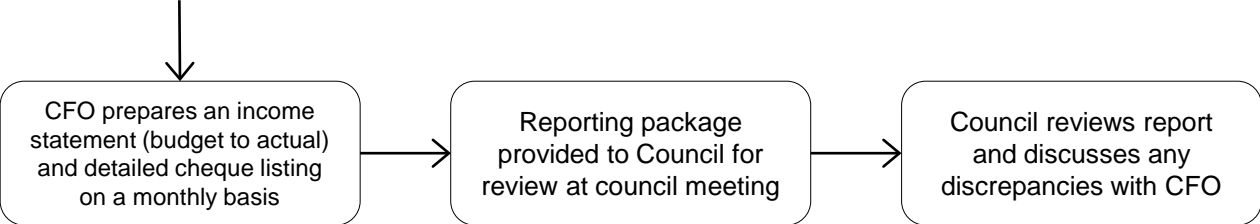
Issue	Potential Course of Action
<p>P1</p> <p>The majority of transactions are paid by cheque. This results in additional efforts and time required to process a payment. It was noted that the intention is to move to processing all payments using EFT in the future.</p>	<p>We recommend considering extended use of Electronic Fund Transfers (EFTs) with integration into the accounting software. The recommended process is as follows:</p> <ul style="list-style-type: none"> Accounting Clerk runs EFT process in accounting system Accounting Clerk prints EFT batch report and attaches invoices which are provided to the Chief Financial Officer for review Accounting Clerk uploads EFT file to the bank (payment does not process at this time) Chief Financial Officer receives notification that an EFT has been updated. Chief Financial Officer reviews the EFT with the provided supporting documentation and approves the EFT payment. EFT confirmation is provided to the Accounting Clerk to save and file with the payment batch information.
<p>F1</p> <p>The Accounting Clerk logs into the Village's online banking using the Chief Financial Officer's credentials. This creates a potential opportunity for fraudulent payments to be made using the Chief Financial Officer's implied authority.</p>	<p>We recommend creating a secondary profile with separate log in credentials for the Accounting Clerk. This will help ensure accountability for payments made by the Accounting Clerk.</p> <p>We understand at the current time there is a current limitation with the Kawartha Credit Union where the creation of the secondary profile would not be possible.</p>

Potential Courses of Action

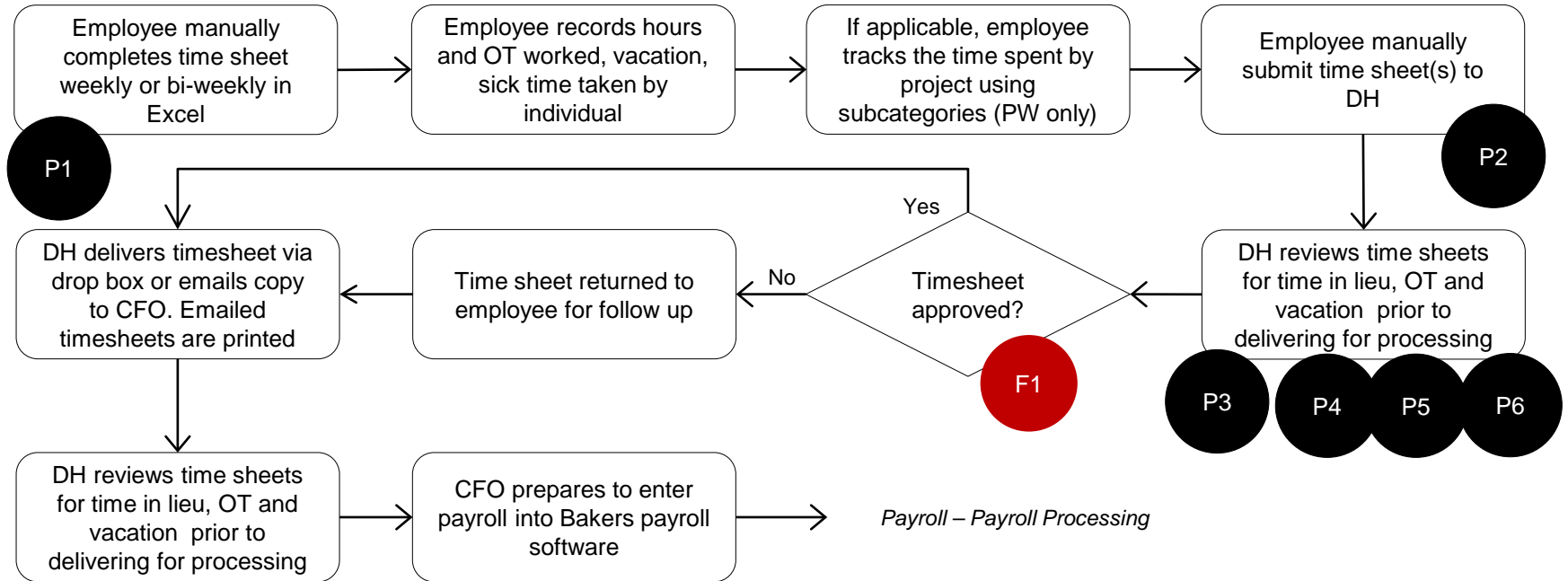
Issue	Potential Course of Action
<p data-bbox="86 349 197 456">F2</p> <p data-bbox="256 268 1064 544">The Accounting Clerk processes payments using the pay bills feature within the Village's online banking account. A report listing the invoices are approved for payment prior to processing the online payment. These payments are processed based on approved invoices. There is no requirement for a dual approval based within the online system. It was noted however that the Chief Financial Officer or the Deputy Mayor review online payments with a high level cursory review. Where needed, the CFO will access the supporting information (i.e. invoices).</p> <p data-bbox="256 582 1002 705">Furthermore, it was noted that current online payments mostly include utility bills. As there is no formal approval process over online bill payments, this could result in personal utility invoices being processed through online banking.</p> <p data-bbox="256 743 1045 925">Additionally, it was also noted that the Village is moving towards adding more vendors to this payment method. Without prior approval of payments processed in this manner, or formal approval over the set up of vendors using this feature, there is a risk that fictitious vendors can be created and approved payments could be directed to inappropriate accounts.</p>	<p data-bbox="1112 268 1760 325">We recommend considering Electronic Funds Transfer process noted in P1 on slide 36.</p>
<p data-bbox="79 953 197 1068">P2</p> <p data-bbox="256 953 1058 1072">Digital payment confirmations are printed and attached to hard copy of invoices. This results in inefficiencies in record keeping both in terms of resources required to maintain hard copies as well as storage space required for invoices.</p>	<p data-bbox="1112 953 1827 1011">See recommendation P1 on slide 33 for recommendation on paper based versus digital records.</p>
<p data-bbox="86 1113 197 1220">F3</p> <p data-bbox="256 1096 1012 1282">The Accounting Clerk is relied upon as part of the invoice entry process, prepares online bill payments without formal signing authority authorization and also prepares the monthly bank reconciliations. This creates risk of fraud with the absence of appropriate segregation of duties or appropriate authorization of online payments.</p>	<p data-bbox="1112 1096 1843 1315">We recommend ensuring the Chief Financial Officer approves all online bill payments in the interim, that online payments be moved to an Electronic Funds Transfer process noted in P1 on slide 36, and that the Chief Financial Officer prepares the monthly bank reconciliations to ensure adequate controls and appropriate segregation of duties over the purchases, payment and reconciliation processes.</p>

Accounts Payable: Payment (continued)

From: Accounts Payable: Payment



Payroll: Time Sheet Submission




Potential Courses of Action

Issue	Potential Course of Action
<p>P1</p> <p>Timesheets are prepared manually in Excel which can result in timesheets being inaccurate (e.g. all hours not adding to 70 or 80 hours every pay period) or incomplete (e.g. description of the tasks and projects completed not being recorded (descriptions are required for PW staff only). Formulas are included in the timesheets for the purposes of summarizing the totals.</p>	<p>Have staff complete timesheets electronically, restricting submission until all errors or discrepancies have been addressed.</p>
<p>P2</p> <p>Employees or Department Heads need to bring hard copies of their timesheets to the Village office. The time taken to deliver the timesheets can be spent on other value added activities. On occasion these timesheets can be emailed to the Village office.</p>	<p>Set up a shared folder on the Village network that restricts access to only the Department Heads. At the end of the pay period, the Department Head can scan and save the time sheets in the share folder. This will also indicate their review and approval. The Chief Financial Officer can then retrieve the time sheets from this folder and save them electronically.</p>
<p>P3</p> <p>The attendance module and scheduling is all paper based. This can create potential errors or inefficiencies for the Department Heads' review of their respective timesheets.</p>	<p>We recommend utilizing a digital shared scheduling calendar such as Google Calendar. This platform is already being used to schedule and track vacation requests and approvals, therefore the Village would be able to leverage this to gain efficiencies over the timesheet review process. Department Heads would be able to review timesheets remotely using the shared digital platform.</p>

Potential Courses of Action

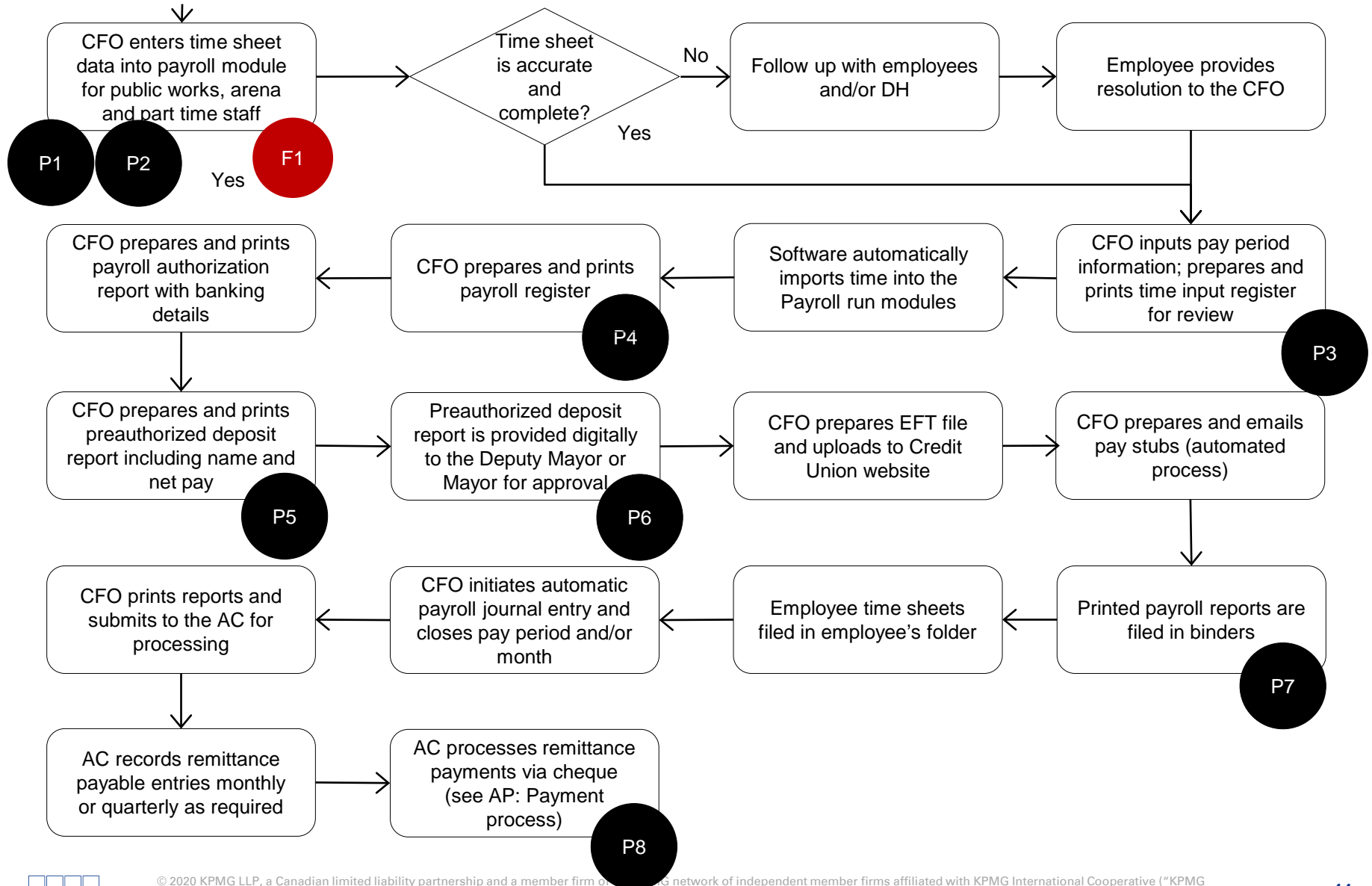
Issue	Potential Course of Action
<p>F1</p> <p>Department Heads do not have access to the vacation, overtime and time in lieu balances when deciding to approve the leave request from employees. This information needs to be requested from the Finance Department. There is a risk that employees can take unearned paid leave or vacation. This will only be detected upon the Chief Financial Officer's review of the employee tracked vacation leave against her own manual tracking which occurs after the vacation/leave has already been taken.</p>	<p>Provide department heads with monthly summaries of vacation / sick / overtime / and time in lieu entitlement. Department Heads can use this information when approving the vacation/leave. This will also assist the Department Heads with recognizing which vacation/leave forms the Finance Department has on file and reduce the number of instances that CFO is required to follow up and request a missing vacation/leave form.</p>
<p>P4</p> <p>Time in lieu, overtime and vacation hours are tracked manually using Excel by the Chief Financial Officer. While these carrying balances are reviewed by the Chief Financial Officer and are compared to the manual tracking sheet, the Chief Financial Officer's schedule does not always allow for timely review of these balances. This can create inconsistencies and result in hours taken in excess of allowable accrued time.</p>	<p>We recommend implementing the use of an electronic timesheets that will enable automated tracking of time in lieu, overtime and vacation banks. This will create both efficiencies in the review process, but also allow for a more timely and accurate reporting of remaining banks. This will also reduce errors by either the Chief Financial Officer's or the employee's manual tracking.</p>
<p>P5</p> <p>There currently is no set request or approval form for vacation or sick time. However it was noted that the Finance Department was working on creating a standardized form and implementing the completion of the form as part of the timesheet approval process. Currently Department Heads are responsible for keeping track of vacation or sick time that they have approved. This can result in errors as no formal approval process is in place.</p>	<p>We recommend creating a standardized request and approval form for the use of sick time or vacation days to ensure appropriate controls over the use of banked time and mitigate the risk of overdrawing banked time.</p>

Potential Courses of Action

Issue	Potential Course of Action
<p> The Chief Financial Officer is reviewing timesheets to ensure all vacation and absences noted on the submitted timesheets has been approved. This activity should be completed by the Department Heads or Supervisors, allowing the Chief Financial Officer to direct her resources on other activities.</p>	<p>Initial review of timesheets should be completed by the Department Heads. The Department Heads would have the most accurate information relating to whether the individual was at work or away given vacation or sick time.</p>

Payroll: Payroll Processing

From: Payroll: Time Sheet Submission



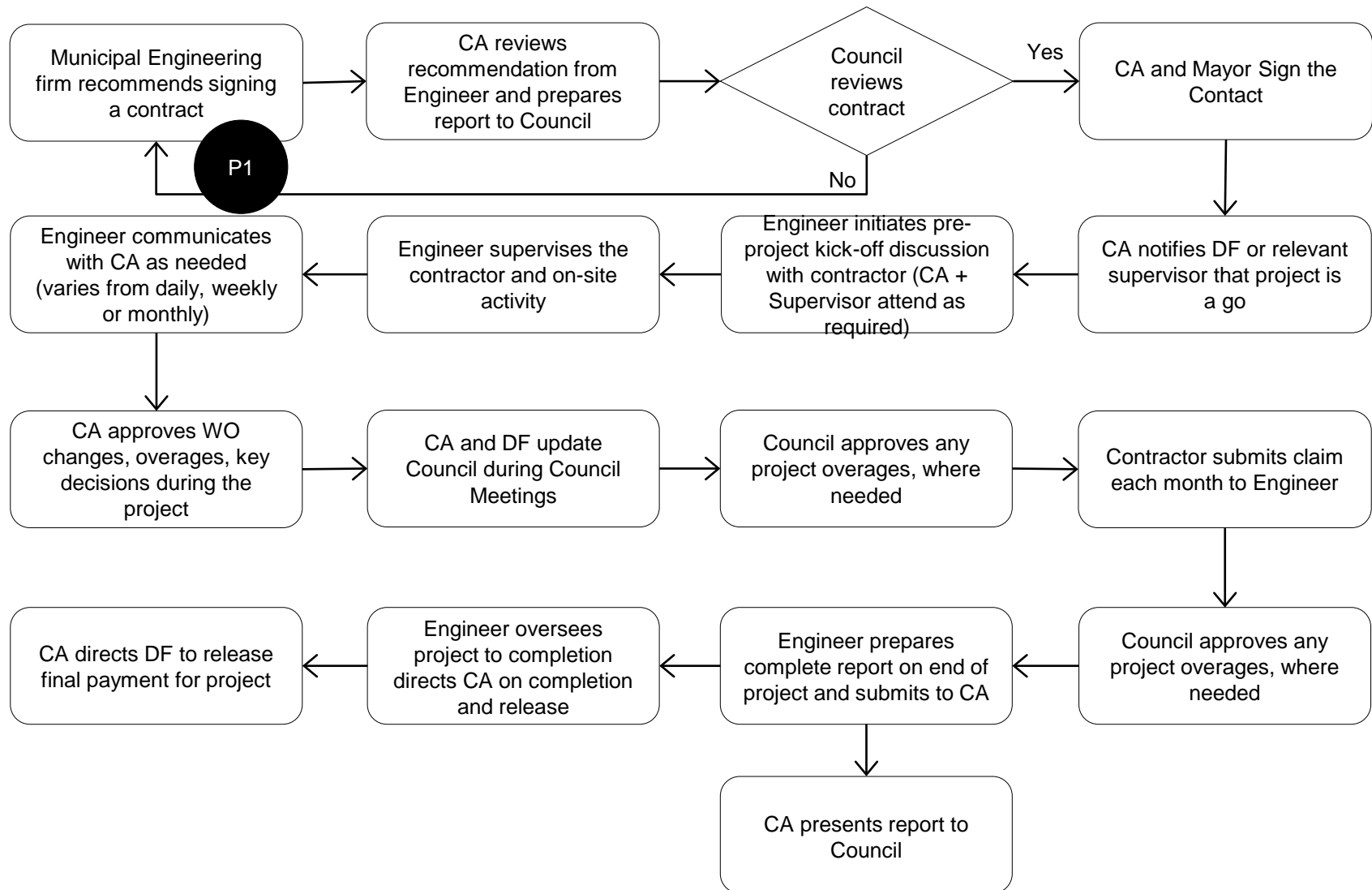
Potential Courses of Action

Issue	Potential Course of Action
<p>P1</p> <p>Manual data entry of employee time sheet submission into payroll module. Manual data entry can result in data entry errors.</p>	<p>It is recommended the employees complete timesheets electronically, and submit to the Department Heads for approval. Once approved by the Department Heads, they would send all time sheets to Chief Financial Officer indicating that they have been approved.</p>
<p>P2</p> <p>When there is a change in wage rate for an employee, there is no independent review of the changes to ensure that the approved changes have been accurately entered into the payroll system. Without independent verification, there is a risk that changes could be entered incorrectly.</p>	<p>Whenever employee pay rate information is changed, a Senior staff member independent from the payroll function should verify a sample of employees' payroll records to ensure that changes have been entered correctly. Wage rates should be reviewed regularly to ensure accuracy</p>
<p>F1</p> <p>It was indicated that Management is looking for a more efficient software to process payroll. The Village is currently using Bakers payroll software for recording, processing and reporting payroll related expenses with the exception of accrued banks which are tracked manually using excel. Timesheets are also processed manually using hard copies of an excel based timesheet template. These various platforms and manual recording creates inefficiencies requiring additional review, recalculations and recording manual timesheets/tracking, as well as additional potential errors when transferring time from the timesheet to the payroll software.</p>	<p>It is recommended that a combined payroll system be used which would amalgamate scheduling, timesheets, banked time tracking and payroll processing into one consolidated platform in order to reduce the risk of error when transferring timesheets as well as allow for significant reduction of review and data entry time necessary to process payroll on a bi-weekly basis.</p> <p>If this is completed there would be additional training required for the Department Heads.</p>
<p>P3</p> <p>The Chief Financial Officer processes payroll and prints the payroll register, with no further review or double check over payroll processing other than the review noted in P6 below. This could result in errors which in turn may result in employees being overpaid in any given period.</p>	<p>We recommend delegating processing of payroll to the Accounting Clerk which would allow for time registers, payroll registers, salary and detailed deductions distributions reports, and deposit detail reports to be received by the Chief Financial Officer. This will help strengthen controls over payroll and reduce the risk of error for all reporting purposes.</p>

Potential Courses of Action

Issue	Potential Course of Action
<p>P4</p> <p>The CFO completes a review upon entering timesheets, with no further review to ensure balances are entered correctly.</p>	<p>It is recommended that payroll processing should be completed by the Accounting Clerk, with a formal review of the payroll register completed by the CFO prior to finalizing the payroll run.</p>
<p>P5</p> <p>The Village's payroll process is heavily paper based with time input registers and payroll registers printed and hard copies are kept on hand.</p>	<p>Consideration should be given to using and saving only electronic versions of payroll information. Electronic signatures can be developed and used for approvals. Saving in printing costs as storage space requirements would also result.</p>
<p>P6</p> <p>The Deputy Mayor reviews the payroll authorization report on a bi-weekly basis. If payroll processing was delegated to the Accounting Clerk, this review could be performed by the Chief Financial Officer and limit the necessity for Council to be involved the operational aspect of the Village.</p>	<p>We recommend delegating payroll processing to the Accounting Clerk and in turn delegating the review of the payroll processing to the Chief Financial Officer.</p>
<p>P7</p> <p>Payroll reports including direct deposit report detailing personal information are kept on the shelf in the Chief Financial Officer's office in a file cabinet. While the office door is locked at the end of each day, during the day when the Chief Financial Officer is away from her desk, binders including sensitive personal information as well as payroll related information is accessible to the CA.</p>	<p>To ensure confidentiality of data, all personal and payroll related information should be stored in a location only accessible by those individuals who are responsible for processing payroll transactions.</p>
<p>P8</p> <p>Payroll related remittances are paid via manual cheque rather than through EFT. This can create inefficiencies as discussed in the Accounts Payable: Payment process mapping.</p>	<p>We recommend processing payroll related remittances via EFT as described in P1 on slide 36.</p>

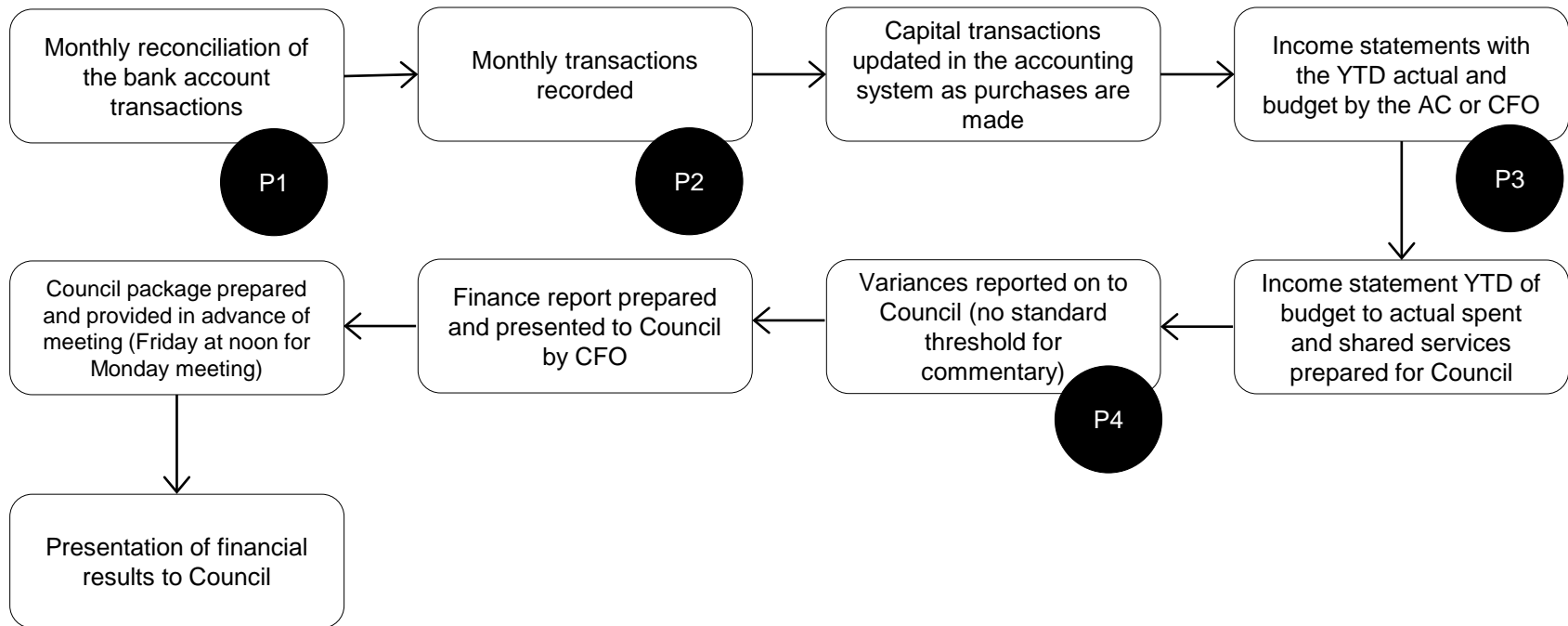
Capital Contract Project Management



Potential Courses of Action

Issue	Potential Course of Action
<p data-bbox="92 505 214 622">P1</p> <p data-bbox="256 332 1068 548">At the current time the process of determining which projects take precedent are not defined. The process for capital project selection is most reactionary and can be based on issues that arise. There is a lack of long term asset management planning. Recent changes to provincial regulations relating to asset management further highlight the need for full asset management planning to meet the Phase II milestones as of July 1, 2023.</p>	<p data-bbox="1110 332 1837 611">Faced with aging infrastructure, growing demands for service and changing operating environments, Ontario's Municipalities are challenged to control costs and get more out of their asset base. A structured and robust approach to Infrastructure Asset Management helps organizations make informed and effective plans and decisions, align capital and operations spending with goals and priorities, and manage the trade-offs between service, risk and cost over the asset lifecycle.</p> <p data-bbox="1110 648 1837 801">As a result, it is recommended a structured asset management policy be developed which aligns the asset management planning decisions with other guiding documents for the Village including the strategic plan and the Official Community Plan. The policy should:</p> <ul data-bbox="1110 808 1837 1245" style="list-style-type: none"> • Set and communicate organizational commitment to AM principles and philosophies • Align and integrate asset management with the Village's Strategic Planning process, as well as other key goals, policies and plans • Confirm how stakeholders will be engaged and their input included in the asset management planning process • Support formation of a culture that values asset management and makes it a priority • Define asset management responsibilities and accountabilities for Council, CA and management • Guide the asset management planning process, and embed asset management thinking in to ongoing capital, operations and maintenance activities

Monthly Reporting Process



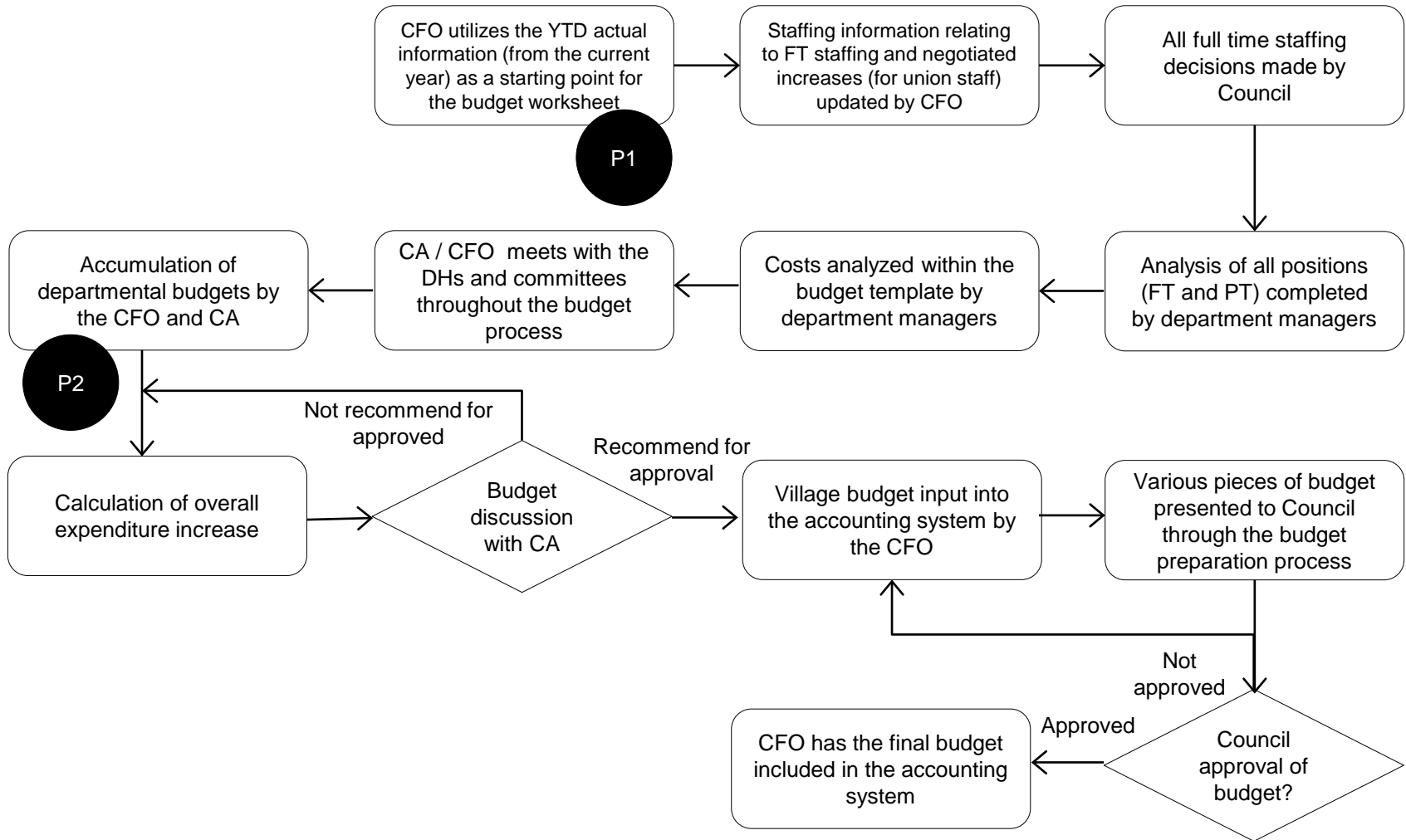
Potential Courses of Action

Issue	Potential Course of Action
<p>P1</p> <p>Bank reconciliations are completed on a monthly basis however on occasion the timeline for the completion of the reconciliations can be delayed.</p>	<p>Timelines should be established on a monthly basis for the completion of the bank reconciliations to ensure the reconciliations are completed and followed up on a timely basis. It is recommended all reconciliations be completed within 10 business days of month end and completed by the CFO to ensure appropriate segregation of duties.</p>
<p>P2</p> <p>At the current time a formalized month and quarter end process is not followed or communicated to staff in terms of the timelines for entering transactions and completing the reconciliation of accounts. The current focus is ensuring annually the transactions and accruals are updated for purposes of preparing the year end financial statements.</p>	<p>Management should consider moving to a more formalized quarterly reporting process to Council ensuring all transactions are recorded in the appropriate period will become increasingly important. A schedule should be created by the CFO and communicated to the DHs and the finance team in order to ensure on a quarterly basis the financial results are appropriately recorded and complete to ensure management and Council is making decisions based upon accurate information.</p>
<p>P3</p> <p>Throughout discussions it was noted the budget reports, which detailed the revenue and expenses by department are time consuming to produce and require manual manipulation. The information is presented in a manner that is user friendly and easy to access within the system.</p>	<p>Investigation into reports for monthly and budgetary reporting is critical to reduce the amount of time associated with the preparation of the reports by the CFO or CA.</p> <p>Consideration should be given to the development of an Excel reporting tool which would utilize information from the accounting system and present this information in a useable format.</p>

Potential Courses of Action

Issue	Potential Course of Action
<p data-bbox="79 601 197 718">P4</p> <p data-bbox="256 361 1054 515">The DHs are involved in the discussion on the budget vs. actual financial results within the financial statements. There is follow up that occurs on the results presented to Council but there is no standard threshold for follow up which is required to be commented on for the finance report and council presentations.</p>	<p data-bbox="1110 361 1843 611">A threshold as both a percentage and dollar value should be set annually based on the current year's budget.. These changes in dollar value and percentage changes between the actual and budget should be set with each DH responsible for providing a written explanation of the over/under spending along with a forecast of spending to the end of the calendar year and a discussion as to whether there are any changes needed to the forecast for the remainder of the year.</p> <p data-bbox="1110 646 1843 739">Requiring the DHs to report on the spending within the budget lines under their control will result in increased accountability and increased oversight completed by the DHs.</p> <p data-bbox="1110 775 1843 989">Involving the DHs in the analysis of the departmental spending will allow the CFO and the CA to focus on the bigger picture items impacting the Village, analyzing the results for the Village as a whole. This will also allow for additional time to be spent on strategic and capital planning for the Village and will reduce the amount of time spent by the CFO at year end to explain the budget to actual variances.</p>

Budgeting Process (Operating and Capital)

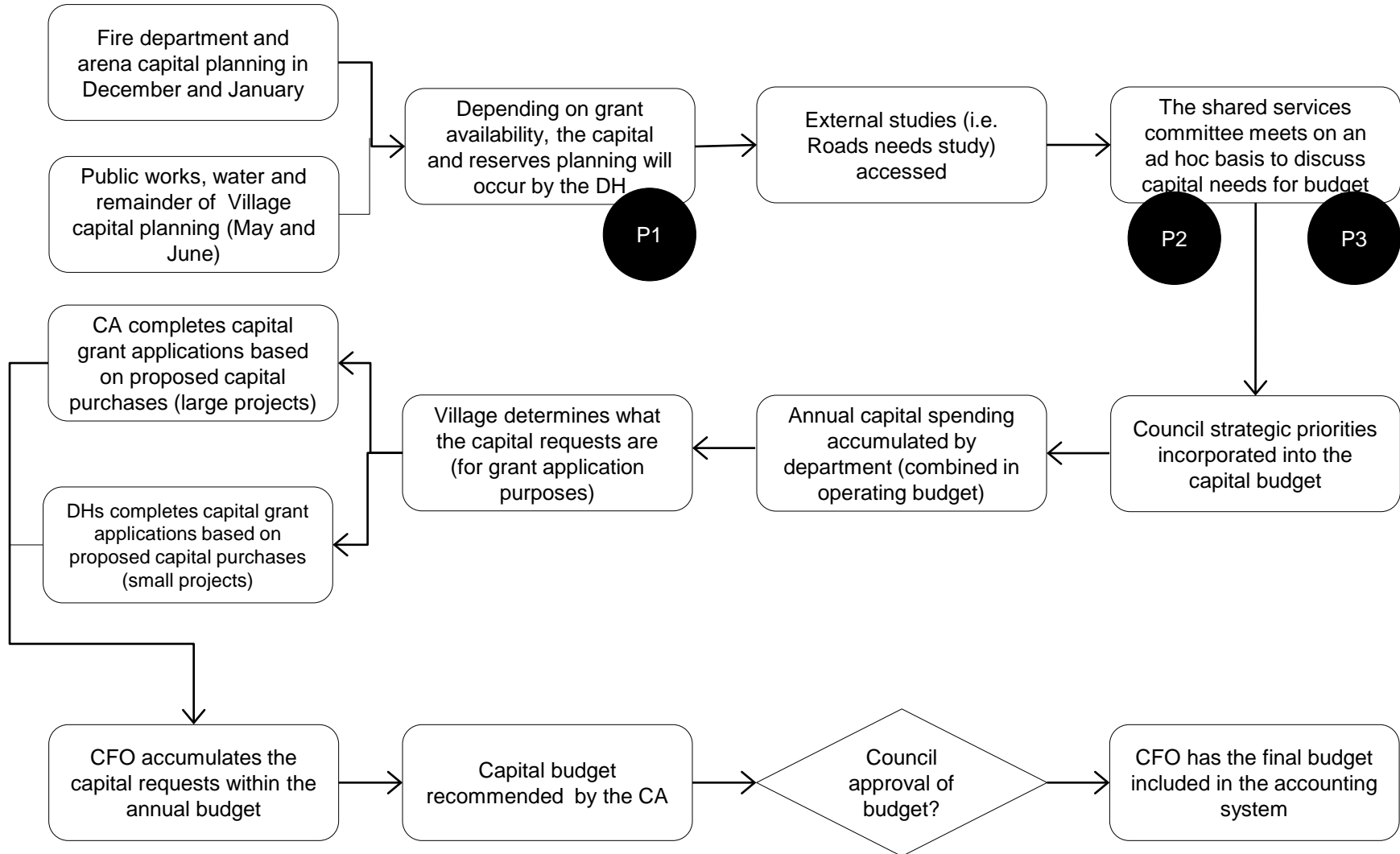


Note: The operating and capital budgets are prepared on a combined basis. There is no specific capital plan and budget at this point. The operating budgets are prepared at two points – the Arena and Fire Department budget process commences in the fall as these departments are part of the shared services arrangement with Machar. The remaining budgets are prepared in the spring for presentation to Council in June / July.

Potential Courses of Action

Issue	Potential Course of Action
<p>P1</p> <p>The budgeting process for the Village is completed within the accounting system but requires a significant amount of manual input from the budgeting spreadsheets into the accounting system. The CFO accumulates information utilized for the budget preparation process within a binder (which includes resolutions approved by Council and other relevant information to support the budget). Given that information is stored in various locations if the CFO was away from the office for an extended time it may be difficult to locate the information.</p>	<p>Consideration should be given to the use of a budgeting software to facilitate the budget preparation process. In addition, it should be determined if information relating to the budget can be scanned into the accounting system (as an attachment) or stored electronically in a budget folder by department so that all individuals are able to access the information when needed.</p>
<p>P2</p> <p>It was noted budget information needs to be extracted from the accounting system and manipulated in Excel in order for the information to be in a useable format. The information is not in a granular format to allow for a detailed review of the budget vs. actual results when extracted from the system. As a result, there is manual effort required at a senior level in the Village to manipulate the data into a useable format.</p>	<p>Consideration should be given to the development of an Excel reporting tool which would utilize information from the accounting system and present this information in a useable format.</p>

Budgeting Process (Capital additional information)



Note: Throughout the discussions it was noted when the capital grant is not approved the capital purchase will not be included within the budget. Also it was noted a combined capital and operating budget is prepared on an annual basis.

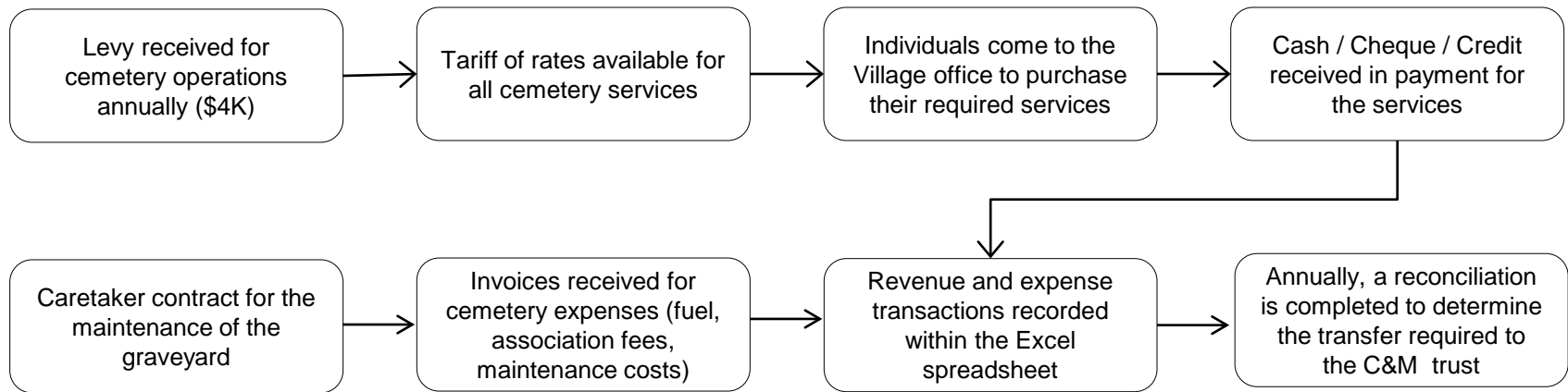
Potential Courses of Action

Issue	Potential Course of Action
<p>P1</p> <p>Throughout the discussions it was noted the capital planning is not completed for timelines exceeding one year. It was noted at the current time there is not a five year capital plan which is prepared by the Village. Given that an extended plan is not completed for capital purposes, the capital planning is more reactionary in nature and focuses on the emergency projects that arise throughout the year and is based on current reserves and anticipated grants.</p>	<p>A formal asset management policy needs to be developed for the Village which would assist with the movement to a strategic planning approach as to more of a reactionary approach.</p> <p>See the action item related to P3 for additional information on the development of the strategic planning session.</p>
<p>P2</p> <p>There has been a focus on asset management planning for the Village via the use of an asset management committee. This is particularly the case for the area where there are shared services (Arena and Fire).</p> <p>The committee however works on an ad hoc basis and has not met recently as a result of COVID and other pressures</p>	<p>In order to focus on capital planning the asset management meetings should be commenced on a regular basis with scheduled meetings made for the upcoming year.</p> <p>This will help to focus and plan for the strategic projects as opposed to the reactionary nature and focus on emergency projects only. With committee involvement there can be an increased focus on available funding opportunities.</p>

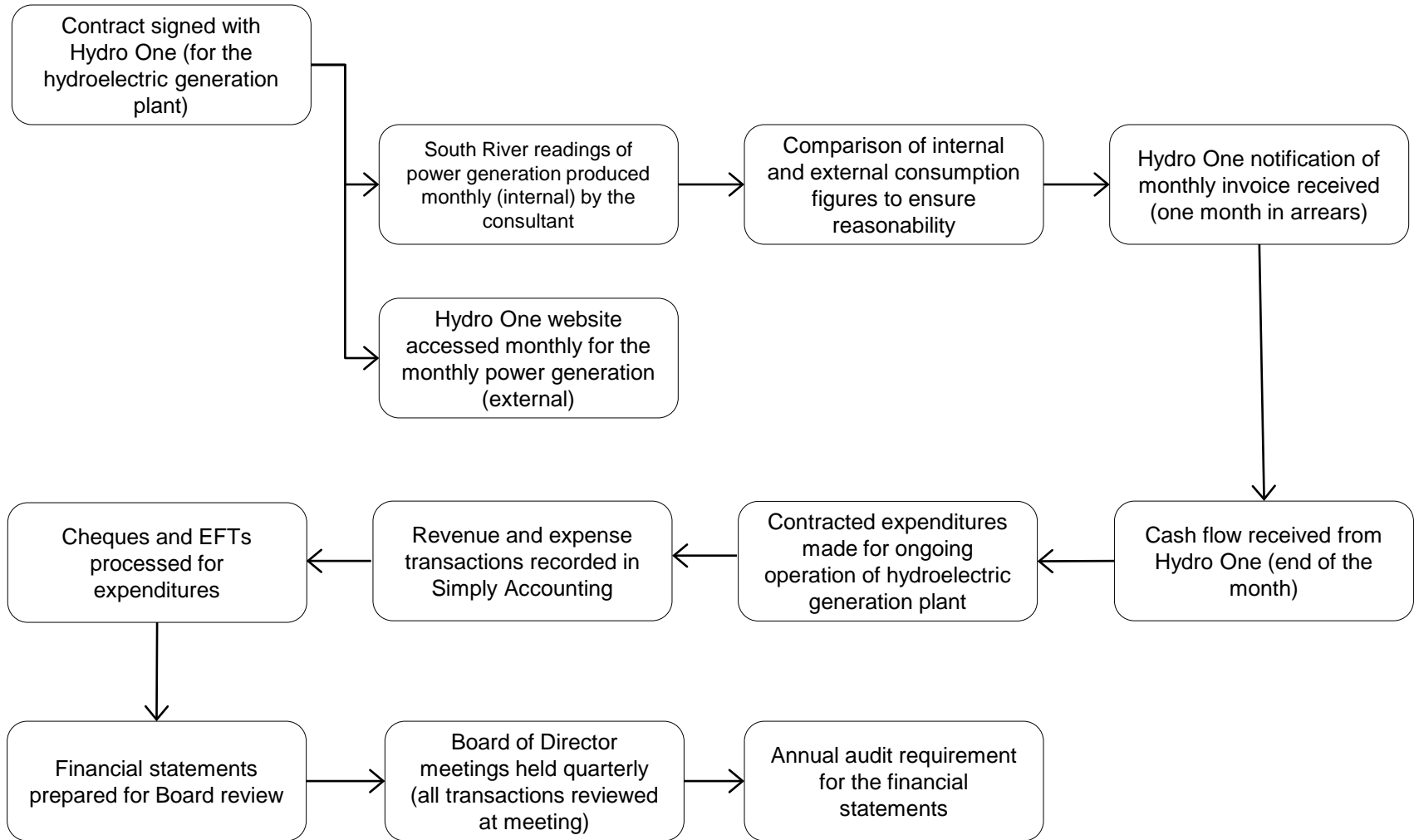
Potential Courses of Action

Issue	Potential Course of Action
<p data-bbox="96 506 212 621">P3</p> <p data-bbox="256 332 1066 546">At the current time the process of determining which projects take precedent are not defined. The process for capital project selection is most reactionary and can be based on issues that arise. There is a lack of long term asset management planning. Recent changes to provincial regulations relating to asset management further highlight the need for full asset management planning to meet the Phase II milestones as of July 1, 2023.</p>	<p data-bbox="1110 332 1835 611">Faced with aging infrastructure, growing demands for service and changing operating environments, Ontario's Municipalities are challenged to control costs and get more out of their asset base. A structured and robust approach to Infrastructure Asset Management helps organizations make informed and effective plans and decisions, align capital and operations spending with goals and priorities, and manage the trade-offs between service, risk and cost over the asset lifecycle.</p> <p data-bbox="1110 649 1806 799">As a result, it is recommended a structured asset management policy be developed which aligns the asset management planning decisions with other guiding documents for the Village (such as a strategic plan and the Official Community Plan). The policy should:</p> <ul data-bbox="1110 806 1825 1242" style="list-style-type: none"> • Set and communicate organizational commitment to AM principles and philosophies • Align and integrate asset management with the Village's Strategic Planning process, as well as other key goals, policies and plans • Confirm how stakeholders will be engaged and their input included in the asset management planning process • Support formation of a culture that values asset management and makes it a priority • Define asset management responsibilities and accountabilities for Council, CA and management • Guide the asset management planning process, and embed asset management thinking in to ongoing capital, operations and maintenance activities

Cemetery Reporting



South River Power Generation Plant





Village of South River
Municipal Financial
Management Practices and
Service Delivery Review



Chapter III:
Financial Analysis



Arena and Community Centre Additional Considerations

Financial Results - Arena

The historical financial information was provided for the Arena for the 2016 to 2019 to complete financial analysis. The financial results were included in the audited financial statements for each of the years.

	Year ending December 31, 2016	Year ending December 31, 2017	Year ending December 31, 2018	Year ending December 31, 2019
User Fees	\$197,344	\$194,082	\$199,798	\$195,748
Municipal Contribution – South River	128,399	154,054	141,093	151,659
Municipal Contribution – Machar	69,303	87,658	76,289	80,805
Other government transfers	30,813	44,956	34,272	34,804
Total Revenue	\$425,859	\$480,750	\$451,452	\$463,016
Salaries and wages	199,619	221,093	232,632	240,471
Materials and supplies	207,375	187,760	190,674	188,482
Contract services	9,384	7,727	10,264	11,977
Rental and financial expenses	6,612	5,955	4,658	4,560
Amortization	52,796	53,55	54,615	54,369
Total Expenses	\$475,786	\$476,110	\$492,843	\$499,859
Annual Surplus (Deficit)	(\$49,929)	\$4,540	(\$41,391)	(\$36,841)

Arena and Community Centre Additional Considerations

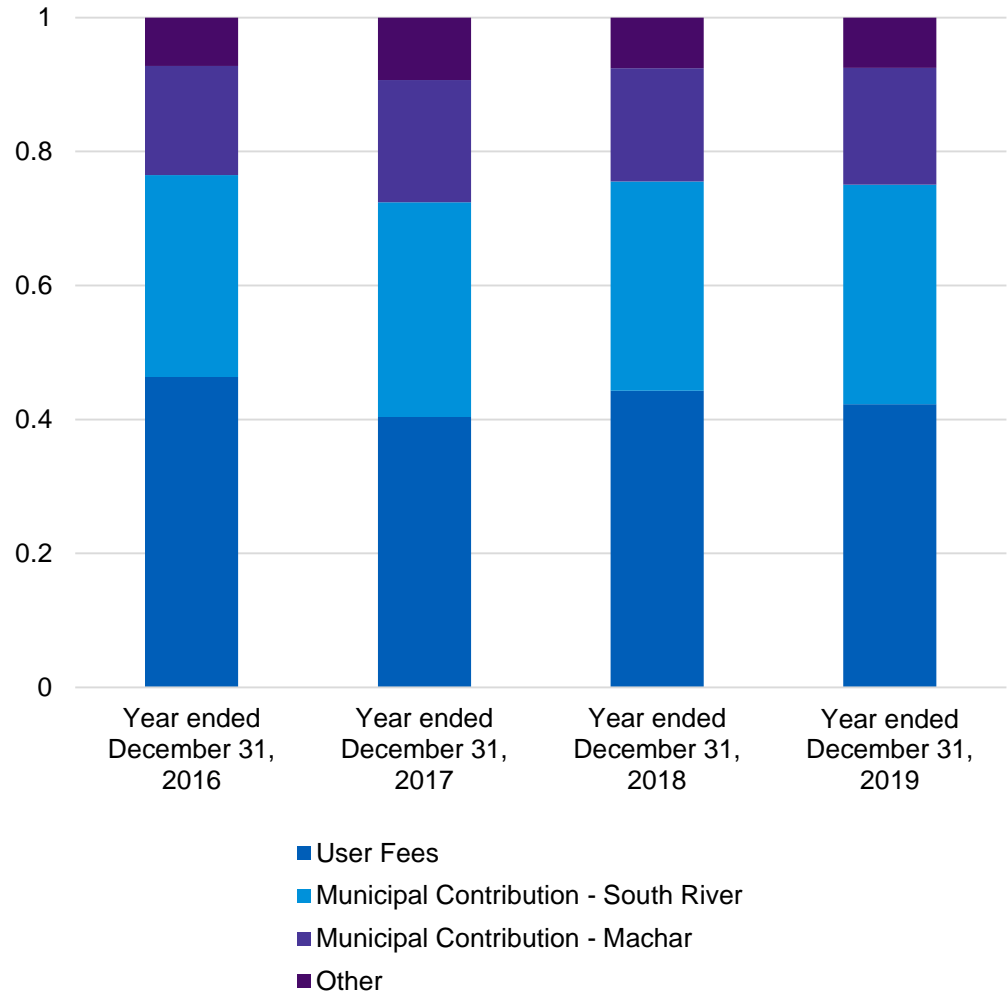
Revenue Analysis

Total revenue for the arena operations has varied over the last four fiscal years. The user fees have fluctuated over the last number of years and have declined within 2019.

Given the COVID pandemic in 2020, given the closures of the arenas, the fact there was no summer hockey camps (via the Hockey Opportunity Camp) will impact the overall profitability of the arena operations.

The municipal contributions are based on the budgeted expenditures within the arena operations. Municipal contributions as a percentage of total operating expenses for the four year period is as follow:

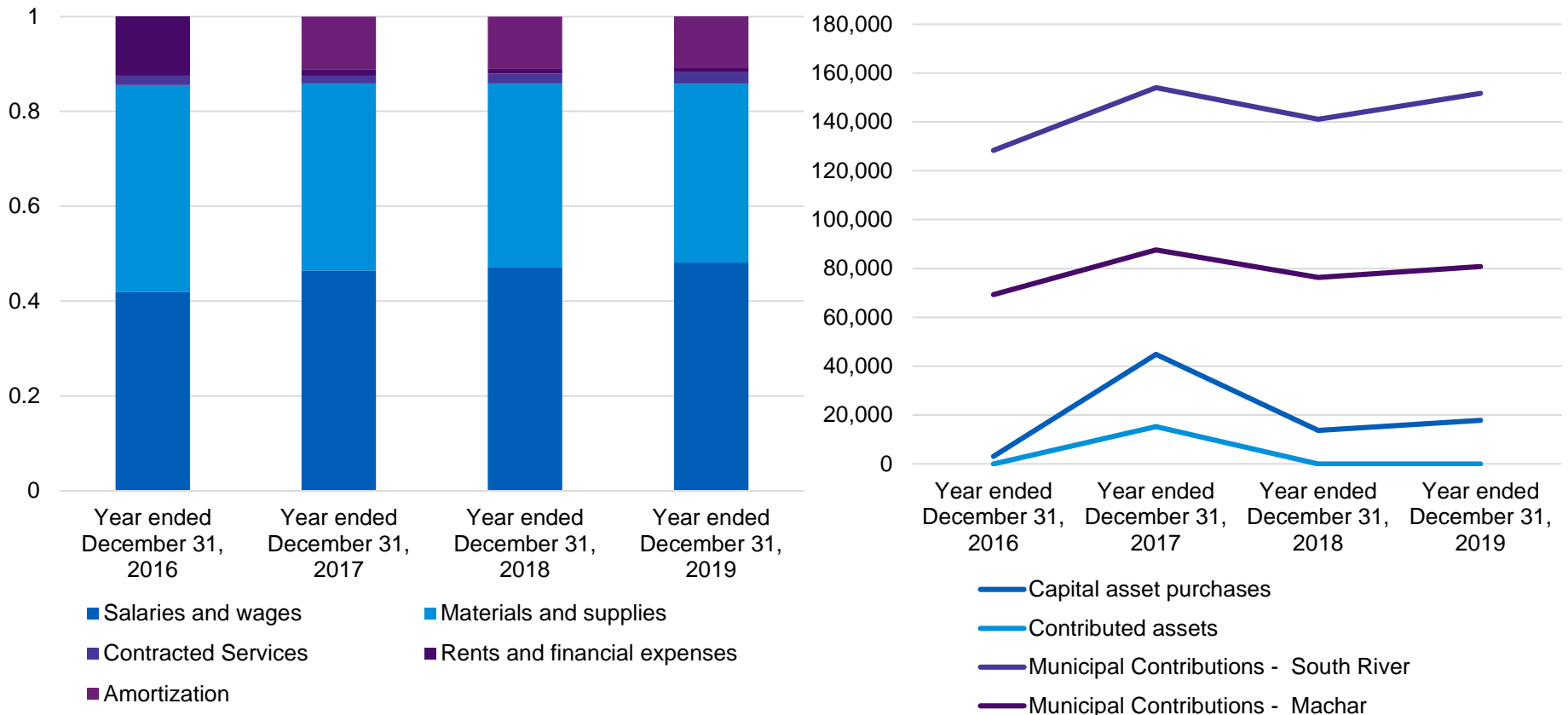
	Municipal Contribution – South River	Municipal Contribution – Machar
Year ended December 31, 2016	30.15%	16.27%
Year ended December 31, 2017	32.04%	18.23%
Year ended December 31, 2018	31.25%	16.9%
Year ended December 31, 2019	32.75%	17.45%



Arena and Community Centre Additional Considerations

Operating and Capital Analysis

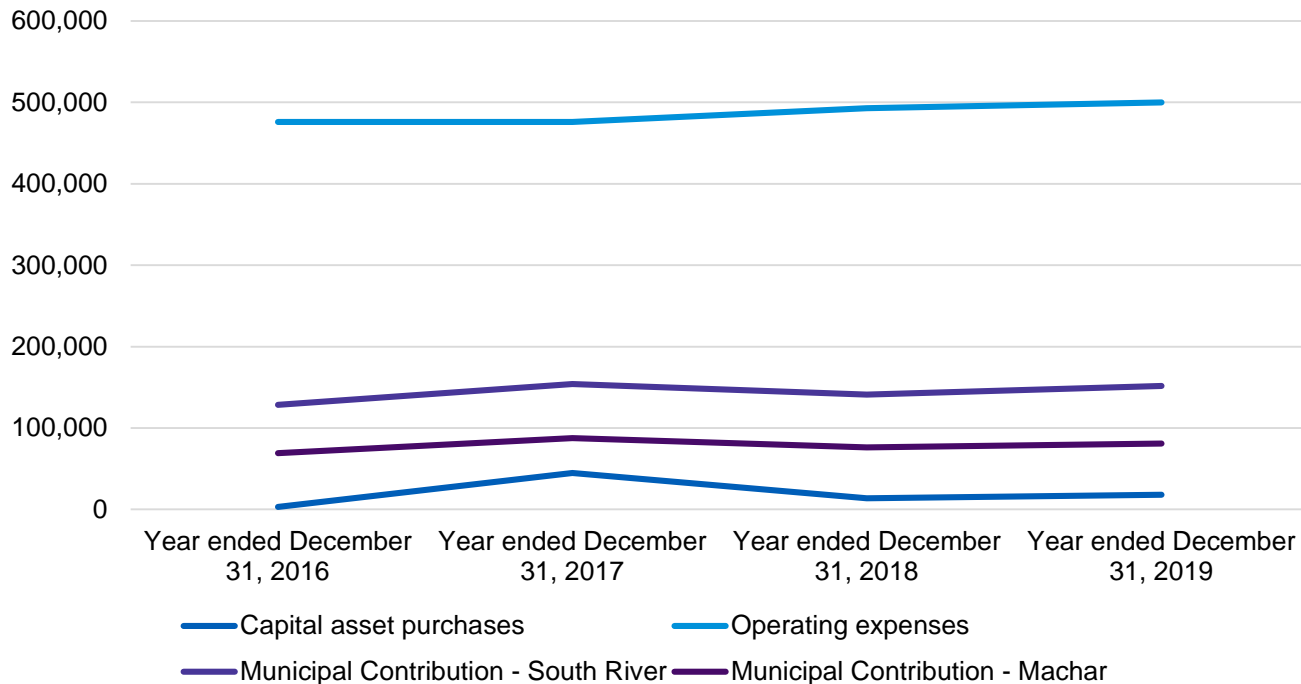
Similar to total revenue, operating expenses have fluctuated over the years. Municipal contributions from both South River and Machar vary depending on the amount of the operating and capital expenditures within the year.



Arena and Community Centre Additional Considerations

Municipal Contributions, Expenditures and Reserve transfers

The information below summarizes the capital asset expenditures, operating expenses and the municipal contributions to determine how each contribution fluctuate in accordance with the expenditures annually. As is noted below, the contributions are in line with the expenditures noted in each year historically, however there are typically no funds allocated to reserves annually which is required as per the agreements. As detailed in the 2017 financial statements, the arena reserves are \$5K which has remained at this consistent level within the 2019 financial statements. This indicates no additional reserve transfers have been completed over the last four year period.



Arena and Community Centre Additional Considerations

Concession Services

Within the arena there are concession services which are offered. Currently these services are offered by the Village and as a result require Village staff to run the canteen. At the current time canteen services are managed by the Arena Manager. Given the nature of concession services without adequate segregation of duties and internal controls in place over the acceptance of cash payments there is a financial risk that exists for the Village through the operation of the concession stand.

Below is a financial analysis of the last three years for the arena snack bar operations. It should be noted that full time staff are utilized to operate the snack bar however it is not possible to allocate the costs given the data available. Given FT staff and benefit costs for the 2019 year end totaled approximately \$230K, it is reasonable to assume once the allocation of FT staffing costs are allocated to the snack bar the operations would not be profitable as an allocation of more than 28 hours in a year would result in a loss.

	Year ending December 31, 2017	Year ending December 31, 2018	Year ending December 31, 2019
Snack Bar Revenue	\$25,732	\$32,063	\$31,818
Expenses			
Arena Salaries – Snack Bar	\$7,118	\$9,433	\$10,279
Arena – Snack Bar	14,781	16,942	17,150
Arena - Supplies	826	403	818
Total expense	\$22,725	\$26,778	\$28,247
Excess of revenue over expenses	\$3,007	\$5,285	\$3,571
Gross Margin	11.6%	16.4%	11.2%

Arena and Community Centre Additional Considerations

Concession Services (cont.)

Based on the financial analysis completed on the previous page, it was noted the gross margin has been trending downwards each year. This could be a function of increasing costs associated with food purchases for the canteen which can be further compounded as a result of a lack of internal controls in place for the concession stand. There is no formalized process in place for the tracking of inventory associated with the canteen and given the previously identified segregation of duties issues this could result in misplaced inventory.

Proposed Course of Actions

To allow Village staff to focus on critical arena and community centre operations, the operation of the concession stand should be outsourced. The agreement should consider if it is appropriate to have a flat rate rental agreement or a rental agreement that is based on a percentage of the food sales. From an ease of administration perspective, a flat rate contract would be most appropriate.

Should the use of a third party service provider for the concession stand not be appropriate, changes will be required to the process followed by the Village for the operation of the concession stand:

- Full time staff allocated to ordering, stocking and operating the concession stand is not tracked. This results in an inability to allocate the salary costs to the concession stand as opposed to the arena operations over all. Tracking of time should be completed to ensure a true cost of the operating the concession stand being available. As previously mentioned if 30 hours is spent in a year to operate the concession stand by full time staff then the concession stand would not be profitable.
- Formalized hiring of staff needs to be completed to ensure proper employment tracking is completed. It was identified staff could be hiring informally, without an appropriate employment contract in place.
- Additional internal controls need to be implemented to the concession stand in order to ensure appropriate recording of sale transactions, tracking of inventory, tracking of cash payments and reconciliation of end of day processes.

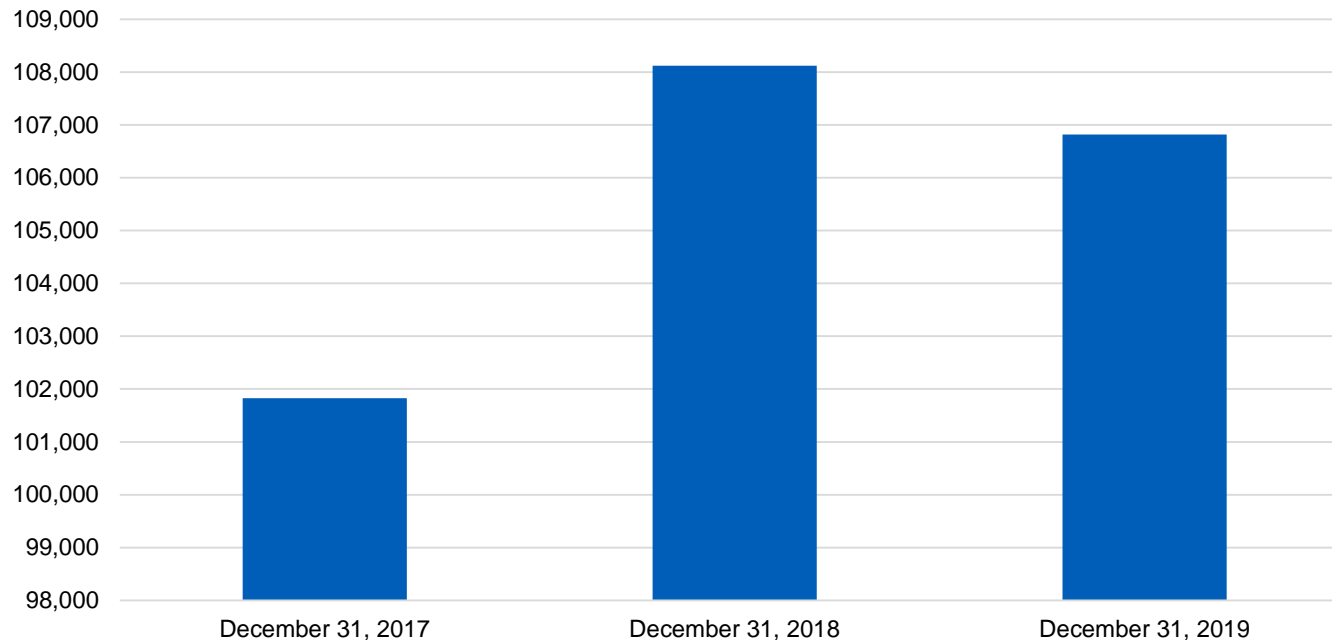
Arena and Community Centre Additional Considerations

Contract Negotiations

The Hockey Opportunity Camp (“HOC”) is a large user of the arena services in the summer months. The contract is typically updated every 3 or 4 years. Within the contract, there are inflationary increases that occur each year. It was noted throughout the review that the agreement with the HOC is one that needs to be approved by both Councils prior to the finalization of the contract. The last agreement was signed in 2018 and is in place until 2021.

At the current time, costs are not allocated between winter and summer costs. Consideration should be given going forward to track the costs of the arena by time of year to determine the margin associated with the operation of the arena within the summer months for the HOC. This would allow for further financial analysis to be completed which would support the contract negotiations that are completed every three years with the HOC.

Hockey Opportunity Camp Rentals



Fire Department - Additional Considerations

Financial Results - Fire Department

The historical financial information was provided for the Arena for the 2016 to 2019 to complete financial analysis. The financial results were included in the audited financial statements for each of the years.

	Year ending December 31, 2016	Year ending December 31, 2017	Year ending December 31, 2018	Year ending December 31, 2019
User Fees	\$19,735	\$13,815	\$26,959	\$12,525
Municipal Contribution – South River	147,285	126,341	166,344	174,895
Municipal Contribution – Machar	147,285	126,341	166,344	174,895
Municipal Contribution – Joly	10,588	16,253	16,578	20,400
Other government transfers / Other Revenue	22,797	26,343	17,915	33,930
Total Revenue	\$347,690	\$309,093	\$394,140	\$416,645
Salaries and wages	133,599	136,717	142,257	149,782
Materials and supplies	111,419	90,492	102,725	108,940
Contract services	9,972	11,682	8,989	12,330
Rental and financial expenses	4,274	4,570	4,274	4,274
Amortization	46,487	55,633	63,094	84,929
Long-term debt charges	4,887	6,567	19,541	18,393
Loss on disposal of capital assets	-	-	14,911	7,577
Total Expenses	\$310,638	\$305,661	\$355,791	\$386,225
Annual Surplus (Deficit)	\$37,052	\$3,432	\$38,349	\$30,420

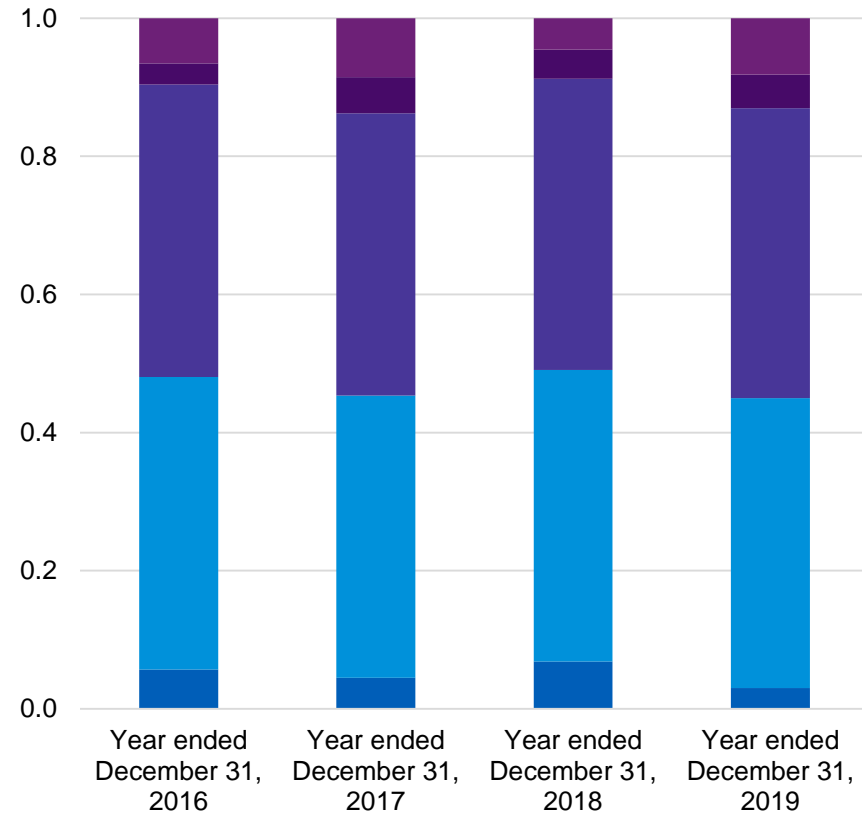
Fire Department Additional Considerations

Revenue Analysis

Total revenue for the fire department has varied over the last four fiscal years. As expected, user fees relate to a small component of total revenue in the current year.

The municipal contributions are based on the budgeted expenditures and capital expenditures within the fire department. Municipal contributions as a percentage of total operating expense for the four year period is as follow:

	Municipal Contribution – South River	Municipal Contribution – Machar	Municipal Contribution – Other
Year ended December 31, 2016	42.36%	42.36%	3.05%
Year ended December 31, 2017	40.87%	40.87%	5.26%
Year ended December 31, 2018	42.2%	42.2%	4.21%
Year ended December 31, 2019	41.98%	41.98%	4.9%

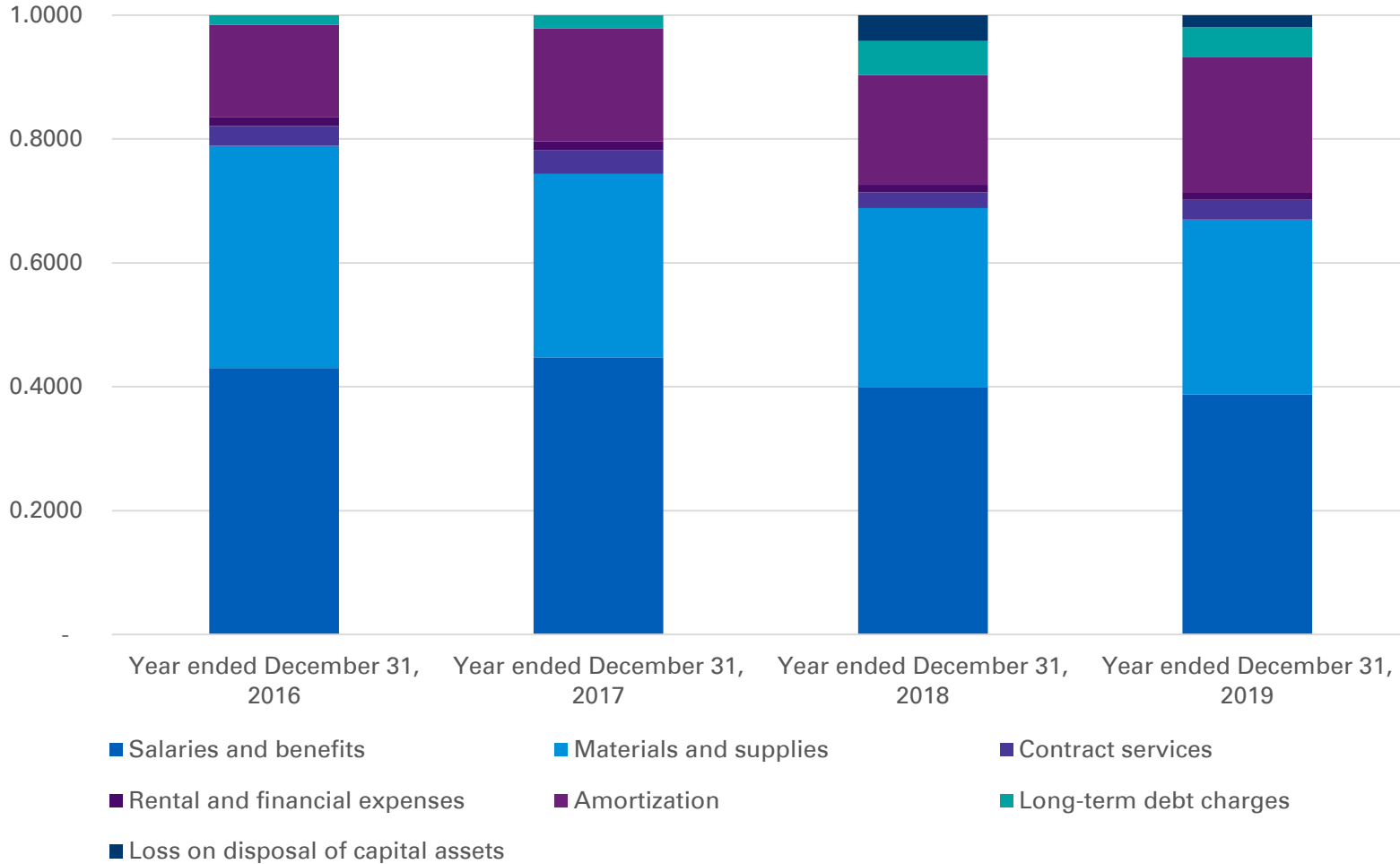


- Other
- Municipal Contribution - Other
- Municipal Contribution - Machar
- Municipal Contribution - South River
- User fees

Fire Department Additional Considerations

Operating and Capital Analysis

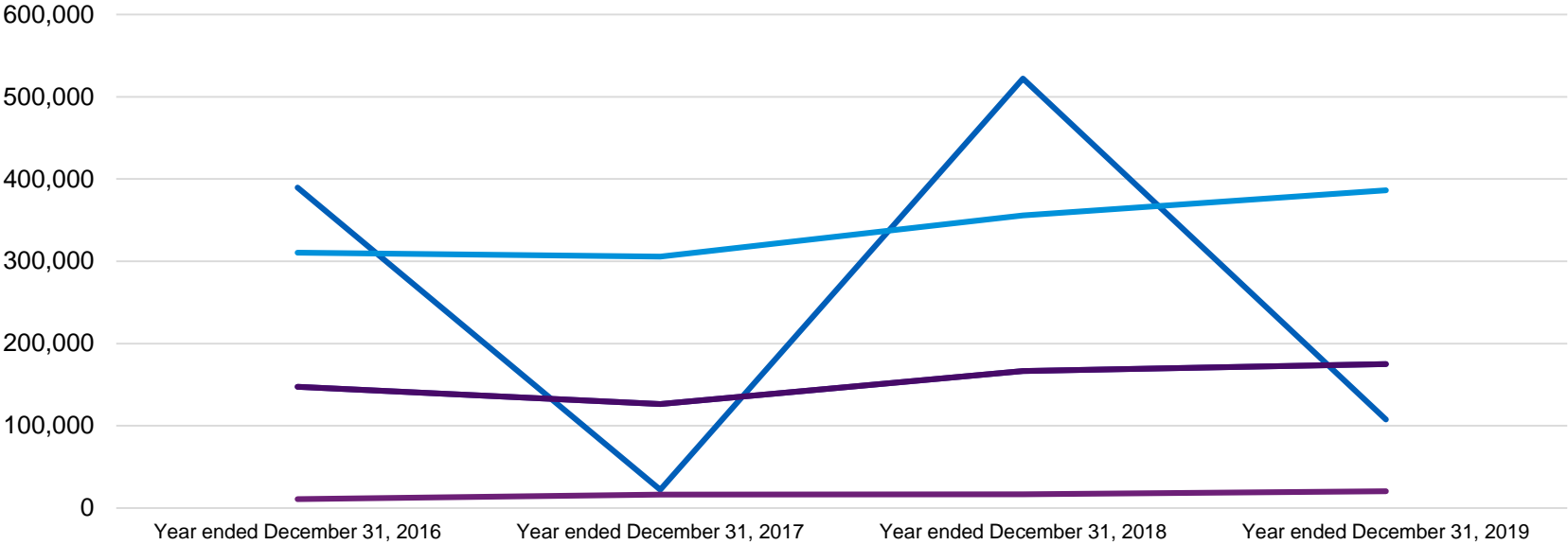
Similar to total revenue, operating expenses have fluctuated over the years. Municipal contributions from both South River, Machar and other municipalities vary depending on the amount of the operating and capital expenditures within the year.



Fire Department Additional Considerations

Operating and Capital Analysis

Capital asset acquisitions have fluctuated over the last number of years while the contributions from each municipality has remaining fairly consistent.



— Capital asset purchases
 — Operating expenses
 — Municipal Contributions - South River
— Municipal Contributions - Machar
 — Municipal Contributions - Other

Shared Services Agreements

Arena & Community Centre and Fire Services Shared Services Agreement

Two shared services agreements are in place for fire services and arena/community centre services with the Township of Machar. Both original agreements include the requirement for a joint board of management for the contracts. The agreements call for a four person joint committee for both fire and arena services with two members from the Village of South River and two members from the Township of Machar. The term of each member shall expire at the end of the terms and be concurrent with the Council's terms.

The arena agreement indicates if one member from each community is required for quorum to be achieved with the fire agreement indicating quorum is achieved with three members of the committee present. Further information is included in each agreement with respect to the selection of the chairperson and vice-chairperson (not to be from the same community) along with rotational considerations for the roles of the chairperson and the vice-chairperson. Each of the arena and the fire boards should meet four times per year and at each meeting it is expected the relevant employees will be present (Arena/Recreation Facilities Manager (or designate) and the Fire Chief (or designate)).

Both agreements require the CA from the Village to provide supervision / guidance / direction to the Arena / Recreation Facilities Manager and the Fire Chief.

Fire services Agreement signed Between South River and Machar	Arena Original contract signed Between South River and Machar	New draft agreement drafted for review	Current agreements lapsed. Operating currently on a month to month basis with Consistent terms	New agreement still in negotiation
January 15, 1996	September 15, 1997	Fall of 2019	December 31, 2019	Current

Arena Agreement

By April 1 of each year there is a requirement to submit in writing a budget for the Arena (operational budget). The agreement indicates the operational costs associated with arena services shall be split 2/3 to the Village of South River and 1/3 to the Township of Machar. It was noted the agreement indicates the budget should include an appropriate provision for a reserve fund for the replacement of capital. Should a budget not be approved by April 1 overall responsibilities revert back to the Councils of the Village of South River and the Township of Machar. The agreement also includes responsibilities relating to the budgeting and planning for capital reserves to be completed by the Board. Any surplus dollars are to be transferred to a capital reserve and any deficits must be reported to Councils with an action plan identified.

Decisions relating to staffing such as the recommendation for hiring of the Arena facilities manager as well as the part time staffing considerations are made by the Arena Board members.

Shared Services Agreement (cont.)

Arena Agreement (continued)

One year's written notice is required in order to cease participation in the Arena Board (with the agreement terminating on December 31 of the year following the notice provided).

Fire Services Agreement

By April 1 of each year there is a requirement to submit in writing a budget for the Fire Department (operational budget). The agreement indicates the operational costs associated with arena services shall be split 50% to the Village of South River and 50% to the Township of Machar. The agreement was signed in 1996 and required a review of the operating cost sharing to be completed in the subsequent year. The agreement states that the budget shall include a provision for a reserve fund for equipment.

Existing agreements

The original agreements from 1996 and 1997 do not provide clarity on the overall responsibility for capital maintenance required on the facilities. The agreements make vague references to the requirement for a reserve to be set aside on an annual basis and for surplus dollars to be eligible for use in a capital reserve. Considering the nature of the assets (namely the arena) there is the potential for significant capital expenditures. Should expenditures be deferred given the lack of clarity within the agreements this can create a backlog of deferred maintenance requirements, which is difficult to budget for. In addition, the agreements made reference to the solicitation of donations by the Board members but did not make reference to the responsibilities for the grant applications or other forms of funding for capital purchases.

The agreement also requires supervision and direction to be provided by the Village of South River as well as a requirement for the Village to maintain the financial records for the Fire department and arena and recreation departments. It is unclear from the existing agreement if there is an administrative charge allowable given the work completed by the Village.

Shared Services Agreement (cont.)

2019 Amended Agreement

Within 2019 an amended combined agreement for three areas, the South River Machar Fire Department, the South River Machar Community Center & Arena Department and the South River Machar Culture & Recreation Department. was provided to the Township of Machar. The agreement included consistent responsibilities for the CA of the Village of South River to have responsibilities for the supervision and direction relating to the Fire Chief and the Arena Chief Operator. In addition, the Village of South River had responsibility for all financial records and to ensure all funds are managed in accordance with the approved budget.

The timing of the budget preparation was revised to March 31 (vs. April 1 in the previous agreement). The funding agreement was consistent for operational expenses (Arena and Community Centre budget was split 2/3 to the Village of South River and 1/3 to the Township of Machar and a 50/50 split for the operational costs associated with the Fire Department). The agreement was further clarified to include a requirement for the capital purchases associated with the arena to be split 50/50.

It should be noted for culture and recreation overall is a separate arrangement from the Arena and Community Centre budget which requires a 50/50 split for the operations. The budget for the culture and recreation services is quite small (\$1.500) and includes the youth soccer summer program, Halloween party, a community Christmas party & New Year's day event which are co-hosted by each municipality.

The agreement indicates similar to the previous agreement the requirement for a provision for a reserve fund for the replacement of equipment for compliance with the Asset Management Policies required by the Provincial government. There is no further clarification within the agreement that indicates what the annual provision should be (such as a dollar value or percentage of certain expenditures). From an oversight and accountability perspective, the revised agreement includes the requirement to submit ongoing financial reporting to both the Village of South River and the Township of Machar to ensure all parties are aware of the financial condition of the departments. In addition, language was added to the agreement to require the department head (fire, arena and recreation) to attend the respective Council meetings annually to provide an update on the activities of each department. Additional guidance was provided for emergency meetings required in the event of an equipment or facility failure.

Shared Services Agreement (cont.)

Potential Courses of Action

1. The agreement should be revised to refine the requirements for the transfers for reserves for future purposes. The requirement for the annual allocation to reserves in accordance with the asset management policies. Capital budgets should be prepared for a five year period where possible to ensure both Council's are aware of the upcoming capital requirements for the arena and fire department.
2. Tracking of the time associated with the management of the arena and fire department contacts should be completed for all staff involved in this management. The time associated with the management should be compared to the administration allocation completed annually to determine if the cost associated with the contract management is recouped by the Village.
3. Based on the financial information provided and analyzed within this report, there is no rationale for the recreation cost sharing as currently proposed in the 2019 amended agreement. In the past and amended agreement it was noted there is a requirement for the Village of South River to fund 2/3 of the operating expenses and the Township of Machar to fund 1/3 of the operating expenditures with a 50/50 split for all capital expenditures. The facilities are available for use by the Village and the Township equally, with organizations from both communities such as the Hockey Opportunity Camp and the Spartans utilizing the space. The availability of the space for the use by both communities should be the driving force behind the cost allocations and amended agreement. It is recommended prior to signing the revised agreement that the cost sharing allocation be changed to a 50/50 cost sharing split between both communities.
4. It was noted the current cash contributions from the Township of Machar are sent to the Village of South River on a quarterly basis. Depending on the time of year, for example during the winter months when the arena operations are in full swing or in the summer months where there are significant rentals of arena facilities by larger contracts. As a result of the delays in the cash payments, the Village would be required to utilize their cash resources to satisfy their obligations for the arena. Given that there can be excess cash utilized by the Village, this results in cash not included in the Village bank account, able to generate interest while waiting for the Township of Machar payments. It is recommended the amended agreement include monthly contributions. Should this not be possible, consideration should be given to an interest component to make up for the lost interest earned on the Village cash balances given the requirement to fund the purchases.



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