
HALDIMAND COUNTY

Memorandum FIN-M04-2019 Financial Audit Findings Letter for 2018

For Consideration by Council on November 4, 2019



To: Mayor Hewitt and Members of Council

From: Charmaine Corlis, Treasurer

Pursuant to the Municipal Act, the County must appoint an auditor that annually audits the accounts and financial transactions of the municipality and its local boards, in order to express an opinion on the financial statements of these bodies. At the October 29, 2019 Council-in-Committee meeting, the County's auditor, Millard, Rouse & Rosebrugh LLP, will be presenting the 2018 Audited Financial Statements.

The auditor must perform their audit of the County's accounts and transactions in accordance with Generally Accepted Auditing Standards (GAAS). These standards require the auditors, at the conclusion of each audit, to issue an "Audit Findings Letter" to Council. Traditionally known as an Auditor's Management Letter, the purpose of this letter is to disclose to the organization's management team any accounting irregularities or other internal controls that, although they did not prevent the auditor from issuing an opinion on the audited statements, could help improve internal reporting systems.

Upon completion of the audit of the Consolidated Financial Statements and the Trust Funds for the Corporation of Haldimand County, for the year ending December 31, 2018, the requisite "Audit Findings Letters" were received by County staff, dated October 21, 2019. These letters are attached for Council's information (Attachment #1). GAAS requires the auditors to comment on the following areas: evaluation of internal controls, significant accounting principles, significant unusual transactions, accounting estimates, disagreements with management, issues identified and difficulties encountered during the audit.

The intent of this memo is to communicate staff's response to the findings, as outlined by the auditor. As indicated by the attached letter, there were no unusual findings in any of the above noted areas, with the following recommended as improvements to the County's processes:

1. Significant Accounting Estimates:

***Auditor's comments:** "Certain accounting estimates are particularly sensitive because they involve a significant degree of judgment and may have a range of possible outcomes. Significant accounting estimates exist for the County in the determination of the employment benefits liability. Four areas of employment benefits where estimates are involved are worker's compensation (WSIB), post employment benefits (i.e. health, dental and life insurance), vested sick leave and unvested sick leave. In 2013 Haldimand County hired an actuary to conduct an actuarial evaluation to calculate an estimate for the WSIB liability. Subsequent to this actuarial report there has been significant changes to WSIB legislation, WSIB's board administration, and as a result claims activity and administrative costs. We recommended on last year's audit findings letter that another actuary evaluation should be completed to obtain a more current actuarial estimate for the WSIB liability. We are pleased to hear from staff that the WSIB actuarial study is slated as an initiative for 2020. In 2016, the County hired an actuary to conduct an actuarial evaluation to calculate an estimate for the post employment benefits, vested and unvested sick leave liabilities and these estimates have been reflected in the financial statements."*

Management Response: Although the actuarial estimate for WSIB was presented in 2013 and typically would be updated after 4 years, we currently are gathering additional data related to legislative changes that impact these estimates (particularly with respect to claims for presumptive liability for volunteer firefighters, post traumatic stress disorder for emergency first responders and chronic mental stress). Since that time, further information and data has provided a better understanding of the impacts of this expanded legislation. As such, an update to the actuarial estimate for WSIB is planned for 2020. Separately, the 2016 actuarial estimates for post employment benefits, as well as vested and unvested sick leave liabilities, will be reviewed annually with the actuary, with a full study planned every four years. This is expected to be updated in 2020 as well. The results of these studies will be reflected in future audited consolidated financial statements.

2. Significant Accounting Estimates:

Auditor's comments: *"The solid waste landfill closure and post-closure liability, that relates to the shared Tom Howe landfill site and Canborough landfill site, is a significant estimate. Haldimand County hired an actuary in 2009 to perform an actuarial evaluation of the landfill closure and post-closure costs. Since then, a Haldimand County employee performs periodic evaluations and estimates the landfill closure and post-closure costs based on the 2009 actuarial evaluation. Due to the significance of the estimate and the dependence of that estimate from the county that shares the landfill site, we recommend that another actuarial evaluation is performed."*

Management Response: Since the closure of the Tom Howe landfill site in late 2015, the County has moved to a transfer station operation to handle all solid waste for Haldimand County only. As 2016 represented the first full year of transfer station operations and post-closure costs at Tom Howe, several estimates were made to determine current and future post closure costs, noting that the future costs are significantly influenced by estimated leachate treatment costs, weather and operational practices. These estimates have been refined annually based on actual costs and forecasts of future costs. However, a significant portion of the estimated future liability is based on leachate treatment costs (approximately 80% of the total post closure costs) which can fluctuate significantly based on annual flows. As approved in the Tax Supported Capital Budget, in conjunction with Norfolk County staff, a Leachate Management Best Practice Study has been initiated to identify options to reduce and treat leachate from the jointly owned closed landfills. The results of this study, expected late 2019/early 2020, will provide updated future costs to determine the solid waste post-closure liability to be reported in the annual audited financial statements.

3. Significant Deficiencies in Internal Control:

Auditor's comments: *"A portion of the TCA subledger and general ledger are not being reconciled which caused a year end net debit adjustment of approximately \$7,800,000, (2017 had a net debit adjustment of approximately \$4,900,000). This adjustment is required to record costs and revenue accounted for within the TCA subledger but not yet recorded in the general ledger. We recommend that the TCA subledger and general ledger become interfaced, this would eliminate the need for any reconciling adjustment. In the mean time, we recommend that the TCA subledger and general ledger are reviewed quarterly at minimum and this reconciling adjustment is made on a quarterly basis to reduce the impact at year end. We urge this recommendation to be implemented as soon as possible as reconciliation's are important controls as well as affecting key performance indicators."*

Management Response: As outlined in the staff report that accompanied the audited 2018 Consolidated Statements, there are financial reporting differences between internal financial statements and external audited statements due mainly to the reporting of capital transactions to meet Public Sector Accounting Board (PSAB) requirements. In 2009, PSAB required capital transactions that

meet certain principles to be reported as assets on the balance sheet and not expensed in the year of acquisition. As a result of this accounting change, all municipal governments have and continue to struggle to identify the impacts of these differences for annual reporting purposes. Staff agree with the comment that improvements can be made to limit these differences, where possible, to make the annual audited financial statements more understandable for the general public. As such, during the current Business Application Software implementation, one of the desired technological improvements is the ability to integrate the internal and external reporting of tangible capital assets. In addition, from a processing standpoint, a more timely review and recording of these transactions is warranted to ensure they are reconciled during the year incurred or shortly after the fiscal year end.

4. Deficiencies in Internal Control:

Auditor's comments: *"During the testing of controls surrounding disbursements from resident trust accounts at Grandview Lodge, it came to our attention that proper documentation is not being provided to the accounting department for any changes to the various services. Services are provided to residents and paid through the resident trust account, therefore, there is a risk that the resident may not be charged the correct fees, potentially overstating their trust account balance. We recommend that any changes to services provided to a resident after admission are communicated by nursing services to the accounting department in a timely manner using a service change request form to ensure the appropriate fees are being charged to the resident."*

Management Response: The Grandview Lodge Administrator has been advised of this deficiency and has reviewed the process. Prior to paying for services or invoicing residents, Grandview accounting staff will ensure documentation is in place from the resident for consent to pay for the provision of these services, therefore removing the potential to overstate the trust account balances. These changes are being implemented immediately.

There were no other unusual findings noted by the auditors.

Attachments:

1. Millard, Rouse & Rosebrugh – Audit Findings Letters, dated October 21, 2019