



Audit Committee Meeting

Friday, May 19, 2017

9:00 a.m.

Council Chambers, Town Hall

359 Main Street

Agenda

- 1. Approval of the Agenda**
- 2. Approval of Minutes of January 20, 2017 (attached)**
- 3. Business arising from Previous Meeting**
 - a. Reporting on Variances – discussion regarding timing of when changes to presentation will be brought forward.
- 4. New Business:**
 - a. Information Report – March 31/17 Doubtful Accounts Review
 - b. Information Report - Update on Joint Municipal Accountability and Transparency Committee
 - c. Audit Planning – Fiscal 2016/17 Financial Statements (Discussion)
- 5. Next Regular Meeting – Friday, June 23, 2017 or alternate date**
- 6. Adjournment**

INFORMATION REPORT

Title: Doubtful Accounts Review March 31/17

Date: 2017-05-19

Department: Finance



SUMMARY

Doubtful Accounts Review – March 31/17

This year's update is essentially the same as a year ago in terms of status of accounts and outstanding efforts needed to improve the collection process. The Finance Department has new staff member starting on May 22nd, and once of the projects they will be tasked with at the outset will be addressing the gaps in the Town's receivable collection processes. That said, it should be noted that, generally speaking, the vast majority of receivables are collected and there is no danger of material impact on the bottom line.

This report is prepared for the Audit Committee as part of the annual year-end financial statement process. Presentation of this information helps to act as an internal control for the Town, i.e. the timely review of accounts receivable arrears that may no longer be collectible, i.e. ultimately bad debts. It should be noted that the Town of Wolfville's success at receivable recoveries is a positive one, which is supported by one of the provincial Financial Indicators, Uncollected Taxes. The Town's score in this area is 4.8% as of March 31/16 (was 5.2% previous year) compared to the Town's average of 8.0% and an expected threshold of below 10%.

Regardless of positive efforts to date, continual review of all accounts receivable (A/R) is a process that should occur every year, and this update to the Audit Committee is part of that process. This report will provide summary level information on Taxes outstanding, Water/Sewer Receivables, and Sundry A/R.

No amounts are being recommended for write off at this stage. A subsequent Request for Decision (RFD) may be required once additional procedures are carried out on the balances in the subledgers. That RFD, *if required*, will include customer names and balances owed as permitted under MGA 480 (4) (f). For this reports purposes names have not been included as a matter of courtesy pending notification to the third parties of pending bad debt status.

No motion is required at this stage. Information is presented for discussion/review. A formal RFD will be brought forward at a future meeting, if required.

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1) CAO COMMENTS

This report is for information purposes only.

2) REFERENCES AND ATTACHMENTS

- Municipal Government Act (MGA) – Section 38 Duty of Treasurer to Advise
- NS Utility and Review Board (NSUARB) Accounting and Reporting Handbook
- Town of Wolfville Water Utility Rules and Regulations (approved by NSUARB in 2002).
- Provincial Municipal Financial Condition Indicators

3) PURPOSE OF REPORT

To provide Audit Committee a preliminary update on the status of receivable collections during fiscal 2016/17 and assist in identifying the magnitude of likely bad debts

4) DISCUSSION

As noted in the opening summary, this report forms part of the process of managing accounts receivable for the Town.

Property Tax Receivables

Since the elimination of Business Occupancy Assessments, the issue of bad debts as it relates to outstanding tax arrears has basically disappeared. The ability to carry out a tax sale ensures that arrears can ultimately be collected. The risk area that remains is in instances where the market value of a property is impaired below the taxes owing. Currently staff does not believe that such a situation exists at present.

Each year the Tax A/R listing is reviewed for properties that hit the tax sale threshold outlined in the Town's Tax Sale Policy (essentially taxes o/s > 2 years).

A review of the March 31, 2017 Tax Receivable subledger yields the following info:

- Nine accounts will be put into the Tax Sale Process.
- Process will start in June with notifications going out to owners in accordance with procedures laid out in the MGA.
- Once the tax sale process starts, title searches are completed, and formal notices go out, the owners will be required to pay the balance in full including costs incurred by Town to carry out process.
- In terms of timeframe, the tax sale process typically takes a number of months, both to meet MGA required steps and staff time to carry out the work.
- Another 18 accounts will receive arrears notices indicating properties are in danger of tax sale process, i.e. nearing > 2 years arrears. Thirteen of these accounts are owned by one company.

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- Where possible, payment plans will be arranged with this group receiving arrears warnings.
- Notwithstanding prepaid customer accounts, the Town shows \$259,000 outstanding at March 31, 2017 (compares to \$252,300 a year ago). Total taxes billed for the year was just over \$7 million (including area rates).

Water/Sewer Accounts, inactive

Generally speaking the collection rate on active sewer accounts proceeds smoothly. As stated in previous years, and unfortunately still holds true, we have yet to formalize a procedure that was previously discussed and planned back in 2013. This involves a formal timeline for billings, arrears notices, disconnect notices, actual disconnections, and sending inactive accounts to collections. As noted in the summary above, this will be specific project for the staff member starting May 22nd.

The net amount owed to the Town, before applying all customer deposits, for inactive Water/Sewer A/R is \$3,770. (was \$4,515 a year ago). A portion of these accounts have small amounts owing back to customers. This balance breakdowns as follows:

- Accounts with credit balances (owing back to customers) = \$2,600
- Amounts owed to Town = \$6,370
 - Of this amount, \$2,400 is secure by virtue of customer deposits not yet applied to arrears.
 - Since March 31st, \$421 has been collected/received.
 - Bad debt risk maximum is \$3,900
 - Currently the Town (combined Sewer & Water g/l's) has an Allowance for Doubtful Accounts = \$4,500, therefore full risk has already been covered.

There is still a need for staff to formally review the listing, apply deposits to arrears and bring back what should be considered the list of accounts to formally write off.

Sundry A/R Accounts

This subledger covers all the customer invoices the Town issues that are not Property Taxes or Water/Sewer consumption accounts. It covers a variety of items from services provided to other municipalities, water/sewer service hookups, dog tags, and any other one-off invoices that may be required.

As stated last year, this group of receivables often does not receive the attention it should, in terms of collections and timely write off of bad debts. In 2011 the finance department completed a review of old A/R accounts still on the books (some over 20 years old) and brought forward a recommendation to Council of a list of bad debt write offs. That list of write-offs = \$36,542.

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At March 31, 2017 Sundry A/R totaled just over \$178,000. Of this amount:

- \$172,000 has been collected since year end
- \$1,875 relates to dog tags, covering more than one year. This balance needs to be reviewed/reconciled as there has been occasion where payment has been received, but amount was posted to a revenue account, not A/R. This needs to be cleared up before any potential bad debts are noted.
- A handful of other accounts require follow up with customer before they might be noted as a bad debt.

Overall Summary

Same comment as last year applies, further work required before specific bad debts are brought back for write-off approval. Also applicable, is the need to start using a collection agency effectively. This will improve collection especially on water/sewer accounts where the person has since moved away. The other benefit will be freeing up staff times currently being consumed by phone call follow up.

5) FINANCIAL IMPLICATIONS

As illustrated by the dollar amounts noted above, any write off of accounts will have limited impact on the Town's bottom line.

6) REFERENCES TO COUNCIL STRATEGIC PLAN AND TOWN REPORTS

This process of reviewing receivable arrears should be carried out regardless of an organizations strategic plan. In terms of connection to the Council's Strategic Plan, this internal control and reporting to Audit Committee best fits with the principle of Transparency.

7) COMMUNICATION REQUIREMENTS

At this stage of the process the key communication will involve advising accounts that will be tagged for Write-Off, that their accounts will be brought before the Audit Committee and Council for approval to write-off, and further that the list will be public and the accounts so approved will be sent to a collection agency for follow up

8) FUTURE COUNCIL INVOLVEMENT

As noted earlier in the report, an RFD will be prepared as the year end financials are compiled, and the report will be presented to the Audit Committee later this year, possibly June or July.

INFORMATION REPORT

Title: Joint Municipal Accountability and Transparency Committee

Date: 2017-05-02

Department: Finance



SUMMARY

Joint Municipal Accountability and Transparency Committee (JMAT)

In December 2016 a committee was established to:

- Ensure mechanisms in place supporting transparency & accountability to the public;
- Strengthen municipal government expense policies;
- Increase transparency to the public of municipal staff and elected official expenses;
- Improve audit function on staff and elected official expenses; and
- Recommend amendments to the MGA where applicable.

Membership on the Committee included representatives from the province, UNSM, and AMANS. The formation and mandate of the Committee grew out of concerns related to issues highlighted by the media earlier in the year with regard to local government spending largely related to conferences, meals, travel and entertainment expenses.

The Committee has concluded its mandate and submitted its report to the Deputy Minister of Municipal Affairs. This Info Report is meant to highlight the recommendations that may impact the Town of Wolfville organization and where we are already ahead of the recommendations.

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Title: Joint Municipal Accountability and Transparency Committee

Date: 2017-05-02

Department: Finance



1) CAO COMMENTS

For information purposes. The Town is working hard to respond to the report in a proactive manner.

2) REFERENCES AND ATTACHMENTS

- JMAT Recommendations Report (March 30, 2017) issued to UNSM members in April.
- Wolfville Policy 120-008 Travel, Meal, and Miscellaneous Allowance
- Wolfville Policy 140-007 Audit Committee

3) PURPOSE OF REPORT

With the submission of the Committee's recommendation this has become an emerging issue. The Town will have to change some of its financial reporting processes and Council will have to make changes to selected Policies and/or implement new policies.

4) DISCUSSION

As noted in the Summary above, the issue dealt with by the JMAT Committee was largely driven by reports on expense irregularities in 2016. The issues do did not, and do not, relate to all municipalities and in fact were largely localized in a couple of areas. Wolfville is **not** one of them.

Much of the work and recommendations from JMAT involve expenses of councilors and senior administration staff. From that base come recommendations to:

- address specific internal controls around such expenses;
- strengthen audit committees
- require publication of expenses for members of staff (CAO) and council;
- require Code of Conduct for members of Council.
- CAO Performance Management, best practices for expenses and related internal controls.

A week ago, UNSM provided its membership a copy of the JMAT Committee Report and Wolfville's CAO/Director of Finance felt it would be appropriate to bring an Info Report to COW to update everyone on what the recommendations might involve.

That same day, the Department of Municipal Affairs issued a press release which highlighted the Report, indicated that amendments to the MGA would be brought forward this spring, and that changes would include most of the Report's recommendations and in some cases be in addition to the recommendations in the Report.

Yesterday, Bill 84 was introduced in the House of Assembly to amend the MGA and HRM Charter. So our update for Council is now related to amendments which have received First Reading at the provincial level.

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Key highlights at this stage, coming from Bill 84 are:

- Requirement for Code of Conduct for members of Council. **Note all Town Councilors for Wolfville have signed a Code of Conduct.**
- Municipalities **shall** adopt an expense policy and hospitality policy
 - **Town currently has an expense policy** but not a hospitality policy
 - Expense policy must prohibit reimbursement for alcohol – **note that the Town of Wolfville has had this requirement for a number of years.**
 - Hospitality policy is to set out what is an acceptable hospitality expense (which may include alcohol), and scope of policy.
- By January 31st after each regular municipal election, the new council shall review the expense & hospitality policy and re-adopt or amend. **Note Town of Wolfville includes review of the expense policy as part of its new council orientation.** Wolfville's only change will be to formally have a motion noting re-adoption/amendment.
- The Town's auditor **shall** certify expense report summaries If required by regulations. This may change the audit procedures carried out during the annual financial audit and it will likely add moderately to the cost of the audits. If similar to the old gas tax audit certification the added cost would be in the area of \$500-\$1,000.
- Audit Committee
 - **shall** meet twice a year. **Wolfville's already meets a minimum of 4 times a year.**
 - Must include a minimum of one person who is not a member of council. **Wolfville has for a number of years already required 2 of 5 members to be non council members.** Wolfville strives to meet the best practice of citizen rep with financial background whenever possible.
- Expense shall be reported quarterly (within 90 days of each quarter end) and be posted publicly. This would be a new process for the Finance Dept and will require some time to get the process/format in place to provide the required reports. Work will start on this over the coming month and hopefully we can have something in place by June/July.

As illustrated above, the Town of Wolfville already has policies/controls in place for much of what Bill 84 will require. Staff will begin to work on a hospitality policy and will bring something forward to Council at a future date. Depending on the wishes of Council this policy may be as straight forward as noting hospitality expenses will not be reimbursed by the Town, or more robust in laying out details of where/when such expenses may be permitted.

With regard to the expense reporting requirements, staff will work on implementing a new expense reimbursement template that meets the JMATA recommended requirements. This will ultimately require a change in the current Town template as it functions well for reimbursement process, but not so much for a layout for a public reporting purpose. Finance will update staff and Council when

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the new form is ready for use, as well as when publication of the reports will occur most likely on the Town's website.

5) FINANCIAL IMPLICATIONS

As noted in the discussion, there should be limited cost to the new requirements, but there will be a slight increase in audit cost, and required staff hours needed to meet the reporting requirements.

6) REFERENCES TO COUNCIL STRATEGIC PLAN AND TOWN REPORTS

Nothing specific provided other than to state Wolfville Council has already included transparency and accountability in their policy developments and mode of operations.

7) COMMUNICATION REQUIREMENTS

None required at this time.

8) FUTURE COUNCIL INVOLVEMENT

At least one RFD, possibly more, will come forward for any policy changes needed. In addition staff will update Council with regard to roll out of the new reporting processes around expenses..