

AGENDA
MIDDLESEX-LONDON BOARD OF HEALTH
Finance & Facilities Committee

50 King St., London
Middlesex-London Health Unit - Room 3A
Thursday, June 7, 2018 9:00 a.m.

1. DISCLOSURE OF CONFLICTS OF INTEREST

2. APPROVAL OF AGENDA

3. APPROVAL OF MINUTES – May 3, 2018

4. NEW BUSINESS

- 4.1 2017 Draft Financial Statements (Report No. 022-18FFC)
- 4.2 2017 Reserve / Reserve Fund Balances (Report No. 023-18FFC)
- 4.3 Supervised Consumption Facility – Municipal Planning Consultant Services Proposal (Report No. 024-18FFC)

5. OTHER BUSINESS

- 5.1 Next meeting FFC meeting - Thursday, July 5, 2018 at 9:00 a.m. Room 3A

6. CONFIDENTIAL

The Finance & Facilities Committee will move in-camera to discuss matters regarding the security of property held by the Middlesex-London Board of Health, a proposed or pending acquisition of land by the Middlesex-London Board of Health, advice that is subject to solicitor-client privilege and to consider confidential minutes from its May 3, 2018 meeting.

7. ADJOURNMENT



PUBLIC MINUTES
FINANCE & FACILITIES COMMITTEE
50 King Street, London
Middlesex-London Health Unit
Thursday, May 3, 2018, 9:00 a.m.

MEMBERS PRESENT: Ms. Trish Fulton (Chair)
Mr. Jesse Helmer
Mr. Marcel Meyer
Ms. Joanne Vanderheyden

REGRETS: Ms. Tino Kasi

OTHERS PRESENT: Ms. Laura Di Cesare, Director, Corporate Services
Ms. Lynn Guy, Executive Assistant to the Medical Officer of Health (Recorder)
Mr. Trevor Hunter, Board of Health
Mr. Ben Dalupan, Manager, IT
Mr. Jeff Cameron, Stronghold Services Corporation
Mr. Brian Glasspoole, Manager, Finance
Mr. Joe Belancic, Manager, Procurement and Operations

Chair Fulton called the meeting to order at 9:00 a.m.

DISCLOSURES OF CONFLICT(S) OF INTEREST

Chair Fulton inquired if there were any disclosures of conflicts of interest. None were declared.

APPROVAL OF AGENDA

It was moved by Ms. Vanderheyden, seconded by Mr. Meyer, *that the AGENDA for the May 3, 2018 Finance & Facilities Committee meeting be approved.*

Carried

APPROVAL OF MINUTES

It was moved by Mr. Meyer, seconded by Ms. Vanderheyden, *that the MINUTES of the April 5, 2018 Finance & Facilities Committee meeting be approved.*

Carried

NEW BUSINESS

4.1 2018 Information Technology Workplan (Report No. 018-18FFC)

Ms. Di Cesare introduced Mr. Ben Dalupan and Mr. Jeff Cameron of Stronghold Services Corporation. Mr. Cameron walked attendees through a PowerPoint presentation, and advised on the current IT Team structure and the roles and responsibilities of both Health Unit and Stronghold staff. He identified the projects that Stronghold has deemed are priorities and are identified in the 2018 5 Pillar IT Workplan. Mr. Cameron provided a brief overview of each priority item and Stronghold's plan for moving forward. Ms. Di Cesare noted that staff have been asked not to develop new client-record applications or to spend money on fixing old ones as the Health Unit is looking to implement an Electronic Client Record platform in the future.

Discussion ensued on the following items:

- FRx replacement: Ms. Di Cesare noted that FRx is no longer supported and does not have encumbrance capabilities. It is being scoped as part of an Enterprise Resource Program (ERP). She noted that while the full ERP may take some time, the FRx replacement will be installed by January 2019.
- Data centre migration: Mr. Dalupan advised that to move the server into the data centre, the WAN must be addressed first.
- “Cloud” data storage: FFC members were assured that no data is being stored in the USA. Ms. Di Cesare noted that the Health Unit has data-sharing agreements with other organizations and that the Health Unit confirms that all data is stored within Canada before signing such agreements.

It was moved by Mr. Meyer, seconded by Mr. Helmer, *that the Finance & Facilities Committee receive Report No. 018-18FFC re: “2018 Information Technology Workplan” for information.*

Carried

4.2 2018 Budget – Ministry of Health and Long-Term Care Approved Grants (Report No. 019-18FFC)

Ms. Di Cesare noted that the Ministry has asked for Q1 variances to be submitted by the end of May. The Ministry is moving to have agreements signed before the provincial election writ is dropped.

It was moved by Ms. Vanderheyden, seconded by Mr. Helmer, *that the Finance & Facilities Committee receive Report No. 019-17 re: “2018 Budget – Ministry of Health and Long-Term Care Approved Grants” for information.*

Carried

4.3 Q1 Financial Update and Factual Certificate (Report No. 020-18FFC)

Ms. Di Cesare introduced the report. Mr. Glasspoole provided further explanations where needed. It was noted that the ECR funding request for the IT plan was included in the Q1 variance.

There was discussion regarding the general expenses and revenues budget. Ms. Di Cesare noted that the incremental budget amount is for Activity Based Workstation (ABW) expansion for three new teams. The current furniture has been deemed “end of life,” and needs to be replaced. An ABW evaluation report will come to the Board in July.

In response to a question, Ms. Di Cesare advised that Step 4 (of 5) of the Community Health Capital Program (CHCP) funding application has been completed. Step 5 will not be received from the Ministry for completion until step 4 is approved.

It was moved by Mr. Helmer, seconded by Mr. Meyer, *that the Finance & Facilities Committee recommend that the Board of Health:*

1. *Receive Report No. 020-18FFC re: Q1 Financial Update and Factual Certificate and appendices; and*
2. *Approve Table 2: Additional Initiatives Under Consideration.*

Carried

4.4 Great-West Life Benefits – Renewal Rates (Report No. 021-18FFC)

Ms. Di Cesare noted that the Health Unit, through its broker, negotiates prices annually with its insurance provider during the renewal process. While the Health Unit is due to go to market this year for the next renewal in 2019, the Health Unit will first attempt to re-negotiate with the current provider.

It was moved by Mr. Helmer, seconded by Ms. Vanderheyden, *that the Finance & Facilities Committee receive and recommend that the Board of Health approve the renewal of the group insurance rates administered by Great-West Life as described in Report No. 021-18FFC re: “Great-West Life Benefits – Renewal Rates.”*

Carried

OTHER BUSINESS

Next meeting: Thursday, June 7, 2018, 9:00 a.m. 50 King St, Room 3A

CONFIDENTIAL

At 10:14 a.m., it was moved by Ms. Vanderheyden, seconded by Mr. Meyer, *that the Finance & Facilities Committee move in-camera to discuss matters regarding identifiable individuals and to consider the confidential minutes of the April 5, 2018 Finance & Facilities Committee meeting.*

Carried

At 10:58 a.m., it was moved by Mr. Helmer, seconded by Ms. Vanderheyden, *that the Finance & Facilities Committee return to public session.*

Carried

At 10:58 a.m., the Finance & Facilities Committee returned to public session.

ADJOURNMENT

At 10:59 a.m., it was moved by Ms. Vanderheyden, seconded by Mr. Meyer, *that the meeting be adjourned.*

Carried

At 10:59 a.m., Chair Fulton *adjourned the meeting.*

TRISH FULTON
Chair

LAURA DI CESARE
Director, Corporate Services



TO: Chair and Members of the Finance & Facilities Committee

FROM: Christopher Mackie, Medical Officer of Health / CEO

DATE: 2018 June 07

2017 DRAFT FINANCIAL STATEMENTS

Recommendation

It is recommended that the Finance & Facilities Committee recommend that the Board of Health review and approve the audited Financial Statements for the Middlesex-London Health Unit, December 31, 2017, as appended to Report No. 022-18FFC.

Key Points

- The draft financial statements for the Middlesex-London Health Unit relating to the operating period January 1–December 31, 2017, are attached as [Appendix A](#).
- Preparation of the financial statements is the responsibility of MHLU’s management. The financial statements have been prepared in compliance with legislation and in accordance with Canadian public sector accounting standards.
- A summary of significant accounting policies is provided in note 1 to the financial statements.

Financial Overview

This report provides an overview of the financial information found in both the Statement of Financial Position and the Statement of Operations. The Statement of Financial Position can be found on page 3 of the draft financial statements ([Appendix A](#)). The Health Unit has approximately \$5.5 million in cash and near-cash financial assets to offset its \$3.6 million in short-term financial liabilities and \$2.4 million in long-term liabilities. As of December 31, 2017, these financial liabilities include the following:

Short-term liabilities (often paid during the next operating year):

- 1) \$0.9 million in amounts owing to the Province of Ontario, the Government of Canada, the Corporation of the City of London, and the Corporation of the County of Middlesex
- 2) \$1.9 million in unpaid accounts payable and accrued liabilities
- 3) \$0.8 million in accrued wages and benefits

Long-term liabilities (often extending past the next operating year):

- 4) \$2.4 million in post-employment benefits

With regard to the \$2.4 million in post-employment benefits liability, this is the estimated amount required to fund all future costs associated with providing post-retirement benefits. This liability is currently unfunded; however, each year an estimated amount required for the current year is included as part of the operating budget.

The non-financial assets, which total \$1.4 million, include the net book value of the Health Unit's tangible capital assets, such as leasehold improvements, computer systems, and prepaid expenses.

The last amount listed on the Statement of Financial Position is the Health Unit's accumulated surplus. This represents the net financial and physical resources available to provide future services. The details of what items make up this balance can be found in the draft financial statements, page 14, note 7. The details of the reserve/reserve fund changes are discussed in [Report No. 023-18FFC](#).

The Statement of Operations and Accumulated Surplus, which details the Health Unit's revenues and expenditures for 2017, is found on page 4 of the financial statements. As can be seen, the great majority of the total revenue of \$35.5 million is comprised of \$34.0 million (95.6%) in grant revenue from four sources: the Province of Ontario (\$26.9 million, or 75.8% of grant revenue), the Government of Canada (\$0.4 million, or 1.0%), the Corporation of the City of London (\$5.6 million, or 15.8%) and the Corporation of the County of Middlesex (\$1.1 million, or 3.0%). The remaining \$1.5 million (4.4% of total revenue) comes from program revenue, interest, and other off-set revenues.

The revenues provide for expenditures of \$35.7 million, which include a \$0.7 million (1.8% of total expenditures) charge for amortization expenses, namely the decreasing value of the tangible capital assets for 2016. Beginning on page 12, note 4 provides a schedule of changes to the tangible capital assets. The majority of the expenditures are salaries and benefits, which total \$26.7 million (74.8%). The remaining \$8.3 million (23.4%) consists of travel (0.9%), materials and supplies (3.7%), professional services (10.0%), rent and maintenance (4.8%), and other expenses (4.0%).

Audit Findings Report

KPMG's Audit Findings Report is attached as [Appendix B](#). A common practice in presenting the report is for the Auditor to meet in private with Committee members, excluding the Chief Executive Officer, Chief Financial Officer, and all other staff.

Ms. Katie denBok, Partner and Mr. Syed Balkhi, Manager, KPMG LLP, will be present at the June 7, 2018 Finance & Facilities Committee meeting to address any questions regarding this report.

This report prepared by the Finance Team, Healthy Organization Division.



Christopher Mackie, MD, MHSc, CCFP, FRCPC
Medical Officer of Health / CEO

Financial Statements of

MIDDLESEX-LONDON HEALTH UNIT

Year ended December 31, 2017



MIDDLESEX-LONDON HEALTH UNIT

Financial Statements

Year ended December 31, 2017

Financial Statements

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MIDDLESEX-LONDON HEALTH UNIT

Financial Statements

Year ended December 31, 2017

Management's Responsibility for the Financial Statements

The accompanying financial statements of the Middlesex-London Health Unit ("Health Unit") are the responsibility of the Health Unit's management and have been prepared in compliance with legislation, and in accordance with Canadian public sector accounting standards for local governments established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. A summary of the significant accounting policies is described in Note 1 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Health Unit's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

The Finance & Facilities Committee meets with management and the external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the financial statements.

The financial statements have been audited by KPMG LLP, independent external auditors appointed by The Corporation of the City of London. The accompanying Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the Health Unit's financial statements.

Christopher Mackie, MD, MHSc, CCFP, FRCPC
Medical Officer of Health / CEO

Brian Glasspoole, CPA, CA
Manager, Finance

Joanne Vanderheyden, Chair
Board of Health

INDEPENDENT AUDITORS' REPORT

To the Chair and Members, Middlesex-London Board of Health

We have audited the accompanying financial statements of Middlesex-London Health Unit, which comprise the statement of financial position as at December 31, 2017, the statements of operations and accumulated surplus, change in net debt, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Middlesex-London Health Unit as at December 31, 2017, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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Chartered Professional Accountants, Licensed Public Accountants

June 2018

London, Canada

MIDDLESEX-LONDON HEALTH UNIT

Statement of Financial Position

December 31, 2017, with comparative information for 2016

| | 2017 | 2016 |
|--|------------------|------------------|
| Financial Assets | | |
| Cash | \$ 4,916,671 | \$ 4,064,906 |
| Accounts receivable | 420,057 | 382,687 |
| Grants receivable | 198,750 | 296,040 |
| | <u>5,535,478</u> | <u>4,743,633</u> |
| Financial Liabilities | | |
| Province of Ontario | 229,506 | 424,192 |
| Government of Canada | 11,510 | 62,999 |
| The Corporation of the City of London | 494,391 | 165,108 |
| The Corporation of the County of Middlesex | 94,167 | 31,447 |
| Accounts payable and accrued liabilities | 1,917,268 | 1,437,193 |
| Accrued wages and benefits | 838,160 | 879,974 |
| Vested sick leave liability (note 2(a)) | - | 52,209 |
| Post-employment benefits liability (note 2(b)) | 2,372,400 | 2,183,200 |
| | <u>5,957,402</u> | <u>5,236,322</u> |
| Net Debt | (421,924) | (492,689) |
| Non-Financial Assets | | |
| Tangible capital assets (note 4) | 1,173,526 | 1,421,408 |
| Prepaid expenses | 207,725 | 218,051 |
| | <u>1,381,251</u> | <u>1,639,459</u> |
| Commitments (note 5) | | |
| Contingencies (note 6) | | |
| Accumulated surplus (note 7) | \$ 959,327 | \$ 1,146,770 |

The accompanying notes are an integral part of these financial statements.

MIDDLESEX-LONDON HEALTH UNIT

Statement of Operations and Accumulated Surplus

Year ended December 31, 2017, with comparative information for 2016

| | 2017 Budget | 2017 | 2016 |
|--|---------------------|-------------------|---------------------|
| Revenue: | | | |
| Grants: | | | |
| Ministry of Health and Long-Term Care | \$ 21,127,930 | \$ 21,368,809 | \$ 21,159,277 |
| The Corporation of the City of London | 6,095,059 | 5,600,668 | 5,929,950 |
| Ministry of Children and Youth Services | 5,296,275 | 5,567,899 | 5,333,109 |
| The Corporation of the County of Middlesex | 1,160,961 | 1,066,794 | 1,129,515 |
| Government of Canada | 312,860 | 384,914 | 290,318 |
| | 33,993,085 | 33,989,084 | 33,842,119 |
| Other: | | | |
| Property search fees | 3,750 | 3,100 | 2,099 |
| Family planning | 285,000 | 222,240 | 221,849 |
| Dental service fees | 245,200 | 177,494 | 190,943 |
| Investment income | 20,000 | 16,377 | 7,869 |
| Prenatal class income | 8,140 | 11,990 | 13,890 |
| Other income (note 8) | 850,451 | 1,115,742 | 1,167,232 |
| | 1,412,541 | 1,546,943 | 1,603,882 |
| Total Revenue | 35,405,626 | 35,536,027 | 35,446,001 |
| Expenditures: | | | |
| Salaries: | | | |
| Public Health Nurses | 9,721,936 | 9,274,226 | 9,395,102 |
| Other salaries | 3,523,523 | 4,254,821 | 4,041,711 |
| Administrative staff | 3,481,344 | 3,525,999 | 3,578,692 |
| Public Health Inspectors | 2,442,629 | 2,385,304 | 2,475,321 |
| Dental staff | 970,837 | 859,102 | 891,434 |
| Medical Officers of Health | 520,750 | 511,349 | 529,401 |
| | 20,661,019 | 20,810,801 | 20,911,661 |
| Other Operating: | | | |
| Benefits | 5,908,263 | 5,914,269 | 5,833,725 |
| Professional services | 3,638,362 | 3,573,595 | 3,639,207 |
| Rent and maintenance | 1,651,071 | 1,705,699 | 1,643,440 |
| Other expenses (note 9) | 1,550,472 | 1,451,027 | 1,492,305 |
| Materials and supplies | 1,116,859 | 1,275,140 | 1,256,066 |
| Amortization expense | 442,485 | 660,835 | 645,575 |
| Travel | 437,095 | 332,104 | 334,097 |
| | 14,744,607 | 14,912,669 | 14,844,415 |
| Total Expenditures | 35,405,626 | 35,723,470 | 35,756,076 |
| Annual surplus (deficit) | - | (187,443) | (310,075) |
| Accumulated surplus, beginning of year | 1,146,770 | 1,146,770 | 1,456,845 |
| Accumulated surplus, end of year | \$ 1,147,770 | \$ 959,327 | \$ 1,146,770 |

The accompanying notes are an integral part of these financial statements.

MIDDLESEX-LONDON HEALTH UNIT

Statement of Change in Net Debt

Year ended December 31, 2017, with comparative information for 2016

| | 2017 | 2016 |
|---|--------------|--------------|
| Annual deficit | \$ (187,443) | \$ (310,075) |
| Acquisition of tangible capital assets, net | (412,953) | (272,964) |
| Amortization of tangible capital assets | 660,835 | 645,575 |
| | 60,439 | 62,536 |
| Acquisition of prepaid expenses | (207,725) | (218,051) |
| Use of prepaid expenses | 218,051 | 253,981 |
| | 10,326 | 35,930 |
| Change in net debt | 70,765 | 98,466 |
| Net debt, beginning of year | (492,689) | (591,155) |
| Net debt, end of year | \$ (421,924) | \$ (492,689) |

The accompanying notes are an integral part of these financial statements.

MIDDLESEX-LONDON HEALTH UNIT

Statement of Cash Flows

December 31, 2017, with comparative information for 2016

| | 2017 | 2016 |
|---|--------------|--------------|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Annual deficit | \$ (187,443) | \$ (310,075) |
| Items not involving cash: | | |
| Amortization | 660,835 | 645,575 |
| Change in employee benefits and other liabilities | 136,991 | 131,550 |
| Changes in non-cash assets and liabilities: | | |
| Accounts receivable | (37,370) | (54,294) |
| Grants receivable | 97,290 | 49,259 |
| Prepaid expenses | 10,326 | 35,930 |
| Province of Ontario | (194,686) | 49,849 |
| Government of Canada | (51,489) | (2,108) |
| The Corporation of the City of London | 329,283 | 121,069 |
| The Corporation of the County of Middlesex | 62,720 | 23,061 |
| Accounts payable and accrued liabilities | 480,075 | (253,579) |
| Accrued wages and benefits | (41,814) | 434,964 |
| Net change in cash from operating activities | 1,264,718 | 871,201 |
| Capital activities: | | |
| Cash used to acquire tangible capital assets | (412,953) | (272,964) |
| Net change in cash from capital activities | (412,953) | (272,964) |
| Net change in cash | 851,765 | 598,237 |
| Cash and cash equivalents, beginning of year | 4,064,906 | 3,466,669 |
| Cash and cash equivalents, end of year | \$ 4,916,671 | \$ 4,064,906 |

The accompanying notes are an integral part of these financial statements.

MIDDLESEX-LONDON HEALTH UNIT

Notes to Financial Statements
Year ended December 31, 2017

The Middlesex-London Health Unit is a joint local board of the municipalities of The Corporation of the City of London and The Corporation of the County of Middlesex that was created on January 1, 1972. The Middlesex-London Health Unit provides programs which promote healthy and active living throughout the participating municipalities.

1. Significant accounting policies:

The financial statements of the Middlesex-London Health Unit are prepared by management in accordance with Canadian public sector accounting standards as recommended by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada. Significant accounting policies adopted by the Middlesex-London Health Unit are as follows:

(a) Basis of presentation:

The financial statements reflect the assets, liabilities, revenue and expenditures of the reporting entity. The reporting entity is comprised of all programs funded by the Province of Ontario, The Corporation of the City of London, and The Corporation of the County of Middlesex. It also includes other programs that the Board of Health may offer from time to time with special grants and/or donations from other sources.

Inter-departmental transactions and balances have been eliminated.

(b) Basis of accounting:

Sources of financing and expenditures are reported on the accrual basis of accounting with the exception of donations, which are included in the statement of operations as received.

The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of services and the creation of a legal obligation to pay.

The operations of the Middlesex-London Health Unit are funded by government transfers from the Province of Ontario, The Corporation of the City of London and The Corporation of the County of Middlesex. Government transfers are recognized in the financial statements as revenue in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amounts can be made. Government transfers not received at year end are recorded as grants receivable due from the related funding organization in the statement of financial position.

Funding amounts in excess of actual expenditures incurred during the year are either contributed to reserves or reserve funds, when permitted, or are repayable and are reflected as liabilities due to the related funding organization in the statement of financial position.

MIDDLESEX-LONDON HEALTH UNIT

Financial Statements (continued)

Year ended December 31, 2017

1. Significant accounting policies (continued):

(c) Employee future benefits:

- (i) The Middlesex-London Health Unit provides certain employee benefits which will require funding in future periods. These benefits include sick leave, life insurance, extended health and dental benefits for early retirees.

The cost of sick leave, life insurance, extended health and dental benefits are actuarially determined using management's best estimate of salary escalation, accumulated sick days at retirement, insurance and health care cost trends, long term inflation rates and discount rates.

- (ii) The cost of multi-employer defined benefit pension plan, namely the Ontario Municipal Employees Retirement System (OMERS) pensions, are the employer's contributions due to the plan in the period. As this is a multi-employer plan, no liability is recorded on the Middlesex-London Health Unit's general ledger.

(d) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives that extend beyond the current year and are not intended for sale in the ordinary course of operations.

- (i) Tangible capital assets

Tangible capital assets are recorded at cost which includes amounts that are directly attributed to acquisition, construction, development or betterment of the asset. The cost, less residual value of the tangible capital assets, are amortized on a straight line basis over the estimated useful lives as follows:

| Asset | Useful Life - Years |
|------------------------|----------------------------|
| Leasehold Improvements | 5 - 15 |
| Computer Systems | 4 |
| Motor Vehicles | 5 |
| Furniture & Equipment | 7 |

Assets under construction are not amortized until the asset is available for productive use.

MIDDLESEX-LONDON HEALTH UNIT

Financial Statements (continued)

Year ended December 31, 2017

1. Significant accounting policies (continued):

(d) Non-financial assets (continued):

(ii) Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair market value at the date of receipt and also are recorded as revenue.

(iii) Leased tangible capital assets

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payment are charged to expense as incurred.

(e) Use of estimates:

The preparation of the Middlesex-London Health Unit's financial statements requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Significant estimates include assumptions used in estimating provisions for accrued liabilities, and in performing actuarial valuations of employee future benefits.

In addition, the Middlesex-London Health Unit's implementation of the Public Sector Accounting Handbook PS3150 has required management to make estimates of the useful lives of tangible capital assets.

Actual results could differ from these estimates.

MIDDLESEX-LONDON HEALTH UNIT

Financial Statements (continued)

Year ended December 31, 2017

2. Employee future benefits:

The Middlesex-London Health Unit provides certain employee benefits which will require funding in future periods, as follows:

(a) Vested sick leave liability:

Under the sick leave benefit plan, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the Middlesex-London Health Unit's employment. This plan applies to employees hired prior to January 1, 1982.

The liability for these accumulated days, to the extent that they have vested and could be taken in cash by an employee on termination, amounted to \$nil (2016 - \$52,209) at the end of the year.

A reserve of \$29,462 has been established to meet future commitments for this liability.

(b) Post-retirement benefits liability:

The Middlesex-London Health Unit pays certain life insurance benefits on behalf of the retired employees as well as extended health and dental benefits for early retirees to age sixty-five. The Middlesex-London Health Unit recognizes these post-retirement costs in the period in which the employees render services. The most recent actuarial valuation was performed as at December 31, 2017.

| | 2017 | 2016 |
|---|---------------------|---------------------|
| Accrued employee future benefit obligations | \$ 2,846,600 | \$ 2,644,600 |
| Unamortized net actuarial loss | (474,200) | (461,400) |
| Employee future benefits liability as of December 31 | \$ 2,372,400 | \$ 2,183,200 |

Retirement and other employee future benefit expenses included in the benefits in the statement of operations consist of the following:

| | 2017 | 2016 |
|--|-------------------|-------------------|
| Current year benefit cost | \$ 180,500 | \$ 174,800 |
| Interest on accrued benefit obligation | 89,800 | 85,100 |
| Amortization of net actuarial loss | 44,600 | 44,600 |
| Total benefit cost | \$ 314,900 | \$ 304,500 |

Benefits paid during the year were \$125,700 (2016 - \$118,300).

MIDDLESEX-LONDON HEALTH UNIT

Financial Statements (continued)

Year ended December 31, 2017

2. Employee future benefits (continued):

(b) Post-retirement benefits liability (continued):

The main actuarial assumptions employed for the valuation are as follows:

(i) Discount rate:

The obligation as at December 31, 2017, of the present value of future liabilities and the expense for the year ended December 31, 2017, are determined using a discount rate of 3.25% (2016 – 3.25%).

(ii) Medical costs:

Prescription drug costs are assumed to increase at the rate of 7% per year (2016 - 8%) declining to 4% per year over 20 years. Other Medical and Vision costs are assumed to increase at a rate of 4% per year, and 0% per year respectively.

(iii) Dental costs:

Dental costs are assumed to increase at the rate of 4% per year (2016 - 4%).

3. Pension agreement:

The Middlesex-London Health Unit contributes to the OMERS which is a multi-employer plan, on behalf of 323 members. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

During 2017, the plan required employers to contribute 9.0% of employee earnings up to the year's maximum pensionable earnings and 14.6% thereafter. The Middlesex-London Health Unit contributed \$1,960,653 (2016 - \$1,974,638) to the OMERS pension plan on behalf of its employees during the year ended December 31, 2017.

MIDDLESEX-LONDON HEALTH UNIT

Financial Statements (continued)

Year ended December 31, 2017

4. Tangible Capital Assets:

| Cost | Balance at December 31, 2016 | Additions | Disposals / Transfers | Balance at December 31, 2017 |
|-----------------------------------|------------------------------------|-------------------|--------------------------|------------------------------------|
| Leasehold Improvements – 15 years | \$ 2,660,874 | \$ 39,266 | \$ - | \$ 2,700,140 |
| Leasehold Improvements – 5 years | 33,850 | 9,382 | (21,452) | 21,780 |
| Computer Systems | 1,309,479 | 77,030 | (144,122) | 1,242,387 |
| Motor Vehicle | 5,385 | - | - | 5,385 |
| Furniture & Equipment | 1,509,281 | 287,275 | (232,149) | 1,564,407 |
| Total | \$ 5,518,869 | \$ 412,953 | \$ (397,723) | \$ 5,534,099 |

| Accumulated amortization | Balance at December 31, 2016 | Amortization expense | Disposals / Transfers | Balance at December 31, 2017 |
|-----------------------------------|------------------------------------|-------------------------|--------------------------|------------------------------------|
| Leasehold Improvements – 15 years | \$ 2,334,049 | \$ 183,045 | \$ - | \$ 2,517,094 |
| Leasehold Improvements – 5 years | 26,142 | 8,545 | (21,452) | 13,235 |
| Computer Systems | 721,420 | 267,295 | (144,122) | 844,593 |
| Motor Vehicle | 2,019 | 1,346 | - | 3,365 |
| Furniture & Equipment | 1,013,831 | 200,604 | (232,149) | 982,286 |
| Total | \$ 4,097,461 | \$ 660,835 | \$ (397,723) | \$ 4,360,573 |

| | Net book value December 31, 2016 | Net book value December 31, 2017 |
|-----------------------------------|--|--|
| Leasehold Improvements – 15 years | \$ 326,825 | \$ 183,046 |
| Leasehold Improvements – 5 years | 7,708 | 8,545 |
| Computer Systems | 588,059 | 397,794 |
| Motor Vehicle | 3,366 | 2,020 |
| Furniture & Equipment | 495,450 | 582,121 |
| Total | \$ 1,421,408 | \$ 1,173,526 |

During the year, the Middlesex-London Health Unit deemed to have disposed of fully amortized assets with a cost basis of \$397,723 (2016 - \$1,240,106).

MIDDLESEX-LONDON HEALTH UNIT

Financial Statements (continued)

Year ended December 31, 2017

4. Tangible Capital Assets (continued):

| Cost | Balance at December 31, 2015 | Additions | Disposals / Transfers | Balance at December 31, 2016 |
|-----------------------------------|------------------------------------|-------------------|--------------------------|------------------------------------|
| Leasehold Improvements – 15 years | \$ 2,672,872 | \$ - | \$ (11,998) | \$ 2,660,874 |
| Leasehold Improvements – 5 years | 181,668 | 3,609 | (151,427) | 33,850 |
| Computer Systems | 1,634,727 | 244,575 | (569,823) | 1,309,479 |
| Motor Vehicle | 5,385 | - | - | 5,385 |
| Furniture & Equipment | 1,991,359 | 36,778 | (518,856) | 1,509,281 |
| Total | \$ 6,486,011 | \$ 284,962 | \$ (1,252,104) | \$ 5,518,869 |

| Accumulated amortization | Balance at December 31, 2015 | Amortization expense | Disposals / Transfers | Balance at December 31, 2016 |
|-----------------------------------|------------------------------------|-------------------------|--------------------------|------------------------------------|
| Leasehold Improvements – 15 years | \$ 2,170,637 | \$ 163,412 | \$ - | \$ 2,334,049 |
| Leasehold Improvements – 5 years | 171,936 | 5,633 | (151,427) | 26,142 |
| Computer Systems | 1,012,461 | 278,782 | (569,823) | 721,420 |
| Motor Vehicle | 673 | 1,346 | - | 2,019 |
| Furniture & Equipment | 1,336,285 | 196,402 | (518,856) | 1,013,831 |
| Total | \$ 4,691,992 | \$ 645,575 | \$ (1,240,106) | \$ 4,097,461 |

| | Net book value December 31, 2015 | Net book value December 31, 2016 |
|-----------------------------------|--|--|
| Leasehold Improvements – 15 years | \$ 502,235 | \$ 326,825 |
| Leasehold Improvements – 5 years | 9,732 | 7,708 |
| Computer Systems | 622,266 | 588,059 |
| Motor Vehicle | 4,712 | 3,366 |
| Furniture & Equipment | 655,074 | 495,450 |
| Total | \$ 1,794,019 | \$ 1,421,408 |

MIDDLESEX-LONDON HEALTH UNIT

Financial Statements (continued)

Year ended December 31, 2017

5. Commitments:

The Middlesex-London Health Unit is committed under operating leases for office equipment and rental property.

Future minimum payments to expiry are as follows:

| 2018 | \$ 911,800 |
|------|------------|
| 2019 | 846,097 |
| 2020 | 780,394 |
| 2021 | 780,394 |

6. Contingencies:

From time to time, the Middlesex-London Health Unit is subject to claims and other lawsuits that arise in the ordinary course of business, some of which may seek damages in substantial amounts. These claims may be covered by the Middlesex-London Health Unit's insurance. Liability for these claims and lawsuits are recorded to the extent that the probability of a loss is likely and it is estimable.

7. Accumulated Surplus:

Accumulated surplus consists of individual fund surplus and reserves as follows:

| | 2017 | 2016 |
|-------------------------------------|--------------|--------------|
| Surpluses: | | |
| Invested in tangible capital assets | \$ 1,173,526 | \$ 1,421,408 |
| Unfunded: | | |
| Sick leave benefits | - | (52,209) |
| Post-employment benefits | (2,372,400) | (2,183,200) |
| Total deficit | (1,198,874) | (814,001) |
| Reserves set aside by the Board: | | |
| Accumulated sick leave | 29,462 | 82,032 |
| Funding stabilization | 818,258 | 818,258 |
| Employment costs | 176,077 | 176,077 |
| Technology and infrastructure | 1,000,000 | 750,000 |
| Environmental – septic tank | 6,044 | 6,044 |
| Dental treatment | 128,360 | 128,360 |
| Total reserves | 2,158,201 | 1,960,771 |
| Accumulated surplus | \$ 959,327 | \$ 1,146,770 |

MIDDLESEX-LONDON HEALTH UNIT

Financial Statements (continued)

Year ended December 31, 2017

8. Other income:

The following revenues are presented as other income in the statement of operations:

| | 2017 Budget | 2017 Actual | 2016 Actual |
|-----------------------|----------------|----------------|----------------|
| Collaborative project | \$ 161,187 | \$ 349,045 | \$ 372,520 |
| Food handler training | 20,000 | 25,250 | 27,343 |
| Public Fit-testing | 15,000 | 10,621 | 16,528 |
| Miscellaneous | 208,439 | 341,588 | 246,305 |
| OHIP | 233,900 | 230,488 | 237,420 |
| Vaccines | 211,925 | 155,370 | 266,345 |
| Workshops | - | 3,380 | 771 |
| | \$ 850,451 | \$ 1,115,742 | \$ 1,167,232 |

9. Other expenses:

The following expenditures are presented as other expenses in the statement of operations:

| | 2017 Budget | 2017 Actual | 2016 Actual |
|------------------------------|----------------|----------------|----------------|
| Communications | \$ 191,646 | \$ 158,498 | \$ 221,283 |
| Health promotion/advertising | 371,422 | 405,425 | 308,295 |
| Miscellaneous | 557,146 | 420,034 | 457,211 |
| Postage and courier | 67,500 | 62,127 | 61,477 |
| Printing | 160,561 | 138,635 | 164,168 |
| Staff development | 202,197 | 266,308 | 279,901 |
| | \$ 1,550,472 | \$ 1,451,027 | \$ 1,492,305 |



Middlesex- London Health Unit

**Audit Findings Report
For the year ended December 31, 2017**

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

May 23, 2018

kpmg.ca/audit



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Executive summary

Purpose of this report*

The purpose of this Audit Findings Report is to assist you, as a member of the Finance and Facilities Committee, in your review of the results of our audit of the financial statements of Middlesex-London Health Unit as at and for the year ended December 31, 2017.

This Audit Findings Report builds on the Audit Plan that we provided to management.

Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you.

Audit risks and results

We identified at the start of the audit a significant financial reporting risk relating to the presumed fraud risk over management override of controls.

These risks have been addressed in our audit.

We have identified other areas of audit focus to discuss with you.

See pages 6-7.

Adjustments and differences

We did not identify differences that remain uncorrected.

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

See page 8.

*This Audit Findings Report should not be used for any other purpose or by anyone other than the Finance and Facilities Committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Executive summary

Finalizing the audit

As of May 14, 2018, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include:

- completing our discussions with the Finance and Facilities Committee;
- obtaining evidence of the Board's approval of the financial statements.
- receipt of legal confirmation from Mckenzie Lake
- receipt of signed management representation letter

We will update the Finance and Facilities Committee, and not solely the Chair (as required by professional standards), on significant matters, *if any*, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

Critical accounting estimates

Overall, we are satisfied with the reasonability of critical accounting estimates. The critical areas of estimates relate to accrued liabilities, actuarial valuations of employee future benefits and useful lives of tangible capital assets,

Independence

We are independent with respect to the Health Unit within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any other standards or applicable legislation or regulation.

See Appendix 2.

Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Health Unit's relevant financial reporting framework. The form, arrangement, and content of the financial statements is considered to be appropriate.

Materiality

Professional standards require us to re-assess materiality at the completion of our audit based on period-end results or new information in order to confirm whether the amount determined for planning purposes remains appropriate.

Our assessment of misstatements, if any, in amounts or disclosures at the completion of our audit will include the consideration of both quantitative and qualitative factors.

The determination of materiality requires professional judgment and is based on a combination of quantitative and qualitative assessments including the nature of account balances and financial statement disclosures.

| Materiality determination | Comments | Amount |
|---|--|--------------|
| Metrics | Relevant metrics included total revenues, total expenses and net assets. | |
| Benchmark | Based on total expenses for the year. This benchmark is consistent with the prior year. | \$35,476,188 |
| Materiality | Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amount for the prior year's audit was \$1,070,000. | \$1,064,000 |
| % of Benchmark | The corresponding percentage for the prior year's audit was 3%. | 3% |
| Performance materiality | Used 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures. The corresponding amount for the prior year's audit was \$802,500. | \$798,000 |
| Audit Misstatement Posting Threshold (AMPT) | Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was \$53,500. | \$53,200 |
| Reclassification AMPT | Threshold used to accumulated reclassification misstatements. The corresponding amount for the previous year's audit was \$214,000. | \$212,800 |

Audit risks and results

Inherent risk of material misstatement is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls. We highlight our findings in respect of significant financial reporting risks.

| Significant financial reporting risks | Why | Our response and significant findings |
|---|--|--|
| Fraud risk from management override of controls | This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit. | <ul style="list-style-type: none"> • We selected and assessed a sample of journal entries recorded as part of the year-end closing process. • We considered the appropriateness of estimates made by management in the preparation of the financial statements. <p><i>Our findings:</i> No issues noted.</p> |

Audit risks and results

Significant findings from the audit regarding other areas of focus are as follows:

| Other areas of focus | Our response and significant findings |
|------------------------------------|---|
| Grants and other revenue | <p>Substantive approach:</p> <ul style="list-style-type: none"> • Substantive analytical procedures over Grants and Other revenues. • Agreed significant grants from all levels of government to funding agreements. • Obtained supporting documentation for significant deferred revenue balances at year-end. <p><i>Our findings:</i> No issues noted.</p> |
| Salaries and benefits | <p>Substantive approach:</p> <ul style="list-style-type: none"> • Substantive analytical procedures over salaries and benefits, including vouching new hires and terminations to supporting documentation. <p><i>Our findings:</i> No issues noted.</p> |
| Post-retirement benefits liability | <p>Substantive approach:</p> <ul style="list-style-type: none"> • Obtained copy of actuarial report directly from actuary and tied the balance to post-employment benefits liability. • Assessed the reasonableness of significant assumptions included in the valuation. • Reviewed financial statement disclosure relating to post-retirement benefits liability. <p><i>Our findings:</i> No issues noted.</p> |

Adjustments and differences

Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences. Professional standards require that we request of management and the Finance and Facilities Committee that all identified differences be corrected. We have already made this request of management.

Corrected adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

Uncorrected differences

We did not identify differences that remain uncorrected.

Control observations

In accordance with professional standards, we are required to communicate to the Finance and Facilities Committee any control deficiencies that we identified during the audit and have determined to be significant deficiencies in ICFR.

No significant deficiencies have been identified.

Appendices

Appendix 1: Required communications

Appendix 2: Independence

Appendix 3: Audit Quality and Risk Management

Appendix 4: Background and professional standards

Appendix 5: Forensic focus

Appendix 6: Management representation letter

Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements
- **Management representation letter** –In accordance with professional standards, copies of the management representation letter are provided to the Finance and Facilities Committee. The management representation letter is attached.

Appendix 2: Independence

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

We have prepared the following comments to facilitate our discussion with you regarding independence matters.

The following summarizes the professional services rendered by us to the Entity

Description of professional services

Audit of the Middlesex-London Health Unit financial statements for the year ended December 31, 2017.

Audit of the schedule of revenue and expenditures of the Middlesex-London Health Unit for the year ended December 31, 2017.

Audit of the Middlesex-London Health Unit March 31 Programs consolidated financial statements for the year ended March 31, 2018.

Professional standards require that we communicate the related safeguards that have been applied to eliminate identified threats to independence or to reduce them to an acceptable level. Although we have policies and procedures to ensure that we did not provide any prohibited services and to ensure that we have not audited our own work, we have applied the following safeguards related to the threats to independence listed above:

- We instituted policies and procedures to prohibit us from making management decisions or assuming responsibility for such decisions
- We obtained pre-approval of non-audit services, and during this pre-approval process we discussed the nature of the engagement and other independence issues related to the services
- We obtained management's acknowledgement of responsibility for the results of the work performed by us regarding non-audit services, and we have not made any management decisions or assumed responsibility for such decisions

Appendix 3: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards. Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems.

Visit our [Audit Quality Resources page](#) for more information including access to our audit quality report, [Audit quality: Our hands-on process](#).

- Other controls include:
 - Before the firm issues its audit report, the Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
 - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.
- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.



- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
 - Assignment based on skills and experience;
 - Rotation of partners;
 - Performance evaluation;
 - Development and training; and
 - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Appendix 4: Background and professional standards

Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

Documents containing or referring to the audited financial statements

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.

Appendix 5: Forensic Focus



Forensic Focus

kpmg.ca/forensicsfocus



Boards Beware and Be Prepared! *Fraud in the Not-for-Profit Sector*

By Karen Grogan, Partner, Veronica Chapman, Senior Manager and Maria Shevkoplyas, Technician, KPMG Forensic Services, KPMG in Canada

It is difficult to swallow when a volunteer takes cash donations away from those in need for their personal use but it is appalling when an employee or Executive Director (ED) defrauds the organization they are entrusted to protect.

According to the **Association of Certified Fraud Examiners (ACFE) 2016 Report to the Nations on Occupational Fraud and Abuse**, the median financial loss to the NFPs reviewed was \$100,000.¹

The Opportunity

NFPs face unique and significant challenges which put them at greater risk of suffering from fraudulent schemes relative to for-profit organizations. In efforts to minimize administrative costs, many NFPs are understaffed and a lot of unilateral power is given to the executive director (ED) with insufficient or no internal controls in place and very limited Board of Directors (Board) oversight. This can lead to many issues, including fraud and improper spending.

An aware and diligent Board, acting as independent governance oversight, can be the last or often the only line of defense.

Common Schemes of Misuse

Based on our experience, the most common ways employees defraud NFPs include:

- Claiming for reimbursement of personal items including travel and clothing via expense reports or directly charging the NFP's credit cards
- Using the NFP's service providers to obtain services personally such as landscaping or maintenance and processing the invoices for payment directly by the NFP
- Writing unauthorized cheques or electronically transferring funds to themselves or family members

- Taking cash donations or other cash inflows for personal use
- Approving funds to individuals/organizations that are outside of the NFP's purpose
- Employing family and friends and paying excessive wages
- Awarding vendor contracts to relatives or friends and paying prices that exceed fair market value



Characteristics of a Fraudster

Over the years, we have identified patterns of behavior commonly demonstrated by fraudsters that may help alert you to potential impropriety.

Employees who have defrauded NFP's are often long-term employees (who may have been there since inception) in a position of trust. The fraudster may exhibit some of the following characteristics:

¹ NFPs represented 10% of the cases analyzed by the ACFE in their 2016 report.



- They treat the NFP as their own and spend funds in any manner they wish
- Their actions often appear to be in a grey area of what would be considered unethical
- They treat other employees poorly and in a "bully" type fashion
- They make exceptions to the rules – for example providing funds to inappropriate individuals or projects that conflict with the NFP's mandate
- They control who serves as members of the Board of Directors, and may enlist friends and family to join the Board as well as those they consider "weak" in order to influence or otherwise control the Board's decision making
- They do not obtain approvals from the Board for expenses even when required to do so by internal policy
- They direct more junior staff members to submit their expenses so they can approve their own expenses without escalation to the Board

Preventative Measures

Board oversight is very important in the fight against fraud at NFPs. Setting the right tone at the top and providing clear ethical guidance can be achieved through implementing written policies and procedures including a code of conduct policy that describes what behaviours/actions are unacceptable. Although a written policy will not in itself prevent fraudulent behavior, it can help define expectations and can act as justification for dismissal when a breach is identified. It can also provide stronger evidence for wrongful dismissal suits, civil litigation or criminal charges. To reduce the risk of fraudulent activities, Boards should consider the following:

- Written policies and procedures – including conflict of interest, and guidance addressing personal versus business expenses and travel reimbursement policies
- Implementing strong internal controls over disbursements, including:
 - Segregation of duties (ordering, receiving, invoice approval, and payment)
 - Proper authorization of transactions (including escalation and review of adequate supporting documentation)
 - Control over the NFP's credit cards to ensure all credit card statements are submitted with accompanying itemized receipts for review and approval even if the expenses are incurred by the ED or other high ranking employees of the NFP
 - Ensure expense reports of the highest ranking employee (ED) are submitted to the Board for approval
 - Ensure expenses are submitted for approval by the most senior person involved in the expenditure (i.e. group meals) so the ED is not approving their own expenses
 - Control electronic fund transfers (EFTs) so that two electronic approvals are required²

- Implementing strong internal controls over fund receipts (donations or other sources), including:
 - Segregate duties between those recording receipts, depositing funds, and reconciling the bank accounts
 - Issue donations on pre-numbered receipts and ensuring the continuity of the receipt number sequence in the collection records
 - Ensure supervision of cash collections and maintenance of detailed supporting records including sign-off by each person involved

Recovery Measures

The expense of civil litigation in an attempt to recover losses from the fraudster may be costly, lengthy and take time away from the mandate of the NFP. Therefore even if an NFP has controls in place to prevent and/or detect fraudulent activity, it would still be prudent to purchase fidelity insurance that may cover not only the loss from the fraud but the forensic accounting fees required to investigate and quantify the loss. The resulting forensic report can be used for both civil and criminal purposes. In some criminal proceedings the court may also order restitution be made to the NFP.

The implications of fraudulent acts at NFP's reach far beyond the financial losses. They can result in damage to the reputation of the NFP, a loss of trust among donors, and they disrupt the NFP's business operations and ability to perform its mission. As a Board of an NFP you must be aware of the risks and be prepared to recognize weaknesses and take action to prevent, detect and respond to fraud.

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² In many cases although the policy is for two signatures, we find when it comes to EFT's one person has complete control over transferring funds without any approval.

For more information, visit kpmg.ca/forensic or

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Appendix 6: Management representation letter

(Letterhead of Client)

KPMG LLP
Address

Date

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the financial statements (hereinafter referred to as "financial statements") of Middlesex-London Health Unit ("the Entity") as at and for the period ended December 31, 2017.

General:

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We also confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Responsibilities:

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated September 15, 2016 including for:
 - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.
 - b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements, such as all financial records and documentation and other matters, including (i) the names of all related parties and information regarding all relationships and transactions with related parties; and (ii) the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements, and providing you with access to such relevant information. All significant board and committee actions are included in the summaries.
 - c) providing you with additional information that you may request from us for the purpose of the engagement.
 - d) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.
 - e) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or

error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.

- f) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.
- g) providing you with written representations that you are required to obtain under your professional standards and written representations that you determined are necessary.
- h) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that management, and others within the entity, did not intervene in the work the internal auditors performed for you.

Internal control over financial reporting:

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which we are aware.

Fraud & non-compliance with laws and regulations:

- 3) We have disclosed to you:
 - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
 - b) all information in relation to fraud or suspected fraud that we are aware of and that affects the financial statements and involves: management, employees who have significant roles in internal control over financial reporting, or others, where the fraud could have a material effect on the financial statements.
 - c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.
 - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.
 - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Subsequent events:

- 4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

Related parties:

- 5) We have disclosed to you the identity of the Entity's related parties.
- 6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.

- 7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

Estimates:

- 8) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

Going concern:

- 9) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.

Non-SEC registrants or non-reporting issuers:

- 10) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

Yours very truly,

Brian Glasspoole, Manager, Finance

Dr. Christopher Mackie, MD, Medical Officer of Health and Chief Executive Officer

Attachment I – Definitions

Materiality

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

Fraud & error

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Related parties

In accordance with Canadian accounting standards for not-for-profit organizations, *related party* is defined as:

- *when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Two not-for-profit organizations are related parties if one has an economic interest in the other. Related parties also include management and immediate family members*

In accordance with Canadian accounting standards for not-for-profit organizations, a *related party transaction* is defined as:

- *a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.*

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TO: Chair and Members of the Finance & Facilities Committee
FROM: Christopher Mackie, Medical Officer of Health / CEO
DATE: 2018 June 07

2017 RESERVE / RESERVE FUND BALANCES

Recommendation

It is recommended that the Finance & Facilities Committee recommend that the Board of Health:

- 1. Receive the 2017–18 Reserve/Reserve Fund Overview ([Appendix A](#)) for information;*
- 2. Approve a \$52,570 drawdown from the Sick Leave Reserve Fund to fund the 2017 sick leave payment to eligible staff;*
- 3. Approve a \$29,462 drawdown from the Sick Leave Reserve Fund and a \$6,044 drawdown from the Environmental Reserve Fund – Septic Tank, and transfer these funds to the Stabilization Reserve Fund; and*
- 4. Forward Report 023-18FFC re: 2017 Reserve/Reserve Fund Balances to the City of London and the County of Middlesex for information.*

Key Points

- The 2017 Draft Financial Statements require a total of \$52,570 in drawdowns from reserve funds for 2017 for sick leave benefits paid out due to an eligible staff member retiring.
- A planned \$250,000 contribution to the Technology and Infrastructure Reserve Fund is included in the Board-approved operating budget for 2018.
- As reported in Appendix A, the balance of the reserve and reserve funds increased by a net amount of \$197,430 in 2017.
- As there are no longer any staff members eligible for a drawdown of the Sick Leave Reserve, it is recommended that the residual reserve of \$29,462 be redeployed in 2018.
- As there are no longer any potential claims related to septic tank inspections, it is recommended that the residual reserve of \$6,044 be redeployed in 2018.

Background

In accordance with Policy 4-150, “Reserve and Reserve Funds”, planned contributions and drawdowns to the reserves or reserve funds will be included in the annual operating budget approved by the Board of Health. Any unplanned drawdowns will be approved by resolution of the Board. The policy also states that each year, a report will be provided to the obligated municipalities, outlining the transactions of the reserve and reserve funds. An overview of the reserve and reserve fund balances to December 31, 2017, with projections for 2018, is attached as [Appendix A](#).

Planned Contributions

Included in the Board-approved operating budget for 2017 was \$250,000, representing the annual contribution to the Technology and Infrastructure Reserve Fund. A contribution of \$250,000 to the Fund is also planned for 2018, and is included in the Board-approved operating budget.

2017 Reserve Fund Drawdowns

The 2017 audited Financial Statements include a total of \$52,570 in drawdown from the Sick Leave Reserve Fund for 2017. This drawdown is to cover the sick leave benefits paid out on the retirement of an eligible staff member.

2018 Reserve Fund Redistributions

A residual sick leave reserve of \$29,462 remains as of December 31, 2017. As there are no further employees eligible to receive accrued sick leave benefits, it is recommended that the residual reserve be redeployed in 2018.

A residual environmental reserve for septic tank inspections of \$6,044 remains as of December 31, 2017. As there is no likelihood of further claims against the Health Unit in connection with septic tank inspections, last performed in 1994, it is recommended that the residual reserve be redeployed in 2018.

The aggregate value of these reserve funds to be redeployed is \$35,506. It is recommended that these funds be transferred to the Stabilization reserve.

Conclusion

It is recommended that the Board of Health approve the \$52,570 drawdown to the Sick Leave Reserve Fund to cover sick leave payments made in 2017. Further, it is recommended that the reserves of \$35,506 be redeployed in 2018 to active reserve categories.

This report prepared by the Finance Team, Healthy Organization Division.



Christopher Mackie, MD, MHSc, CCFP, FRCPC
Medical Officer of Health / CEO

Middlesex-London Health Unit
2017 - 2018 Reserve / Reserve Fund Overview

| Reserve / Reserve Fund | Balance 31-Dec-16 | 2017 | | Projected Balance 31-Dec-17 | 2018 Projected | | Projected Balance 31-Dec-18 |
|--|----------------------|----------------------------|--------------------|-----------------------------------|----------------------------|--------------------|-----------------------------------|
| | | Contributions ² | Drawdowns | | Contributions ² | Redistributions | |
| Reserves set aside by the Board: Funding stabilization reserve ¹ | \$ 818,258 | \$ - | \$ - | \$ 818,258 | \$ - | \$ 35,506 | \$ 853,764 |
| Reserve funds set aside by the Board: | | | | | | | |
| Accumulated sick leave | 82,032 | - | (52,570) | 29,462 | - | (29,462) | - |
| Employment Costs | 176,077 | - | - | 176,077 | - | - | 176,077 |
| Technology and Infrastructure | 750,000 | 250,000 | - | 1,000,000 | 250,000 | - | 1,250,000 |
| Environmental - septic tank | 6,044 | - | - | 6,044 | - | (6,044) | - |
| Dental Treatment | 128,360 | - | - | 128,360 | - | - | 128,360 |
| Total reserve funds | \$ 1,142,513 | \$ 250,000 | \$ (52,570) | \$ 1,339,943 | \$ 250,000 | \$ (35,506) | \$ 1,554,437 |
| Total reserves and reserve funds | \$ 1,960,771 | \$ 250,000 | \$ (52,570) | \$ 2,158,201 | \$ 250,000 | \$ - | \$ 2,408,201 |

Notes:

(1) 2017 limit as per policy = \$3,553,600

(2) Board of Health approved contributions



TO: Chair and Members of the Finance & Facilities Committee

FROM: Christopher Mackie, Medical Officer of Health / CEO

DATE: 2018 June 7

SUPERVISED CONSUMPTION FACILITY – MUNICIPAL PLANNING CONSULTANT SERVICES PROPOSAL

Recommendation

It is recommended that the Finance & Facilities Committee receive Report No. 024-18FFC re: Municipal Planner Consultant Services RFP for information.

Key Points

- The Middlesex-London Health Unit requires planning services to assist with the zoning and site plan application process for Supervised Consumption Facilities to ensure compliance with municipal bylaws, to maintain transparency, and to ensure that the necessary due diligence is conducted.
- Proposals were requested and Monteith Brown Planning Consultants was selected.
- Work will commence immediately in drafting zoning application process documents.
- The estimated value of the contract is approximately \$35,000 for both locations. The cost to apply for a City of London zoning change is approximately \$7,500 per site.

Background

In order to ensure that the zoning application process is completed in a thorough and timely manner for the establishment of Supervised Consumption Facilities (SCF) at 241 Simcoe Street and 446 York Street, it is recommended that the Finance & Facilities Committee and MLHU staff utilize a municipal planning consultant for the following purposes:

- Guide Health Unit and Regional HIV/AIDS Connection (RHAC) management staff in the municipal planning application process with the City of London;
- Advise the MLHU and RHAC on zoning by-laws;
- Develop conceptual site plans for both locations;
- Meet with Planning and Development Services during the pre-consultation stages to determine a course of action;
- Submit and process zoning applications;
- Coordinate community information meetings;
- Submit and process site plans, as applicable;
- Represent MLHU and RHAC during the appeals process, as applicable; and
- Advise staff on the necessary steps for due diligence.

Procurement Process

On May 11, 2018, MLHU Procurement solicited proposals from three highly recommended municipal planning consultants for planning services relating to the SCF zoning application process. Please find details on the bid list in [Appendix A](#). Two proposals were received on May 16, 2018. The third consultant declined to bid. Reference checks were completed on May 16 and 17 to validate the extent and quality of work completed by both proponents. Comparison of proposal costing and reference checks led to a contract award to Monteith Brown Planning Consultants (MBPC). MBPC is an award-winning firm that has been in business for forty years, and which offers a full range of land-use planning services to the public and private sectors. The firm has been extensively involved in community development, providing a wide range of land-use planning services, from the official plan and zoning by-laws to housing needs assessments and downtown revitalization plans.

Next Steps

The next steps would be to award a contract to the successful proponents; initiate a kick-off meeting to bring the consultants up to speed on the SCF project; and to begin development of the action plan and necessary documentation.

This report prepared by the Procurement and Operations Team, Healthy Organization Division, and the Environmental Health and Infectious Diseases Division.



Christopher Mackie, MD, MHSc, CCFP, FRCPC
Medical Officer of Health / CEO

Bid List for Supervised Consumption Facility Municipal Planning Consultant Services

1. Kirkness Consulting – Laverne Kirkness

Kirkness Consulting possesses over 35 years of Experience of Urban and Rural Planning.

2. Monteith Brown Planning Consultants – Jay McGuffin

Monteith Brown Planning Consultants Ltd. (MBPC) is a highly successful urban and regional planning firm serving a broad range of municipal, not-for-profit and private sector clients since 1977. Their major service areas include: municipal planning, parks, recreation, and culture, development planning, design, library planning, consultation, specialty studies.

3. MHBC – Scott Allen

MHBC has been providing exceptional Urban Planning, Resource Management, Urban Design and Landscape Architecture services to public and private sector clients across Ontario since 1973. Their successful completion of hundreds of development projects across Ontario has resulted in strong working relationships with many government agencies and professionals.