

July 13, 2022

Corporation of the Township of South Stormont
2 Mille Roches Road
P.O. Box 84
Long Sault, ON
K0C 1P0

Dear Members of Council:

Re: Audit of December 31, 2021 Financial Statements

During the course of the audit of the financial statements for the year ended December 31, 2021, we identified some matters which may be of interest to Administration and Council. As a result of our observations, we have outlined below some suggestions for your consideration. This letter deals with the important matters that came to our attention during the audit. Minor matters were discussed verbally with your staff.

Water and Wastewater Reserves and Reserve Funds

Overall, the Municipality is in a strong financial position due to the large amount of reserve and reserve funds of \$14,920,110 (2020 - \$14,678,042). Water and wastewater reserves and reserve funds comprise \$7,585,305 or 51% of this balance, while general purpose reserves and reserve funds represent 49% of the remaining balance of \$7,334,805.

In conjunction with the Township's asset management plan and its reserve and reserve fund policy, we recommend that Administration and Council undertake a review of its reserves and reserve funds to determine the appropriate level of reserves and reserve funds required to finance future capital projects and what remaining reserves could be used for future operating purposes.

Budget Process

Administration prepared a detailed budget that is broken down by department and further by expenditure category that did not match the general ledger accounts in all areas, such as water and wastewater operations, thereby not allowing a meaningful line by line comparison with actual financial results in 2021. The development of a new chart of accounts in 2020 and 2021 created some of this inconsistency. Providing budget detail that matches the general ledger accounts will enable a better budget to actual review process by both Administration and Council.

Also, the Township have had significant operating surpluses in the last few years. Various factors have created these surpluses such as the impact of COVID-19 on operations, deferral of capital projects and changeover in full time and part-time treasurers. Administration should review the annual budget process along with its asset management plan and policies relating to debt management, reserve and reserve funds and multi year budgeting to determine if the budgeted revenues and expenditures are realistic with actual financial results.

RECOMMENDATIONS FROM PRIOR YEARS

Taxes receivable

Taxes receivable rose by 26% from the previous year from \$1,741,056 in 2019 to \$2,191,667 in 2020. While we understand that a tax payment deferral plan was implemented in 2020 due to the COVID-19 pandemic, we recommend Administration continue to monitor and collect these amounts on a timely basis once the pandemic is over.

Action taken: Taxes receivable decreased by 20% from the December 31, 2020 balance of \$2,191,667 to the December 31, 2021 balance of \$1,749,558. Taxes receivable at December 31, 2021 represents 22% of the 2021 municipal tax levy and 8% of the 2021 total tax levy, whereas other local municipalities have percentages that are 50% lower than this Township. We recommend that Administration continue in their efforts in monitoring and collecting the tax arrears on a timely basis.

Sales taxes receivable

The sales taxes receivable at December 31, 2020 includes an amount of \$72,578 being carried forward from previous years that has not been claimed from the Canada Revenue Agency. We recommend that an analysis be undertaken to determine if the Township is properly entitled to this amount.

Action taken: This was addressed by Administration in the year.

Miscellaneous accounts receivable sub-ledger

The Township does not utilize a sub-ledger system for miscellaneous accounts receivable. There are various customer invoices and government grant receivables being recorded into a miscellaneous receivable general ledger account which makes it difficult to reconcile on a regular basis. A sub-ledger will assist Administration in invoicing and collecting these revenues on a timely basis and managing cash flows for the Township.

Action taken: This was addressed by Administration by creating several new general ledger accounts in the year.

Tender and Planning Deposits

The Township maintains a separate bank account for tender and planning deposits. The bank balance at December 31, 2020 was \$534,327 while the related tender and planning deposit listing was \$768,970, a difference of \$234,643. We recommend that funds be transferred from the main operating bank account to this bank account for the difference. It is our understanding that a transfer of funds will occur in 2021. Also, the Township should undertake a review and seek legal advice in updating their deposit policy and determine when a deposit can be classified as non-refundable.

Action taken: It is our understanding that Administration will be addressing this issue in 2022. The bank balance at December 31, 2021 was \$659,932 while the tender and planning deposit listing was \$1,005,483, a difference of \$345,551.

Reserves and Reserve Funds Policy

The Township does not have a policy to outline the reasons or the targeted amounts for reserves and reserve funds. We recommend that Administration and Council create a reserve and reserve fund policy with a minimum or maximum target level for each reserve and reserve fund and a timeline to reach each targeted level. It is our understanding Administration is currently developing its reserve and reserve policy for Council's approval. We will be pleased to assist Administration with this endeavour.

Action taken: The reserve and reserve fund policy was developed and approved by Council in 2021.

Segregation of Duties

We noticed several instances of lack of segregation of duties such as:

- The Finance Clerk is tasked with completing most of the property, water and wastewater tax cycles along with verifying the daily cash counts, preparing and making the bank deposits. We recommend that this person should not be involved in making the daily bank deposits. Also, this person should not prepare and mail out arrears' statements and letters to ratepayers; and
- The Finance and Payroll Coordinator completes most of the payroll cycle. To provide some safeguard in payroll, we recommend that another person be responsible with the additions and deletions of employees from the payroll system.

These recommendations will strengthen the internal controls of the Township.

Action Taken: Administration has addressed both of these issues in 2020 and 2021.

We have discussed the matters in this report with your staff and received comments thereon. We now bring them to your attention. We would like to express our appreciation for the co-operation and assistance which we received from your Administration during the course of the audit.

We shall be pleased to discuss with you further any matters mentioned in this report at your convenience.

This communication is prepared solely for the information of Council and administration and is not intended for any other purpose. We accept no responsibility to a third party who uses this communication.

Yours truly,
MNP LLP

H. James Pollock, CPA, CA, LPA

cc: Ms. Debi LucasSwitzer, Chief Administrative Officer
Mr. David Ni, Director of Finance/Treasurer

DRAFT - FOR DISCUSSION PURPOSES ONLY