

PART 3.9

DEPARTMENT OF MUNICIPAL AFFAIRS

MONITORING OF MUNICIPALITIES

Executive Summary

The Department of Municipal Affairs (the Department) is responsible for all matters relating to municipal and provincial affairs. The primary clients of the Department are the 271 municipalities, 5 Inuit community governments, and 178 local service districts in Newfoundland and Labrador. The Department is responsible for administering a number of Acts including the *Municipalities Act, 1999* and the *Municipal Affairs Act*, which provide the framework against which municipalities govern. The Department is comprised of three branches: Municipal Support and Policy; Municipal Engineering and Planning; and Employment Support.

Our objective was to review the monitoring of municipalities within the Department of Municipal Affairs. We focused on activities within the Municipal Support and Policy Branch (the Branch).

The Branch is responsible for financial supports to local governments, training and advice to municipalities and other administrative matters, and supporting regional cooperation initiatives. Through its divisions, the Branch is responsible for advising municipalities on budgeting, financial statements and financial management matters, monitoring and reporting on provincial and municipal liabilities for municipal long-term debt and conducting reviews of local government administrative and operational practices including municipal inspections.

Our review of the monitoring of municipalities within the Department identified issues with regard to:

- lack of legislative compliance;
- inadequate performance measurement and monitoring;
- lack of monitoring of municipal debt;
- incomplete and inaccurate database information; and
- lack of policies and procedures.

Legislative Compliance

Our review of legislative compliance disclosed the following:

- Statutory deadline for financial statement adoption was not monitored. As a result, the Department is unable to determine if municipalities were complying with the provision that a council shall prepare and adopt financial statements before June 1 of each year.
- Audited financial statements were not received by the statutory deadline. A municipality is required to submit to the Minister of Municipal Affairs (the Minister), in the required form, the audited financial statements by established dates. We found numerous instances where municipalities submitted the required audited financial statements after the statutory deadline.
- The Department cannot determine whether actual expenditures exceeded budgeted expenditures. A municipality shall not, without the prior approval of the Minister, exceed the total estimated expenditure approved in the annual or revised budget. The Department could not compare actual expenditures with budgeted expenditures as budgets are prepared on the cash basis and financial statements are prepared on the accrual basis.
- Budgets were adopted by municipalities after the statutory deadline. A municipality must adopt a budget by established dates. We found numerous instances where municipalities adopted their budgets after the statutory deadline.
- Budgets were submitted to the Department after the statutory deadline. A municipality is required to submit to the Minister, in the required form, the adopted budget by established dates. We found numerous instances where municipalities submitted their budgets to the Minister after the statutory deadline.
- No time frame was established for the inspection of municipalities. The books and records of every municipal authority are required to be inspected by the Department. Our review indicated that there was no time frame established to ensure that all municipalities are inspected as required.

Performance Measurement and Monitoring

The Department had not established performance measures or reporting requirements for all divisions of the Municipal Support and Policy Branch. Upon enquiry, the Department could not provide any performance reports for any of the divisions of the Branch. Furthermore, there were no operational plans or work plans in place for any of its divisions.

Monitoring of Municipal Debt

The long-term debt of municipalities was in excess of \$364 million at December 31, 2010. Our review of the monitoring of municipal debt disclosed the following:

- The Department does not monitor total debt and changes in total debt. The Department could not provide the amount of total municipal debt as at December 31, 2011 as all financial statement information had not yet been received.

Although debt repayments and interest relating to long-term debt are required to be recorded on the financial statements, this information was not tracked separately in the database. As a result, we were not able to determine the total debt repayments and interest on long-term debt for municipalities.

- The extent of arrears on bank loans were not tracked. The Department had indicated that the principal portion of debt owing to the Newfoundland Municipal Financing Corporation (NMFC), which was in arrears at March 31, 2011 and March 31, 2012, was \$3.2 million and \$2.5 million, respectively. However, our review indicated that the Department does not track information on all municipal debt at chartered banks. As a result, it does not know the extent of arrears on bank loans, if any.

Database Management

We found issues with the accuracy and completeness of the budget information recorded in the Department's database. We also found issues with the completeness of the financial statement information recorded in the database.

Monitoring of Municipalities

Our review also indicated that information that would facilitate the monitoring of municipal inspections was not recorded in the database.

Policies and Procedures

The Department has not developed and communicated comprehensive policies and procedures to help ensure proper monitoring of municipal debt, database management, municipal inspections and legislative compliance.

Background

Overview

The Department of Municipal Affairs (the Department) is responsible for all matters relating to municipal and provincial affairs. The primary clients of the Department are the 271 municipalities, 5 Inuit community governments, and 178 local service districts in Newfoundland and Labrador. The Department is responsible for administering a number of Acts including the *Municipalities Act, 1999* and the *Municipal Affairs Act*, which provide the framework against which municipalities govern.

The Department is comprised of three branches:

- Municipal Support and Policy;
- Municipal Engineering and Planning; and
- Employment Support.

The Municipal Support and Policy Branch (the Branch) is responsible for financial supports to local governments, training and advice to municipalities and other administrative matters, and supporting regional cooperation initiatives. It consists of four divisions:

- Local Governance;
 - Municipal Finance;
 - Eastern Region; and
 - Central/Western/Labrador Region.
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Monitoring of Municipalities

Local Governance Division

The Local Governance Division is responsible for planning, directing, coordinating and managing Local Governance programs and services which aid the Department in realizing its vision of communities with viable, sustainable municipal services led by strong local governments. The Division is accountable for:

- promoting local governance;
 - providing training opportunities for local government officials;
 - evaluation of local government structures;
 - formulating regional approaches to service delivery; and
 - conducting reviews of local government administrative and operational practices.
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Municipal Finance Division

The Municipal Finance Division is responsible for:

- providing financial assistance to municipalities in the form of grants and subsidies as well as assistance with capital borrowing;
 - advising on budgeting, financial statements and financial management matters, in conjunction with the regional offices;
 - preparing, evaluating and monitoring estimates with respect to debt servicing subsidies, municipal operating grants and special assistance grants;
 - monitoring and reporting on provincial and municipal liability for municipal long-term debt; and
 - the administration of the Gas Tax Program and Integrated Community Sustainability Plans.
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Regional Divisions

The Regional Divisions deliver programs and services to municipalities and local service districts throughout the Province. These services include:

- municipal inspections;
- coordination and monitoring of capital works projects;
- assessment of infrastructure problems;

Monitoring of Municipalities

- first response for emergency measures to the municipality; and
- consultation and guidance to municipalities on legislative, policy and financial matters related to municipal operations.

Expenditures Total expenditures for the Department for the year ended March 31, 2012 were \$280.4 million as indicated in Table 1.

Table 1

**Department of Municipal Affairs
Expenditures
For the Fiscal Years Ended March 31
(\$000s)**

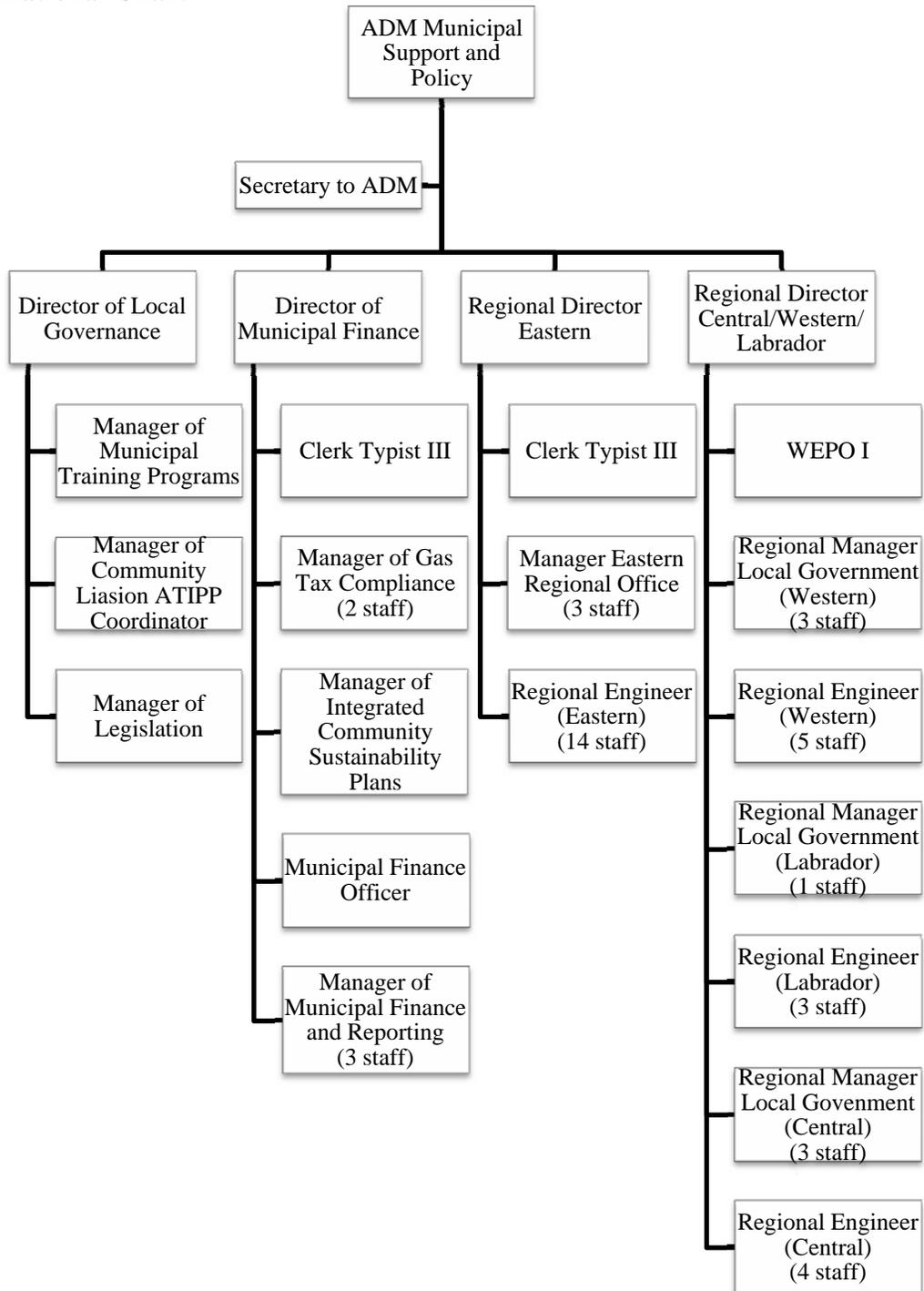
	2010	2011	2012
Assistance and Infrastructure			
Debt Servicing	\$ 14,630	\$ 12,173	\$ 10,294
Municipal Operating Grants	17,751	17,760	26,219
Special Assistance	10,122	3,309	2,219
Community Enhancement	10,516	9,069	9,251
Municipal Infrastructure	99,733	88,992	110,825
Federal/Provincial Infrastructure Programs	61,975	86,815	78,069
Canada/Newfoundland and Labrador Gas Tax Program	48,860	29,008	15,566
Municipal Transit Infrastructure	3,769	0	0
Sub-total	267,356	247,126	252,443
Executive and Support Services	2,073	2,514	2,549
Services to Municipalities	9,205	7,761	5,128
Fire and Emergency Services	11,471	30,337	20,284
Net Expenditure	\$ 290,105	\$ 287,738	\$ 280,404

Source: Report on the Program Expenditures and Revenues of the Consolidated Revenue Fund

The Department had a total staff of 130. The Branch had a total staff of 65. Figure 1 shows the organizational structure of the Branch:

Figure 1

Department of Municipal Affairs
Municipal Support and Policy
Organizational Chart



Source: Department of Municipal Affairs

Objectives and Scope

Objectives	<p>The objectives of our review were to determine whether the Department was ensuring that:</p> <ul style="list-style-type: none">• municipalities were complying with legislative reporting requirements;• performance measurement and monitoring was in effect;• monitoring of municipal debt was adequate; and• database information used for municipal monitoring was accurate and complete.
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Scope	<p>Our review was completed in December 2012 and covered the fiscal year ended March 31, 2012. Our review included interviews with Department officials and an examination of relevant legislation, policies and procedures, database information and other documentation within the Department.</p> <p>Our review did not include the 5 Inuit community governments or the 178 local service districts in Newfoundland and Labrador.</p>
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Detailed Observations

This report provides detailed findings and recommendations in the following sections:

1. Legislative Compliance
2. Performance Measurement and Monitoring
3. Monitoring of Municipal Debt
4. Database Management
5. Policies and Procedures

1. Legislative Compliance

Overview

The *Municipalities Act, 1999* outlines a framework of accountability for municipalities to the Department, including provisions relating to budgeting, financing and general municipal operations. The *Municipal Affairs Act* provides for inspections of all municipalities by the Department.

The *Municipalities Act, 1999* includes provisions for the monitoring of municipal activities, including the requirement to submit annual balanced budgets and audited financial statements, and requiring prior approval of long-term borrowing by the Minister of Municipal Affairs (the Minister).

In order to determine compliance with the *Municipalities Act, 1999* we reviewed the database maintained by the Department containing financial statement and budget information of municipalities in the Province.

Requirement to submit audited financial statements and budgets

For the 2011 and 2010 calendar years, our review indicated that 275 municipalities were required to comply with the legislation relating to financial statements. 2 of these municipalities had the requirement to provide financial statements waived. As a result, 273 municipalities were required to submit audited financial statements for each calendar year.

Our review found that 271 municipalities were required to submit budgets for the 2012 calendar year while 275 municipalities were required to submit budgets for the 2011 calendar year.

Statutory deadline for financial statement adoption not monitored

Section 86 (1) of the *Municipalities Act, 1999* states “A council shall prepare and adopt, before June 1 of each year, financial statements in a manner consistent with generally accepted accounting principles established periodically by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants”.

Our review determined that the Department does not track council adoption dates for the financial statements. As a result, the Department is unable to determine if municipalities were complying with this provision of the *Municipalities Act, 1999*.

Monitoring of Municipalities

Audited financial statements not received by statutory deadline

Section 92 (1) of the *Municipalities Act, 1999* states “*The auditor shall complete and submit the report on his or her audit to the council before June 1 of the year immediately following the financial year that he or she is auditing and, not more than 30 days later, the auditor shall submit a copy of that report to the minister*”.

Unless the audit requirement is waived by the Minister, all municipalities are required to submit, to the Minister, by June 30 of each year, financial statements which are compliant with standards approved by the Public Sector Accounting Board (PSAB).

Audited financial statements are received by the Division of Municipal Finance by fax, e-mail or mail and are date stamped by the Department when received.

The Manager of Municipal Finance or the Finance Officer reviews the financial statements for PSAB compliance. Where compliance issues are identified, the Finance Officer must follow up with the respective town and work with it or their auditor, if requested by the municipality, on resolving the issues.

The financial statements are approved by the Department through the completion of an Approval Checklist. Once financial statements are determined to be compliant, the financial information from the statements is entered into the Municipal Information Management System (MIMS). The financial statements are then marked “Approved by Department” in MIMS. Data entry follows methods prescribed in the MIMS PSAB Financial Statement User Training Guide.

Table 2 outlines PSAB compliant financial statement submissions, as of November 2012, for the 2010 and 2011 calendar years:

Table 2

**Department of Municipal Affairs
PSAB Compliant Financial Statement Submissions
For the Calendar Year Ended December 31**

Status of Financial Statements	2010	%	2011	%
Financial Statements submitted on time	39	14.3	53	19.4
Financial Statements submitted late	226	82.8	162	59.4
Financial Statements not submitted and entered into database	8	2.9	58	21.2
Financial Statements required to be submitted	273	100	273	100

Source: Department of Municipal Affairs

For the 2010 calendar year, 226 financial statements were received late with receipt dates ranging from 4 days to 432 days after the deadline. For the 2011 calendar year, 162 financial statements were received late with receipt dates ranging from 3 days to 138 days after the deadline.

Actual expenditures exceeding budgeted expenditures not monitored

Section 81 of the *Municipalities Act, 1999* states “A town council shall not, without the prior approval of the minister, incur, enter into, contract, or become liable for an expenditure or indebtedness exceeding the total estimated expenditure or indebtedness approved in the annual or revised budget”.

The Department tracks both budgeted and actual expenditures as recorded in the financial statements of municipalities in its database. In accordance with Departmental policy, annual municipal budgets are prepared on a cash basis while the financial statements are prepared on an accrual basis. As a result, the Department cannot compare actual expenditures with budgeted expenditures to ensure compliance with this provision.

Department officials indicate that they rely on the municipality to inform the Department, and obtain the required approval, if the municipality believes it will exceed its total budgeted expenditures.

Monitoring of Municipalities

For the 2010 and 2011 calendar years, 273 municipalities were required to submit financial statements. Our review of the expenditures in the audited financial statements, prepared on an accrual basis, disclosed the following:

- For the 2010 calendar year, 8 financial statements have still not been received and entered into the MIMS and 42 municipalities did not have budget expenditure information recorded.

We identified 223 municipalities that had budgeted and actual expenditures recorded in MIMS. Our review of the database information indicated that 133 of these municipalities had actual expenditures in excess of budgeted expenditures, ranging from \$541 to \$5,262,765 and totaling in excess of \$24.6 million. 39 of the 133 municipalities had actual expenditures in excess of budgeted expenditures of over \$100,000. Of these, 4 exceeded \$1,000,000.

- For the 2011 calendar year, 58 financial statements have still not been received and entered into the MIMS and 26 municipalities did not have budget expenditure information recorded.

We identified 189 municipalities that had budgeted and actual expenditures recorded in MIMS. Our review of the database information indicated that 120 of these municipalities had actual expenditures in excess of budgeted expenditures, ranging from \$608 to \$2,081,081 and totaling in excess of \$14.3 million. 25 of the 120 municipalities had actual expenditures in excess of budgeted expenditures of over \$100,000. Of these, 3 exceeded \$1,000,000.

We could not determine if these municipalities that exceeded their budgeted expenditures had violated the *Act*. Budgeted expenditures were recorded on the cash basis and financial statements were recorded on an accrual basis and therefore were not comparable.

Budgets adopted after statutory deadline

Section 77 (1) of the *Municipalities Act, 1999* states “A town council shall, not later than 90 days after the day on which the council takes office following a general election of councilors and not later than December 1 in each succeeding year, prepare and adopt a budget containing estimates of the revenue and expenditure of the council for the next financial year and a statement showing tax rates that shall be imposed during that year”.

Monitoring of Municipalities

- For the 2011 calendar year, of the 275 municipalities, 241 (87.6%) adopted their 2011 budgets after the December 1, 2010 deadline. Adoption of the 2011 budgets ranged from 1 day to 370 days after the deadline.
- For the 2012 calendar year, of the 271 municipalities, 220 (81.2%) adopted their 2012 budgets after the December 1, 2011 deadline. Adoption of the 2012 budgets ranged from 1 day to 237 days after the deadline.

Budgets submitted after statutory deadline

Section 77 (2) of the *Municipalities Act, 1999* states “A budget adopted under this section shall be in the required form and a copy shall be sent to the minister before the end of the calendar year of its adoption or in the case of a new council, within 30 days of its adoption”.

Table 3 outlines budget submissions, as of November 2012, for the 2012 and 2011 calendar years:

Table 3

Department of Municipal Affairs Budget Submissions For the Calendar Year Ended December 31

Status of Budgets	2011	%	2012	%
Budgets submitted on time	136	49.5	144	53.1
Budget submitted late	139	50.5	126	46.5
Budget not submitted and entered into database	0	0.0	1	0.4
Budgets required to be submitted	275	100	271	100

Source: Department of Municipal Affairs

As shown in Table 3, for the 2011 calendar year, 139 budgets were received late with receipt dates ranging 4 days to 343 days after the deadline. For the 2012 calendar year 126 budgets were received late with receipt dates ranging from 2 days to 220 days after the deadline.

Monitoring of Municipalities

Requirement for municipal inspections

Section 4 (1) from the *Municipal Affairs Act* states “*Inspectors shall be appointed in the manner authorized by law, and they shall, as required by the minister, examine and inspect all books of record and account, all bank books, assessment and collection rolls and all other papers and matters belonging to a municipal authority*”.

Section 4 (2) of the *Municipal Affairs Act* states “*The books and records of every municipal authority shall be inspected by an inspector under the authority of subsection (1) and the minister may order a special inspection in the case of a municipal authority whenever the minister considers it advisable or upon the request of the municipal authority setting out clearly the reason why, in the opinion of the municipal authority, the special inspection is considered necessary*”.

Under this section, the Department must assess a municipality’s financial and administrative performance through the examination of records, budgets, financial statements, meetings, etc. The Department does this by performing municipal reviews and Community Capacity Assessments (CCAs).

Table 4 outlines the inspections done by region from 2010 through to 2012.

Table 4

Department of Municipal Affairs Municipal Inspections For the Years Ended March 31

Region	Inspections				Total Municipalities 2012
	2010	2011	2012	Total	
Eastern	30	20	25	75	109
Central	14	10	14	38	86
Western	11	19	25	55	61
Labrador	4	0	1	5	15
	59	49	65	173	271

Source: Department of Municipal Affairs

Monitoring of Municipalities

No time frame established for the inspection of all municipalities

For the fiscal year ended March 31, 2012, the Department performed 65 municipal inspections (49 inspections in 2011). Department officials indicated that 37 of the 65 municipalities had CCAs completed in 2012 and 13 of the 49 municipalities had CCAs completed in 2011.

In addition, over the 3 years from 2010 through to 2012, there were a total of 173 inspections completed. In 9 instances a municipality was inspected a second time.

As of March 31, 2012 the Department is responsible for inspecting 271 municipalities. Our review indicated that there were 164 different municipalities inspected over the last three years.

Prior to June 2004, Section 4 (2) of the *Municipal Affairs Act* required that the books and records of every municipality be inspected at least once every year and that the Minister could order a special inspection whenever it was considered advisable. An amendment effective June 2004, removed the requirement for annual inspections, however, inspections are still required.

Our review disclosed that there was no time frame established to ensure that all municipalities are inspected, as required by the *Municipal Affairs Act, 1999*.

Recommendations

The Department should ensure:

- budgets and financial statements are submitted in compliance with the *Municipalities Act, 1999*; and
- a time frame is established for the inspection of all municipalities to ensure compliance with the *Municipal Affairs Act*.

2. Performance Measurement and Monitoring

Overview

We would expect to find well defined performance measures relating to the monitoring of municipalities within the Municipal Support and Policy Branch. These performance measures would be included as part of the goals and objectives of the Branch and form part of the divisional operational/work plans. For example, performance measures for the monitoring of municipalities may include: budget/financial statements submission requirements and other legislative requirements, frequency of municipal reviews and community capacity assessments and frequency and content of management reports.

A divisional operational/work plan would contain information specific to the Division. This plan would contain goals, objectives, measures, and indicators for the goals and objectives, actions necessary and reporting requirements.

These plans would assist the divisions to focus their activities towards achieving Branch strategic goals and objectives. These plans would be necessary to determine whether the Department's Strategic Plan objectives are being met and are a necessary part of a good system of accountability.

We would expect established reporting standards for each division within the Branch, for such things as:

- responsibility for reporting;
- nature and content of the reports;
- frequency of reporting;
- deadline for report preparation and submission; and
- receipt and review of reports.

Our review indicated the following issues with the monitoring of municipalities within the Branch.

Monitoring of Municipalities

Performance measures or reporting requirements not established

The Department had not established performance measures or reporting requirements for all divisions within the Branch. Upon enquiry, Department officials could not provide any performance reports for the divisions of the Branch.

Furthermore, there were no operational plans or work plans in place for any of the divisions.

Recommendations

The Department should consider establishing:

- performance measures and reporting requirements for all areas related to the monitoring of municipalities; and
- operational plans for all divisions of the Municipal Support and Policy Branch.

3. Monitoring of Municipal Debt

Overview

The Department provides considerable funding to municipalities including assistance related to debt servicing and principal payments on the long-term debt of municipalities related to municipal infrastructure.

Debt servicing represents contributions by the Department for interest charges and other expenses incurred on municipal debt relating to water and sewer systems, road construction and paving, recreation facilities and other improvement projects.

Assistance related to municipal infrastructure represents contributions of the Department towards principal owing on debt incurred for municipal infrastructure projects relating to water and sewer systems, road construction and paving projects, recreation facilities and other improvement projects and for debt relief and other supports to municipalities.

According to Department officials for the year ended March 31, 2012 the Department contributed \$10.3 million towards debt servicing on the outstanding debt of municipalities and \$33.5 million towards the principal portion of the outstanding debt of municipalities. These amounts are included in the Assistance and Infrastructure sub-total in Table 1.

Total debt and changes in total debt not monitored

Debt incurred by municipalities is used to finance such infrastructure projects as water and sewer systems and roads. Total municipal debt is comprised of long-term debt owed by municipalities to the Newfoundland Municipal Financing Corporation (NMFC) and to chartered banks.

The mandate of the Municipal Finance Division includes monitoring and reporting on provincial and municipal liabilities for municipal long-term debt. We would expect the Division to monitor and report on total municipal debt and changes in municipal debt for all municipalities. This information would include financial information relating to new debt issuances, debt repayments, interest on long-term debt, per capita debt and interest as a percentage of municipal revenues.

Department officials indicated that they do not monitor total debt and changes in total debt. The Department could not provide the amount of total municipal debt as at December 31, 2011 for the 271 municipalities in the Province as all financial statement information had not yet been received as required. As noted previously, municipal debt information had not been recorded in the database for 58 municipalities.

The Department did provide a database extract of long-term debt as at December 31, 2010. As noted previously, this database information was not complete as municipal debt information for 8 municipalities had not been received and recorded. Our review of this information indicated that the long-term debt of municipalities was in excess of \$364 million as at December 31, 2010.

Although debt repayments and interest on long-term debt are required to be recorded in the financial statements, this information was not tracked separately in the database. As a result, we were unable to determine the total debt repayments and interest on long-term debt for municipalities.

Extent of arrears on bank loans not tracked

Municipal debt is financed through the NMFC and chartered banks.

Section 5 of the *Municipal Affairs Act* states “A bank or agency of a bank or another similar institution carrying on business in the province shall, upon request of the minister, provide the minister with a statement showing the balance or condition of the account of a municipal authority having an account with that bank or agency, together with particulars of the account that the minister may require.”

Monitoring of Municipalities

Department officials indicated that each month a report is received from NMFC on the arrears of municipalities. This report is used when considering applications for the Special Assistance Program and requests to the Minister from municipalities for approvals to borrow.

The extent of arrears on bank loans were not tracked. The Department had indicated that the principal portion of debt owing to NMFC, which was in arrears at March 31, 2011 and March 31, 2012, was \$3.2 million and \$2.5 million, respectively. However, our review indicated that the Department does not track information on all municipal debt at chartered banks. As a result, it does not know the extent of arrears on bank loans, if any.

Recommendations

The Department should ensure:

- the total liability for municipal long-term debt is monitored and reported upon; and
- the arrears on all municipal debt are tracked and monitored.

4. Database Management

Overview

The Municipal Information Management System (MIMS) is a web based, real time, system used by the Department to track information on municipalities. It is an integrated database used for tracking information related to municipal finance, waste management, capital works, etc.

We would expect to see information relating to budgets, financial statements and municipal inspections to assist in monitoring and reporting on municipalities. This would include dates and other details including:

- audited financial statements and council adoption dates;
- budget submission and council adoption dates;
- revised budget submission and council adoption dates;
- budgeted and actual revenue and expenditures; and
- results of inspections of municipalities.

Monitoring of Municipalities

Budget information recorded in database not complete and accurate

In order to test the accuracy of the budget information recorded in MIMS, we reviewed budget information, by municipality, extracted from the database. We selected 30 municipalities over a two year period for review.

Our review indicated the following:

- 7 instances where budgeted expenditure amounts recorded in the database did not agree with the budget submission;
- 1 adoption date in the database did not agree to the date in the budget submission;
- 4 instances where the submission date on the date stamp did not agree with the submission date recorded in the database;
- 7 instances where the budget had not been date stamped and we were unable to determine if the date recorded in the database was accurate; and
- 2 instances where the submitted budget could not be located. As a result, we were unable to determine if the information recorded in the database was accurate.

Our review of the database budget information for 2012 also indicated that there were requests by the Department for revised budgets from 31 municipalities. The database also indicated that there were 44 municipalities who submitted revised budgets.

Department officials indicated that the MIMS database does not track the date the revised budget was adopted by council. As a result, we were unable to determine if the revised budget was submitted within 2 weeks of adoption, as required by legislation.

We also note that as of November 2012, information on the 2012 budget for 1 of the 271 municipalities had not been entered into MIMS as it had not been received.

Financial statement information recorded in database not complete

As indicated previously, information relating to audited financial statements for 58 municipalities had yet to be received and therefore had not been entered in the MIMS database for the 2011 calendar year. In addition, information relating to 8 municipalities was not recorded for the 2010 calendar year.

Monitoring of Municipalities

To test the accuracy of the financial statement information recorded in MIMS, we reviewed financial statement information, by municipality, extracted from the database. We selected 20 municipalities over a two year period for review.

We found that the financial statement information was recorded correctly for all sampled items. However, we identified 7 instances where the financial statements were not date stamped. As a result, we were unable to determine if the date of submission recorded in the database was accurate.

Our review also identified instances where the budget expenditures in the financial statements were not recorded in the database for all municipalities. We identified 26 instances and 42 instances in 2011 and 2010, respectively.

Municipal inspection monitoring information not recorded in database

The MIMS database is able to capture information on municipal inspections. We would expect to see information included in MIMS that would facilitate the monitoring of municipal inspections. For example, information such as inspection type, expected completion date, actual completion date and report dates should be recorded in MIMS.

Our review indicated that the MIMS database used by the Department is not complete as inspection monitoring information is not being recorded in MIMS. As a result the Department is unable to determine the status and results of inspections from MIMS.

The Department did provide some manual documentation relating to inspections. However, we found that the regions were not consistent in how they captured the inspection information. Eastern and Central Regions provided information using an excel spreadsheet format, Western Region provided a copy of a hand-written list of inspections and Labrador Region provided a list of inspections in an e-mail.

Recommendation

The Department should ensure information relating to budgets, financial statements and municipal inspections are properly recorded in the MIMS database.

5. Policies and Procedures

Policies and procedures not well defined

The *Municipalities Act, 1999* and *Municipal Affairs Act* outline a framework of accountability by municipalities to the Department, including provisions relating to budgeting, financing and general municipal operations.

We would expect to see well defined policies and procedures at the Department to help ensure municipal compliance with *The Municipalities Act, 1999* and *Municipal Affairs Act*. These areas include financial statement and budget reporting requirements.

We would also expect to see well defined, documented policies and procedures relating to monitoring of municipal debt, database management and municipal inspections.

Our review indicated that the Department does have a Public Sector Accounting Board Financial Statement Procedure Manual and information is documented in forms and templates. However, the Department has not developed and communicated comprehensive policies and procedures to help ensure proper monitoring of municipal debt, database management, municipal inspections and legislative compliance.

Recommendation

The Department should develop and communicate well defined policies and procedures covering the monitoring of municipalities.

Department's Response

Recommendations

The Department should ensure:

- *budgets and financial statements are submitted in compliance with the Municipalities Act, 1999; and*
- *a time frame is established for the inspection of all municipalities to ensure compliance with the Municipal Affairs Act.*

Department's Response

The Department is confident that it has reasonable processes in place which support and promote the receipt of financial statements and budgets in accordance with legislative timelines, including the practice of with-holding grant funding until a municipality is compliant with these legislative requirements. The Department will continue to work with municipalities to improve compliance with these legislative timelines.

For clarification, the Municipal Affairs Act does not require the Department to carry out inspections of all municipalities, but rather provides authority to conduct inspections as required by the Minister. Within available departmental resources, the Department carries out inspections using a general risk based approach in consideration of a variety of factors including, but not limited to, the length of time since last inspection; issues noted during previous inspections; reviews of budgets and financial statements; and issues conveyed to the Department by council and residents. In addition, in addressing one of the key issues in the Department's 2011-2014 Strategic Plan, Local Government Sustainability, the Department is committed to completing 130 community capacity assessments by March 31, 2014. These assessments include an assessment of legislative compliance.

Recommendations

The Department should consider establishing:

- *performance measures and reporting requirements for all areas related to the monitoring of municipalities; and*
- *operational plans for all divisions of the Municipal Support and Policy Branch.*

Department's Response

The Department acknowledges the benefits of divisional plans and while written operational divisional plans are not being prepared as contemplated by your Office, accountability for the work requirements and deliverables of each Branch division is clearly understood and monitored on an ongoing basis. Examples include financial statements and budgets received; status of municipalities' arrears; progress of community capacity assessments; regionalization initiatives; review of policies in priority areas; and preparation of policy/legislative submissions. The key deliverables of the Branch are captured in a number of official documents of the Department, including the Strategic Plan, the Annual Report, the Deputy Minister's performance contract and the Department's annual work plan. The status of these key deliverables is reviewed on a regular basis through divisional and Executive meetings.

The Department will consider the establishment of more formal documented divisional operational plans (setting out performance measures and reporting requirements, where appropriate) for 2013-14.

Recommendations

The Department should ensure:

- *the total liability for municipal long-term debt is monitored and reported upon; and*
- *the arrears on all municipal debt are tracked and monitored.*

Department's Response

In capturing municipalities' financial statements in its information management system, the Department is able to generate consolidated reporting of not only long-term debt for all municipalities as a total, but other audited financial information disclosed pursuant to generally accepted accounting principles. While financial information on a total consolidated basis (comprising all municipalities) is informative to a degree, the Department's primary focus is on assessing the financial position of individual municipalities; not merely the debt component as a total for all municipalities. Examining the overall net financial position of individual municipalities is important in assessing financial health and represents an important component in evaluating the financial sustainability of individual municipalities on a going concern basis into the future. Likewise, the extent to which a particular municipality is in arrears in its debt payments is also but one component, reflected via audited financial statements, which is considered in this assessment.

Recommendation

The Department should ensure information relating to budgets, financial statements and municipal inspections are properly recorded in the MIMS database.

Department's Response

Information relating to budgets, financial statements and municipal inspections is currently recorded in the MIMS database. The Department notes the findings of your Office and will take the necessary action to improve the completeness and accuracy of information contained in MIMS.

Recommendation

The Department should develop and communicate well defined policies and procedures covering the monitoring of municipalities.

Department's Response

The Department has a number of documented policies and procedures for monitoring municipalities including inspection checklists, a community capacity assessment framework, and guidelines for assessing budgets and financial statements to determine whether they were submitted in the prescribed format and within the required legislative timelines.

The Department will, however, continue to identify opportunities to improve its policies, particularly in priority areas. To that effect, as outlined in the Department's 2011-2014 Strategic Plan and recent Annual Report, a number of programs/services were identified for development of new/revised policies and procedures during 2012-13 with an overall goal by March 31, 2014 to have enhanced policies and procedures to strengthen support to local governments.

Monitoring of Municipalities
