Town of Rothesay

Internal Controls Review
Final Report

8 September 2016

EY

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Executive summary

The Town of Rothesay has engaged EY to complete a review of the adequacy of internal financial controls and to provide recommendations for change and/or improvement.

EY has concluded that overall, the town has adequate controls in place, and efforts have been made to improve areas of weakness. Our review revealed 10 areas for improvement.   We want to acknowledge the successful improvement initiatives that management and the Council have made as well as the efforts made towards maintaining an environment of continuous improvement.

The Council has prioritized the development of a Code of Conduct for Council members and has implemented a performance management program for the Town Manager which are key attributes of a good internal controls program. The three highest priority areas for improvement reside in the Purchase-to-pay process, Human Resources and Code of Conduct areas. The report herein outlines the observations, impact and recommended course of action to improve the controls in each key area, which can be prioritized by criteria (see Appendix H for illustration).   We want to thank the Council and management for their full cooperation and assistance during the course of this review.   Management has accepted the recommendations and EY is pleased with the responses and management's timeline to address risks and recommendations. Appendix A summarizes the opportunities to improve and management's responses and timeline to address the improvement areas.

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Executive summary (continued)

Opportunity Area	Brief Description of Recommendation
Purchase-to-pay	Develop consistent practices for authorization of purchases and implement stronger controls on purchasing activities. Strengthen controls on the use of credit cards, and petty cash, and expense claims.
Human resources	Human Resources should implement a weekly time and attendance monitoring process for Town Hall staff and pay out excessive vacation accruals. A performance management program should be implemented across all staff consistently, using performance ratings to align the compensation program to performance.
Code of conduct	Establish a formal code of conduct for staff as well as whistleblower process.
Strategic objectives & measures	Document clear strategic objectives to support visionary objectives and develop operational plans and key indicators to measure progress, milestones and achievements as well as assist in identifying slippage.
Capital expenditure oversight	A contractual role should be added to support the Director of Operations with project management and oversight of significant contracts and large capital projects.
Risk management	Develop a comprehensive risk management process that cultivates a risk management culture.
Comprehensive policies	Develop a broader and more comprehensive inventory of robust policies and procedures that cover internal control considerations. Communicate these policies and enforcement protocols.
Order-to-cash	Implement stronger policies and procedures over billing and reconciliation processes to ensure completeness and accuracy of billings and avoid revenue leakage by including a testing and change out strategy for water meters.
Assets	Apply stronger controls over asset stewardship and track consumption of consumable items for reasonableness for inventory purposes.
Job costing & management reporting	Establish a plan with leadership accountability, training and a timeline to implement the work order system to track job costs. Institute a structured monthly management reporting process to address information and monitoring requirements and support management decisions.

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Background and approach

- ► **Background**
    - ► The Town of Rothesay, New Brunswick (the Town) has embarked on an initiative to review the adequacy of its internal controls and consider recommendations for change and improvement to strengthen their processes.
    - ► Internal controls has the following objectives:
        - Effectiveness and efficiency of operations
        - Reliability and completeness of financial reporting
        - Compliance with applicable laws and regulations
- ► **Scope**
    - ► Internal controls encompass the five components embodied in the COSO 2013 Integrated Internal Control Framework (Appendix B)
- ► **Approach**
    - ► Interviews of key personnel, leadership team, elected officials (Appendix G)
    - ► Analysis of a broad range of data including financial information and other supporting documentation
    - ► Site tours
    - ► Validation with staff and management

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Opportunities for improvement/ recommendations

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Opportunity 1: Purchase-to-pay process

Observations	Recommendations
► 1.1 The current purchasing policy does not prescribe pre-determined spending limits for directors. There is a broad purchasing policy that prescribes authority to the Town Manager. A "Purchasing Procedures" document has been created, however it has not been adopted or approved at this point or communicated or made accessible to staff. ► 1.2 Sign-off and authorization on the use of the reception desk credit card is not consistent. ► 1.3 Petty cash fund is being replenished at varying levels on a running balance. Some employees have taken petty cash in lieu of expense claims (the latter requires an approved form). ► 1.4 Inconsistent procedures with the use of manual Purchase Order (PO) books including 3-way matching, lack of issuance or evidence of pre-issuance authorization. Inconsistencies within the PO processes and multiple staff members with purchase order books does not allow for real time budget management and impedes the financial reporting ability of the Town for liabilities.	► We recommend that management incorporate an authorization table outlining the authorized spending limits for individuals on behalf of the Town, including their specimen signatures, and include this as part of the purchasing policy. Formally approve communicate, enforce and make accessible to staff. ► To strengthen the purchase order process, Finance should consider leveraging the current accounting system's PO module. Authorization should be obtained when the purchase is requested and referenced to budget amounts. ► Track purchase orders and their status on a timely basis and avoid the release of PO books to those without prescribed authority. ► Hold employees with authorized spending limits accountable for their expenditures and for submitting the appropriate documentation. ► Establish an appropriate authorization process for credit cards and implement controls and monitor activities. ► Rationalize the use of petty cash, implement a fixed balance and a policy for its use and replenishment.
Effect/Risk	**Management's Action Plan**
► Liabilities and commitments may be incurred on behalf of the organization that are not appropriately authorized and documented. Additionally, it is difficult for Finance to assess progress on budget and determination of liabilities on a real-time basis without the use of an automated process or stronger controls.	Appendix A

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Observations	Recommendations
► 2.1 Vacation accrual revealed vacation levels significantly higher than the maximum, however, carryover was approved by Council. The external auditor has raised this concern to the Finance Committee. ► 2.2 Attendance is not monitored either by supervisors or HR personnel on a timely basis. Town Hall staff report sick time and vacation time on a monthly basis only. Non Town Hall staff report their time weekly. ► 2.3 Performance management is not clearly and consistently established across the organization. Some employees have had their performance evaluated but only recently; some employees have not undergone any performance management activities. Some staff have limited basis to currently determine their performance in relation to expectations. ► 2.4 Performance is not aligned to compensation across the organization on a formal basis or with input from managers/supervisors on a consistent basis, with the exception of the Town Manager role. ► 2.5 Succession planning is a challenge for the Town with a limited pool of resources to draw from for senior positions. Knowledge sharing could be improved to enable delegation of responsibility in the absence of key officers.	► Implement compliance of vacation accrual with vacation policy for all employees. Employees should either use the vacation over a prescribed period or the Town could choose to pay out. Efforts are being made to reset vacation for the future, however, excessive levels should be paid. ► Consider some form of corroboration of attendance and more frequent reporting of sick time and vacation time taken (e.g. weekly) and assign one person to track attendance on a weekly basis for Town Hall staff. Management should report vacation, sickness for their respective teams. ► Review performance management process and implement consistently across the municipality. Performance should be aligned to compensation to optimize established performance and standards to define criteria and the measures that will be used to evaluate various positions and their contribution to the achievement of organizational objectives. ► Allow key officers to develop, train and designate alternates in the event of their absence. The scalability does create a challenge for true succession planning efforts within the municipality.
Effect/Risk	**Management's Action Plan**
► Lack of a performance management program can impede the work performance and productivity of individuals and teams. It is increasingly important in the public sector due to the limitations around compensation and bonuses.	Appendix A

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Opportunity 3: Code of conduct

Observations	Recommendations
► 3.1 A Code of Conduct/Ethics has been drafted for Council but not formally approved by all Council members. Additionally, a Code of Conduct has not been developed for all staff members. At present, there has been no formal employee acknowledgment of a Code of Conduct or whistleblower process. A draft code has been prepared for senior staff but has not been implemented.	► Establish a formal Code of Conduct for both Council and staff. Such standards should contain key provisions reflecting legal, ethical, business, and financial reporting expectations. It should also articulate management's philosophy and guidance for avoiding moral hazards in the pursuit of the Town's key objectives. ► Implement acknowledgement of the Code annually for all Council and staff, regardless of position. ► Consider putting in place an anonymous whistleblower process to report employees and activities that contradict the Code of Conduct when established. Assign accountability and responsibilities to investigate any reported activities whether valid or not, and if valid, to define and implement action to address any issues. This service can be outsourced to an independent service provider for a nominal cost.
Effect/Risk	**Management's Action Plan**
► Without the formal implementation of a Code of Conduct and the reporting process around it, the Town has no means to make known its expectations on integrity and ethical values and to reinforce the accountability for responsible conduct from all personnel.	Appendix A

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Opportunity 4: Strategic objectives and measures

Observations	Recommendations
► 4.1 Council Priorities 2013-2016 document provides broad based visionary goals for the organization. We did not see evidence to support how these objectives are being measured or how milestones are being tracked. The Municipal Plan also contained broad based goals. The Town did not appear to have a formalized strategic or operational plan to support how they plan to achieve the council priorities or measure their success or slippage. Management has written internal memos that summarize the Town's key activities and accomplishments and these could be utilized to formalize milestones against strategic objectives. ► 4.2 Specific documented strategies to implement these priorities and achieve the broadly stated goals were not evidenced.	► Set goals and objectives with clear definitions for success and key performance indicators to measure. This will provide the foundation to management and establish clear focus areas to optimize the use of budgets and resources and enable the Council to clearly understand their achievements and where they should focus energy and resources to meet objectives. Recognize that various stakeholders can play a role in meeting some strategic objectives and that not all objectives are under the direct control of the Town. However, advocacy plans can play a role in the achievement of some objectives. ► Develop a formalized operational plan and a scorecard with key performance indicators that measure and monitor progress and milestones, and identify slippage compared to plan. (Sample in Appendix D)
Effect/Risk	**Management's Action Plan**
► Without defined measurements for success or key performance indicators thereof to provide clarity on objectives, an organization will be unable to focus or will be pulled in different directions depending on relative influence of process and risk owners and be subjected to differing interpretations of success. It also does not allow Council to have visibility on the progress they are making towards key priorities or when milestones are missed or achieved.	Appendix A

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Opportunity 5: Capital expenditure oversight

Observations	Recommendations
► 5.1 Project management is an area in need of management focus especially with the broad level of responsibility currently placed on the Director of Operations and the increased oversight required with current and large upcoming capital projects.	► Management should consider and assess the options of adding a contractual role to support the Director of Operations for project management, and oversight of significant contracts and capital projects. Director will be able to focus on operational priorities and performance and allow bandwidth as the capital projects portfolio expands.
Effect/Risk	**Management's Action Plan**
► The Town relies heavily on contractual engineering firms to support large capital projects. With an increasing number of large projects underway and planned, there is a risk that the Operations Department will not have the oversight it requires.	Appendix A

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Opportunity 6: Risk management

Observations	Recommendations
► 6.1 There have been efforts to address risks individually, however, there is no formal process to identify and prioritize risks holistically based on the established goals and objectives. ► 6.2 There are pockets of awareness of safety risks and legal liability risks. There are insurance plans to addressed acknowledged risks in some areas of the municipality. We recognize management's efforts in these areas. ► 6.3 Some other risks known and discussed among members of management include business continuity, emergency preparedness, integration (strategic and operational plan with budget and daily activities). ► 6.4 A formalized process is needed in order to identify and assess changes that affect or could affect the system of internal control.	► Implement a comprehensive risk assessment and risk identification process to improve alignment to goals and objectives at a strategic level. This would be an evolving process and will cultivate a risk management culture across the municipality. ► The process should be implemented following the Council's new strategic/priorities planning session. This will allow Council to identify risks that could affect the Town or the ability to progress on Town's priorities and ultimately allow an opportunity to create mitigating strategies. ► The defined risks can then be further prioritized in terms of severity and likelihood of occurrence and this will inform plans and programs, budget and resources available. This will also drive the assignment of risk owners, create and execute action plans to manage those risks, and improve performance reporting on the goals and objectives to stakeholders (residents, partners, Council and employees).
Effect/Risk	**Management's Action Plan**
► Pockets of risk identification and prioritization efforts without a holistic organization-wide view may result in an ineffective risk mitigation action plan. The lack of risk discussions at the Council and management level could create blind spots that would have otherwise been evaluated and/or mitigated.	Appendix A

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Opportunity 7: Comprehensive policies

Observations	Recommendations
▶ 7.1 A limited number of policies have been formally approved, implemented and communicated. Some policies need to be expanded further to be comprehensive or strengthened (e.g. purchasing and the authority to commit the organization, HR administration and performance management, finance, asset maintenance, etc.). ▶ 7.2 Policies and procedures are currently not accessible to all employees. It should be noted that an intranet site is being contemplated by management for future development.	▶ Develop a broader and more comprehensive inventory of robust Policies and Procedures. These policies should cover internal control considerations and requirements based on the internal controls checklist (See sample in Appendix C). ▶ Expand, communicate and enable enforcement of operating Policies and Procedures. ▶ Provide employees with access to policies and procedures, including the Code of Conduct, HR Policies, and Purchasing, etc. ▶ Report on status of compliance to the Council, preferably on a monthly basis and at a minimum on a quarterly basis on statutory requirements such as HST remittances, and payroll remittances. (See sample in Appendix E)
Effect/Risk	**Management's Action Plan**
▶ Informal or non-comprehensive policies cannot be enforced properly by a low-level employee (e.g. transaction processor) on someone of higher rank, thus increasing the potential of management override to occur. Purchasing Policy and HR policies in particular should be improved to optimize the effectiveness and efficiency of the organization.	Appendix A

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Opportunity 8: Order-to-cash cycle

Observations	Recommendations
▶ 8.1 There is no systematic process for calibrating, testing and replacing water meters. ▶ 8.2 There have been experiences of incorrect meter readings and missed billings. Cut-off between the meter reading device to the manual calculation of billing in the water utility poses a risk due to the manual nature of billing rates being applied to the Excel files. ▶ 8.3 Manual processes for the installation of new water meters slows down the billing processing time for new meters. ▶ 8.4 Cash revenue is collected manually from parks and recreation revenues on nights/weekends by whoever is assigned at the time of event and then submitted to the office by the Facility Manager. There is no alternative way to validate this revenue. ▶ 8.5 We observed ~190 customers with negative A/R balances in the amount of ~$27K that relate primarily to prepayments. We understand, in speaking with management, that these negative balances have decreased since the time of our review.	▶ Residential meters should be replaced every 10-15 years; large meters should be tested for accuracy on large volume users every 3-5 years. We recommend the development of a test and change out strategy to support more frequent calibration of meters and to reduce likelihood of incorrect billings and leakage. ▶ Implement a secondary reviewer to oversee and check the manual calculations for the billing rates on utility customer Excel files to ensure accuracy prior to the data upload into the billing system. ▶ Improve the process for new water meter billings by removing redundant manual processes and ensuring reconciliation of the # of meters with billing cycle to ensure completeness and timeliness of billings. (See Appendix F). ▶ Consider setting up an online scheduling process for ice rink rentals and soccer field rentals and assess enabling online payments so residents can pay conveniently ahead and just show up with e-tickets on the venue for the Parks/Rec department. We recognize that the Town investigated this option in prior years, however, technology advancements will ease the process and potentially increase rental opportunities. ▶ Evaluate negative A/R balances regularly to ensure that any prepaid balances/advance payments are differentiated on the balance sheet to ensure appropriate treatment.
Effect/Risk	Management's Action Plan
▶ Incomplete billing data leads to errors in billing statements. ▶ Meters that are old or provide incorrect readings. ▶ Loss of revenue in Parks/Rec venues.	Appendix A

Opportunity 9: Assets

Observations	Recommendations
► 9.1 Capitalized asset record in Finance is manually maintained in a spreadsheet where movement and depreciation is reflected. Records are updated annually, however, we noted several pieces of assets without asset labels, which indicates a lack of process in labelling and maintaining physical inventory of assets. ► 9.2 There is no evidence of a physical count of assets on a periodic basis to support existence, condition and impairment considerations. ► 9.3 Supplies, consumables or non-capitalized expenses are not given reasonable attention or controlled because they are considered immaterial. However, we did observe a considerable dollar amount of consumables in the form of small parts and tools. ► 9.4 GIS currently allows a full view of the Town's infrastructure and assets which is a considered a great strength, and for example the GPS tracking system allows the Town to control costs relating to land fill.	► Strengthen the process to ensure assets are labelled once received. ► Conduct physical asset counts to verify existence on a periodic basis (e.g., two years) to improve reconciliation processes. ► Track the consumption rate of consumables or non-capitalized expenses for reasonableness or set up inventory for consumables over a threshold value. ► Consider the option of extending buying power philosophy and teaming with other municipalities to make purchases and save costs. We recognize the Town is already doing this for some items and utilizing the Service New Brunswick purchasing pooling for items such as computers.
Effect/Risk	Management's Action Plan
► Incomplete or inaccurate asset records can lead to misstated account balances. ► Non tracking of assets can mean that losses may not be accounted for.	Appendix A

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Opportunity 10: Job costing & management reporting

Observations	Recommendations
▶ 10.1 Activity-based costing is not applied to properly determine cost of jobs/efforts rendered in a program or project and on service requests. A work-order system has been contemplated and designed but there has been a lack of traction or prioritization by management to implement. ▶ 10.2 There are challenges in addressing timeliness of financial reports, and contents of such reports (e.g., different format from financial statements for financial accounting purposes).	▶ Establish clear leadership accountability to own and implement the Work-Order system as well as develop a detailed plan to communicate across the organization. This includes a detailed timeline, training plan, and monitoring plan to show progress and milestones of the project. We want to acknowledge that management is currently including this within the annual goals and objectives process of the Director responsible. ▶ Implement time reporting for the organization (especially field staff) to distinguish between direct and indirect costs. This will provide a better view of costs and facilitate evaluation of benefits/investments and decisions on deployment of resources. ▶ Consult management units and align reports to address management's information needs. Financial reporting to management is currently ad-hoc. Different management units should come together and decide on the types of data and information that they require not just in the present but also forward-looking in view of strategic plan so requests for internal reports do not end up being ad hoc and unplanned in Finance's calendar. ▶ Measure performance against predetermined targets and manage the corrective action process to align with stated Town objectives.
Effect/Risk	**Management's Action Plan**
▶ Management decisions may be less efficient and effective without visibility to job costs for service calls and projects. It also diminishes management's ability to allocate resources to create economic value for the municipality.	Appendix A

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Appendices

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Appendix A – Management Responses

Executive Summary by Management
Management has reviewed the observations and the recommendations reported by EY in the Internal Controls Review. Management has carefully considered the opportunities described in the report and it is management's intention to look for means to implement the recommendations that derived from the review and to respond to these recommendations in such a manner to improve the Town's internal controls wherever feasible and to the extent possible. The following represents management's response to the recommendations set out in the report. In some cases, action plans will be developed in more detail depending on the complexity of the issue raised. The timing of the specific responses is based on the initial work done and further timelines may be established as some of the topics are examined in greater detail and the necessary resources are identified. Management will report to the Finance Committee quarterly on progress of management's actions and will include a summary in the annual report that will be published with the audited financial statements annually.

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Appendix A – Management Responses

EY Recommendation	Management Response	Due Date
Opportunity 1: Purchase-to-pay process 1.1 We recommend that management incorporate an authorization table outlining the authorized spending limits for individuals on behalf of the Town, including their specimen signatures and include this as part of the purchasing policy. Formally approve this communicate, enforce and make the document accessible to staff.	1.1 Purchasing regulations are mandated by the *Provincial Procurement Act*. The Town has adopted a Purchasing Policy (most recently amended in October 2014) that ensures compliance with the Procurement Act and establishes general spending authorization limits. The Treasurer will ensure this is circulated to directors for distribution to their staff.	26 August 2016
1.2 To strengthen the purchase order process, finance should consider leveraging the current accounting system's PO module. Authorization should be obtained when the purchase is requested and referenced to budget amounts.	1.2 In addition to the Policy, Purchasing Procedures have been drafted since March 2012. This document has not been formally adopted (still labeled as "draft"), however, it has been a functional working document for some time. The procedures will be reviewed and updated by senior staff, adopted as formal policy, and communicated to staff.	30 September 2016
1.3 Track purchase orders and their status on a timely basis and avoid the release of PO books to those without prescribed authority.	1.3 The review will include tracking of purchase orders, communication of spending limits, and compliance testing.	30 September 2016

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Appendix A – Management Responses

EY Recommendation	Management Response	Due Date
Opportunity 1: Purchase-to-pay process 1.4 Hold employees with authorized spending limits accountable for their expenditures and for submitting the appropriate documentation.	1.4 The review process will include requirements for adherence to the procedures including PO approval in advance of purchase. This can be adequately achieved via the existing manual process without expending additional resources to track electronically.	30 September 2016
1.5 Establish an appropriate authorization process for credit cards and implement controls and monitor activities.	1.5 Documentation will include pre-approval of all credit card use and communication of policies and procedures for use.	30 September 2016
1.6 Rationalize the use of petty cash, implement a fixed balance and a policy for its use and replenishment.	1.6 Documentation will include a review and communication of petty cash policies.	30 September 2016

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Appendix A – Management Responses

EY Recommendation	Management Response	Due Date
Opportunity 2 – Human Resources 2.1 Implement compliance of vacation accrual with vacation policy for all employees. Employees should either use the vacation over a prescribed period or the Town could choose to pay out. Efforts are being made to reset vacation for the future, however, excessive levels should be paid.	2.1 The Personnel Committee has adopted a policy requiring the accrued vacation to be used by 01 January 2018. Maximum carryover, going forward, is one week. Management will ensure this policy is clear to all employees. Council will be presented with information to decide on payouts prior to the deadline.	2 September 2016
2.2 Consider some form of corroboration of attendance and more frequent reporting of sick time and vacation time taken (e.g. weekly) and assign one person to track attendance on a weekly basis for Town Hall staff. Management should report vacation, sickness for their respective teams.	2.2 At present, workers in the Parks, Works and Utility depts. submit timesheets including sick time, overtime and vacation weekly, which is confirmed by their respective supervisors. Town Hall and Recreation staff will be required to submit their records with confirmation by their supervisor to the Human Resources clerk each week.	Implemented
2.3 Review performance management process and implement consistently across the municipality. Performance should be aligned to compensation to optimize established performance and standards to define criteria and the measures that will be used to evaluate various positions and their contribution to the achievement of organizational objectives.	2.3 Senior management will ensure the performance of the incumbent in each full-time position is reviewed annually. Salary adjustments, other than those reflecting market changes, will continue to be based on ratings 'better than satisfactory' on performance reviews.	31 December 2017
2.4 Allow key officers to develop, train and designate alternates in event of their absence. The scalability does create a challenge for true succession planning efforts within the municipality.	2.4 Directors will be asked to produce a report on potential delegation in their departments. A limited staff complement does not properly allow full succession planning for those positions requiring professional qualifications.	31 December 2016

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Appendix A – Management Responses

EY Recommendation	Management Response	Due Date
Opportunity 3 – Code of Conduct 3.1 Establish a formal Code of Conduct for both Council and staff. Such standards should contain key provisions reflecting legal, ethical, business, and financial reporting expectations. It should also articulate management's philosophy and guidance for avoiding moral hazards in the pursuit of the Town's key objectives.	3.1 Council has adopted, and all current Council members have endorsed, a code of ethics. A draft code of ethics for senior staff has been reviewed by the Personnel Committee as well a list of value statements (Code) for the remainder of the Town's full time and seasonal staff. The latter will be posted prominently and reviewed with new and returning seasonal staff each year.	Council has completed; Senior staff to sign on or before 31 Oct 2016
3.2 Implement acknowledgement of the Code annually for all Council and staff, regardless of position.	3.2 All staff and Council will be asked to acknowledge once when the policy is published. New and returning staff will be required to do so as part of their hiring process. A signed copy will be placed in each employees personnel file.	31 October 2016
3.3 Consider putting in place an anonymous whistleblower process to report employees and activities that contradict the Code of Conduct when established. Assign accountability and responsibilities to investigate any reported activities whether valid or not, and if valid, to define and implement action to address any issues. This service can be outsourced to an independent service provider for a nominal cost.	3.3 This recommendation will be considered further once more research is conducted on the practices of other municipalities and other public sector organizations of similar size and complexity. At present, issues are directed to the Town Manager, and if the matter involves the Town Manager, to the mayor.	Report for budget consideration, 31 October 2017

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Appendix A – Management Responses

EY Recommendation	Management Response	Due Date
Opportunity 4 – Strategic Objectives and Measures 4.1 Set goals and objectives with clear definitions for success and key performance indicators to measure. This will provide the foundation to management and establish clear focus areas to optimize the use of budgets and resources and enable the Council to clearly understand their achievements and where they should focus energy and resources to meet objectives. Recognize that various stakeholders can play a role in meeting some strategic objectives and that not all objectives are under the direct control of the Town however advocacy plans can play a role in the achievement of some objectives.	4.1 As it has been done in the past, it is expected that Council will establish and publish priorities for the current term in advance of the adoption of the 2017 budget. This will allow an allocation of resources toward achieving these goals for the remaining years in the Council mandate. Council priorities will be converted to action plans by staff and assigned to respective senior management staff for implementation.	31 October 2016
4.2 Develop a formalized operational plan and a scorecard with key performance indicators that measure and monitor progress and milestones, and identify slippage	4.2 Progress toward the achievement of the priorities set by Council will be recorded and reported through the annual report of the municipality. As new initiatives are proposed, they will be measured against their consistency with Council priority package.	Annually, each spring , beginning 2017

Appendix A – Management Responses

EY Recommendation	Management Response	Due Date
Opportunity 5 – Capital Expenditure Oversight 5.1 Management should consider and assess the option of adding a contractual role to support the Director of Operations for project management and oversight of significant contracts and capital projects. The Director will then be able to focus on operational priorities and performance and allow bandwidth as the capital projects portfolio expands.	5.1 The Town expects to embark on two of the largest capital projects in its history ($30+ million total). Several options will be analyzed to ensure the interest of taxpayers are properly protected if these projects proceed. An additional permanent or long-term contract position for an engineer with appropriate qualifications could be created; a project manager and/or project commissioning agent could be hired on a contractual basis with the cost to be absorbed within the capital project budgets; a person with advanced technical skills could be hired to work in the utility on an operating basis once the project is completed and could supplement the project management capacity of in-house staff during final design and construction; or, alternatively with more technical support, the Director of Operations may be able to oversee one or more of these capital projects. The need for any of the actions described above are affected significantly by the availability of funding from higher level of provincial and federal government; such funding has not yet been secured.	More discussion required as part of 2017 budget deliberations, to be completed by December 2016. Also subject to senior gov't grant approval.

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Appendix A – Management Responses

EY Recommendation	Management Response	Due Date
Opportunity 6 – Risk Management 6.1 Implement a comprehensive risk assessment and identification process. To ensure alignment to goals and objectives at a strategic level. This would be an evolving process and will cultivate a risk management culture across the municipality.	6.1 Risk is constantly being analyzed in the day-to-day operations of the Town, its planning processes and the resource allocation decisions made by Council and staff. In fact, many resource allocation decisions are specifically designed to mitigate identified risk. Typical risks occur in the areas of environmental damage, emergencies, staff safety, capital project execution, unpredictable weather, a broad range of policy changes at other levels of government, public opinion, currency fluctuations in capital purchases, actions of other local governments, local/provincial economic conditions and many other variables which change at different rates.	Currently in place, further development ongoing.
6.2 The process should be implemented following the new strategic/priorities planning session. This will allow Council to identify risks that could affect the Town or the ability to progress on Town's priorities and ultimately allow an opportunity to create mitigating strategies. 6.3 The defined risks can then be further prioritized in terms of severity and likelihood of occurrence and this will inform plans and programs, budget and resources available. This will also drive the assignment of risk owners, create and execute action plans to manage those risks, and improve performance reporting on the goals and objectives to stakeholders	6.2 A risk analysis associated with the priorities identified by Council for consideration will be produced by staff before the Council finalizes its priorities. 6.3 Risk mitigation measures will be considered as part of the priority setting process and the more detailed development of capital plans, new programs and revised operational procedures. Directors will be responsible for risk identification in their areas of responsibilities. Significant actions to mitigate risk will be reported as part of the performance evaluation processes associated with the priority setting and monitoring progress. Consideration of risk identification and mitigation measures will be raised with the jointly-funded agencies. EMO planning includes hazard analysis, which may be transferable to operations aspects.	30 November 2016; coincide with priority sessions Ongoing

Appendix A – Management Responses

EY Recommendation	Management Response	Due Date
Opportunity 7 - Comprehensive Policies 7.1 Develop a broader and more comprehensive inventory of robust Policies and Procedures. These policies should cover internal control considerations and requirements based on the internal controls checklist (See sample in Appendix C).	7.1 Staff will conduct a gap analysis on the policy currently in place and identify priority policy development topics. Standard operating procedures will continue to be developed in response to safety concerns, changes in processes, new equipment or other stimuli. An emphasis will be placed on internal financial controls in the initial stages.	31 March 2017
7.2 Expand, communicate and enable enforcement of operating Policies and Procedures.	7.2 The Intranet will be activated and made accessible to staff in the field. It will be populated with policies and procedures directly related to Town operations and employee benefits and conduct.	31 December 2016
7.3 Provide employees with access to policies and procedures, including the Code of Conduct, HR Policies, and Purchasing, etc.	7.3 See above.	See above
7.4 Report on status of compliance to the Council, preferably on a monthly basis and at a minimum on a quarterly basis on statutory requirement such as HST remittances, and payroll remittances. (See sample in Appendix E)	7.4 A compliance report will be included on the standing agenda for each meeting of the Finance Committee.	30 September 2016

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Appendix A – Management Responses

EY Recommendation	Management Response	Due Date
Opportunity 8 - Order-to-cash cycle		
8.1 Residential meters should be replaced every 10-15 years; large meters should be tested for accuracy on large volume users every 3-5 years. We recommend the development of a test and change out strategy to support more frequent calibration of meters and to reduce likelihood of incorrect billings and leakage.	8.1 The Town, as a standard practice, purchases 100 meters each year to replace existing meters. We have approx. 1,750 equivalent users, but closer to 1,500 actual meters. Loosely translated, 100 purchases per year with 1,500 units means a meter is replaced every 15 years. Staff will identify the cost of implementing a more aggressive meter change out frequency including reviewing the results of past meter testing to see if revenue losses have been experienced. We will also account for the larger more expensive commercial meters.	Current policy in place; analysis for implementation 2018
8.2 Implement a secondary reviewer to oversee and check the manual calculations for the billing rates on utility customer Excel files to ensure accuracy prior to the data upload into the billing system.	8.2 This process has been adopted. The Treasurer reviews the billing spreadsheets including analysis of comparisons to prior consumption for anomalies including a review of the error report from the reading process.	Ongoing, quarterly
8.3 Improve the process for new water meter billings by removing redundant manual processes and ensuring reconciliation of the # of meters with billing cycle to ensure completeness and timeliness of billings. (See Appendix F).	8.3 Meter change reports are now received on a timelier basis with information updated monthly. There are relatively few amendments monthly, therefore the current process is considered adequate.	Ongoing, quarterly

EY

Appendix A – Management Responses

EY Recommendation	Management Response	Due Date
Opportunity 8 - Order-to-cash cycle 8.4 Consider setting up an online scheduling process for ice rink rentals and soccer field rentals and assess enabling online payments so residents can pay conveniently ahead and just show up with e-tickets on the venue for the Parks/Rec department. We recognize that the Town investigated this option in prior years however, technology advancements will ease the process and potentially increase rental opportunities.	8.4 Recreation staff believe there is value in personal contact with facility users and the scale of the Town operations allows this to occur. There is very little cash managed by facility staff, however, the use of online payment mechanisms will be further reviewed.	31 October 2016
8.5 Evaluate negative A/R balances regularly to ensure that any prepaid balances/advance payments are differentiated on the balance sheet to ensure appropriate treatment.	8.5 Aged accounts receivable reports will be reviewed quarterly (consistent with the utility billing cycle). Negative balances, subject to materiality, will be reallocated for reporting purposes as part of the year-end accounting process.	Ongoing

EY

Appendix A – Management Responses

EY Recommendation	Management Response	Due Date
Opportunity 9 - Assets		
9.1 Strengthen the process to ensure assets are labelled once received.	9.1 The GIS fixed asset tracking maintains a list of all major pieces of equipment and licensed vehicles. All vehicles are currently identified by code. List to be reviewed for completeness.	30 September 2016
9.2 Conduct physical asset counts to verify existence on a periodic basis (e.g., two years) to improve reconciliation processes.	9.2 Every two years staff will conduct a physical count of the equipment on hand, cross check to the database and label them with a unique code. New equipment will be identified as added and disposals of equipment will be removed.	Inventory to be completed on or before 30 November 2016
9.3 Track the consumption rate of consumables or non-capitalized expenses for reasonableness or set up inventory for consumables over a threshold value.	9.3 This area requires more study. It is possible to create a system to track consumables and/or assign responsibility to a particular staff person. It would be necessary to develop the appropriate tracking system, possibly construct storage facilities, etc. "Consumables" are relatively low in dollar value, however, they are maintained in a number of areas. We will implement periodic spot checks (every six months) to identify the items on hand.	During 2017 fiscal year.
9.4 Consider the option of extending buying power philosophy and teaming with other municipalities to make purchases and save costs. We recognize the Town is already doing this for some items and utilizing the Service New Brunswick purchasing pooling for items such as, computers.	9.4 Continue discussions with neighbouring municipalities to identify and explore purchasing opportunities.	Ongoing

EY

Appendix A – Management Responses

EY Recommendation	Management Response	Due Date
Opportunity 10 – Job Costing and Management Reporting 10.1 Establish clear leadership accountability to own and implement the Work-Order system and as develop a detailed plan to communicate across the organization. This includes a detailed timeline, training plan, and monitoring plan to show progress and milestones of the project. We want to acknowledge that management is currently including this within the annual goals and objectives process of the Director responsible.	10.1 Work Order system and authorizing system has been launched as a means to track service delivery. The next phase will include a more complete financial element as the data is collected. More study is required to finalize the goals and detailed objectives of this program.	Pilot projects monitored and new functionality rolled out in stages; completion spring 2017.
10.2 Implement time reporting for the organization (especially field staff) to distinguish between direct and indirect costs. This will provide a better view of costs and facilitate evaluation of benefits /investments and decisions on deployment of resources.	10.2 Time reporting on a functional basis is inherent in the work order system. Once sufficient database is compiled, new work methods will be assessed for efficiency and effectiveness. Staff will attempt to identify available data from other municipalities for comparative purposes.	Ongoing; review of results by year end 2017

EY

Appendix A – Management Responses

EY Recommendation	Management Response	Due Date
Opportunity 10 – Job Costing and Management Reporting 10.3 Consult management units and align reports to address management's information needs. The Financial reporting to management is currently ad-hoc. Different management units should come together and decide on the types of data and information that they require not just in the present but also forward-looking in view of strategic plan so requests for internal reports do not end up being ad hoc and unplanned in Finance's calendar.	10.3 Senior staff has been consulted regarding management reporting requirements. Monthly financial packages, including comparisons to budget, are now distributed in addition to capital spending summaries. Packages to be modified as requested.	Implemented
10.4 Measure performance against predetermined targets and manage the corrective action process to align with stated Town objectives.	10.4 This will be done for individual working teams as well as the organization as a whole. The basis for the analysis will be the priorities adopted by Council organized into departmental work plans.	Processes will be in place by second quarter 2017

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Appendix B
COSO Integrated Internal Control framework

We leveraged the COSO Internal Control Framework while executing this review. An effective system of internal control requires that each of the five components and all relevant principles are present and functioning, and are operating together in an integrated manner.

1. Control Environment	1. The organization demonstrates commitment to integrity and ethical values
	2. The Council demonstrates independence from management and exercises oversight responsibility
	3. Management, with Council oversight, establishes structure, authority and responsibility
	4. The organization demonstrates commitment to competence
	5. The organization establishes and enforces accountability
2. Risk Assessment	6. The organization specifies relevant objectives with sufficient clarity to enable identification of risks
	7. The organization identifies and assesses risk
	8. The organization considers the potential for fraud in assessing risk
	9. The organization identifies and assesses significant change that could impact system of internal control
3. Control Activities	10. The organization selects and develops control activities
	11. The organization selects and develops general controls over technology
	12. The organization deploys control activities through policies and procedures
4. Information and Communication	13. The organization obtains or generates relevant, quality information
	14. The organization communicates internally
	15. The organization communicates externally
5. Monitoring	16. The organization selects, develops and performs ongoing and separate evaluations
	17. The organization evaluates and communicates deficiencies

Internal Controls Review

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Appendix C- Municipality internal controls checklist
(Partial sample only)

Key questions to consider to determine adequacy of internal controls	
General Controls	**Payroll Controls**
Does management understand and action their responsibility to implement and monitor an adequate system of internal controls?	Are personnel records maintained for all employees?
Does the municipality have written documentation of its accounting perspectives?	Does the municipality have an employee manual / HR policies available and are they communicated to staff?
Has management performed a risk assessment across the municipality and developed risk mitigation plans for risks?	Are salary and wage rates approved by a sub committee of the Council?
Are the duties of officials and staff clearly defined and documented?	Does the municipality accurately accumulate time and record absences for staff?
Are municipal officials bonded by liability insurance?	Are withholding taxes remitted timely and properly?
Does the municipality have an independent professional annual audit performed?	Are fees paid to elected officials disclosed in the municipalities accounting records?
Is a budget system utilized to monitor revenue and expenses?	Are payroll remittances reconciled to payroll reports on a timely basis?
Does the municipality have a fraud policy and has it been communicated to staff during the past 12 months? Have staff signed off on a code of conduct?	Are HR policies actively enforced by management?
Are all employees required to take annual vacation and are their responsibilities performed by other employees while they are away?	Are HR policies accessible by employees?

Internal Controls Review

EY

Appendix D - Sample municipality scorecard

❖ *How can we measure our progress in these key strategic areas?*

❖ *How do we know we have been successful compared to our plan?*

❖ *Have we **defined** success and established metrics and measures to measure our progress?*

Council Priorities/ Vision

Sustainable Infrastructure

Community of Choice

Organizational Effectiveness & Communication

SAMPLE	
Community of Choice	• # of families moving in • # of horticulture sites maintained • Community beautification projects
Sustainable Infrastructure	• Regulatory compliance infringements
Organizational Effectiveness/ Communication	• # of social media publications/tweets • Employee survey results • Resident survey results • Absenteeism

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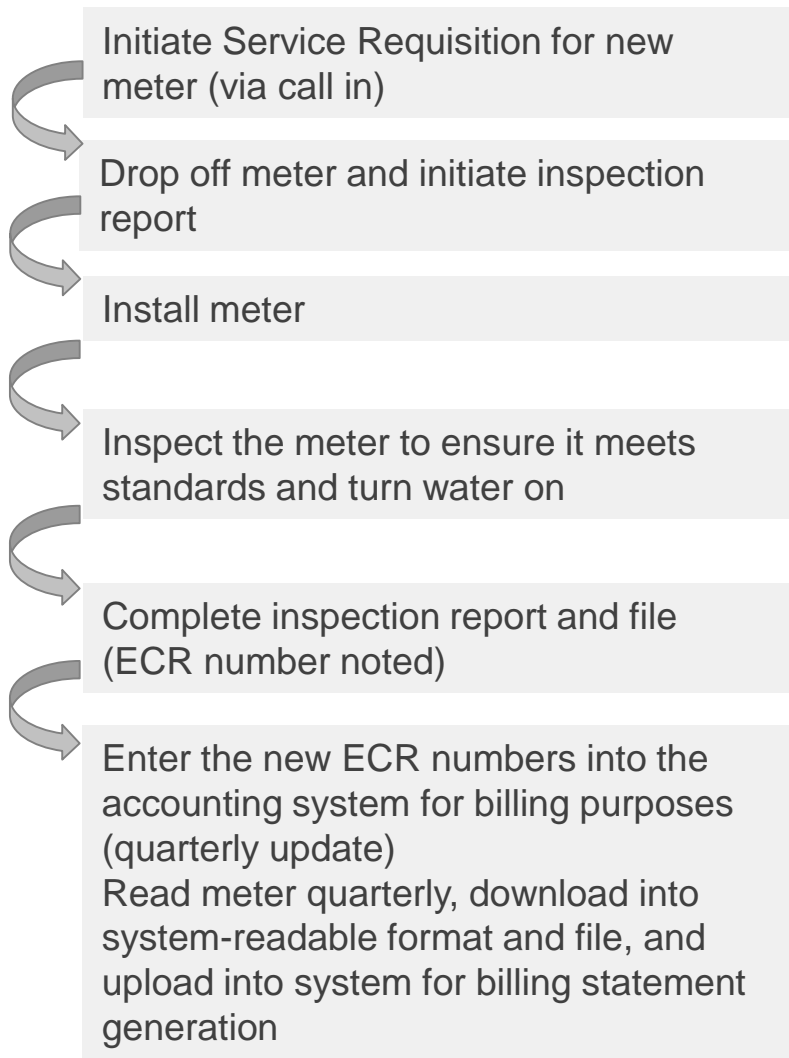
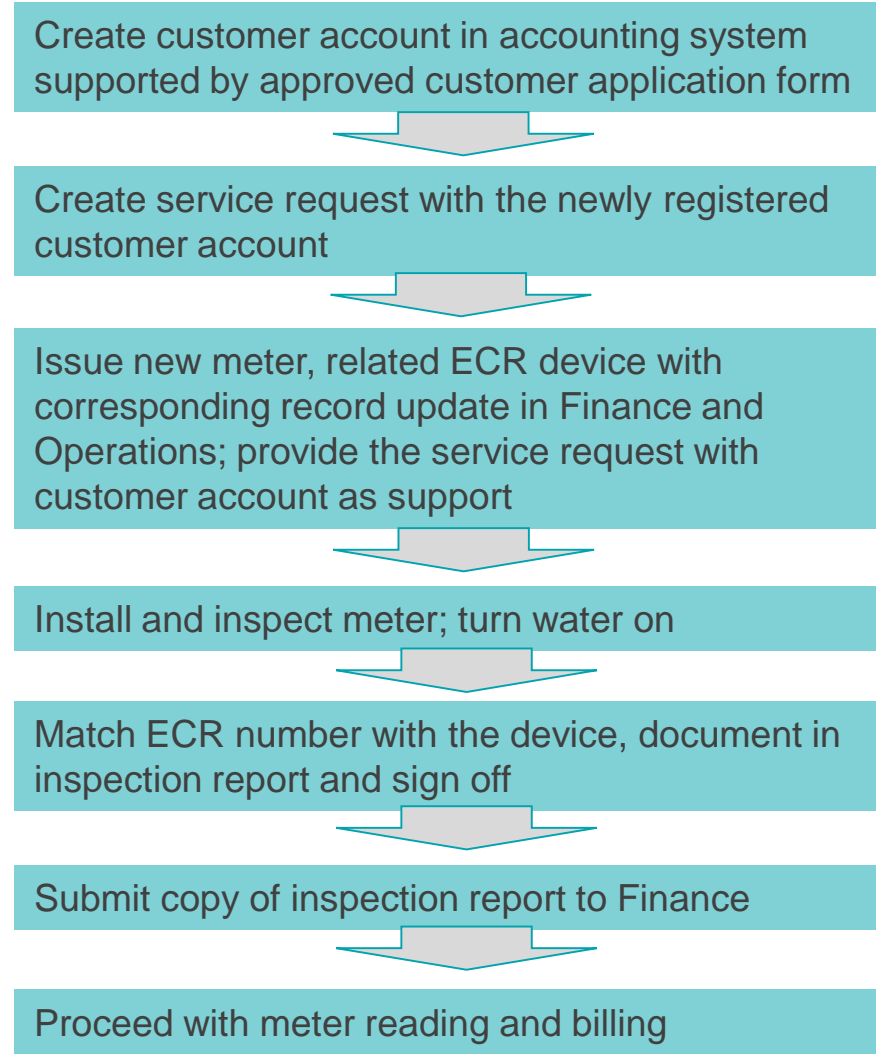# Appendix E – Monthly liability report to Council – statutory remittances sample

Description	Remittance Confirmed "dated"
Payroll Taxes (CPP, EI)	✓
HST/GST	✓
WHSCC	✓
Other	✓

Internal Controls Review

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Appendix F – New water billing process

Current

Proposed

Current:

- Initiate Service Requisition for new meter (via call in)
- Drop off meter and initiate inspection report
- Install meter
- Inspect the meter to ensure it meets standards and turn water on
- Complete inspection report and file (ECR number noted)
- Enter the new ECR numbers into the accounting system for billing purposes (quarterly update)
  Read meter quarterly, download into system-readable format and file, and upload into system for billing statement generation

Proposed:

- Create customer account in accounting system supported by approved customer application form
- Create service request with the newly registered customer account
- Issue new meter, related ECR device with corresponding record update in Finance and Operations; provide the service request with customer account as support
- Install and inspect meter; turn water on
- Match ECR number with the device, document in inspection report and sign off
- Submit copy of inspection report to Finance
- Proceed with meter reading and billing

Internal Controls Review

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Appendix G – Interviewee list

- ► John Jarvie – Town Manager
- ► Kim VanWart – HR and Payroll Clerk
- ► Doug MacDonald - Treasurer
- ► Brett McLean – Director of Operations
- ► Brian White – Director of Planning and Development Services
- ► Charles Jensen – Director of Recreation and Parks
- ► Mary Jane Banks – Town Clerk; Director of Administrative Services
- ► Ellen Steeves – Financial Officer
- ► Cathy Jones – Payables Clerk
- ► Bruce King – Utilities Coordinator
- ► Tony Henry – Public Works Coordinator
- ► Nick DeMerchant – GIS Technician
- ► Michael Kean – ICT Coordinator
- ► Beverly Cote – Receptionist
- ► Wendy Doran – Administrative Assistant
- ► Nancy Grant – Deputy Mayor (May 2012-May 2016)
- ► Blair MacDonald – Councillor (May 2012-May 2016)
- ► Peter Logan – Teed Saunders (External Auditor)

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Appendix H – Priority scoring categories
Illustrative only

BUSINESS IMPACT

Business Value	Estimated impact on business value delivered by the project
Process Impact	Estimated impact the project has on business processes
Strategy Alignment	Degree of alignment with the strategic business drivers and goals
Urgency	The speed with which business wants this project to get started

FINANCIAL IMPACT

Financial Return	Magnitude of the rate of return for this
Cost	Degree of cost associated with this project

RISK IMPACT

Complexity	Degree of complexity of the project using a complexity model
Execution Risk	Degree of certainty with which the project can meet with successful execution

COMPLIANCE IMPACT

Compliance Mandate	Significance of the project from a compliance point of view
Enterprise Architecture Fit	Degree to which new project fits into existing systems and architecture

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