

**CORPORATE SERVICES DIVISION
FINANCIAL SERVICES DEPARTMENT
CORE SERVICES REVIEW**

BENCH MARKING

- Neither MPMP (Municipal Performance Measurement Program) nor OMBI (Ontario Municipal CAO's Benchmarking Initiative) standards are relevant to Financial Services. This is because:
 - Measurements relate to "operating" rather "corporate" activities,
 - Standards for Provincial Offences Administration (POA) are only currently being developed.
- Financial activities are subject to annual review by the County's external auditors. Auditors review not only the dollars/values recorded in the General Ledger, but also how the validity of these dollars/values was verified prior to recording.
- POA activities are governed by the Memorandum of Understanding (MOU) signed by the County with the Ontario Ministry of the Attorney General (MAG) and periodic Information Bulletins issued by that Ministry. In addition MAG performs "practice audits" to confirm operational compliance with its policies. Lambton's last POA audit occurred in October 2005 and the Ministry's Report is expected to be released shortly.
- Comparisons to other municipalities were performed but indicated as many differences as similarities. Questionnaires were sent to 6 South West Ontario municipalities with 4 responding.
- The 37 questions included in the Survey asked respondents to provide comparison data in the following areas:
 - General,
 - Revenue Development,

- Finance – Accounting,
- Finance – Internal Audit,
- Budgeting & Financial Control.

(Data regarding Payroll functions was solicited as part of a separate questionnaire circulated by the Human Resources Department)

- Comparators reviewed included:
 - Number of Finance staff,
 - Organization/range of Finance Department's responsibilities,
 - Use of external professionals (e.g. auditors),
 - Budget for Finance Department.

BEST PRACTICES

- Formal Best Practices relative to POA are currently defined by MAG's MOU and its bulletins. Informally, staff actively exchange information on practice via participation in provincial organizations such as the Municipal Court Managers Association (MCMA) and the Municipal Finance Officer's Association's POA Finance Committee (MFOA – POA).
- Again as with Performance Measurement, there are few specific Best Practices relative to finance functions. Pronouncements and directives from the Canadian Institute of Chartered Accountants (CICA), its Public Sector Accounting Board (PSAB), the Ontario

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Ministry of Municipal Affairs & Housing (MMAH) and the Ministry of Revenue along with Council's By-laws and Policies set the standards which must be followed and essentially function as proxies for best practice.

- Staff, however, do rely on the County's external auditors and their annual "Management Letter" to identify practices that may need to be reviewed or updated.

PROVINCIAL FUNDING COMMITMENTS

- There are no specific funding programs for the Finance function from either the Provincial or Federal governments.

ALTERNATIVE SOURCES OF DELIVERY

- Option 1 – Utilize a Payroll Services Contractor
- Option 2 – Centralize Accounts Payable Processing
- Option 3 – Expand Number & Role of Division Financial Co-ordinators
- **Option 1 – Utilize a Payroll Services Contractor**
 - Not a new option. The possibility of using contract services for payroll processing has been looked at each time the County reviews its operations.

- Previously discounted in the *Way Forward Report* as function was already being performed by internal staff. Responsibility for payroll processing was however recommended to move from Human Resources to Finance to reflect common municipal practice and to improve service delivery. This occurred January 1, 2002.
- VADIM's payroll module was supposed to handle the varied benefits and compensation types applicable to the County without problem or customization. It does not and has accordingly required frequent modification as well as continued interventions by both IT and Payroll staff to maintain proper and complete information. The need for VADIM to synchronize its functionality with other applications has also complicated and delayed implementation of new/improved payroll related processes such as electronic time reporting or Advance Tracker. Using a third party contractor may either eliminate or minimize both these issues.
- The functionality of the VADIM payroll module does not readily facilitate changes in pay rates in advance of their implementation date. As a result it is not currently possible to "pre-load" changes in rates and all such changes must be input in the few days available between pay or fiscal periods. Again using a third party contractor may eliminate this problem.
- Changing financial reporting requirements (e.g. Social Housing, Libraries, Homes for the Aged) mean that no single Financial Information System (FIS) can now adequately serve all functional areas of the County. Continued use of the VADIM Payroll module makes it difficult to fully utilize specialized software that can better meet these requirements.

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Option 1 – Utilize a Payroll Services Contractor

Pros	Cons
Potential for reduced costs as need for VADIM payroll module eliminated.	You want it, you pay for it. Little or no control over future changes in contract pricing.
Greater flexibility. Would facilitate the ability to use multiple, specialized FISs.	Would necessitate a complete re-working of current time reporting and payroll processing processes.
Focus on service delivery. Time input systems could be customized to meet the needs of individual departments	Less opportunity to correct input errors before processing.
Allows increased time to verify accuracy of cost allocation before posting.	Posting of costs to General Ledger no longer automated, necessitating manual entry.

• **Option 2 - Centralize Accounts Payable Processing**

- The *Way Forward Report* recommended that financial processing be decentralized. Under this model, which the County adopted in 2001, responsibility for the input of Accounts Payable (A/P) invoices, Cash Receipting (C/R) and most invoicing was transferred from Finance to processing staff resident and responsible to the manager of that Department. The reasoning was that this would increase transactional “ownership” and shorten processing times. While this has occurred in some areas, it has also led to increases in processing errors (e.g. tax calculations, G/L allocation) and processing delays beyond the ability of Finance to mitigate.

- Despite the decentralization of initial input, paid invoices continue to be retained and filed by Finance staff, who are also responsible for mailing of most payments and enclosures. As a result while Finance is no longer in control of implementing a payment, it continues to be responsible for the proper completion of them.
- Decentralization has also seen a decline in the optimum use of the County’s A/P module. The majority of invoices are now only entered once they have been approved for payment and that payment is now due. Processing on this basis negates the possibility of discounts as well as by-passing the cash management function available in VADIM. As a result it is virtually impossible for Finance staff to project cash requirements and manage the County’s bank accounts and investments in a systematic and optimum manner.
- Advancements in computer scanning functionality and the County’s Wide Area Network (WAN) since 2001 mean that protocols to achieve maximum transactional “ownership” shortened processing time and optimization of A/P processing are no longer mutually exclusive. All invoices could now:
 - Be received directly in the Finance Department and be entered immediately in A/P,
 - Simultaneously be scanned into electronic format and circulated via the County’s WAN for approval by the appropriate Departmental staff and then,
 - Other aspects and protocols of A/P processing remain unchanged.

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This would allow Finance staff to better manage the County's cash flow requirements, facilitate the opportunity to take advantage of discounts and properly utilize the A/P module while retaining the current transactional "ownership" benefits inherent in the County's current protocols.

Option 2 - Centralize Accounts Payable Processing

Pros	Cons
Better cash management control through effective use of A/P module.	Departmental staff will need to keep Finance informed as to changes to invoices.
Reduced errors because processing performed by the staff with greatest accounting knowledge and expertise.	Departmental staff with unique, specific knowledge further removed from processing processes.
Departmental staff can now concentrate on data analysis.	Departmental staff may have less confidence in data.
Uses WAN to distribute data. Internal Controls can target information instead of paper flow.	If WAN goes off-line, processing can be delayed. People like paper.

• **Option 3 – Expand Number & Role of Division Financial Co-ordinators**

- The *Way Forward Report* recommended that responsibility for the existing Financial Co-ordinators then resident in what would become the Social & Health Services and Community Services

Divisions be transferred to the Finance Department. Both positions began reporting to the Corporate Manager, Financial Services in November 2001 and were physically moved into the Finance Department later.

- These positions now work with the Financial Analyst & Systems Supervisor on Budget and internal audit matters affecting the Divisions they assist. Similarly, they also act with the Revenue Development Officer on grant or funding opportunities affecting the departments or programs they deal with.
- There is not currently a Division Financial Co-ordinator for the Infrastructure and Development Services Division. These responsibilities are currently handled – whenever possible – by the Financial Analyst & Systems Supervisor. This however often means that this Division does not receive the same level of assistance as the other 3 Divisions.
- Other municipalities that have structured themselves into divisions employ specific positions for each operating division similar to our Division Financial Co-ordinators to provide support, analysis and liaison to them. Doing so ensures that there is a staff person with detailed, specific knowledge as to the County departments or programs they support thereby increasing Finance's ability to support the needs of operating divisions in a systematic and coordinated manner.
- Creation of a Division Financial Co-ordinator position to serve and support the Infrastructure and Development Services Division would equalize service levels for the County's operating Divisions. These positions would work together under the direction of the Financial Analyst & Systems Supervisor to form a Division Services unit within Finance dedicated to supporting

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all Divisions. In addition, this would allow increased testing, review, analysis and reporting on internal control matters than is currently possible.

3. That staff be directed to develop a plan to re-allocate existing internal resources to create a Division Financial Co-ordinator dedicated to supporting the Infrastructure and Development Services Division.

Option 3 – Expand Number & Role of Division Financial Co-ordinators

Pros	Cons
All departments equally supported & supplied custom financial expertise with flexible coverage & backup.	May require minor procedural changes within the Infrastructure & Development Services Division.
Internal audit effectiveness increased.	Re-allocated staff may require training to become fully proficient in necessary skills.

Conclusion/Recommendations

1. That staff be directed to prepare and let a Request for Proposals for the supply of Payroll services from a third party contractor.
2. That staff be directed to develop a plan to implement centralized Accounts Payable Processing for return to Committee for its consideration.