



County of Lennox and Addington

Financial Services Review

Municipal Modernization Program Project Report

Final Report

January 19, 2023



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Executive Summary

Lennox and Addington County (the “County”) is an upper-tier municipality located in Southeastern Ontario that provides a range of municipal services to residents, businesses, community organizations, local municipalities and other clients. With a total population of just over 45,000 residents, the County is budgeted to spend \$88 million on the delivery of municipal services, with approximately 360 full-time equivalent staff employed by the County. In order to fund its operating and capital requirements, the County relies on a variety of revenue sources, with 36% of its total revenues (\$31.7 million) budgeted to be generated through municipal taxes in 2022.

The Finance Department (the “Department”) has primary responsibility for financial management for the County, working with other functional departments on budgeting and financial planning, transaction processing and financial reporting. In achieving its mandate, the Department works with a number of internal and external customers, as well as financial institutions, funding and regulatory agencies.

In order to enhance the effectiveness and efficiency of the Department’s processes, as well as ensure an appropriate level of customer service and risk management, the County has retained KPMG LLP (“KPMG”) to undertake a review of the Department and its approach to service delivery. Funding for the review is provided by the Province of Ontario through the Municipal Modernization Program, which is intended to “help small and rural municipalities modernize services”.

This report outlines the results of our review.

A. Background to the Review

Pursuant to the terms of engagement, the key deliverables associated with the review included the following:

- The development of departmental overview that summarizes the Department’s staffing, budgetary requirements and services;
- Processing maps of the Department’s processes that outline the individual work steps involved in the delivery of the service as well as potential areas for improvement from the perspective of operating efficiencies, customer service enhancements, improved internal controls and risk management/mitigation strategies;
- A comparison of financial and performance indicators with selected upper-tier municipalities;
- An assessment of the County’s policy environment with respect to financial decision-making;
- A review of the Department’s customer service and risk management strategies and outcomes; and
- The identification of potential courses of action that could be considered by the Department to enhance its operating effectiveness and efficiency.

We would like to take the opportunity to acknowledge the assistance and cooperation provided by staff of the Department that participated in the review and supporting analysis. Reviews such as this require a substantial contribution of time and effort on the part County employees and we would be remiss if we did not express our appreciation for the cooperation afforded to us over the course of our engagement.

Executive Summary

B. Key Themes

Given the nature of our engagement and its intended outcomes, our review is focused on areas for potential improvement of the Department's processes and other aspects of service delivery. As such, our report contains only limited commentary on positive aspects of the Department's activities. In addition, our experience indicates that where opportunities for improvement have been identified, these also exist in other municipalities and as such, our findings are not necessarily unique to the Department.

Our report includes a number of observations, representing areas for potential improvement that can be considered by the Department and County in order to enhance its operating efficiency and effectiveness and which are summarized below:

1. The Department's activities are heavily influenced by requirements established by legislation, regulation and funding agreements and as such, a significant amount of its work demands are mandatory in nature and cannot by their nature be reduced. In a number of instances, these work demands have increased in recent years due to new reporting requirements resulting from the pandemic, the introduction of new funding programs and recently introduced legislation.
2. While the review has identified a number of positive aspects associated with the Department's processes, operating inefficiencies do exist, including (in no particular order of priority): (1) the continued reliance on hardcopy documentation and manual work processes for some processes (most notably Provincial Offences); (2) the performance of low value and duplicative work efforts, including low value work undertaken by senior members of the Department; (3) unaddressed system functionality issues that require staff to perform so-called work arounds; (4) the overprocessing of transactions due to the absence of thresholds or too frequent performance of procedures; and (4) the occurrence of preventable errors that increase processing time.
3. In addition to inefficiencies inherent in the Department's processes, we also note that the County's policy framework for financial decision-making can also lead to operational inefficiencies as a result of limited delegation of authority to staff or gaps in policies that preclude efficient decision-making.
4. In comparison to similar-sized upper tier municipalities, the County has lower administrative costs and staffing. While this can be seen as representative of operating efficiencies, our experience would suggest that the County may actually be under-resourced with respect to administrative capacity, including but not limited to the Department. In addition to the results of the comparative analysis, identified instances of senior level Department staff performing relatively lower level administrative functions, the apparent absence of sufficient capacity within the Department to allow for unplanned staff vacancies and instances of non-compliance with reporting timeframes and other requirements are also considered to be indicative of apparent understaffing within the Department.

Executive Summary

5. While the Department (and by extension the County) have identified enterprise-level risk exposures, existing response strategies may be insufficient to minimize the impacts to the County and its residents in the event that the risk materializes.
6. Notwithstanding our observations concerning the Department's processes and resourcing, our review also identified a high level of satisfaction on the part of internal customers with respect to its performance, although the efficiency of the Department's processes and the absence of proactive service delivery were identified as areas for potential improvement.

C. Potential Courses of Action

In response to the results of the review, the Department may wish to consider the following courses of action that are intended to address the areas for potential improvement in its performance and operating efficiency:

1. **Process redesign.** The Department may wish to consider implementing incremental changes to its processes for service delivery in order to increase its overall efficiency and effectiveness. Recommended courses of action include the continued digitization of processes and associated documentation, the elimination of low-value and duplicative work efforts, reassignment of lower value administrative tasks from senior personnel and other strategies to enhance operating efficiencies.
2. **Policy revision and development.** In order to enhance the efficiency of financial decision-making, the Department may wish to consider revising existing and developing new financial management policies, including (1) revising the County's procurement policy to achieve an enhanced level of delegation of responsibility to staff while preserving effective Council oversight of procurement; and (2) establishing new policies for priority financial areas such as reserves and reserve funds, debt management and capital financing.
3. **Increase in staffing complement.** The results of our analysis arguably support the view that the Department would benefit from additional staffing resources in order to comply with service level requirements associated with the County's regulatory and funding environment and we suggest that consideration be given to adding one full-time position to the Department. In addition, the County may also wish to consider additional staffing increases for procurement (one position) and information technology in order to address other potential challenges faced by the County. In connection with changes to its staffing complement, the Department should also consider an assessment of its organizational design and assignment of responsibilities, including ensuring an appropriate balance of responsibilities between different staff within the Department.
4. **Formalized approach to customer service.** Internal customers within the County have a high level of satisfaction with the Department and as such, we suggest that rather than requiring significant changes to customer service, the Department should seek to maintain its current level of service and responsiveness. Potential strategies that could be considered include periodic surveys of customers, scheduled communications concerning the Department's activities and the hosting of information sessions for County staff interacting with the Department.
5. **Address enterprise-level risk exposures.** Working in conjunction with other County departments, we recommend that appropriate responses to high priority risk areas be developed, particularly with respect to cybersecurity and identified instances of regulatory non-compliance.

Executive Summary

D. Anticipated Benefits

The potential benefits resulting from efficiency gains that could be realized by the County can be in the form of financial benefits, capacity benefits and/or other benefits:

- **Financial benefits** refer to efficiency gains that provide incremental cost savings to the Department through reductions in supplies, materials and other operating costs. We do not anticipate that the identified opportunities for improvement will reduce workload levels to the extent where staff reductions can be supported and as such, have not considered any savings in administrative personnel costs.
- **Capacity benefits** result from workload reductions achieved through efficiency gains, allowing the Department's personnel to focus on higher-value activities. Based on our experience, we suggest that capacity benefits could equal 2% to 5% for the Department, representing the monetary equivalent of \$40,000 to \$100,000 in efficiency gains annually, with additional efficiencies for functional departments in connection with their involvement in financial processes.
- **Other benefits** include non-quantifiable benefits resulting from changes to the County's processes, such as environmental benefits resulting from the reduced use and transportation of paper documents, enhanced compliance with legislation and regulation and the maintenance of the Department's high level of customer service satisfaction.

In addition to these benefits, additions to the Department's staffing complement are also expected to contribute positively to staff well-being, morale and engagement by creating capacity within the Department, in turn addressing current pressures that manifest themselves in non-compliance with requirements established by legislation, regulation and funding agreements.



County of Lennox and Addington

Introduction



Introduction to the Review

A. About the Review

Established in 2019, the Municipal Modernization Program (the “Program”) provides funding to small and rural municipalities to support the identification and realization of efficiencies through the modernization of service delivery¹. Projects funded under the Program can either involve:

- Reviews of municipal services in order to identify opportunities for operating efficiencies and resultant cost savings through strategies such as streamlining of approval processes, enhanced service integration, increased use of digitization and/or shared service arrangements; or
- Projects involving the implementation of opportunities for efficiencies and cost savings.

As a condition of the Program, funding is only provided for projects that do not involve a reduction in front line services, among other conditions.

Under the Program, the County has received funding for a review of its Finance Department (the “Department”), the objective of which is to enhance the effectiveness and efficiency of the Department, in turn contributing towards increased value-for-money, enhanced customer service and risk management and contributions towards the County’s financial planning and strategy development.

B. Project Scope

As outlined in the terms of reference for the review, our evaluation of the Department included the following work elements:

1. The development of an initial overview of the Department’s activities, including:
 - What does the service entail and what is the public policy objective that it seeks to address?
 - What is the rationale for the County’s delivery of the service?
2. A comparative analysis of staffing and other indicators for five similar-sized upper-tier municipalities, the intention of which was to provide perspective on the County’s organizational structure and staffing levels.

¹ We understand that 405 Ontario municipalities are eligible for funding under the Program, with municipalities required to submit expressions of interest for individual projects. We further understand that the remaining municipalities (large and urban) are eligible to receive funding for similar projects under the Province’s Audit and Accountability Fund.

Introduction to the Review

3. The development of process maps that provide, in flowchart form, an overview of (i) the individual worksteps performed by Department personnel in the delivery of the services selected for review; (ii) the sequential ordering of the worksteps; and (iii) decision points included in the process. Specifically, the process maps are intended to identify areas for potential improvement, including:
 - Process inefficiencies, which may include duplication of efforts, manual vs. automated processes and the performance of work with nominal value
 - Client service limitations, representing aspects of the Department's operations that may adversely impact on customer satisfaction
 - Financial risk, representing areas where the Department's system of internal controls is insufficient to prevent the risk of financial loss
 - Reputation risk, consisting of potential areas where the Department's processes may expose it to litigation or reputational risk, including areas where existing measures to mitigate risk are considered insufficient
4. A review of selected financial and human resource policies for the County, the purpose of which is to identify potential areas for enhancement through (1) improved operating efficiencies and decision-making; (2) addressing potential gaps in policy areas; and (3) aligning the County's policies with municipal best practices.
5. The development of a framework for client service for financial services that focuses on both internal and external clients of the Department.
6. The identification and prioritization of potential enterprise-level risks facing the Department along with potential strategies for risk management that could be considered by the County.

C. Acknowledgements

We would like to acknowledge the assistance and cooperation provided by staff of the County that participated in the review. We appreciate that reviews such as this require a substantial contribution of time and effort on the part of Municipal employees and we would be remiss if we did not express our appreciation for the cooperation afforded to us.



County of Lennox and Addington

Departmental Overview



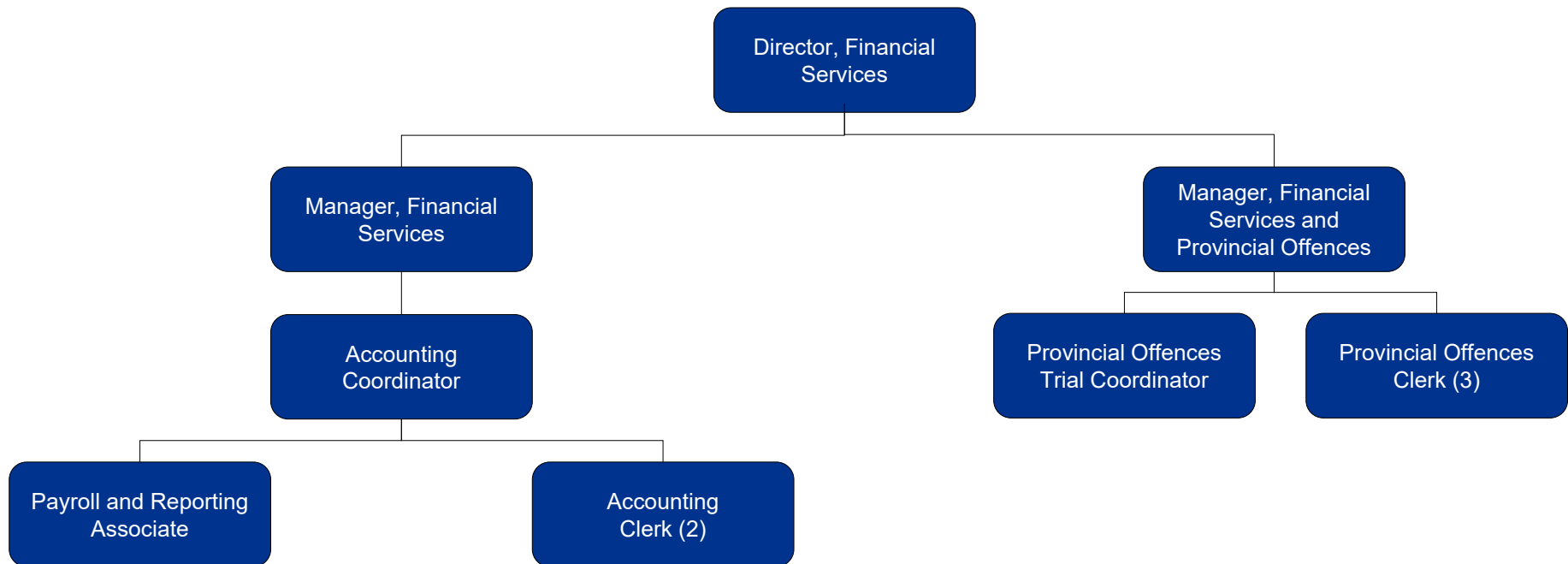
Departmental Overview

A. Organizational Structure and Resources

The Department is one of seven departments reporting to the County's Chief Administrative Officer, with the Director, Financial Services responsible for the overall management and oversight of the Department. From an organizational perspective, the Department is divided into two functional units:

- **Financial Services**, which is responsible for all aspects of the County's financial management, including but not limited to budgeting, financial reporting and transaction processing; and
- **Provincial Offences**, which administers the *Provincial Offences Act*, including courts and fine collection for non-criminal charges such as traffic offenses.

The Department has a budgeted staffing complement of 11 employees, with additional business and account analyst resources within the County's Social Services Department.



Departmental Overview

From a budgetary perspective, the Department's revenues and expenditures are allocated across three different components:

- Costs relating to the Director, Financial Services are included in Corporate Administration costs, which also includes the CAO, Clerk, Communications Assistance and Administrative Assistant;
- Costs relating to Financial Services are combined with Human Resources and Information Technology for budgetary purposes; and
- Provincial Offences is presented as its own budget component.

For budget purposes, neither Human Resources, Finance and Technology ("HRFT") or Provincial Offences are directly funded through the County levy:

- HRFT costs are fully allocated to other functional departments within the County, resulting in no levy requirement specifically identified for HRFT (although under departments are required to fund these allocated costs through their respective levy requisitions); and
- Provincial Offences generates an operating surplus, resulting in a net contribution (i.e. reduction) to the County levy.

Included on the following page is a summary of actual and budgeted revenues and expenses for HRFT and Provincial Offences for 2020 to 2022. As noted on the summary, the largest single operating cost for HRFT and Provincial Offences is related to personnel, with salaries and benefits representing approximately 60% of total budgeted operating costs in 2022.

Departmental Overview

	2020		2021		2022
	Budget	Actual	Budget	Actual	Total
Wages and benefits	\$1,865,100	\$1,829,763	\$1,886,000	\$1,950,621	\$2,025,800
Transfers to other municipalities	\$458,300	\$242,885	\$337,500	\$244,161	\$388,800
Other expenses	\$950,030	\$529,339	\$906,980	\$647,256	\$908,900
Total expenses	\$3,273,430	\$2,601,987	\$3,130,480	\$2,842,038	\$3,323,500
Fines and penalties	\$2,596,000	\$1,432,395	\$1,875,100	\$1,687,509	\$2,160,120
Corporate allocations	\$1,725,350	\$1,604,913	\$1,803,075	\$1,746,554	\$1,859,300
Other revenues	\$152,000	\$23,002	\$106,000	\$29,976	\$106,000
Total revenues	\$4,473,350	\$3,060,310	\$3,784,175	\$3,464,039	\$4,125,420
Contribution to County levy	(\$1,199,920)	(\$458,323)	(\$653,695)	(\$622,001)	(\$801,920)
• Human Resources, Finance and Technology	–	–	–	–	–
• Provincial Offences	(\$1,199,920)	(\$458,323)	(\$653,695)	(\$622,001)	(\$801,920)

Departmental Overview

B. Service Overview and Basis of Delivery

The Department has primary responsibility for the full cycle of the County's financial management processes, commencing with the annual budgeting process through to transaction processing and interim and year-end reporting. In doing so, the Department works with other functional departments within the County who provide guidance with respect to annual budgeting, initial and approve transactions and provide input as part of the County's reporting processes. In addition, the County's Social Services Department has embedded financial analyst resources (i.e. not part of the Department) that assist with transaction processing and Ministry reporting for social service programs.

A summary of the various services provided by the Department is presented below:

Financial Planning	Transaction Processing	Financial Reporting
<ul style="list-style-type: none">• Financial forecasting and long-term planning• Annual budgeting• Asset management planning (financial aspects)• Input into County strategic initiatives and plans• Tax policy (including tax ratio setting for lower tier municipalities)• Debt management• Reserve and reserve fund management• Treasury management	<ul style="list-style-type: none">• User fee receipts and revenues• Grant revenues• Payments from lower tier municipalities• Accounts payable and purchases• Employee expenses and corporate credit cards• Payroll• Employee benefits• Provincial Offences (financial and court activities)	<ul style="list-style-type: none">• Interim reporting to management• Interim reporting to Council• Year-end reporting to Council• Year-end audit• Reporting for specific grant programs (Federal Gas Tax, Safe Restart Program, etc.)• Financial Information Return• Provincial Offences reporting

Departmental Overview

Generally speaking, municipal services can be grouped into one of four categories based on the rationale for their delivery:

- **Mandatory Services** – Services that are required to be delivered by regulation or legislation;
- **Essential Services** – Services that, while not mandatory, are required to be delivered in order to ensure public health and safety and/or the effective functioning of a municipality as a corporate body;
- **Traditional Services** – Non-mandatory, non-essential services that are typically delivered by municipalities of comparable size and complexity and for which a public expectation exists that the service will be provided; and
- **Other Discretionary Services** – Services that are delivered at the direction of a municipality without a formal requirement or expectation, including services that may not be delivered by other municipalities of comparable size and complexity.

While the requirement for municipalities to maintain a capacity to manage the financial aspects of its operations often results in financial services to be viewed as essential services, it is important to recognize that a number of services provided by the Department are required by legislation or regulation and as such, are more appropriately considered to be mandatory services.

- The Municipal Act prescribes a range of requirements for the County with respect to financial management and administration, including but not limited to:
 - Part VII relating to financial administration (e.g. requirement for a municipal treasurer, budgeting, financial reporting);
 - Part VIII relating to municipal taxation;
 - Part XII relating to fees and charges; and
 - Part XIII relating to debt and investments.
- In addition to the provisions within the Municipal Act, a number of related regulations also establish and/or prescribe financial processes for the County, some examples of which include:
 - Ontario Regulation 403/02: Debt and Financial Obligation Limits
 - Ontario Regulation 438/97: Eligible Investments, Related Financial Agreements and Prudent Investment
 - Ontario Regulation 653/05: Debt-Related Financial Instruments and Financial Agreements

Departmental Overview

Other legislation, regulations and agreements also prescribe mandatory requirements for the Department, including but not limited to:

- The passing of Bill 108 on November 29, 1999 transferred the administration and prosecution responsibility for POA.
- The Infrastructure for Jobs and Prosperity Act requires all municipalities to establish asset management plans and supporting policies;
- The County has a number of mandatory financial reporting requirements resulting from its designation as a Consolidated Municipal Service Manager for the delivery of social services;
- The requirement for the County to administer and report on long-term care as required under the Long-term Care Act;
- Special reporting requirements arising from the pandemic, including but not limited to infection and protection control costs for long-term care, expanded reporting for land ambulance services and reporting of outcomes and uses of fund under the Ontario Safe Restart Program;
- Development of grant applications under various Provincial funding programs;
- Funding agreements typically require mandatory reporting requirements with respect to the use of funds and project outcomes (e.g., Federal Gas Tax Program, Ontario Community Infrastructure Fund, Community Paramedic Program).

A number of these requirements have been introduced in recent years, placing additional demands on the Department with respect to financial planning and reporting.



County of Lennox and Addington

Key Observations and Findings



Key Observations and Findings

Our review of the Department's operations involved the following primary approaches to gathering information and identifying potential opportunities for cost reductions and financial reinvestment:

- A review of relevant documentation concerning the County's financial services, the intent of which was to provide an understanding of the Department's services and resource requirements;
- A comparison of financial and other performance indicators to selected municipalities, intended to provide perspective as to the Department's staffing levels and associated costs;
- Facilitated working sessions with staff to review the Department's processes and ways of working and identify potential opportunities for improvements with respect to (1) customer service; (2) operating efficiencies; (3) internal controls; and (4) risk management, including the potential for mitigation of litigation, reputational and other risks;
- A survey of internal customers intended to assess the level of satisfaction with the Department's services;
- A facilitated working session with staff to assess the Department's current approach to customer service and to establish a more formalized framework for a customer service strategy; and
- A facilitated working session with staff to identify and prioritize enterprise-level risks facing the Department (and by extension the County) and determine potential response strategies that could be undertaken by the County.

As the scope of our review was intended to focus on areas for potential improvements and/or cost reductions, we have not necessarily provided commentary on the numerous positive aspects of the Department's operations and processes identified during the course of our review. Rather, our comments and observations have focused on areas for potential enhancement by the Department and include the following major areas identified during the course of our review.

Key Observations and Findings

1. While the review has identified a number of positive aspects associated with the Department's processes, opportunities exist to enhance operating effectiveness and efficiency

During the course of our review, KPMG worked with County staff to develop process maps for 14 work processes undertaken by the Department (in certain cases in conjunction with other departments of the County).

- Procurement
- Accounts payable and payments
- Payroll
- Expense reports and corporate credit cards
- Reserve and reserve fund transactions
- Internal and external financial reporting
- Budgeting
- Debt management
- Provincial Offences
- Social services payments
- Land ambulance financial transactions
- John M. Parrot financial transactions
- Library and museum financial transactions
- Infrastructure services financial transactions

The results of the process maps identified both strong points of the County's processes, as well as areas for potential improvement. Examples of positive findings from the process maps include the following:

- Certain processes are characterized by relatively high utilization of electronic as opposed to hardcopy documentation, eliminating the need to print, retain and retrieve paper copies of documents; and
- The County has developed MS Excel macros that significantly reduce the time required to manipulate and analyze financial data for budgeting, financial reporting, account reconciliations and other purposes.

Notwithstanding the positive results identified through the review, the process maps (provided under separate cover) identified opportunities for enhanced efficiencies and operating effectiveness, which generally fall into the following categories:

- Increasing the use of digitization, including electronic document formats and processes (e.g. corporate credit card processing, Provincial Offences transactions)
- Eliminating low value or duplicative work efforts (e.g. eliminating duplicate approvals [currently three] for the set-up of new hires)
- Changing the frequency of work activities to create staff capacity (e.g. processing point of sales slips weekly as opposed to daily)
- Addressing system functionality limitations, thereby eliminating the need for so-called manual workarounds that require staff to manipulate data when transferring from one system to another or to track information through alternative means (e.g. addressing system functionality limitations for social housing that require staff to manually manipulate data)

Key Observations and Findings

- Revising processes and thresholds to create better value-for-money (e.g. implementing exception criteria for Treasurer reviews as opposed to reviews of full reports)
- Addressing preventable errors through increased training, monitoring and communication (e.g. reducing the instances of timecards not submitted by the payroll processing deadline)

With respect to these opportunities, we make the following comments and observations:

- The results of our review of the Department are consistent with similar evaluations undertaken for other municipalities, which have typically identified similar types and numbers of potential opportunities for improvement.
- To a large extent, we suggest that the results of the evaluation are reflective of limited resources and capacity for the Department to undertake continuous improvement activities (which once again is consistent with our experience with other municipalities). As noted later in the report, the Department has a lower level of staffing in comparison to other upper tier municipalities, further limiting the ability to undertake continuous improvement activities.
- While the review identified a relatively high number of opportunities for process changes, we do not believe that these will translate into a reduction in the County's personnel complement. Specifically:
 - The opportunities impact a number of different processes and as such, are expected to be spread across multiple employees (as opposed to being concentrated within a single position);
 - The recommended changes to the County's processes are expected to result in incremental time savings as opposed to wholesale reduction in work efforts;
 - To a large extent, we suggest that the capacity gains realized from the recommended efficiencies (i.e. time savings) will allow staff to focus on other priorities, including higher-value activities; and
 - Given the relatively low level of staff in comparison to other municipalities, we suggest that the potential for staffing reductions, even with the realization of efficiencies, is low.

Key Observations and Findings

2. In certain instances, the County's policy environment may contribute towards operating inefficiencies.

The County has established a variety of policies relating to financial management which cover both strategic-level decision making and operational procedures, the more significant of which include the County's policies for procurement, strategic asset management, investments and budgeting and reporting. While the County's current policy environment is generally consistent with similar-sized upper tier municipalities, we have identified the potential for either existing policies or missing policies to impact the Department's operating efficiency. For example:

- The County's current procurement policy requires all procurements with a value of \$100,000 or greater to be approved by Council, which requires staff time for reporting. This results in the potential for duplicate approvals by Council where (1) the procurement was initially approved by Council as part of the County's budget process; and (2) the procurement is approved a second time upon awarding of the contract. In order to avoid duplicate approvals by Council (and the associated investment in staff time), some municipalities have adopted wording that requires Council approval based on specific criteria (e.g. required by legislation, procurement that doesn't comply with the procurement policy) as opposed to a prescribed dollar threshold.
- The County's budget policy requires staff to obtain Council approval for the disposition of any annual surplus or funding of annual deficits, which requires staff time for analysis and reporting. In order to provide consistency in the allocation of reserves as well as reduce staff time for the disposition of year-end surpluses and deficits, some municipalities have developed policy wording that allows for the automatic disposition of the year-end surplus/deficit without Council approval.
- While the County's budget and reporting policy includes wording relating to reserves and reserve funds, it does not establish minimum and maximum targets for reserves or reserve funds. As a result, the potential exists for (1) increased staff time associated with determining and seeking approval for reserve and reserve fund contributions; and/or (2) insufficient reserve and reserve fund balances, which may impact the longer-term sustainability of the County.

3. Internal customers appear satisfied with the level of service provided by the Department

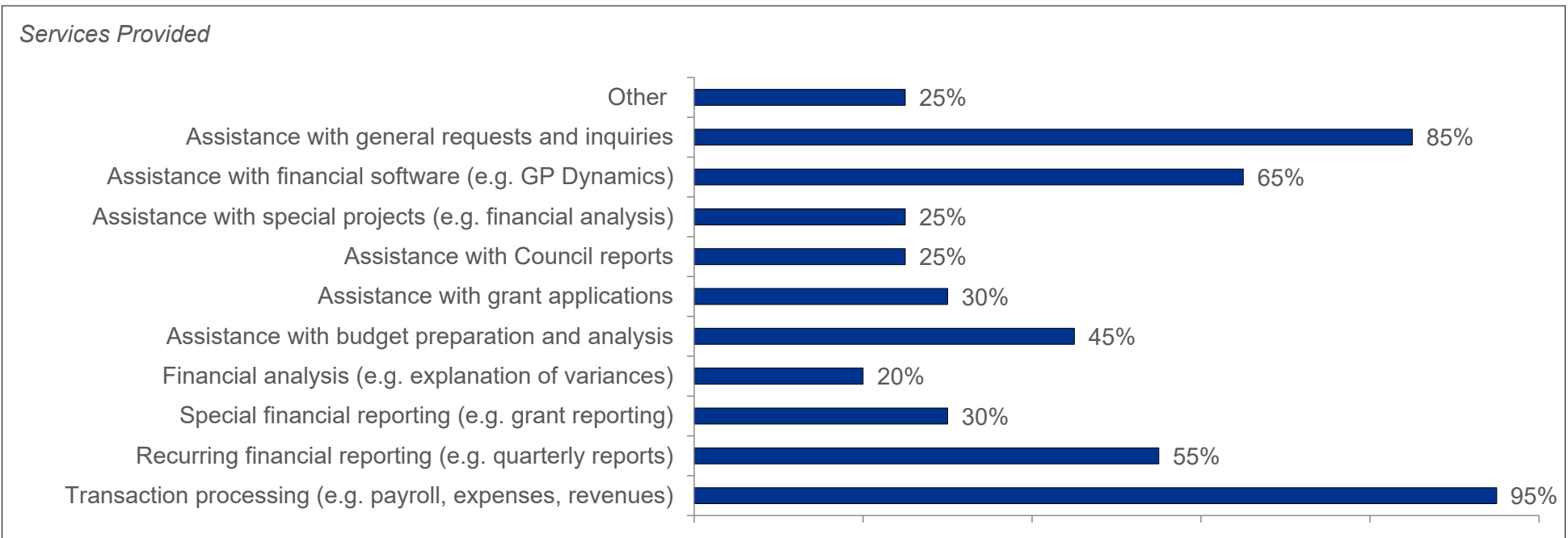
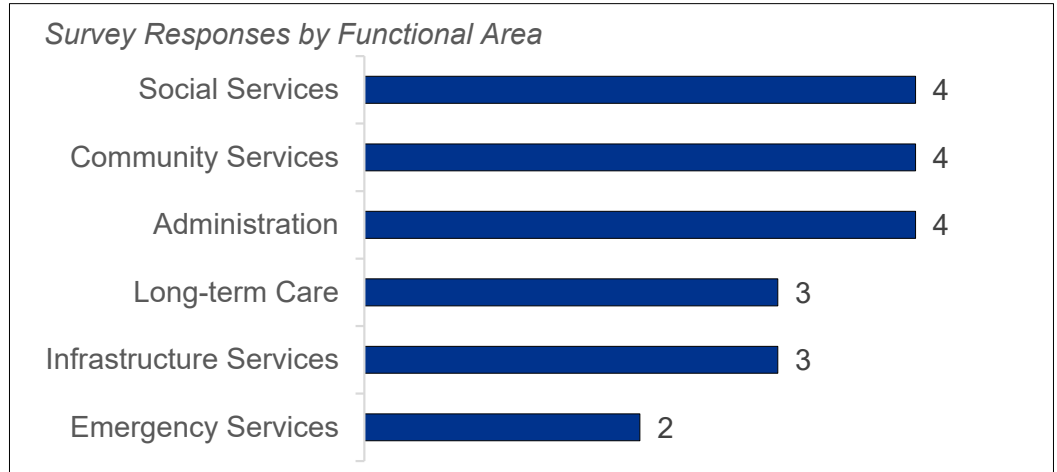
As part of the review, a survey of internal customers (i.e. staff from other County departments) was undertaken that solicited input with respect to the level of customer service provided by, specifically:

- The services provided to them by the Department;
- How well the Department delivers services and meets their needs; and
- The Department's strengths and areas for potential improvement.

Key Observations and Findings

Overall, a total of 20 survey responses were received, representing feedback from all of the County's functional areas. Almost all (95%) of survey respondents interacted with the Department on transaction processing, with general requests and inquiries (85%) assistance with financial software (65%), recurring financial reporting (55%) and assistance with budgeting and variance analysis (45%) representing other significant types of interactions between the respondents and the Department.

Given the nature of the County's operations and the limited interaction between the Department and external customers, a survey of external clients was not undertaken as part of the review.



Key Observations and Findings

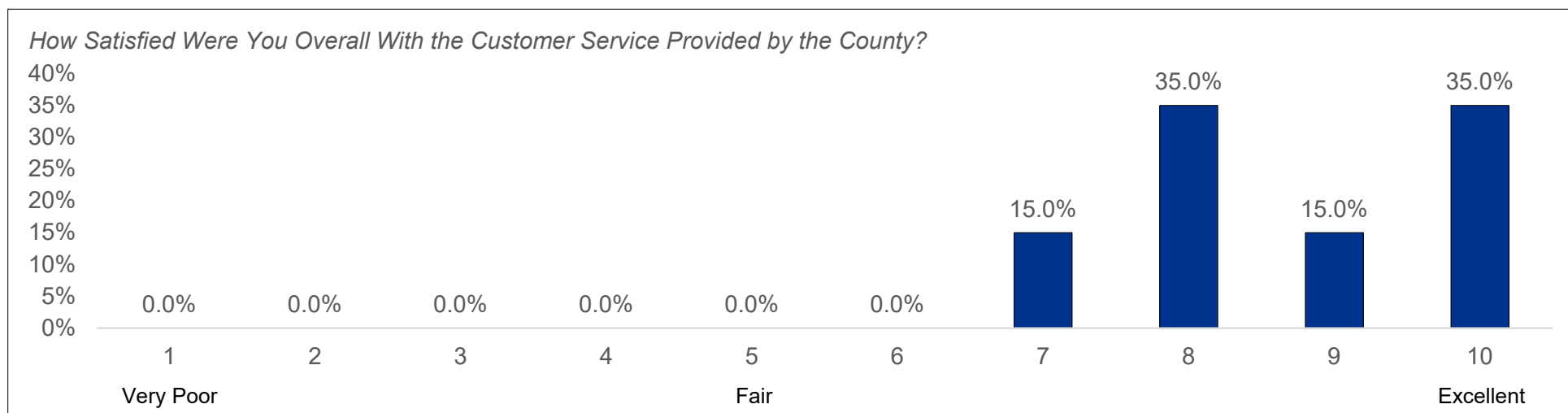
The results of the survey indicate a high degree of satisfaction with the performance of the Department, with a high percentage of respondents (+90%) strongly or somewhat agreeing to positive statements concerning the Department's performance and responsiveness. Notwithstanding the overall positive nature of the survey, respondents did provide a lower rating (60%) with respect to the Department being proactive with service delivery. In addition, 35% of survey respondents also agreeing that the Department's processes are inefficient and/or involve excessive controls and processes, which we believe is consistent with the results of the process mapping that indicated the positive aspects of the Department's processes in combination with potential opportunities for enhancement.

	<i>To what extent to you agree or disagree with the following statements?</i>				
	Strongly Agree	Somewhat Agree	Total Agree	Somewhat Disagree	Strongly Disagree
The Department responds to my request for service in a timely manner	70%	25%	95%	0%	5%
The Department provides information that is accurate and consistent with my request	65%	30%	95%	0%	5%
The Department demonstrates flexibility in accommodating my request for services	65%	25%	90%	5%	5%
The Department is proactive in the delivery of service and will provide information that is relevant to me without being requested to do so	40%	20%	60%	35%	5%
The Department creates value for my department and the County as a whole	60%	30%	90%	5%	5%
The Department's processes are inefficient and involve excessive controls and processes	10%	25%	35%	30%	35%
The Department understands and considers my needs and objectives when providing services	35%	50%	85%	10%	5%
The Department's approach to service delivery is consistent with the role of a business partner	35%	55%	90%	5%	5%

We suggest that the relatively low rating assigned to the proactive nature of service delivery (60%) arguably reflects the combination of (1) existing work demands on the Department (including a number of mandatory requirements); and (2) the relatively low staffing complement of the Department.

Key Observations and Findings

As an overall measure of their satisfaction with the Department, respondents were asked to rate the Department's performance on a scale of one to ten, with one indicating very poor performance and ten indicating excellent performance. As noted below, the Department received relatively strong ratings with respect to its overall performance, with 85% of respondents providing a rating of 8 out of 10 or higher, including 35% of respondents that provided the highest rating available (excellent).



When asked about areas of potential improvement for the Department, respondents indicated potential opportunities to improve:

- Efficiency of processes (30%)
- Timeliness of service (20%)
- Accuracy of deliverables (10%)
- Sufficiency of communications (10%)

We suggested that the relatively low level of suggestions for areas of improvement, combined with the other results of the survey, indicated both a high level of internal customer service as well as the need to refine – as opposed to extensively redesign – the Department's processes and approach to service delivery.

Key Observations and Findings

4. In comparison to similar-sized upper tier municipalities, the County has lower administrative costs and staffing

Consistent with the terms of reference for our review, we have undertaken a comparative assessment against selected upper-tier municipalities with similar characteristics in terms of population and location. For the purposes of the review, the following communities were selected for inclusion in the comparative analysis.

	Lennox and Addington	Dufferin	Elgin	Huron	Lanark	Leeds and Grenville	Prescott and Russell
Population	45,182	66,257	51,912	61,366	66,506	72,493	95,639
Households	20,094	24,388	20,923	29,455	30,918	33,709	39,616
Geographic area (km ²)	2,792	1,487	1,842	3,398	2,977	3,322	2,004
Total wages and benefits	\$33,499,799	\$33,959,979	\$35,332,573	\$54,937,748	\$25,706,476	\$46,421,801	\$40,844,596
Total operating costs (excluding amortization)	\$63,056,977	\$79,504,136	\$66,645,468	\$90,728,173	\$75,732,545	\$93,868,617	\$100,461,140
Full-time staff	232	215	204	332	201	295	316

Demographic and area data is based on 2021 Census of Population data published by Statistics Canada. Data wages and benefits, operating expenses and staffing levels is based on 2021 Financial Information Returns.

Due to differences in the budget formats used by the municipalities included in the comparative analysis, any analysis of costs relating to the municipal finance functions was considered to be unreliable. Accordingly, we have based on analysis on a comparison of reported operating costs relating to:

- Corporate management and program support costs (FIR lines 0250 and 0260), which encompasses all administrative functions within the selected municipalities (CAO, HRFT, Clerks).
- Provincial Offences costs (FIR line 0460), which includes the gross costs associated with Provincial Offences administration.

For the purposes of our analysis, we have excluded amortization expense.

Key Observations and Findings

Based on the comparative analysis, we note that the County's resources for both administrative functions (both in terms of total spending and staffing levels) are at the lower end of the range for the selected municipalities.

- The County's corporate management and program support costs are, in absolute terms, the lowest of the municipalities include in the comparative analysis. In addition, the County incurs the second lowest administrative costs as a percentage of total municipal spending on operations, and has the third lowest administrative costs per household.

	Lennox and Addington	Dufferin	Elgin	Huron	Lanark	Leeds and Grenville	Prescott and Russell
Corporate management and program support costs	\$4,277,101	\$6,619,963	\$8,184,889	\$8,311,474	\$4,686,495	\$7,134,439	\$8,885,226
Total operating costs (excluding amortization)	\$63,056,977	\$79,504,136	\$66,645,468	\$90,728,173	\$75,732,545	\$93,868,617	\$100,461,140
Administrative costs as a percentage of total costs	6.8%	8.3%	12.3%	9.2%	6.2%	7.6%	8.8%

	Lennox and Addington	Dufferin	Elgin	Huron	Lanark	Leeds and Grenville	Prescott and Russell
Corporate management and program support costs	\$4,277,101	\$6,619,963	\$8,184,889	\$8,311,474	\$4,686,495	\$7,134,439	\$8,885,226
Total households	20,094	24,388	20,923	29,455	30,918	33,709	39,616
Administrative costs per household	\$212.85	\$271.44	\$391.19	\$282.18	\$151.58	\$211.65	\$224.28

Key Observations and Findings

- The County's administrative staff levels are, in absolute terms, the second lowest of the municipalities include in the comparative analysis, with the County reporting the lowest level of administrative staff as a percentage of total staff. Overall, the County's administrative staffing levels per 1,000 households is the third lowest of the selected municipalities included in the comparative analysis.

	Lennox and Addington	Dufferin	Elgin	Huron	Lanark	Leeds and Grenville	Prescott and Russell
Administrative staff (FT)	23	46	31	49	19	44	35
Total staff (FT)	232	215	204	332	201	295	316
Administrative staff as a percentage of total staff	9.9%	21.4%	15.2%	14.8%	9.5%	14.9%	11.1%

	Lennox and Addington	Dufferin	Elgin	Huron	Lanark	Leeds and Grenville	Prescott and Russell
Administrative staff	23	46	31	49	19	44	35
Total households	20,094	24,388	20,923	29,455	30,918	33,709	39,616
Administrative staff per 1,000 households	1.14	1.89	1.48	1.66	0.61	1.31	0.88

- In comparison to the selected municipalities that administer the Provincial Offences Act, the County has the second highest reported cost per charge received. We note, however, that the level of resources required to process Provincial Offences can vary significantly depending on how the charges are disposed (e.g. at trial vs. uncontested payments).

	Lennox and Addington	Elgin	Huron	Leeds and Grenville	Prescott and Russell
Provincial Offences costs	\$884,322	\$1,039,926	\$640,024	\$1,075,429	\$977,070
Total charges received (Part I and Part III)	6,673	8,456	5,592	9,615	6,048
Provincial Offences costs per charge received	\$132.52	\$122.98	\$114.45	\$111.85	\$161.55

Key Observations and Findings

5. While the Department (and by extension the County) have identified enterprise-level risk exposures, appropriate risk response strategies may be insufficient

As part of the review, KPMG facilitated a working session with Department during which enterprise-level risks were identified and prioritized. For the purposes of our review, we consider an enterprise-level risk to be a potential risk exposure that, if materialized, would impact the Department's ability to contribute to the County's strategic objectives and priorities, and have identified three broad categories of enterprise-level risks:

- **Strategic risks** that would impact on the County's ability to attain priorities established by Council;
- **Operational risks** that would hinder the County's ability deliver services when and as required at the level determined by Council; and
- **Regulatory risks** that would challenge the County's ability to achieve compliance with legislation and regulation, resulting in potential financial penalties, threats to health and safety and/or loss of confidence and other reputational risks.

Working with Department staff, a total of 30 separate risk exposures were identified, which were then prioritized based on three considerations:

- What is the likelihood of the risk, and associated adverse impacts, materializing (i.e. how soon)?
- What is the significance of the impact of the risk if it materializes (i.e. how big)?
- What is the extent of the impact of the risk if it materializes (i.e. how many parties would be impacted)?

For all risks, regardless of their overall prioritization, staff identified potential approaches to addressing the risk, which could include:

- Risk avoidance – reducing the likelihood of occurrence or exposure to nil;
- Risk reduction – reducing the level of risk to an acceptable level, which entails accepting some level of risk exposure;
- Risk transfer – managing the Division's risk by shifting the exposure to a third party (i.e. insurers); and
- Retain – accepting the potential exposure and planning to manage potential impacts as they occur.

Key Observations and Findings

High Risk Exposures	Moderate Exposures
<ul style="list-style-type: none"> • Cybersecurity incidents • E-mail based fraud • Other types of fraud • Security and physical safety of staff 	<ul style="list-style-type: none"> • Failure to meet legislative requirements for Provincial Offences • Loss of financial data • Employee retention and institutional knowledge • Succession planning and sufficiency of finance bench (absence of cross-training) • Continuity of financial systems and sufficiency of system and support • Inability to meet deadlines for Provincial Offences • Privacy breaches (Provincial Offences) • Inflationary pressures and affordability constraints to Council priorities • Risk of failed procurements • Risk of processing errors for payroll • Care and custody of cash on hand
Low Risk Exposures	Very Low Risk Exposures
<ul style="list-style-type: none"> • Contravention of collective bargaining agreements • Failure to meet CRA requirements for payroll s • Council decision-making and impact on financial performance and sustainability • Inability to meet deadlines for payroll • Inability to meet deadlines for vendor payments • Loss of access to physical location • Failure to meet legislative reporting requirements • Privacy breaches (other) • Lack of budgetary control and oversight by functional departments within the County • Inability to meet deadlines for financial reporting • Inability to meet deadlines for grant applications • Risk of processing errors for non-payroll financial transactions • Adequacy of insurance coverage (excluding cybersecurity) • Compliance with records retentions requirements • Continuity of systems that feed into financial processes (e.g. scheduling system) 	<ul style="list-style-type: none"> • Inconsistent decision-making for finance-related activities (e.g. departments buying related software without consulting the Department)

Key Observations and Findings

Of the identified risks, five risks were identified as having the highest risk prioritization (listed in order of highest to lowest risk rating):

1. The occurrence of one or more cybersecurity incidents, including but not limited to ransomware attacks, denial of service attacks or theft of confidential information;
2. The potential for financial loss resulting from fraud, included email-based fraud;
3. Risks to the physical safety and security of staff due to adverse interactions with members of the public;
4. Failure to meet legislative requirements for Provincial Offences due to the lack of separation of duties between administrative and prosecutorial staff; and
5. Potential interruptions to the Department’s activities due to the loss of data and system access.

With respect to these priority risk areas, the Department has introduced some risk management/mitigation strategies, although risk exposures continue to exist.

Risk Exposure	Current Response
Cybersecurity incidents	The County continues to assess and revise its cybersecurity protection and response measures.
Fraud	The County has implemented a number of internal controls intended to prevent or detect fraud
Physical safety and security of staff	The County is undergoing a relocation of staff to ensure physical safety for Provincial Offences staff
Non-compliance with Provincial Offences Act requirements	The County continues to be challenged with respect to resourcing demands for its Provincial Offences processes, limiting its ability to achieve appropriate segregation of work activities
Loss of data	The County is investigating alternative vendors to support its financial systems and has moved to a cloud-based platform that will reduce the potential of data loss



County of Lennox and Addington

Suggested Courses of Action



Suggested Courses of Action

As noted elsewhere in our report, while our analysis has identified a number of positive aspects associated with the Department and its operations, opportunities do exist to enhance operating effectiveness and efficiency, in turn leading to enhanced value-for-money and improved customer service and contributing towards effective financial decision making and planning.

In response to the findings of the review, we have developed potential courses of action that can be considered by the County, which are divided into the following categories:

- **Process focused strategies**, which involve initiatives intended to enhance the operating efficiency and effectiveness of the Department's processes.
- **Policy focused strategies**, which involve changes to the Department's policies – including the revision of existing policies and the development of new policies – that will enhance the overall policy framework for financial services.
- **Additional staffing resources**, which will align the Department's staffing complement with other similar-sized municipalities and address existing capacity constraints.
- **Customer service strategies**, which provide a gradual approach to formalizing the existing culture of customer service excellence for the Department.
- **Risk management strategies**, which are intended to strengthen the County's current responses to key risk areas.

The suggested courses of action are included on the following pages.

Process Focused Strategies

While the process maps have identified areas for potential improvement, the ability of the Department to undertake change management on a scale that would address all of the identified areas is limited by the relatively low staffing complement within the Department and competing demands for staff resources. As such, we suggest that revisions to the Department's processes:

- May not result in the implementation of 100% of the identified opportunities due to considerations such as customer service impacts, availability of resources, technology limitations and internal resistance to change
- Will require 12 to 18 months for full implementation
- Focus initially on two categories:
 - Changes that are considered to be so-called "low hanging fruit" and can be implemented relatively quickly with limited resource requirements.
 - Changes relating to Provincial Offences, which has been identified as (i) having a high degree of manual processes and hardcopy documentation; (ii) contravening Provincial regulations relating to the segregation of administrative and prosecutorial activities; and (iii) having a heightened risk of privacy breaches and missed deadlines.
- Include representation from other functional units (e.g. human resources, information technology) to support the recommended changes
- Involve ongoing monitoring and reporting on progress to senior management and Council

In order to support the implementation of the identified opportunities, we suggest that the Department consider the following courses of action:

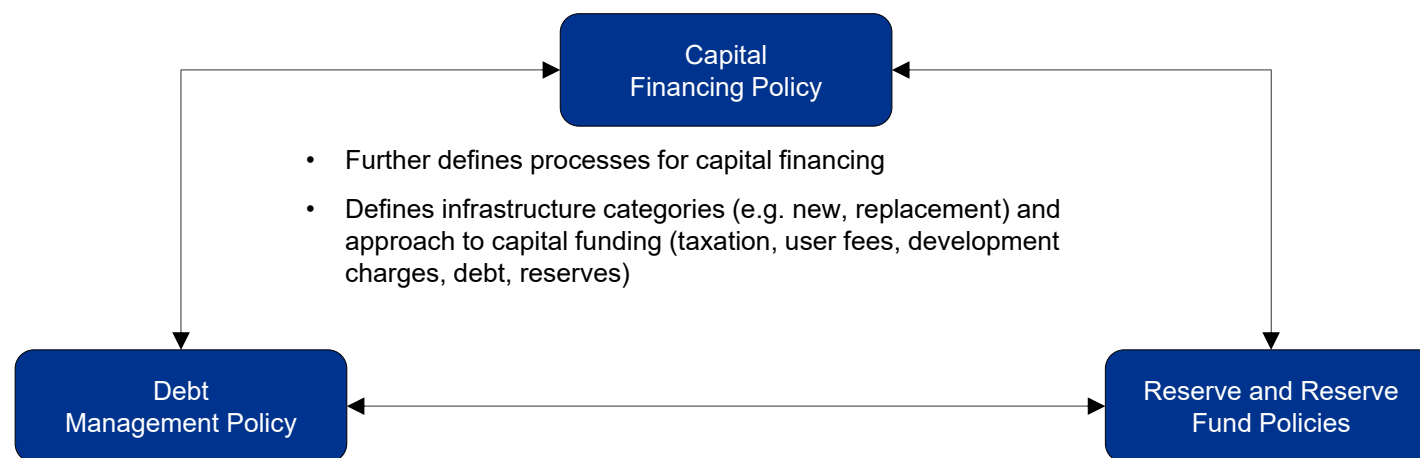
1. Review and prioritize the identified opportunities for process changes
2. Assign responsibilities and timeframes for implementation of specific opportunities
3. Establish and maintain a formal mechanism for tracking progress
4. Provide additional training to staff involved in transition activities
5. Incorporate reporting on the progress of implementation activities into recurring financial reporting to Council (e.g. quarterly)

In addition to the above, the County may wish to consider applying for funding under the Municipal Modernization Program implementation stream to support ongoing implementation activities (to the extent that additional funding is available).

Policy Focused Strategies

As identified earlier in our report, the County's current policy environment does include policies that address both strategic and operational decision-making, our review has identified the potential to revise existing policies and adopt new policies to enhance the County's financial management processes. Specifically, we suggest that the County consider the following courses of action in connection with the 2024 budget cycle.

1. Revisions to its procurement policy to provide a greater degree of delegation of authority to staff and align the County's policy with best/common practice for municipalities
2. The expansion of its current budget policy to include interlinked strategic policies that will guide future budgeting and financial decision-making, as well as set the basis for longer-term financial planning. As noted below, we suggest that the County consider the development of policies relating to capital financing, debt management and reserves and reserve funds, which provide an integrated approach to planning for capital investments.



- Further defines processes for capital financing
- Defines infrastructure categories (e.g. new, replacement) and approach to capital funding (taxation, user fees, development charges, debt, reserves)

- Defines characteristics of debt to be used by County (fixed vs. variable rate, term, amortization period)
- Establishes debt servicing capacity
- Addresses other financing vehicles (e.g. leases, interest rate exchange agreements)
- Aligns the County's policy with Provincial regulations relating to debt

- Defines types of reserves to be established, with minimum and maximum values
- Defines delegated responsibility for staff with respect to reserve decisions
- Defines process for disposition of year-end surplus or deficit

Additional Staff Resources

In addition to the suggested changes to internal policies and processes, the Department may also wish to consider changes to its staffing complement and work assignments so as to:

- Result in a level of staffing resources that is sufficient to meet the service level requirements of the Department, including additional reporting requirements introduced by the Province in recent years;
- Ensure work assignments are provided to staff at the appropriate level (i.e. administrative and routine tasks are shifted from managers to other staff, with managers responsible for review and higher value work efforts such as planning, policy development and financial analysis in support of the County's key initiatives);
- Ensure that all of the County's financial requirements have assigned staff, as opposed to some functions being assigned to staff on an ad hoc basis; and
- Provide sufficient cross-coverage to ensure financial functions continue during vacations and other periods of staff absences.

Based on the results of the comparative analysis and other findings from the review, the County may wish to consider the addition of one staff member at the non-management level. This addition is intended to provide a two-fold benefit to the Department:

- The additional staff member would create capacity for senior level personnel by facilitating the reassignment of lower-value administrative processes, allowing senior level staff to focus on higher-value work efforts; and
- The additional staff member will provide the Department with capacity to address areas where service levels are not being met.

In connection with the potential addition of staffing resources, the Department may also wish to consider additional changes from an organizational perspective that could include:

- Providing cross-training between Financial Services and Provincial Offences staff, thereby addressing risks associated with inadequate segregation of duties and non-compliance with timelines under the Provincial Offences Act; and
- Potentially realigning responsibilities between the Manager, Financial Services and Accounting Coordinator to provide a dedicated focus to the Department's core services:
 - Transaction processing (revenues and receipts, payables and payments, payroll processing)
 - Budgeting and financial reporting (including grant applications, reserve and reserve fund management, debt and treasury management, asset management planning and special reporting)

Additional Staff Resources

As part of its evaluation of staffing levels and roles and responsibilities, the County may also wish to consider the following additional strategies which, while not related to the Department specifically, were identified during the course of our review:







- The results of the process mapping development and other work undertaken as part of the review indicate that the County does not have a dedicated procurement function, relying instead on individual departments to administer their procurements. During the course of our comparative analysis, we noted that other counties have specific positions responsible for procurement (e.g. procurement coordinator). In our experience, the presence of dedicated procurement resources provides a number of benefits to municipalities, including but not limited to:
 - Contributing to compliance with the municipal procurement policy;
 - Standardizing procurement approaches across the County;
 - Ensuring compliance with various trade agreements and other regulations/legislation that impact on municipal procurements;
 - Supporting the implementation of procurement best practices;
 - Providing capacity to undertake higher value procurement activities (e.g. vendor of record arrangements, enhanced contract management, group purchasing agreements); and
 - Supporting other procurement-related activities (e.g. spend analysis, purchase orders/requisitions).

Accordingly, the County may wish to consider the requirement for a dedicated procurement function.

- From an overall perspective, the level of staffing and budget allocation for administrative functions was at the lower end of the comparator municipalities, which may be indicative of additional requirements for resources in key areas such as human resources and information technology. Accordingly, the County may wish to consider evaluating its staffing requirements in other administrative functional areas, particularly given:
 - The potential benefits of increased digitization;
 - Increased legislative requirements relating to personnel (e.g. AODA);
 - The continued emergence of cybersecurity threats; and
 - Increased importance placed on inclusiveness and diversity.

Customer Service Strategies

While there are many approaches to developing customer service strategies, we suggest six key elements should be considered when determining the components of a formal customer service strategy:

 Culture	<ul style="list-style-type: none"> • Can employees quickly react to changing issues and challenges as they arise? • Do they have the right skills and competencies? • Does the County have a culture that supports continuous improvement from a client service perspective?
 Metrics	<ul style="list-style-type: none"> • Does the County have accountability structures in place and controls to monitor and address performance? • Are the right responsibilities defined and understood? • Has the County identified and planned for risks?
 Service Delivery Model	<ul style="list-style-type: none"> • Is the County able to respond to changing customer and workplace dynamics? • Is the mix between on-site and virtual service delivery optimal? • Does the County provide one-window service?
 Technology	<ul style="list-style-type: none"> • Do employees have the right tools to address customer needs and efficiently engage with customers (both internal and external)? • Are available technologies fully leveraged and integrated so as to maximize service channels?
 Processes	<ul style="list-style-type: none"> • Are the County's processes causing customer service limitations and other inefficiencies? • Are same or similar services linked so as to provide an integrated approach to customer service?
 Data Collection and Analysis	<ul style="list-style-type: none"> • What new information is needed from a monitoring and reporting perspective? • Does the County use data analytics to better understand the needs of the client, including what solutions are required and when are they needed? • Does the County appropriately ensure the protection of customer data collected through interactions?

Customer Service Strategies

As noted earlier in our report, the Department enjoys a positive perception from internal customers and as such, a significant focus on customer service is not recommended. Rather, we suggest that the Department consider strategies that will maintain the current level of customer service by formalizing aspects of its approach to customer service. These strategies can also address the need identified through the survey for enhanced communication and more proactive service.

Potential strategies could include:

- Undertaking periodic surveys of internal customers (and potentially external customers and other stakeholders) to assess their perspectives on the Department's performance and areas for potential improvement;
- Developing periodic communications for customers that could include suggestions on best practices for financial transaction processing, insight into emerging financial issues facing the County, reminders of upcoming timeframes and contact information that can be accessed by customers;
- Providing periodic information sessions for customers that include financial literacy training while also provide customers with the opportunity to ask questions of Department personnel.

Risk Management Strategies

As noted earlier in our report, the Department has identified a number of potential enterprise-level risks, many of which have existing processes in place to mitigate the occurrence or impact of the risk actually occurring. However, the County continues to be faced with risk exposures and as such, we suggest that consideration be given to:

- Continuing to evaluate existing protections and implementing other strategies to minimize the exposure to cybersecurity incidents (e.g. periodic vulnerability assessments, development of a cyber critical incident response structure). We further recommend that the Department coordinate with other functional units in the County with respect to this matter.
- Revising processes for Provincial Offences in order to reduce regulatory compliance risks (Provincial Offences has been identified as a priority area for process improvements).
- Considering the County's future requirements for its financial management information system in light of current issues relating to system support and data integrity, which may involve the implementation of a new financial software system.
- Conducting periodic reviews of enterprise risks to identify emerging risks and potential exposures, which could be conducted on a County-wide (as opposed to Department) basis.

Anticipated Benefits

The anticipated benefits resulting from the implementation of the suggested courses of action can be in the form of financial benefits, capacity benefits or other benefits:

- **Financial benefits** represent incremental cost savings to the County through reductions in supplies, materials and other operating costs as a result of moving towards digital processes and other operating efficiencies. While some level of financial savings can be expected, these are not considered to be significant given (1) the nature of the suggested changes to the Department's processes, which are expected to result in a number of smaller, incremental time savings as opposed to fewer and larger efficiency gains; and (2) the relatively low level of staffing and budgetary allocation to administrative services (including the Department), which suggest that that potential for workforce reductions is non-existent.
- **Capacity benefits** result from workload reductions achieved through efficiency gains, allowing the Department's personnel to redirect their efforts towards other higher value activities such as succession planning, cross-functional training, staff development and strategy development. Based on our experience, we suggest that capacity benefits could equal 2% to 5% for the Department, representing the monetary equivalent of \$40,000 to \$100,000 in efficiency gains annually for the Department, which additional efficiencies for functional departments in connection with their involvement in financial processes.
- **Other benefits** include non-quantifiable benefits resulting from changes to the County's processes, such as environmental benefits resulting from the reduced use and transportation of paper documents, enhanced compliance with legislation and regulation and the maintenance of the Department's high level of customer service satisfaction.

In addition to these benefits, additions to the Department's staffing complement are also expected to contribute positively to staff well-being, morale and engagement by creating capacity within the Department, in turn addressing current pressures that manifest themselves in non-compliance with requirements established by legislation, regulation and funding agreements.



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