REPORT FOR ACTION

Welch LLP Report on Arena Board Financial Controls and Governance

Date: June 24, 2022
To: Audit Committee
From: Chief of Staff, City Manager's Office, and
Controller, Finance and Treasury Services
Wards: All

SUMMARY

This report transmits and provides an overview of the special report on Financial Controls and Governance at the City's eight Arena Boards of Management (Arena Boards) conducted by Chartered Public Accounting firm Welch LLP (Welch) on the request of the Chief of Staff, outlines recommendations arising from the report, and directs the City Manager to report back in Q2 2023 with options for implementation.

Welch is currently under contract by the City of Toronto to conduct financial statement audits for its controlled entities for five fiscal years (2018 – 2022), including the City's eight Arena Boards of Management (Arena Boards) with responsibility for the following City-owned arena facilities:

- Forest Hill Memorial Arena
- George Bell Arena
- Leaside Memorial Community Gardens Arena
- McCormick Playground Arena
- Moss Park Arena
- North Toronto Memorial Arena
- Ted Reeve Community Arena
- William H. Bolton Arena

Welch has experienced delays in auditing and issuing audit opinions for many of the Arena Boards over the past several years**,** exacerbated and highlighted by the COVID-19 outbreak and mandatory arena closures under provincial emergency orders. At the November 2, 2021 meeting of the Audit Committee, the Chair asked what could be done to improve Arena Board performance. In response, staff requested Welch look back at issues encountered during audits of the Arena Boards over the past several years and identify any key findings, with a view to highlighting key areas of risk with respect to governance and financial oversight over the Arenas.

In its report, Welch found that delays in financial reporting stem from underlying issues at the Arena Boards with respect to internal controls, capacity, knowledge, processes

and technology. The report summarizes the issues found and notes areas for improvement. The report makes two key recommendations:

1) Evaluate new governance structures. In particular, the report recommends centralizing accounting, reporting and documentation processes. This could be achieved by having all Arena Boards use the same services or systems for accounting, cash management and payroll, while remaining independent entities. Alternatively, the report notes that the City could achieve improved coordination by bringing Arena operations under City management.

2) Evaluate different levels of assurance. Welch notes that the status quo is for the Arenas to meet the highest possible level of assurance by preparing general-purpose financial statements that are audited by an independent audit firm, as required under the City of Toronto Act, 2006. Welch notes that other audit procedures, such as a Financial Statement Review or Special Purpose Procedures (e.g. auditing only certain transactions or balances), may provide a reasonable level of assurance with less administrative burden on the Arenas and the City proportional to the level of financial risk.

This report is a transmittal of findings by Welch LLP and does not constitute City staff's advice with regard to Welch's recommendations. The City Manager will review and evaluate the recommendations provided by Welch in its report, engage key stakeholder at the City and at the Arena Boards of Management on viable actions, and report back to Audit Committee in Q1 2023 with options for implementation.

RECOMMENDATIONS

The Chief of Staff, City Manager's Office and the Controller recommend that:

1. Audit Committee receive the report of Welch LLP titled "Financial Controls & Governance: Report on Toronto City Arenas" attached to this report as Attachment 1.

2. Audit Committee direct the City Manager to consider the report of Welch LLP titled "Financial Controls & Governance: Report on Toronto City Arenas" and report back to Audit Committee in Q2 2023 with proposed actions to address the findings in the report.

FINANCIAL IMPACT

There are no financial implications arising from the adoption of the recommendations in this report. Any financial impacts arising from the recommendations in the attached report from Welch LLP will be addressed through future budget reporting.

The Chief Financial Officer and Treasurer has reviewed and approved the financial impact statement.

DECISION HISTORY

On April 6, 2022, City Council received the 2020 Audited Financial Statements and Management Letters, where applicable, for the George Bell Arena, the Larry Grossman Forest Hill Memorial Arena, the Moss Park Arena, the North Toronto Memorial Arena, and the William H. (Bill) Bolton Arena in the report titled Item 2022 AU11.11, Arenas - 2020 Audited Financial Statements (Report 2) and Status of 2020 Audited Financial Statements:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2022.AU11.11

On November 2, 2021, Audit Committee received the information report on the Status of Implementation of Recommendations for Ted Reeve Community Arena:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.AU10.9

On April 7, 2021, City Council received the audited financial statements and internal control letter for the George Bell Arena, the Ted Reeve Community Arena, and the Moss Park Arena, and requested the City Manager report back to Audit Committee on the status of the implementation of the recommendations in the management letter of December 22, 2020 regarding Ted Reeve Community Arena:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.AU8.14

COMMENTS

Arena Boards of Management

In addition to the approximately 50 arenas operated and managed by the City's Parks, Forestry and Recreation Division, eight arenas in Toronto are operated by volunteer Arena Boards of Management (Arena Boards). These include:

- Forest Hill Memorial Arena
- George Bell Arena
- Leaside Memorial Community Gardens
- McCormick Playground Arena
- Moss Park Arena
- North Toronto Memorial Arena
- Ted Reeve Community Arena
- William H. Bolton Arena

Arena Boards were established between the 1950s to 1970s by the former Toronto City Council and the former Borough of East York Council as a means to engage local communities in decision-making for managing these facilities. Arena Boards are continued as City boards under the City of Toronto Act, 2006**,** and Toronto City Council has broad authority to establish and change local boards under the Act.

The mandates and governance structures for Arena Boards are set out in Former City of Toronto Municipal Code, Chapter 25, Community and Recreation Centres. A Council-approved Relationship Framework further defines the relationship between the City and the Arena Boards and sets out Council's delegation of authority, expectations and requirements. Arena Boards have been delegated substantive functions related to operating the facilities on an ongoing basis, including:

- Developing operating plans;
- Allocating usage of the facility to residents, neighbourhood groups and user groups
- Development, funding and management of Arena programs;
- Expending and managing operating expenditures and revenues in accordance with the Council approved budget and the City's financial policies;
- Management, operation and maintenance of the Arena, including the hiring and supervision of Arena Staff and establishment of wage rates and benefits for Arena Staff; and
- Setting of fees for the use of Arena space and programs in accordance with Part IX of the City of Toronto Act, 2006.

Financial Statement and Reporting Issues

Arena Boards are required to approve annual financial statements prepared in accordance with public sector accounting standards, and these statements must be audited. Welch has experienced delays in conducting audits and issuing audit opinions for many of the Arena Boards over the past several years, due to Arena Boards not being sufficiently prepared with financial information or foundational bookkeeping practices that would allow the auditor to form an opinion. Some Arena Boards incurred additional costs as a result of the auditor having to conduct additional work. Delays in reporting have been exacerbated by the financial uncertainty arising from COVID-19 lockdowns and quarantine measures put in place by the Government of Ontario that resulted in arena operations being shut down from March to August 2020 and November 2020 to December 2021.

At the November 2, 2021 meeting of the Audit Committee, the Audit Committee Chair asked what could be done to improve Arena Board performance. As a result, staff requested Welch review issues encountered during audits of the Arena Boards over the past several years and identify key findings, with a view to highlighting key areas of risk with respect to governance and financial oversight over the Arenas.

As part of its annual audit process, Welch provides management letter points and reports any internal control findings to each Arena Board at the conclusion of the audit. Management letter points refer to significant control weaknesses that have been communicated to management and the Arena Boards. Welch aggregated and summarized its entity-specific findings to identify high-level trends that are present among all the Arenas.

Key Findings

Underlying Issues

Welch found that delays in Arena Board financial reporting are a result of underlying issues. The lack of timely audited financial information in turn leads to delays in decision-making, as Arena boards may not learn about financial issues until well into the following fiscal year. Delayed financial information also presents a challenge to the City's controllership in consolidating all Arena entities as a part of its public accounts, and therefore may impact budgeting and subsidy requests.

Welch identified three key areas (often intertwined) where the Arenas can make improvements:

1) Capacity and Knowledge. Several arenas have a lack of accounting and financial management capacity. This has been exacerbated by the current shortage of qualified staff in the accounting industry. In addition, Welch noted that while Arenas may have staffing and expertise related to arena management, they often lack the specific financial and accounting expertise to improve the control environment and financial reporting processes.

2) Processes. Many Arenas continue to use dated internal control and governance processes (e.g. for reconciliation of cash, receivables and payables, payroll and tax deductions, documentation of board minutes, and year-end adjustments). This has had the effect of limiting access to records, and contributed to late financial reporting.

3) Technology. Welch noted that the Arenas use their own individual solutions to address accounting software and reporting, which leaves deficiencies when it comes to tracking financial information. Having limited financial information leaves Arena Boards with less ability to perform detailed revenue and cost analysis, which could drive better decision-making.

Recommendations

Welch made two high-level recommendations (to be taken concurrently) for the City to consider as a first step in addressing the underlying issues identified.

1) Evaluate new solutions and governance structures

In particular, the report recommends alleviating the accounting and reporting burden on the Arena Boards by centralizing accounting, reporting and documentation processes. This could be achieved by having all Arena Boards use the same services or systems for accounting, cash management and payroll. Welch identified several benefits to this shared service, including:

- Segregating accounting / record-keeping duties from Arena management would enhance controls over potential fraud**;**
- Digitization of accounting and supporting documentation, including payment processes, would create efficiencies and streamlined processes;
- Implementing a common accounting and reporting system would assist in modernizing and standardizing financial processes across Arena Boards leading to improved timeliness of financial reports and faster consolidation;
- Arena Boards, as well as the City, would have immediate access to financial comparisons across all Arenas, enhancing governance and financial oversight;

- Cost savings associated with accounting, as centralized resources are shared across the eight Arenas.

Welch noted that an alternative approach would be to bring the Arenas within the City's own operations. This would also lead to centralizing the accounting and finance functions of all the Arenas to improve processes, use of technology, and capacity, with the express aim of better accountability over Arena operations and financial reporting. However, Welch noted that detailed exploration of this option was not within the scope of their report.

2) Evaluate different levels of assurance

Welch noted that the status quo requires the Arenas to meet the highest possible level of assurance by preparing general-purpose financial statements that are audited by an independent audit firm. Welch notes that other audit procedures, such as a Financial Statement Review or Special Purpose Procedures (e.g. auditing only certain transactions or balances), may provide a reasonable level of assurance with less complexity and administrative burden on the City and the Arenas. Special Purpose Procedures have additional advantages in that they may be tailored to complement individual Arenas, and can be focussed on the areas of highest risk and importance. Welch recommends evaluating the different levels of assurance that would complement any new solutions or governance structure, keeping in mind the City's own consolidation requirements.

Future Actions

The City Manager will review and evaluate the recommendations provided by Welch in its report, engage key stakeholder at the City and at the Arena Boards of Management on viable actions, and report back to Audit Committee in Q1 2023 with feasible options for implementation.

CONTACT

Karen Jones, A/Director, Intergovernmental and Agency Relations, 416.397.4429, Karen.Jones@toronto.ca.

Sandra Califaretti, Director, Accounting Services, 416.397.4438, Sandra.Califaretti@toronto.ca.

SIGNATURE

Fahim Kaderdina
Chief of Staff
Fahim.Kaderdina@toronto.ca
416. 392.4995

Andrew Flynn
Controller
Andrew.Flynn@toronto.ca
416.392.8427

ATTACHMENTS

- **Attachment 1:** Financial Controls & Governance: Report on Toronto City Arenas (Welch LLP Report to Audit Committee)