

## **Staff Report 2019-0152**

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Meeting Date: September 17, 2019

Subject: McLaren Wayside Pit Update

Submitted By: Fuwing Wong, General Manager, Finance and Infrastructure Services / Chief Financial Officer

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### **RECOMMENDATION**

That the Town of Caledon only proceed with future wayside pits on unopened road allowances after public consultation, careful consideration and a business case that addresses the concerns noted in Staff Report 2018-78.

### **REPORT HIGHLIGHTS**

- In 2018, staff reported on the financials related to the Town's McLaren Wayside Pit capital project:
  - The 2018 report included financial information on the financial costs and benefits of the McLaren Wayside Pit project, including financials related to the use of the aggregate extracted from the McLaren Wayside Pit on Town road projects (Kennedy Road and Simpson Road);
  - The 2018 report summarized that the financial benefits offset the financial costs;
  - Further, the 2018 report concluded that because of the limited financial benefit and the fact that the extraction of aggregate is not a core business for the Town, the Town should avoid future wayside pit operations/licences without more careful consideration of a thorough business case that incorporates the lessons learned from the McLaren Wayside Pit experience.
- Council directed staff to obtain an independent review of the financial information and to provide responses to the questions from delegates related to the report;
- This report:
  - summarizes the original financial information reported by staff in 2018;
  - outlines the procedures performed by the Town's external auditor to determine the accuracy and completeness of the financial information reported by staff;
  - restates the financials (e.g. cost of the McLaren Wayside Pit project and projected benefits) following the audit; and
  - provides supplemental information related to other questions raised by delegates to the original 2018 reports on the former McLaren Wayside Pit.
- Overall, the work completed by the Town's external auditor did not identify any material exceptions to the financials reported by staff in report 2018-78 and the memo dated 10-July-2018. However, subsequent events (i.e. subsequent to the 2018 reports and memos), such as a higher than anticipated refund cheque from the Ministry of Natural Resources and Forestry and more winter sand than

projected following screening, resulted in more favourable financials related to the McLaren Wayside Pit project. However, the more favourable financials does not change staff's original (2018) recommendations related to future wayside pit projects.

## **DISCUSSION**

On 10-July-2018, staff reports 2018-78 and 2018-80 related to the former wayside aggregate pit on the unopened McLaren road allowance (north of Charleston) were referred back to staff. Copies of the reports are attached as Schedules A and B to this report. The Council resolutions referring the reports back to staff are as follows:

*Report 2018-78 - McLaren Wayside Pit Update regarding Financial Costs:*

That Staff Report 2018-78 be referred back to staff; and

That staff investigate the potential of an independent audit of the McLaren Wayside Pit and report back to Council with information on costing and scope within 60 days.

*Report 2018-80 - McLaren Wayside Pit Update regarding Rehabilitation:*

That Staff Report 2018-80 be referred back to staff to investigate the issues raised by the June 26, 2018 delegation on the matter.

The purpose of this report is to provide information requested at the 10-July-2018 meeting when the two reports were referred back to staff. This report is structured in two parts:

Part A – Provides updates related to Report 2018-78;

Part B – addresses questions/provides updates related to Report 2018-80.

### **Part A: Report 2018-78 - McLaren Wayside Pit Update regarding Financial Costs**

Report 2018-78 related to the financial costs of the former McLaren Wayside Pit project was prepared for 26-June-2018 General Committee meeting. The General Committee recommendations were then considered by Council at the 10-July-2019 Council meeting and the report was referred back to staff on July 10<sup>th</sup> with detailed direction noted in the above section of this report.

Due to Council and the public's interest in obtaining an independent audit of the financial information presented by staff in staff report 2018-78, the Town's municipal auditor/external auditor, the independent accounting firm Millards, was engaged to conduct the work at a cost of approximately \$8,000 (final invoicing not received at time of report and is subject to further requests from Council, if any). A full copy of the accountants' report is attached as Schedule C to this report. A review of the accountants' report out of context of the McLaren Wayside Pit financials reported in staff report 2018-78 may be confusing to the average reader. Accordingly, to assist Council and the general (non-accountant) reader to understand the accountants' report, Town staff have organized this report (report 2019-0152) with excerpts from the original 26-June-2018 report 2018-78 followed by the related audit procedure(s) and audit findings & comments in the accountants' report.

In Summary, the external auditor did not find material exceptions to the financials reported by staff in report 2018-78 and the memo dated 10-July-2018. Since the audit work was performed subsequent to the 2018 reports and memos, the external auditor did identify two items (i.e. higher MNRF refund cheque and higher quantities of winter sand) that were outstanding at the time of the reports but have subsequently come in more favourable than the conservative figures reported by staff in June/July 2018. Details of what staff reported and the external auditor work are as follows:

**i. Aggregate Extracted and Used for Town Road Projects**

In report 2018-78, staff reported:

Based on the weigh scale tickets, 123,797 tonnes of material was extracted from the Town's former McLaren Wayside Pit. An accounting of the extracted material is as follows:

123,797 tonnes	Extracted
(4,043 tonnes)	Capital Project #14-093 Simpson Road (South of George Bolton Parkway)
<u>(17,920 tonnes)</u>	Capital Project #14-101 Kennedy Road Construction
<u>101,834 tonnes</u>	remaining

External Auditor's Findings:

*Aggregate Extracted*

- Procedure #1 in the Accountants' Report (Schedule C) – Based on a review of the clerical accuracy of the Town's aggregate reconciliation, the external auditor noted that "the total tonnage was 123,835.35. A discrepancy of 38.35 tonnes was identified..." Millards noted that the 38.35 (= 123,835.35 - 123,797 tonnes noted in report 2018-78) tonnes was related to a weigh ticket that was not received from LaFarge. Accordingly, the 38.35 tonnes was excluded from the Town's inventory, not paid to LaFarge, and not included in the report to Council, Report 2018-78.
- Procedure #2 in the Accountants' Report (Schedule C) – To obtain a 95% confidence level within a variation of 4,000 tonnes, the external auditor reviewed a statistical sample of invoices and weigh tickets in Procedure 1 and did not find any exceptions.

*Extracted Aggregate Used for Simpson Road Project (Capital Project #14-093)*

- Procedure #3 in the Accountants' Report (Schedule C) - Based on a review of the clerical accuracy of the schedule containing all associated weight tickets to project #14-093, the external auditor identified "the total tonnage was 4,081.41. A discrepancy of 38.41 tonnes was identified..." of which 38.35 tonnes is related to the same issue noted in Procedure #1 above and the balance, 0.06 tonnes is related to rounding applied in the original report, Report 2018-78.
- Procedure #4 in the Auditors Report (Schedule C) – To obtain a 95% confidence level within a variation of 250 tonnes, the external auditor reviewed a statistical

sample of invoices and weigh tickets in Procedure 3 (e.g. related to the Simpson Road capital project) and did not find any exceptions.

*Extracted Aggregate Used for Kennedy Road Project (Capital Project #14-101)*

- Procedure #5 in the Accountants' Report (Schedule C) - Based on a review of the clerical accuracy of the schedule containing all associated weight tickets to project #14-101, the external auditor identified "the total tonnage was 17,920.41. An immaterial discrepancy of 0.41 tonnes was identified due to rounding."
- Procedure #6 in the Accountants' Report (Schedule C) – To obtain a 95% confidence level within a variation of 1,000 tonnes, the external auditor reviewed a statistical sample of invoices and weigh tickets related to the Kennedy Road capital project and did not find any exceptions.

**ii. Pit Run Material Remaining**

In report 2018-78, staff reported:

Of the 101,834 tonnes of pit run material remaining:

75,000 tonnes	pit run sold and to be screened and picked-up by purchaser
15,000 tonnes	estimated sand to be used for winter maintenance
<u>11,834 tonnes</u>	overburden (or unusable material)
<u>101,834 tonnes</u>	

Final allocation of the 101,834 tonnes between the three categories subject to change following the screening of the pit run material.

**External Auditor's Findings:**

*Pit run sold (75,000 tonnes)*

- Procedure #13 in the Accountants' Report (Schedule C) – Sale of 75,000 tonnes of pit run verified by external auditor.

*Estimated Sand usable by Town for Winter Maintenance (15,000 tonnes estimated at the time of the report)*

- Procedure #7 in the Accountants' Report (Schedule C) – Verified by the external auditor and based on screening after the June 2018 report, sand screened from the pit run material that is usable by the Town for future winter maintenance activities is actually higher by 1,700 tonnes (i.e. 16,700 tonnes vs. 15,000 tonnes noted in the report). As noted in the Accountants' Report (Schedule C, Procedure 7), "The variance relates to the estimate of sand to be delivered compared to the actual amount of sand realized in the Fall of 2018."

As noted in report 2018-78, the sand will mean future savings for the Town as the Town uses sand for winter maintenance activities.

**iii. Expenditures Related to the Town's McLaren Wayside Pit project**

In report 2018-78, staff reported: (see notes below regarding restatements)

The total budget for Capital Project # 11-054 Gravel Pit Extraction is \$696,119. To-date, \$269,098.47\* has been spent against this capital project. Further, expense savings and offsets related to the extracted materials quantified and transferred/to be transferred to reserves totals \$401,137.69.

Expenditures to-date for capital project #11-054 total \$269,098.47\* comprised of actual expenditures of \$284,098.47\*\* less a pending security refund of approximately \$15,000 expected from MNRF. Once the refund is received, capital project #11-054 will be closed with a surplus of approximately \$427,020.53\*\* (=\$696,119 - \$269,098.47\*).

\*Note: In the original report 2018-78, presented at General Committee on 26-June-2018, the total expenditures to-date was incorrectly report as \$397,020.53. This mathematical error was identified by staff and the corrected figure, \$269,098.47, was reported via a memorandum on 10-July-2018 before the General Committee report was received by Town of Caledon Council. A copy of the memorandum identifying the correction is attached as Schedule D to this report.

\*\*These figures have been restated (from what was reported in the original report 2018-78) as they are impacted by the corrected "total amount spent" figure noted above. That is, a correction to the amount spent in the capital project also impacts the net surplus for the capital project. Per the 10-July-2018 memorandum (attached as Schedule D to this report), the correction does not impact that conclusion and recommendation not to proceed with future wayside pits on unopened Town road allowances.

**External Auditor's Findings:**

*Confirmation of budget amount for Capital Project #11-054 (\$696,119)*

- Procedure #8 in the Accountants' Report (Schedule C) – The external auditor verified that the "budget of \$696,119 is accurate" for capital project #11-054, the McLaren Wayside Pit project.

*Verification of Gross Amount Spent in Capital Project #11-054 (\$284,098.47)*

- Procedure #12 in the Accountants' Report (Schedule C) - Based on a review of detail extracts from the Town's general ledger, the external auditor verified the expenses related to the McLaren Wayside Pit project entered into the Town's financial accounting system totaled \$284,098.47 representing gross expenditures. Note: reference to the \$269,098.47 and \$15,000 relates to the "net" expenditure and is explained below.

*Assess Collectability of the Ministry of Natural Resources and Forestry (MNRF) Security Refund Used to Reduce Gross Amount Spent for Capital Project #11-054 (\$15,000)*

- Procedure #11 in the Accountants' Report (Schedule C) - The external auditor found the refund to be the Town to be higher than Town staff's estimate of \$15,000 at the time of the 2018 report. The actual refund cheque received by the Town totaled \$22,441.17 which includes:
  - Return of the \$15,000 (or \$15,013.37 rounded) security deposit; and
  - an unanticipated return of the Town of Caledon's (lower tier) aggregate fee collected by Aggregate Resources Trust, in the amount of \$7,427.80, based on actual tonnage of aggregate extracted.

The unanticipated higher refund, received subsequent to the 2018 report, reduces the actual net expenditure related to the Town's McLaren Wayside Pit project but does not change staff's recommendation in the original report 2018-78 of not proceeding with wayside pits on unopened road allowances in the future without careful consideration and a thorough business case.

*Verification of Net Amount Spent in Capital Project #11-054 (\$269,098.47 = Gross of \$284,098.47 less Pending Refund of \$15,000)*

- Procedure #9 in the Accountants' Report (Schedule C) – The external auditor verified the clerical accuracy of the Town's supporting schedule relating to capital project #11-054, which identified net expenditures of \$269,098.47, and did not note any exceptions related to the clerical accuracy. Note, the schedule included a \$15,000 anticipated MNRF refund cheque, which was not received at the time of report 2018-78. Subsequent to the report, the MNRF refund cheque received was for a higher than expected (see procedure 11 noted above). This results in a lower net expenditure for Town's McLaren Wayside Pit project but does not change the clerical accuracy of the original schedule. Further, the greater than anticipated/ previously reported refund cheque also does not change staff's original recommendation (as explained in procedure 11, above).
- Procedure 10 in the Accountants' Report (Schedule C) - To obtain a 95% confidence level within a variation of \$10,000, the external auditor reviewed a statistical sample of invoices related to the expenses reported for the McLaren Wayside Pit project (capital project #11-054) and identified no material discrepancies. Aside from the refund cheque issue noted above, this means that the external auditor confirmed (within a 95% confidence level) the gross expenditures of \$284,098.47 reported by staff. Millards did note an immaterial issue related to HST in 2011-2012 of \$3,239.14. However, the Town can no longer claim for this HST rebate so the \$3,239.14 is now an actual cost to the Town and should be reported as an expense for capital project #11-054 as noted in the report.

iv. **Savings/Expense Offsets and Transfer to Reserves**

In report 2018-78, staff reported:

***Savings/Expense Offsets***

As shown below, the total quantifiable and realized savings/expense offsets from this project total approximately \$400,000 (\$401,137.69 rounded) from the construction of Simpson Road (South of George Bolton Parkway), Capital Project #14-093, and the construction of Kennedy Road, Capital project #14-101, the sale of pit run material left over after the construction projects, and winter sand material that will be used for future winter maintenance activities.

\$184,188.94	The savings from the use of the Town's aggregate on Town capital projects (Simpson Road, South of George Bolton Parkway, and Kennedy Road – transferred to the Tax Funded Capital Contingency Reserve account #08-00-900-35014-000-25000
\$86,948.75	Sale of pit run material – transferred to the Tax Funded Capital Contingency Reserve
<u>\$130,000.00</u>	Estimated future cost avoidance related to the winter sand (based on current prices)
<u><b>\$401,137.69</b></u>	<b>Total Savings/Expense Offsets</b>

The \$184,188.94 and \$86,948.75 noted above have been transferred to the Town's Tax Funded Capital Contingency Reserve. The estimated \$130,000 will be transferred to the Town's Winter Maintenance Reserve in future years as the Town uses (pit run material) sand instead of purchasing the sand from the base operating budget in those years.

External Auditor's Findings:

*Verification of Amounts Transferred to the Town's Tax Funded Capital Contingency Reserve (\$271,137.69 = \$184,188.94 + \$86,948.75)*

- Procedure 15 in the Accountants' Report (Schedule C) – The external auditor reviewed the journal entries related to the transfer of \$271,137.69 to the Town's Tax Funded Capital Contingency Reserve and confirmed "the information contained in the memo is consistent with the accounting records of the Town."
- Procedure 13 in the Accountants' Report (Schedule C) – The external auditor also verified the clerical accuracy of the \$271,137.69 and traced the \$271,137.69 to actual bank deposits.

*Investigate Reasonability of Pricing Assumptions and Market Prices Used*

- Procedure 14 in the Accountants' Report (Schedule C) – The external auditor concluded the pricing resulting in the \$271,137.69 of revenues reported in Procedure 13 (above) was found to be reasonable.

*Investigate Reasonability of Estimated Future Cost Avoidance Related to Winter Sand*

- As noted above in (ii) for Procedure 7, the usable sand for winter maintenance is actually higher than staff's estimate in report 2018-78. Report 2018-78 estimated winter sand cost savings based on 15,000 tonnes. As noted in Procedure 7, actual winter sand following the screening of pit run material is 16,700 tonnes. The screening of the pit run materials occurred after report 2018-78 was prepared.
- Procedure 16 in the Accountants' Report (Schedule C) – The external auditor used pricing found online and "recalculated the savings for 16,700 tonnes (Procedure #7 above) as \$132,212.70. Immaterial variance identified when compared to the estimate of \$130,000 originally stated in Staff Report 2018-78."

**Conclusion Remains Unchanged from Staff Report 2018-78:**

Now that the financials for the McLaren Wayside Pit project has been reviewed by the Town's municipal auditor and financial items subsequent to the 2018 reports/memo are known, revised financial highlights related to capital project 11-054, the Town's McLaren Wayside pit project are as follows:

***Expenditures for McLaren Wayside Pit Project (capital project #11-054):***

- Expenditures to-date for capital project #11-054 total \$261,657.30 comprised of actual expenditures of \$284,098.47 less a refund of \$22,441.17 from MNRF.
- Capital project #11-054 will be closed with a surplus of \$434,461.70 (= \$696,119 - \$261,657.30).
- Figures above exclude \$8,000+ related to requested external audit of financials

***Savings/Expense Offsets Related to McLaren Wayside Pit Project:***

As shown below, the total quantifiable and realized savings/expense offsets from this project total approximately \$400,000 (\$403,350.39 rounded) from the construction of Simpson Road (South of George Bolton Parkway), Capital Project #14-093, and the construction of Kennedy Road, Capital project #14-101, the sale of pit run material left over after the construction projects, and winter sand material that will be used for future winter maintenance activities.

\$184,188.94	The savings from the use of the Town's aggregate on Town capital projects (Simpson Road, South of George Bolton Parkway, and Kennedy Road – transferred to the Tax Funded Capital Contingency Reserve account #08-00-900-35014-000-25000
\$86,948.75	Sale of pit run material – transferred to the Tax Funded Capital Contingency Reserve
<u>\$132,212.70</u>	Estimated future cost avoidance related to the winter sand (based on current prices)
<u><b>\$403,350.39</b></u>	<b>Total Savings/Expense Offsets</b>

The \$184,188.94 and \$86,948.75 noted above have been transferred to the Town's Tax Funded Capital Contingency Reserve. The \$132,212.70 will be transferred to the Town's Winter Maintenance Reserve in future years as the Town uses (pit run material) sand



instead of purchasing the sand from the base operating budget in those years, or help offset the cost of extreme winter weather by creating favourable variances.

Based on the revised figures above, there is a projected net financial benefit to the Town of \$133,693.09 (= \$403,350.39 in savings/expense offsets less \$261,657.30 in wayside pit project costs less \$8,000 (current to-date expenditures) related to the external audit). However, this net financial benefit does not fully capture all of the staff time related to the project (including establishing new processes, controls, reconciliation work), subsequent reporting, and the concerns expressed by residents about various aspects of the Town's wayside pit operations. The extraction of aggregate is not a core business for the Town and based on resident concerns and lessons learned from the McLaren Wayside Pit project contrasted with the limited financial benefit (\$134,000 rounded), staff's recommendation remains unchanged from the original 2018 report, 2018-78.

That is, while the adjustments related to events subsequent to the original report 2018-78 actually make the financials for the McLaren Wayside Pit project more favourable for the Town than originally reported in 2018, Town staff's recommendation remains consistent with the original report 2018-78. An excerpt of some of the concerns noted in original report 2018-78 area as follows:

"...it is recommended that the Town of Caledon not proceed with Wayside Pits on unopened road allowances in the future without careful consideration and a business case that addresses the concerns noted in this report. If a similar project is considered by the Town in the future, a sound business case should be developed in advance that considers:

- some of the experiences of the McLaren Wayside Pit project;
- any changes in regulations, legislation of wayside pits since this report (2018); and
- the economics (market prices, actual cash outlays) of aggregate/aggregate extraction, tracking, reconciliation.

In addition to the above and based on delegations received in 2018 on this matter, it is also recommended that future considerations of wayside pits on unopened Town road allowances include public consultation beforehand. The Town will still need to purchase and use aggregate for future road projects. However, the \$133,000 of net benefit, at this time, does not appear to justify the Town repeating a wayside pit project in the future.

**Part B: Report 2018-80 - McLaren Wayside Pit Update regarding Rehabilitation:**

Staff report 2018-80 recommended the transfer of the Town's Second Line Right-of-Way, from Charleston Sideroad to Beechgrove Sideroad (which includes the former McLaren Wayside Pit lands) to the Credit Valley Conservation Authority for the purposes of a pedestrian and cycling trail. As noted above, the June 26, 2018 report, Report #2018-80, was referred back to staff "to investigate the issues raised by the June 26, 2018 delegation on the matter."

Delegations related to the McLaren Wayside Pit staff reports were attached to the 10-July-2018 memo (attached to this report as Schedule D). Responses to the outstanding questions from the delegations are included in Schedule E to this report.

As noted in the 10-July-2018 memo, following the delegations Council inquired about the following:

- Should the Second Line ROW be retained by the Town for future servicing (e.g. water/sanitary) or future fibre runs for high-speed internet?
- If the Town retained ownership of the Second Line Right-Of-Way (ROW), would the Credit Valley Conservation Authority (CVC) and Bruce Trail Conservancy be interested in partnering with the Town for a public trail?
- Does the by-law that stopped up and closed the former McLaren Unopened Road Allowance (from Charleston to Beechgrove) land-lock the three properties identified by the delegate?

As part of staff's research for this report, staff identified only one private property owner that is impacted by the stopping up and closing of the unopened road allowance. It appears that a private driveway has been constructed on the Town's unopened road allowance many years ago (i.e. around 1989). Town staff will investigate further to determine whether this construction was properly authorized and provide recommendations to Council on next steps related to the former wayside pit/unopened road allowance in a future report.

### **FINANCIAL IMPLICATIONS**

The financial implications related to the former McLaren Wayside Pit and audit work is outlined in other sections of this report.

### **COUNCIL WORK PLAN**

Subject matter is not relevant to the Council Workplan.

### **ATTACHMENTS**

Schedule A – Staff Report 2018-78 - McLaren Wayside Pit Update regarding Financial Costs

Schedule B – Staff Report 2018-80 - McLaren Wayside Pit Update regarding Rehabilitation

Schedule C – Report from Town's External Auditor

Schedule D – 10-July-2018 Memorandum to Council

Schedule E – Responses to 26-June-2018 delegations on the McLaren Wayside Pit