



COMPLIANCE REVIEW – RECREATION AREA RATES

January 2011

Background:

The Halifax Regional Municipality (HRM) levies two different levels of property tax rates. The first is a general rate applied to all properties, which provides basic levels of services to the entire Municipality. The second level is referred to as an area rate, designated for a specific function. One example of this second level is Recreation Area Rates. These rates allow funds to be collected as a flat rate or as a percent of assessed value. Their purpose is to provide recreational based amenities to a community, filling the gap between the identified needs of the community and the level of services or facilities HRM is able or mandated to provide.

Regional Council has received its authority to establish area rates initially through provincial legislation - the Municipal Government Act (Sections 75, 521, 522) and then, the Halifax Regional Municipality (HRM) Charter (Sections 2.9, 24, 25, and 29). If Council so wishes, it may authorize a Community Council to take a more direct and active role in the establishment and delivery of services to the community and to:

- determine expenditures, financed by area rates, for the benefit of the community
- submit annual operating budget proposals for services to be financed by area rates and/or capital projects requiring the Municipality to borrow money

However, Regional Council has not yet extended this authority to community councils as the current program is administered by staff with Regional Council oversight. In addition, Section 29 of the HRM Charter states:

- A community council may not, in any fiscal year, incur or make expenditures that will result in a total expenditure in excess of its budget for that year.

According to the May 7, 2002 Recreation Area Rate Policy Council Report, the “Interim Area Rate Guidelines” were adopted in January 2000 to “create a process to (1) help communities establish new area rates, (2) ensure that all taxpayers have an opportunity to participate in setting a rate, and (3) ensure that rates are set only for valid municipal purposes and not for services already covered by the general rate.”

Recreation Area Rates are established through two streams:

1. A community group or association may come forward to HRM staff or their councillor with a request for HRM to provide additional or new recreational services or community facilities. The area's councillor must support the establishment of the new area rate. Proposals for area rates must be advertised publicly, clearly identifying the affected areas, the purpose of the rate, rate information and the duration the rate is expected to be charged.
2. A community council or an individual councillor, in the absence of a Community Council may also propose new area rates.

A public meeting must be held and those attending must be advised of the rationale for the rate and be consulted on its appropriateness. Once approved, the funds are collected as a tax through the normal property billing and collection process. Established recreation area rates may be administered by HRM staff or residents', ratepayers' or athletic associations.

The Interim Area Rate Guidelines were adopted on May 14, 2002 after an internal review of recreation area rate expenditures identified a need for policies and procedures to assist HRM staff in monitoring the appropriateness of expenditures. These guidelines were put in place to create procedures to strengthen internal controls around the expenditure of area rated funds. The four broad procedures put in effect were:

1. Annual business plans and detailed budgets
2. Detailed requests for payments
3. Processes around the issuance of payments
4. Consistent and regular reporting

The Interim Area Rate Guidelines became effective for all existing and new recreation rates, as of April 1, 2003. The policy states:

2. Procedures

- 2.1 **Annual business plan and detailed budget** is to be completed by the HRM business unit, association, society or local community council and submitted in accordance with HRM's annual budget and business planning process. All expenditures are to be made in accordance with approved budget and business plan.
- 2.2.1 **Requests for payment** of an invoice or reimbursement are to be completed by the HRM business unit, association, society or local community council and sent to Financial Services.
- 2.2.2 The requests for payment should include the appropriate documentation (i.e. an invoice or receipt) and the supporting documentation should be signed by the HRM business unit,

association, society or local community council indicating the expenditure is in accordance with the appropriate policies and the goods or services have been satisfactorily received.

2.3 Issuance of payments - *The signed originals attached to the requests for payment are reviewed by HRM Financial Services for compliance with budget, business plan and appropriate policies and then, cheques for payment will be issued. Original documentation is retained in the files maintained by Financial Services.*

2.4 Reporting - *A financial report for each area rate fund will be prepared by Financial Services on a quarterly basis and the information provided to the HRM business unit, association, society or local community council and to Regional Council.*

Under the guidelines, in Section B: Procedures of the Policies and Procedures – Recreation Area Rate Funds - roles and responsibilities of the various stakeholders are summarized below.

- HRM business units, responsible for area rated HRM owned and operated facilities
- Associations, societies or local community councils
 - Responsibilities include:
 1. Preparation and presentation of an annual budget and business plan for approval by Regional Council, and
 2. Determining if expenditure is permissible and expended in accordance with business plans, budgets and policy.
- HRM Community Development – Recreation Services
 - In addition, associations, societies and local community councils can expect assistance from Community Development’s Recreation Services¹ in the budget and business planning process and from Finance, who submits the budget and business plan for approval by Regional Council.
- HRM Finance
 - In addition to supporting the budget and business planning process, Finance is responsible for processing the payment of expenditures, monitoring the appropriateness of expenses and maintaining the financial records, including all original receipts, invoices and cheque requisitions. Finance has “final signing authority on the issuance of cheques”² and will review requests for payments for authorizing signatures, compliance with budgets, business plans and appropriate policies.³ Finance staff is to provide assistance and advice to business units and associations, societies or local community councils on compliance with policies and legislation and “financial policies” including procurement. Finally, Finance is responsible for quarterly financial reporting and oversight of the auditing of accounts.

¹ Now a division within the Community Development business unit, formerly known as Parks and Recreation

² Recreation Area Rate Policy, Council Report dated May 7, 2002, page 3

³ Ibid

Objectives:

Objectives of the review were to provide assurance current recreation area rate processes are being applied consistently and within policies, and HRM Administration carries out its stated roles and responsibilities (see below) in the best interests of HRM.

Responsibilities include:

- Processing payment for expenditures
- Monitoring appropriateness of expenditures
- Maintenance of financial records including all original receipts, invoices and cheque requisitions
- Provision of advice on financial policies including procurement and quarterly financial reporting

The review also considered whether the Recreation Area Rate Policy guidelines dated April 1st, 2003 are complete, specific and clear, and transactions properly documented; and if accountability and responsibility for monitoring expenditures are clearly defined and communicated to all involved.

Scope:

The review looked at Area Rate Revenue Account 4200 and the various expenditure accounts used by the Recreation Area Rate services cost centers during the 2003-2009 fiscal periods.

Methodology:

The process involved in undertaking this review included: interviewing staff responsible for Recreation Area Rate accounts located in Finance, Councillor's Support Office and Recreation Services; reviewing approved budgets and business plans; reviewing cost elements from the general ledger and tracing these transactions back to source documents. Source documentation was reviewed to determine the level of compliance with both the stated requirements in the policy and standard accounting practices such as:

- Original receipt available detailing nature of purchase, or
- Supporting documentation available sufficient to determine the nature of purchase and authority to expend funds
- Whether amounts, dates and other relevant information match between requesting documentation and payment transaction, and
- Whether all documents are properly authorized, within signing authorities and cost centres.

A statistical sample was generated from expenditure line items for fiscal periods 2003, 2006 and 2009. The sample yielded a total of 128 line items; of these line items, 83 were operating and 45 were capital expenditures.

Detailed Findings and Recommendations:

1. Processing of Payments - Surplus and Deficit Accounts

The Recreation Area Rate Funds Policy requires accounts to be kept at break even. However, if a deficit balance exists at year end, the remedy is to include the deficit balance as the first charge to the area rate account in the next year. If a surplus balance exists, the HRM business unit, association or society must declare it in their next budget and state a purpose for the balance. HRM's practice is to calculate or declare a deficit balance on a cumulative basis, as many area rate funds carry forward year after year.

Invoices and requests for payment submissions are accepted as valid from each association. We were not provided with written documentation supporting each association's level and nature of internal control environment and management practices to ensure all transactions submitted followed their own business practices.

Table 1: Recreation Area Rated Services Yearly Account Balances⁴

Area	Surplus/(Deficit)- Fiscal year 2003/2004	2003/2004 Revenue	Surplus/(Deficit)- Fiscal 2006/2007	2006/2007 Revenue	Surplus/(Deficit) - Fiscal 2009/2010	2009/2010 Revenue	Accumulated Surplus / (Deficit) as of March 31, 2010
Sackville Heights Elementary School	\$ 50,626	\$ 119,115	-\$ 13,802	\$ 153,926	\$ 54,369	\$ 213,172	\$ 87,931
Prospect Road Recreation Centre					\$ 177,235	\$ 230,685	\$ 384,808
Glen Arbor Home Owners Association					-\$ 163	\$ 23,590	\$ 4,373
White Hills Residents Association					\$ 10,982	\$ 27,200	\$ 38,132
East Preston Rec Ctr	\$ 2,634	\$ 13,500	\$ 2,620	\$ 15,375	\$ 7,031	\$ 27,522	\$ 15,086
Waterstone Neighborhood Association					\$ 11,811	\$ 14,175	\$ 11,811
Mineville Community Association	\$ 5,944	\$ 8,800	-\$ 2	\$ 9,130	-\$ 2,278	\$ 10,040	\$ 24,196
Haliburton Hills	\$ 24,173	\$ 25,239	\$ 28,156	\$ 32,448	\$ 23,737	\$ 40,765	\$ 71,636
Beaver Bank Rec Ctr	\$ 119,743	\$ 27,543	-\$ 5,598	\$ 34,088	\$ 549,520	\$ 696,560	\$ 785,570
Highland Park	\$ 81	\$ 3,831	\$ 2,091	\$ 4,955	\$ 3,206	\$ 6,574	\$ 2,460
Birch Bear Run Homeowner's Association				\$ 6,540	\$ -	\$ 6,540	\$ -
Kingswood Ratepayers	\$ 51,400	\$ 51,400	\$ 51,650	\$ 51,650	\$ 26,037	\$ 52,450	\$ 285,232
Prospect	\$ 26,294	\$ 77,572	\$ 5,993	\$ 98,343	\$ 34,256	\$ 67,849	\$ 361,735
Glengarry Estates Home Owner's Assoc					\$ 25,130	\$ 25,130	\$ 25,130
Westwood Hills Residents Association	\$ 12,574	\$ 13,500	-\$ 8,971	\$ 23,850	\$ 15,358	\$ 30,350	\$ 42,461
Up. Hammonds Plains	-\$ 2,627	\$ 15,642	\$ 11,502	\$ 21,426	-\$ 6,231	\$ 30,118	-\$ 3,821
Harrietsfield Rec Ct	\$ 79	\$ 33,262	\$ 10,887	\$ 21,087	\$ 5,301	\$ 28,202	-\$ 2,794
Musquodoboit Harbour	\$ 304	\$ 4,004	\$ 210	\$ 5,247	\$ 3,306	\$ 8,556	\$ 3,337
Dutch Settlement	\$ 609	\$ 6,190	\$ 4,635	\$ 7,706	\$ 3,241	\$ 10,703	\$ 13,103
Hammonds Plns Com. RT	\$ 46,404	\$ 31,986	\$ 43,289	\$ 42,912	\$ 28,795	\$ 56,832	\$ 62,242
Hubbards Rec Ct	\$ 19,881	\$ 17,868	-\$ 10,847	\$ 21,664	\$ 9,626	\$ 32,952	\$ 23,446
Grand Lake Community Centre	\$ 392	\$ 8,524	\$ 11,596	\$ 11,787	\$ 6,248	\$ 15,464	\$ 34,454
District 3 Capital Fund	\$ 46,985	\$ 145,847	\$ 325,178		-\$ 37,046	\$ -	\$ 52,039
Maplewood Subdivision	\$ 9	\$ 16,450	\$ 2,196	\$ 17,850	\$ 18,093	\$ 18,350	\$ 18,740
Fall River Recreation Centre			\$ 521,582	\$ 521,582	\$ 395,707	\$ 674,171	\$ 1,402,136
Silversides Resident Association	-\$ 1,772	\$ 9,600	-\$ 343	\$ 9,480	\$ 3,424	\$ 16,300	\$ 3,543
St. Margaret's/ Fox Hollow			-\$ 742	\$ 5,880	\$ 6,125	\$ 6,180	\$ 22,472
St. Margaret's Bay (loan)			\$ 11	\$ 217,328	-\$ 2,334	\$ 256,904	-\$ 2,454
LWF Recreation Ctr.	\$ 523	\$ 79,511	\$ 3,706	\$ 120,464	\$ 10,497	\$ 151,909	\$ 9,848
Totals	\$ 404,256	\$ 709,384	\$ 984,997	\$ 1,454,718	\$ 1,380,983	\$ 2,779,243	\$ 3,776,852

⁴ Source: SAP line item; Staff report: Fourth Quarter 2009/10 Financial Report – Attachment 5, Report of Expenditures in the Recreation Area Rate Accounts to March 31, 2010.

Data Analysis:

Recreation Area Rate expenditures for fiscal years 2003, 2006 and 2009 and area rated revenue account balances were compiled into a table for analysis. Total deficit balances ranged from a low of \$1,772 in 2003 to a high up \$37, 046 in 2006. Table 1 provides the year over year ending balances for the selected years, and the cumulated surplus/deficit balance, as of March 31, 2010.

1.1 Deficit Balances:

According to the Fourth Quarter 2009/10 Financial Report, submitted by Finance to Regional Council on August 10, 2010, the overall cumulative balance for all Recreation Area Rate Funds, as of March 31, 2010 was a surplus of \$3,776,852. Of the five funds which reported deficits for the year, two of these funds – Upper Hammonds Plains Community Centre and St. Margaret’s Bay (loan) ended in overall accumulated deficit positions. One of these funds, St. Margaret’s Bay (loan), started the 2009/10 fiscal year in a deficit position.

By legislation and established practice, Regional Council is the approving body for the establishment and overseeing of area rates. Staff present an annual budget and business plan for each area rate for Regional Council’s approval, report quarterly on the status of area rate accounts and monitor on behalf of council transactions for compliance with the approved budget and business plan. It would appear staff technically have no authority to expend funds beyond the mandate and budget of an individual area fund.

Therefore the current monitoring, approval of and remedies for any yearly or accumulated deficits are by administrative practise.

We clearly acknowledge specific instances of area rated accounts in an overall accumulated deficit position have not been material in the past and that Recreation Area Rates are, for the most part, either on-going with no specific end date, or could be continued for another year to eliminate an overall deficit should one occur at the completion of a project. However, it is our opinion both reputational and organizational risk increases if there are no specific procedures in place (based upon agreed and transparent policies) to manage the occurrences of deficits, except to apply the remedy noted earlier. We do, however, understand there is an informal process in place for Finance staff to contact Recreation staff when a submission for payment will place the area rate in a deficit. However, discussions with staff suggest a lack of clarity regarding responsibility for payments leading to a deficit position and subsequent follow-up. We were advised by Recreation staff they do not believe any transaction should be approved which might lead to a deficit in any year. This is in contrast to the practises of Finance staff who process payments.

1.2 Surplus Balances:

A random sample of 10 surplus account balances were traced to their next fiscal period budgets and business plans; we are pleased to note 100% stated the same amount and the specific purpose for the funds.

Key Controls:

Key controls around any program or service are clearly understood, documented and communicated authorities, responsibilities and accountabilities. One theme which is commented on a number of times throughout this report is the question of authorities and responsibilities of community councils, community groups or associations, Finance, Community Development and Regional Council, and clarity around these roles.

Many of the recommendations which are made around the subject of payments and deficits are made in the spirit of clear and well communicated accountabilities and to ensure the risks are known to those who may assume accountability in the future and are not “lost” due to a changing process or mistakenly assumed by one group as being looked after by another group.

Recommendations:

- 1.1.1 Designate a known liaison in Recreation as the primary contact for the Recreation Area Rate groups, rather than Finance.
- 1.1.2 Allowing cumulative deficits in any circumstance may place Council in an unwanted position at the end of a defined project. On the assumption the ratepayers have agreed to the area rate on the basis of a pre-established project outcome or deliverable with an expected cost, a possible deficit at the conclusion of a project would require Regional Council to either “cover” the deficit from its Operating Budget or levy an additional Area Rate (which may not be welcomed by the ratepayers) to repay the deficit.

In the absence of a Council endorsed policy allowing for cumulative deficits to exist at the end of a project, it may be advantageous to modify the policy to give Finance and Recreation Services staff guidance on the few specific circumstances and conditions when a deficit may be warranted, as well as on the approval process.

- 1.1.3 Alternatively, staff should explore with Regional Council the provisions outlined in the HRM Charter and extend complete responsibility for oversight and management of area rates to Community Councils, with staff support.

Management Response:

1.1.1 Agreed.

1.1.2 Agreed.

1.1.3 *Analysis is required to determine whether there would be increased administrative cost and increased risk exposure for the municipality if this were not adequately resourced.*

2. Monitoring Appropriateness of Expenditures - Role Responsibilities**2.1 Submitting Approved Budgets and Business Plans:**

Each HRM business unit, association, society or local Community Council is required to submit a detailed budget and business plan every year to be approved by Regional Council for the use of Area Rate revenue for expenditures. The budgets and business plans outline the specific purpose of the funds and any historical surplus or deficit balances. The budgets are used by Finance staff as a basis for approval of requests for payments.

Data Analysis:

A review was undertaken of all business plans and budgets submitted to Regional Council from 2003-2009. Frequently, (e.g. 2008 - 4 groups out of 20 or 20%) Recreation Area Rate groups failed to provide their budget package in time for Regional Council to approve as part of the regular budget approval process, a case of non-compliance with the approved policy. A subsequent report was however submitted.

Finance staff have advised total compliance with receiving budgets and business plans prior to the Regional Council report deadline has never been achieved. To improve compliance, Finance is currently working with Community Development Facility Service staff, which require similar documentation. By extending the deadline to mid-May in 2009, staff saw an increase to 95% compliance. Finance staff also indicated they have withheld funds in the past from non-compliant groups pending receipt of budgets and business plans.

The Interim Recreation Area Rate Guidelines detail the roles and responsibilities of HRM staff in the administration of this policy. (See Background Section of this report, pages 2-3). As noted earlier, during this review, we noted instances of a lack of clear role definition or service expectation gaps within Finance and Recreation Services. For example, on one hand, we were advised Recreation staff have a major role to play in supporting the various associations, while on the other, we were advised there is no consistent involvement of Recreation Services. Any involvement that does occur appears to depend upon the staff person assigned as a liaison and

the group's acceptance of HRM's involvement. We were also advised there are no formal policies or business practices to guide HRM staff in their dealings with these groups. Further, Finance believes Recreation staff are engaged in the preparation and approval of business plans and budgets, while Recreation staff have advised they do not review the budgets or business plans prior to submission to Regional Council. However, they have advised they will review the business plans and budgets to confirm funds are not being collected for services they already provide to the community. Recreation staff also stated they are not involved in the day-to-day approval of payments and reimbursements, although Finance appears to be under a different impression.

While we acknowledge answers to many aspects of roles may seem obvious, it may be prudent to capture them as part of the policy document. We would point to the following questions as examples of where additional clarity may be beneficial:

1. Is the role of HRM Finance one of accounting for revenues and expenditures or is it a combination of accounting and oversight?
2. If a situation of overspending takes place, who holds ultimate responsibility - the business unit(s) involved, the community group, community council or Regional Council? Given HRM is the taxing authority and provides accounting services with respect to area rates, it is not unreasonable to conclude the final responsibility may rest with HRM.

Recommendations:

Many of the recommendations or queries which follow would apply no matter who is ultimately responsible, as they speak to overall internal controls. They take on enhanced importance when considered in terms of risk to HRM Regional Council and its budget should Finance not be tasked with overall responsibility for expenditures and budgets.

- 2.1.1 Finance staff should continue to work with Facility Service staff to set reasonable deadlines which can be realistically achieved for the submission of business plans and budgets.
- 2.1.2 Funds should not be released if budgets and business plans have not been submitted and approved by Regional Council. We do however understand and acknowledge there are always specific and special circumstances where release of funds could by necessity (for example electricity, heat, insurance, or a loan payment) occur prior to budget and business plan approval. The level of acceptable risk would need to be established. Management may wish to consider recommending Council approve a policy where no more than 25% of the funds approved by Council in the prior year be spent prior to budget and business plan approval for the current year.

2.1.3 Controls around payment of expenditures should be reviewed and roles clarified. It is our understanding, Finance staff review requests for payment for appropriateness and adherence to policy often after they had been incurred. We would recommend a well understood and transparent approval mechanism be in place prior to any expenditure being made or a clear understanding on the part of management and Regional Council of the current practise and the associated risks.

For greater clarity, application of the policy should be interpreted to mean more than just recognition of a signatory but also include confirmation from the association it is operating within a well-defined control environment i.e., bylaws, policies, controls, etc.

It is recommended, on a regular basis, Finance require written confirmation from each association receiving area rate funds that:

1. The Association is currently registered under the Societies Act and/or other applicable legislation if appropriate.
2. The Association maintains an adequate system of controls over purchasing and expending of funds. A brief narrative of various controls in place should also be requested and feedback provided as it is felt appropriate. Confirmation of these controls operating consistently should be part of the processing controls in Finance.
3. The Association confirm the submitted budget was approved according to the Association's bylaws and policies.

Management Response:

2.1.1 *Agreed.*

2.1.2 *Agreed.*

2.1.3 *Agreed, controls around payment of expenditures and around roles should be defined.*

2.2. Operating Payments:

Currently HRM business units or community groups requesting payment of an expenditure are required to send a request for reimbursement of payment to Finance, with proper signing authority and original documentation sufficient to support the claim. Finance staff believe the recreation area rate group is responsible for ensuring these payments are in accordance with policy and included in the submitted budgets. However, as noted earlier, Finance has a significant role in reviewing, approving, monitoring and reporting. Accounting staff are, by policy and practice, responsible to verify if the request is appropriate and only pay if it meets the stated policy requirements as well as good internal control objectives.

Data analysis:

We reviewed the 83 operating expenditure line items from the statistical sample. Cheque numbers for this sample were obtained from SAP and backup documentation for 82 of 83 were located, with one record missing from the file room.

Each transaction was traced from the SAP line item to source documentation and verified for (1) Sufficient backup (validity, accuracy, original receipts), (2) Proper authorization, and (3) Appropriateness (in terms of intent and consistency with stated objectives) with a pass-fail assigned to each one.

Table 2: Review of Operating Payments - Results

Total Records Reviewed = 83	First Test		Follow up	
	Pass	Fail	Pass	Fail
1 - Sufficient backup	77	6	82	1
2 - Authorization	80	3	82	1
3 - Appropriate	81	2	82	1

During the initial review of the source documentation used to process a cheque, a number of occurrences were found where source backup did not provide sufficient detail to completely determine the nature of the transaction or had an unrecognized signatory on the invoice or request. Our follow up with Finance staff provided additional documentation and explanation

resulting in 82 of the 83 transactions passing the control tests. Only one transaction failed all three tests because no back up was located.

2.3 Refusal of payments for insufficient backup:

Accounting staff were interviewed regarding details of any occasions where they had refused a request for payment. Accounting staff indicated payments have been refused in the past but were unable to recall any instances for review. We were able to observe one instance where a request for payment was not approved due to restrictions in the Recreation Area Rate's approved budget.

2.4 Procurement Requirements:

Under the Policy & Procedures – Recreation Area Rate Funds, section 3.4, "Expenditures must comply with the spirit and objectives of the Procurement Policy approved by Council." Under roles and responsibilities, Finance staff are charged with providing procurement advice to Recreation Area Rate groups. According to staff, large items such as playgrounds appear well coordinated and monitored but smaller, more frequently purchased items are not. Although individually these items are not material, their cumulative effect could be. There is no clear evidence recreation area rate groups comply with the spirit or objective of the Procurement Policy. i.e. – obtain 3 quotes, best price.

Recommendations:

- 2.4.1 Procurement staff should provide and regularly update an approved vendor list (within HRM referred to as price agreement) for recreation area rate groups to obtain materials and supplies.
- 2.4.2 HRM Administration should review the current Interim Area Rates Guidelines and policy regarding the purchase of HRM funded expenditures to ensure the requirements are in keeping with the HRM Procurement Policy. Furthermore, advice provided to area rate funded groups should be in compliance with the Procurement Policy and be provided by a procurement specialist.

Management Response:

- 2.4.1 *Agreed, a list of price agreements can be made available.*
- 2.4.2 *Agreed, will review the Policy with an eye to increasing compliance with Procurement Policy spirit and intent.*

2.5 Capital Loan & Debenture Accounts:

Recreation Area Rate funds are also used by community groups to make capital purchases funded through borrowing. Community groups responsible for Recreation Area Rate revenue to be used to repay loans for capital expenditures, are required to submit budgets and business plans to Regional Council in the first year of implementation. If any changes are applied to the use of the area rate, then a new budget and business plan must be submitted to Regional Council for approval.

As of 2009-2010, Fall River Recreation Centre (C194), St. Margaret's Bay Recreation Centre (C199) and Prospect Road (C106) are the only groups applying area rate funds primarily for debt repayment. The capital debt related to these facilities is classified as a debenture, and is recorded in HRM's financial records. The Area Rate funds are automatically allocated as principal and interest payments monthly.

Recreation Area Rate funds can also be used to pay down loans HRM itself extends for the term financing of capital items. The loans carry an interest rate calculated yearly based on the average annual Royal Bank of Canada prime commercial lending rate for the preceding year.

Data Analysis:

We reviewed the 45 items from the statistical sample which were capital debt payments. Recreation Area Rate account debenture schedules can be generated from SAP. These provide a very detailed breakdown of the area rate revenue funds brought in and then applied to interest and principal for the capital debt payment.

Upper Hammonds Plains Community Centre (C150) and Harrietsfield Recreation Centre (C155) held loans in HRM financial records until the 2005/2006 fiscal period when they were successfully repaid. Grand Lake (C180) is continuing to make payments. Accounting staff were very helpful in providing a copy of the break down for the current loan and historical data for the past loans.

Conclusion:

Review and analysis found these accounts very transparent and 100% of capital debt payments generated from the sample were in compliance.

3. Maintenance of Records:

Source Documents:

The Recreation Area Rate Policy requires all source documentation supporting payments from area rated accounts be kept on file. Requests for payments accompanied by the original invoices are to be maintained by Finance staff.

Data Analysis:

As noted previously, we reviewed the entire sample of 128 records for sufficient source documentation.

For the 45 capital expenditure line items, sufficient source documentation was provided through electronic payment schedules generated by SAP or from files maintained by accounting staff responsible for loan accounts.

For the 83 operating expenditure line items, source documentation was pulled for physical inspection. The current 2009 files were obtained from the central file room located in Finance and historical 2006 and 2003 files were pulled from Record Services Archives.

Attached to a number of requests for payments and original invoices, was correspondence pertaining to the documents on file. The information was very organized and the correspondence increased transparency and assisted in understanding the nature of the transaction.

As noted earlier, all but one 2009 file was physically inspected and traced back to the electronic record following a series of steps. Three (3) 2009 files pertaining to one cost centre were not in their designated spot and there was no indication of where they had been placed. After discussion with accounting staff, the backup was located on an employee's desk but no record of this file pull had been made, which is not in accordance with procedure. The source documentation, once located, passed all three tests.

Recommendations:

- 3.1.1 Finance should formally establish the process of attaching all correspondence relating to a payment as source documentation, as in many cases this correspondence allowed the file to pass on first test.
- 3.1.2 Finance should establish and communicate clear responsibilities and accountability for the various steps in the process of filing and pulling source documentation.

Management Response:

3.1.1 *Agreed. This is consistent with the current Recreation Area Rate Policy.*

3.1.2 *Agreed. The process has been clarified with Accounting staff.*

Additional Comments from the Auditor General:

The Office of the Auditor General is pleased to note at the conclusion of their response, Management also provided the following comments around their commitment to improvement:

The specific work that Administration agrees to undertake includes:

1. *Updating documentation and business processes specific to different types of area rates.*
2. *Investigation of the controls which currently exist specific to each area rate, the operation of the associated recreation area-rated association, including looking at governance, by-laws and internal controls present.*
3. *Discussion with Finance and Community Development staff and Recreation Area-rated Associations to ensure roles and responsibilities are clear.*
4. *Pending outcome of the three items above, make any revisions deemed necessary to formalize the Interim Area Rate Guidelines.*

Management has also provided a general comment with respect to deficits. We believe this comment is important to the overall report as it speaks clearly to their understanding of the issues and commitment to excellence.

With respect to deficits, Management has provided the following overarching comment:

Staff at HRM take the issue of annual deficits and recurring deficits very seriously and have worked continuously with the Community groups and business units to minimize these. Our success is clear when we look at the historical activity in the recreation area rate accounts. We recognize and agree with your observations just because a problem has not occurred in the past, does not guarantee a large deficit could not occur in the future; and will do additional work to assess and improve the controls that are in place.

During the conducting of this review and preparation of the report, it was noticed reports which are prepared for Management purposes, are often prepared from information taken from the SAP system, with information added or deleted and finally prepared and formatted using other software.

We would encourage Management explore with Information Technology personnel the question of whether efficiencies could not be created through the greater utilization of resources available through the SAP system.