



Audit Committee
Monday, September 26, 2011
2:30 p.m.
Committee Room, Town Hall

AGENDA

1. **CALL TO ORDER**

2. **RECEIPT OF AGENDA**

- Identify any Urgent Business

3. **DISCLOSURE OF PECUNIARY INTEREST**

4. **RECEIPT OF MINUTES DATED [JUNE 28, 2011](#)**

5. **CLOSED MEETING**

1. Confidential Report from Treasurer re: The security of the property of the municipality or local board – Telephone/Internet Banking Review;
2. Confidential Report from Manager of Revenue re: The security of the property of the municipality or local board – Customer Service End-of-Day Cash Reconciliation;

6. **REGULAR BUSINESS**

1. Gas Tax Compliance Audit.
2. Audit Committee Priorities for Internal Audits/Reviews – Remainder of 2011 and 2012.

7. **ADJOURNMENT**

8. NEXT MEETING

The next meeting will be held on November 28, 2011 at 9:30 a.m. in the Committee Room.



Audit Committee
Tuesday, June 28, 2011
8:30 a.m.
Committee Room, Town Hall

Members Present

Chair: Councillor Whitehead
Vice Chair: Councillor Mezzapelli
Councillor Paterak
Councillor Thompson
Mayor Morrison (ex-officio)

Town Staff Present

Chief Administrative Officer: D. Barnes
Director/Chief Financial Officer/Deputy C.A.O.: R. Kaufman
Manager of Finance: K. Kocialek
Director of Administration/Town Clerk: K. Landry
Treasurer: F. Wong

Others Present

Auditor: H. Cameron Johnston

1. **CALL TO ORDER**

The meeting was called to order at 8:34 a.m.

2. **APPROVAL OF AGENDA**

Moved by: A. Thompson

AUD-2011-001

That the agenda for the June 28, 2011 Audit Committee Meeting be approved.

Carried.

3. **DISCLOSURE OF PECUNIARY INTEREST** - None

4. **RECEIPT OF MINUTES**

Moved by: A. Thompson

AUD-2011-002

That the August 24, 2010 Audit Committee minutes be received.

Carried.

5. REGULAR BUSINESS

A. Elect Chair and Vice Chair.

Moved by: A. Thompson

AUD-2011-003

That the Committee appoint Councillor Richard Whitehead as Committee Chair.

Carried.

Moved by: R. Paterak

AUD-2011-004

That the Committee appoint Councillor Rob Mezzapelli as Committee Vice-Chair.

Carried.

B. Management Discussion and Analysis (MD&A).

Fuwing Wong, Treasurer reviewed the Draft 2010 Management Discussion & Analysis which outlines the following:

- 2010 Financial Position of the Town
 - Financial Assets
 - Tangible Capital Assets and Other Non-Financial Assets
 - Financial Liabilities
 - Accumulated Surplus
- 2010 Operations and Full Accrual Accounting Surplus
- Municipal Debt
 - Hydro Debenture
 - Bolton Arterial Route Debenture (2010)
 - Annual Repayment Limit (ARL)

Moved by: R. Mezzapelli

AUD-2011-005

That the 2010 Management Discussion and Analysis, be received.

Carried.

C. Town of Caledon Consolidated Financial Statements for the year ended December 31, 2010.

H. Cameron Johnston of Millard, Rouse & Rosebrugh, Chartered Accountants, Auditors reviewed the Corporation of the Town of Caledon Consolidated Financial Statements for the year ended December 31, 2010 as well as the Report to the Members of the Audit Committee – December 31, 2010.

Moved by: R. Mezzapelli

AUD-2011-006

That the Consolidated Financial Statements for the year ended December 31, 2010 and the Report to the Members of the Audit Committee – December 31, 2010, be received.

Carried.

NOTE: Staff were requested to follow up with Public Works staff with regard to reference on Page 17 of the Consolidated Financial Statements regarding Bridges estimated useful life at 20-40 years.

6. **CLOSED MEETING** - None

7. **ADJOURNMENT**

The meeting adjourned at 9:30 a.m.

8. **NEXT SCHEDULED MEETING**

The next meeting will be held on September 26, 2011 at 2:30 p.m. in the Committee Room.

The next meeting will be held on November 29, 2011 at 9:30 a.m. in the Committee Room.

DRAFT



MEMORANDUM

Corporate Services

DATE: SEPTEMBER 26, 2011

TO: AUDIT COMMITTEE

FROM: FUWING WONG, TREASURER

SUBJECT: GAS TAX COMPLIANCE AUDIT

Background

On July 13, 2011 the Town of Caledon was Audited by an Association of Municipalities of Ontario (AMO) appointed external auditor for compliance to the Gas Tax Funds (GTF) Agreement for fiscal year 2010. The audit was conducted in accordance with the Municipal Funding Agreement for the Transfer of Federal Gas Tax Revenues under the New Deal for Cities and Communities between the Association of Municipalities of Ontario and the Town of Caledon.

Scope of Work

The scope of the audit was limited to 2010 and covered the following 3 projects funded with Gas Tax Funds in 2010:

- Sneath Road Pedestrian Bridge
- 2010 Road Resurfacing and Rehabilitation
- Heartlake Road Bridge

Grant Thornton was engaged by AMO to perform a compliance audit of the 3 projects listed above. The scope of work included the review of the procedures as outlined in the GTF agreement, focused on the following categories:

- Reporting to AMO including the filing of Schedule C's, annual reports, Integrated Community Sustainability Plan, Capital Investment Plan and Gas Tax annual audit statements.
- Application of Gas Tax Funds are within eligible categories and are spent within 3 years of receipt.
- The Municipality maintains records and accounting as per the GTF Agreement including the establishment of a reserve for unspent funds, retention of records and purchasing policies.
- Evidence that Gas Tax Funds have resulted in net incremental spending.

Audit Findings

Full Compliance with GTF Agreement

For the 3 projects selected the audit identified the following list of Gas Tax Funds agreement requirements that the Town complied with:

1. The increase in infrastructure spending from 2005-2010 demonstrates that Gas Tax Funds have resulted in net incremental spending.
2. Contracts issued were consistent with the Town of Caledon's procurement policy set out in by-law 2009-130 Purchasing Policy.
3. Projects were found eligible as per the definition of eligible projects of the funding agreement.
4. Gas Tax Funds were applied to eligible costs as per the GTF Municipal Agreement.
5. Records (invoices, receipts etc) were maintained in accordance with the GTF Municipal Agreement.
6. A separate reserve fund account had been established for any unexpended funds.

7. Accrued interest was applied to the reserve fund amount and, if expensed, applied to either eligible costs or administrative costs (audit fees).
8. Funds received from the AMO had been expensed within 3 years.
9. The Town had appropriately applied other sources of Federal funding (applicable only to the Heartlake Road Bridge project).
10. Reporting cycle expenditure reports had been submitted to the AMO.
11. Annual Gas Tax audit statements for all reporting cycles had been submitted to the AMO.
12. Although an Integrated Community Sustainability Plan was not made available, inclusion of a section relating to environmental sustainability in the Office Plan is considered by the AMO Oversight Committee to demonstrate the principles of the Integrated Community Sustainability Plan.
13. Accounting policies were in accordance with Public Sector Accounting Board standards.
14. Records and documentation related to the Gas Tax program are maintained separately.
15. Certificate of insurance is in accordance with the Town of Caledon's risk management policy and indemnifies both the Federal Government and the AMO.

Exceptions identified in compliance audit

The Audit also identified the following exceptions to Gas Tax Funds agreement requirements:

- A) 2 out of 3 projects reviewed had Schedule C's submitted late. Prior to any work beginning on an eligible project the Municipality must submit in writing to the AMO for eligible projects under the roads and bridges category the appropriate documentation on the impact of such investments on sustainability outcomes in the form of a Schedule C. Once receipt of the Schedule C is confirmed by AMO, spending on the eligible project can begin.
- B) The audit identified that a Capital Investment Plan (CIP) had not yet been completed. The Capital Investment Plan is defined as "a document, such as a capital plan, that provides a detailed undertaking of anticipated investment into tangible capital assets along with rationale". While the Town currently is in compliance with Public Sector Accounting Board standards for the tracking and reporting of Tangible Capital Assets, the Town current has not developed a capital budget on the basis of an asset management plan that uses lifecycle costing approaches and supports the municipality's integrated community sustainability plan.

Town Response/Recommendation

Listed below are recommendations to resolve the exceptions found in the compliance audit:

- A) To provide controls for the submission of a Schedule C to the AMO for each new project funded with Gas Tax Funds, staff will implement a new procedure that a Schedule C must be submitted no later than 1 week after Council approval of the project. Evidence of submission and receipt by the AMO of the Schedule C must be submitted to the Treasurer for signature and maintained as a permanent record in the Gas Tax Fund file for the respective year. The spending of funds prior to Schedule C can also be controlled through a new purchasing bid transmittal process for construction or professional fee contracts that requires signature approval from the Finance department to confirm budget before a purchasing tender/RFP is issued. Town Finance staff will also verify Schedule C's are in place for Gas Tax Funded projects prior to signing the bid transmittal form.
- B) Staff are currently preparing a 10 year capital forecast for inclusion in the 2012 budget based on information currently available on the life cycle of assets. A more detailed life cycle costing approach will be employed by the Town after the acquisition and implementation of an asset management system and plan. Although



MEMORANDUM

Corporate Services

the Capital Investment Plan was identified as an exception by the auditor, AMO has confirmed that this is common with other municipalities and is considered a work in progress. An AMO representative has confirmed that approximately 50% of Municipalities are still in the process of integrating lifecycle costing into their Capital Investment Plan

Additional Control/Process Improvements

The following items were not identified as exceptions to the GTF Agreement audit, however based on the outcomes of the audit; Town staff have identified opportunities to enhance control procedures including:

1. Ensure Gas Tax Funds are spent within 3 years of receipt by including this check in the annual capital budget process when reviewing available funding sources from the Federal Gas Tax Reserve.
2. Monitor capital projects to ensure the municipality retains the title and ownership to infrastructure for which Gas Tax Funds have been applied for at least 10 years after the project completion.
3. Enable public access to the project outcome reports by making the outcome reports available on the Town of Caledon website. It is recommended that the outcomes be updated each year upon completion of the annual gas tax report. The outcomes for 2010 have been posted on the Town of Caledon website.
4. Retention Policy Changes - it has been identified by Town staff that a section should be added to by-law 2011-026 records retention regarding the retention of all Gas Tax Fund program records for at least three years after March 31, 2015.
5. Monitor the level of capital funding during the annual capital budget process to ensure that the application of Gas Tax Funds will result in net incremental capital spending on Municipal Infrastructure and that there is no reduction in capital funding provided by municipalities. This applies to municipalities with a population over 100,000, but staff will start tracking this to determine the baseline.

Conclusion

Per discussion with AMO representatives, Gas Tax Fund installments can be suspended based on non-compliance in the following 3 main categories:

1. Non-compliant reporting
2. Non-compliant accounting for funds received and spent
3. Funds received are not spent within 3 years of receipt

The outcome of the 2010 Compliance Audit determined that the Town of Caledon was found to be in compliance with the 3 main categories listed above.

In conclusion, the results of the 2010 Gas Tax Funds audit determined the Town of Caledon was found to be in compliance with the Gas Tax Funds Agreement for fiscal year 2010, with the exception of submitting Schedule C's for eligible projects before work began. The recommendations for additional control procedures provided by Staff will resolve the exception and enhance compliance reporting for the 2011 and future GTF reporting cycles.