

Staff Report



To	Committee of the Whole
Service Area	Corporate Services
Date	Tuesday, September 7, 2021
Subject	Specified Auditing Procedures Report on Compliance with Long-Term Care Services Agreement

Recommendation

1. That staff be directed to initiate an update to the 2015 Long-Term Care Services Agreement, in accordance with report 2021-250, with The Elliott Community including a review of the Indirect Cost Allocation Schedule.
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Executive Summary

Purpose of Report

To provide Council with the Specified Auditing Procedures Report prepared by KPMG over compliance with the 2015 Long-Term Care Services Agreement (the Agreement) and accompanying Indirect Cost Allocation Schedule between the City and The Elliott Community (The Elliott).

Key Findings

The Agreement was put in place in 2015 when The Elliott became the City's designated long-term care home. The 2021 budget approved by Council for The Elliott represented a 24% increase over the 2020 transfer payment, and The Elliott's management is requesting an update to the agreed to capital plan and reserve funding schedule.

KPMG performed a Specified Auditing Procedures engagement. In this type of engagement, procedures are designed and performed, and the findings are described to enable the reader to interpret the significance of the findings and draw their own conclusions; the auditor does not provide an opinion.

KPMG compared the 2020 actual audited results with the 2021 budget, and, where possible, with the Indirect Cost Allocation Schedule, with more detailed procedures focusing on expense lines.

This process highlighted opportunities for updating the Agreement to reflect the evolution of business practices and lessons learned in the six years that the Agreement has been in place.

Financial Implications

There are no direct financial implications from this report.

Report

Background

Subsection 119(1) of the Long-Term Care Homes Act (LTCHA) requires every southern upper or single-tier municipality to establish and maintain a municipal Long-Term Care home. The Ministry of Health and Long-Term Care approved The Elliott's Long-Term Care residence as the City's municipal home in 2014.

Council has delegated its authority for the management and operation of the home to the Board of Trustees of The Elliott, which is a local board of the City. The City has established a Committee of Management in accordance with section 132 of the LTCHA, which consists of all current City Council members and is responsible for making decisions and providing direction to the Elliott's Board of Trustees to fulfill its duty of care under the LTCHA. Under the City's Delegation of Authority Bylaw, an agreement setting out the terms of the relationship between the City and The Elliott is required.

In addition to its long-term care home, The Elliott's operations also include a retirement home and life lease facilities. Some costs are directly applicable to one of these service areas, and others are shared among the operating units (also called indirect costs). The City's financial contributions to The Elliott are for the long-term care operation only, and are based on the Agreement dated February 26, 2015 and the accompanying Indirect Cost Allocation Schedule.

The Agreement requires The Elliott to (i) prepare and submit an operating and capital budget for the long-term care operation to the City for the next fiscal year in the form and detail required by the City Treasurer; (ii) present its budget to the Committee of Management for review and recommendation to Council; and (iii) attend Council to present its budget and provide information requested by Council or the Treasurer. Part of the due diligence undertaken by staff in 2014 was a Building Condition Assessment which recommended that a capital reserve fund be established to support the future capital replacement costs for the long-term care operation with annual transfers of \$212,000 per year, as outlined in report [CSS-CESS-1416 – Approval of The Elliott to Operate as the City's Municipal Home](#). The Agreement also empowers the City to engage the external auditor for The Elliott to undertake a review of the compliance with the Indirect Cost Allocation Schedule.

In December 2020, The Elliott requested and Council approved a one-time operating transfer of \$465,300 to support compensation parity increases for nursing and personal support positions in addition to the base budget increase requested. Together with the base budget increase, this represented a 24% increase in the annual transfer from the City to The Elliott in 2021. In the 2020 budget, the annual capital transfer increased from \$212,000 to \$312,000 for one year only to address issues related to building security systems. The Elliott's management has indicated that they feel there needs to be an update to the capital plan and reserve funding schedule that was agreed to in 2014 based on a more recent Building Condition Assessment. It is expected that The Elliott will formally make this request regarding the capital plan, along with the continued contribution of operating funds to support compensation parity as part of their 2022 budget submission.

The significant 2021 budget request, together with the fact that the Long-Term Care Services Agreement has now been in effect for six years prompted the City to

request a Specified Auditing Procedures engagement with respect to the Agreement and the Indirect Cost Allocation Schedule.

Specified Auditing Procedures Engagement

KPMG's Report on Specified Auditing Procedures can be found at Attachment-1 to this report, along with an accompanying letter at Attachment-2 explaining KPMG's approach to this engagement. In this type of engagement, the auditor cannot provide an opinion either individually on procedures, or overall based on the aggregate of all of the procedures undertaken; rather the procedure and the findings for each procedure are described, enabling the reader to make their own interpretation as to the significance of the finding.

City staff requested audit procedures that would compare the approach to cost allocations in the 2020 actual results with the approach in the 2021 budget, and with the Indirect Cost Allocation Schedule.

The Elliott reports their actual financial results to the Ministry of Health and Long-Term Care annually, and these reports are audited by KPMG; therefore, staff are confident that the 2020 actual results provide a materially accurate baseline for comparison.

KPMG compared the 2021 budget to the 2020 actual results on a line-by-line basis and noted the differences between the 2020 actuals and the 2021 budget in their findings. After that comparison, further detailed procedures were performed, where possible, to gain an understanding of the consistency of the methodology among the actual results, budget, and Indirect Cost Allocation Schedule for that line item. Long-term Care revenue is not generally based on an allocation, rather it is direct revenue for or from long-term care services, and although a comparison of revenue lines was made for completeness, the focus of more detailed procedures are the expense lines.

KPMG has provided a memo to accompany their report to help provide insight into their approach to this engagement, as well as recommendations for items to consider in updating the Agreement.

Staff do not have any significant concerns about the findings in the Specified Auditing Procedures Report; however, through this process, potential areas of opportunity for improving the accountability and transparency of the Agreement were identified, as well as potential updates based on the evolution of business practices and operational realities in the six years since the Agreement was put in place. Staff see this review as an opportunity for continuous improvement based on the understanding that has been gained by both parties over the past six years.

The following areas of opportunity were identified:

- A multi-year operating and capital budget with funding sources is not currently required, but is now part of the City's planning cycle. Alignment with this practice by local boards would help improve the accuracy of the City's multi-year budget process and reduce the likelihood of unexpected changes in years between budget approvals.
- Review the updated Building Condition Assessment and make recommendations for an updated capital reserve fund strategy and planning cycle.

- A full-time equivalent (FTE) schedule is not currently required to be provided as part of the annual budget process, however this would enable comparison from year-to-year and comparison with the Indirect Cost Allocation Schedule.
- Variance reporting throughout the year is provided quarterly to the Committee of Management as outlined in the Agreement, but there is no formal reporting mechanism to the City Treasurer on actual results.
- The Elliott's audited financial statements do not contain budget information for The Elliott as a whole, nor segmented reporting for each operating segment's actual results (long-term care, retirement, life lease).
- The long-term care operation operates at a loss, and, as a not-for-profit organization, the retirement and life lease operations help to subsidize this loss. However, the expected level of subsidization of the long-term care operation by the other operating segments is not defined in the Agreement.
- Some indirect costs are not included in the Indirect Cost Allocation Schedule.
- Costs in the Indirect Cost Allocation Schedule are split out as fixed percentages for each business segment, however the split could be based on identified cost-drivers rather than fixed percentages, enabling flexibility and fairness as The Elliott's operations grow or change.

Financial Implications

There are no direct financial implications from this report.

Consultations

None noted.

Strategic Plan Alignment

Responsible and collaborative management of relationships with the City's local boards supports the Working Together for our Future strategic objective of developing a long-term financial and resource strategy that is achievable and affordable.

Attachments

Attachment-1 2021 The Elliott Specified Audit Procedures Report

Attachment-2 Letter from KPMG

Departmental Approval

None noted.

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