



Minutes

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Audit Committee & Finance Committee Joint Meeting on March 12, 2019

Meeting Minutes issued:

Minutes of a meeting of the Audit Committee (AUC) and Finance Committee (FIC) and held at the Professional Engineers Ontario office meeting room 1C, 40 Sheppard Avenue West, North York, Ontario, on March 12, 2019 commencing at 5:45 pm.

In attendance:

Audit Committee Members:

Chair: Ishwar Bhatia, M.Eng., P.Eng., FEC, Eastern Region Councillor and Member of Executive

Vice-Chair: Thomas Chong, M.Sc., P.Eng., FEC, FCAE, PMP, East Central Region Councillor
Guy Boone, P.Eng., Eastern Region Councillor
Craig Young, P.Eng., CPA, CMA
Lola Hidalgo, P.Eng., Western Region Councillor (via conference)

Finance Committee Members:

Chair: Michael Chan, P. Eng., Lieutenant Governor-in-Council Appointee and Member of the Executive

Vice-Chair: Kelly Reid, P.Eng., IACCM CCMP); Vice President (appointed) and Councillor-at-Large
Colin Chan, P.Eng.
Linda Drisdelle, P.Eng.
Tim Kirkby, B.Eng., P.Eng., Lieutenant Governor-in-Council Appointee
Roberto Martini, P.Eng. CPA, CMA (via conference)
Lorne Cutler, P.Eng., MBA; Lieutenant Governor-in-Council Appointee

Staff: Johnny Zuccon, P.Eng., Registrar
Chetan Mehta, MS, MBA, Director, Finance
Peter Cowherd, CMA, CPA, Manager – Financial Services
Lucy Capriotti, Administrative Assistant
Margaret Braun, Acting Director – People Development (Left meeting around 6.45 pm)

Guests: Steve Stewart, CPA, CA (Deloitte)
Nancy Hill, P.Eng., LLB, FEC, FCAE, President (elect)

Regrets: None

Prior to the commencement of the joint meeting of the Audit and Finance Committees, there was a presentation on Centralized Banking by Dennis Britt, Director of Finance & Corporate Services, *Professional Institute of the Public Service of Canada* (PIPSC) from 4:00 pm to 5.30 pm.

This presentation was attended by the members of the Audit and Finance Committees and staff listed above. In addition, Warren Turnbull, P.Eng., Councilor and Chair of the Regional Councilors' Committee had dialed-in (remotely) to attend the presentation by Dennis Britt.

W. Turnbull subsequently signed out once the presentation and Q&A session with Dennis Britt was completed. After his presentation, the committee members and the Registrar thanked Mr. Britt for this time and valuable insights. After Mr. Britt departed, the joint meeting of the Audit and Finance Committee was called to order by Chair of the Audit Committee, I. Bhatia at 5:40 pm and the draft agenda was presented to the members for feedback.

The members unanimously agreed that the agenda as presented be approved and a motion was passed to the effect.

Audit Committee Items

1. Approval of Agenda

MOTION

That the draft agenda as presented be approved.

Moved by G. Boone and seconded by T. Chong

MOTION CARRIED

IN CAMERA SESSION

I. Bhatia asked the committee members that the meeting be moved to an in-camera session given some sensitive topics that were likely to be discussed. The

members unanimously agreed with his suggestion and a motion was passed to the effect.

MOTION

The meeting be moved to an in-camera session.

Moved by T. Chong and seconded by G. Boone

MOTION CARRIED

2. Approval of the AUC Minutes from November 1, 2018

I. Bhatia asked the Audit Committee members if they had any additional comments but there were none after which the committee unanimously agreed to approve the minutes as presented. A motion was passed to the effect.

MOTION

That the Minutes of the Audit Committee meeting held on November 1, 2018 as presented be approved.

Moved by G. Boone and seconded by T. Chong

MOTION CARRIED

3. Matters arising from the Minutes

The Action Items on Page 6 of 7 of the Minutes were discussed.

1) M. Braun to provide the link to Employee Hand Book.

M. Braun said that she would be providing the committee members with this information.

2) Provide information on the defined benefit pension plan and benefits offered to employees who were pension plan members prior to 2006.

M. Braun said that she would be providing the members with this information.

3) Request for proposal from Deloitte to perform a performance of the financial audit of the Chapters.

Regarding action item (3) above, C. Mehta clarified that per the teleconference call members of the Audit Committee had with Deloitte on January 21, 2019, S. Stewart had kindly offered to perform a high-level financial review of a few randomly selected Chapters at no additional cost to PEO.

S. Stewart had met with the Acting Manager of Chapters, A. Ribeiro to gain an understanding of Chapter operations after which, the Deloitte team had subsequently performed high level audit testing procedures on ten randomly selected Chapters (two Chapters from each of the five regions).

C. Mehta clarified that the results of Deloitte's audit procedures on the selected Chapters were included in Deloitte's audit report sent to the Audit Committee and that S. Stewart would be walking the committee members through the results of these findings.

4. Deloitte report on the 2018 Audit (presented by S. Stewart)

S. Stewart commenced with his presentation to the committee members on Deloitte's report on the audit findings for the 2018 year-end audit. He began by clarifying that as PEO's auditor, Deloitte's job is to perform an audit on the financial statements of the Association and report on the audit findings to the Audit Committee.

He pointed out that the preparation of the financial statements audited by Deloitte were the responsibility of PEO management. He stated that these statements were prepared in accordance with the accounting standards for NPOs (Not-for-Profit Organizations) for the year ending December 31, 2018 and audited in accordance with Canadian Generally Accepted Auditing Standards (GAAS) which remained unchanged from the last year.

S. Stewart then referred to the audit fees and pointed out that the fees of \$30,255 and \$1,840 for the 2018 year-end audit and the CAM (Common Area Maintenance) audit, respectively remained unchanged from the fees Deloitte had charged PEO in 2017. He went on to add that the 2018 CAM audit had also been completed without any issues. The audit of the pension fund was to be completed sometime in April at a date to be confirmed.

S. Stewart stated that the 2018 year-end audit of the financial statements of the association was complete and that Deloitte would be issuing an unmodified (i.e. a clean) audit opinion for 2018 after the conclusion of a few routine and pending deliverables such as receipt of the signed management representation letter; legal confirmations, etc.

S. Stewart then said that per the directive given to him by the Audit Committee at the audit planning meeting on November 1, 2018, Deloitte had conducted additional audit procedures on PEO's procurement practices and on the activities of randomly selected Chapters. These audit findings had been reported in Deloitte's report dated March 12, 2019 to the Audit Committee on the 2018 audit.

Results of procedures performed on the procurement function

S. Stewart went on to speak about Deloitte's findings on PEO's procurement practices. He explained that Deloitte had obtained a vendor listing from staff which summarized monthly payments to all PEO vendors/payees who had received payments of over \$10k during the year.

Out of this listing, Deloitte had randomly selected 19 vendors/payees and for each of these 19 selected vendors, Deloitte checked whether the procurement process had been followed, and specifically whether properly prepared purchased orders were on file to support the expenditure and if for expenditures over \$2k there was evidence of an RFP/RFQ process as required under the current procurement policy.

Deloitte found that there were three instances where no purchase orders were on file but for each of these cases, there were appropriate explanations. There were seven instances where an RFP/RFQ was not undertaken. For six of the seven instances, management was able to provide support as to why the tendering process was not undertaken. The specific services were related to IT services (two instances); legal services (two instances); security services (one instance) and printing services (one instance).

There was one instance for actuarial services where there was no tendering process undertaken and there was no evidence supporting the decision to not go through an RFQ/RFP. For the selected items for which contracts were signed (nine), all the contracts except the one for actuarial services had signatures of appropriate authorized individuals.

S. Stewart suggested that the procurement policy could be revised to incorporate a higher threshold for requiring quotes/tendering as the current threshold of \$2k was on the lower side. He also added that it would be a good practice to have a list of specific services documented in the procurement policy for which the tendering process may be by-passed.

Results of procedures performed on Chapters

S. Stewart then went on to state that per the request from the Audit Committee, Deloitte also performed additional testing related to Chapter activities, but their testing was limited to certain policies and procedures that were undertaken at PEO.

S. Stewart obtained and reviewed the Chapter Executive Manual with an emphasis on Chapter Administration Financial (page 19 of the manual) and met with the acting Manager of Chapters to clarify his understanding of Chapters policies and procedures. Based on the understanding gleaned on the Chapters policies and procedures, S. Stewart's team randomly selected 10 Chapters (2 from each region) and ensured that an approved business plan for fiscal 2019 was on file; the annual financial statement for 2018 had been submitted and the Chapter financial statement had been signed by the Chapter treasurer, an examiner and the senior regional Councilor.

By way of recommendations, S. Stewart said that Deloitte found no formal procedures established at Chapters level in relation to the cash receipting and disbursement process and there was no standard audit approach for the preparation of the Chapter financials.

He suggested that PEO should consider establishing a standardized approach or audit manual for the annual examination that would ensure that a consistent approach was being followed by each Chapter that could guide the Chapter examiner's work.

Some committee members asked if in light of the presentation by Dennis Britt that afternoon on centralized banking implemented at *Professional Institute of the Public Service of Canada* (PIPSC), would there be any benefits to PEO on implementing a similar structure with the Chapters bank accounts.

S. Stewart stated that by having a banking set up like *Professional Institute of the Public Service of Canada* (PIPSC) for Chapters would allow the PEO head-office to have direct visibility into Chapter bank balances and spend practices. This in turn would help improve accountability and transparency in comparison to the current practice where each of the 36 Chapters has its own separate bank account into which the head office has no direct visibility.

S. Stewart pointed out that he had found some Chapters undertook revenue generation activities for funds in addition to the PEO allotments they received from the head office. In light of this, S. Stewart recommended that PEO undertake an assessment of these revenues to assess any potential HST issues that may exist.

C. Young asked S. Stewart to speak on the legal requirements for PEO to have an Audit Committee and about PEO's responsibilities from a legal stand perspective.

S. Stewart said he was not aware of any legal requirement for PEO to have an Audit Committee, but the Audit Committee is a governance Board committee whose responsibility is to oversee the financial reporting process and the risk profile in an organization. By law, PEO is required every year to have a financial statement audit and appoint an independent licensed auditor for the audit of its yearly financial statements which are presented to the membership at the AGM each year.

The audit and Finance Committee members then continued with their discussion on the procurement practices and Chapter operations and they asked several questions which staff answered.

The committee members then requested staff to have a copy of the current procurement policy to be sent to all the committee members. In addition, staff was also asked to investigate any potential HST related issues or risks facing PEO due to the fund-raising activities at some Chapters.

The Chair of the Audit Committee, I. Bhatia thanked Deloitte for preparing the Audit report and PEO staff for their efforts on successfully completing the year-end audit.

At around 6.45 pm, I. Bhatia requested staff to leave so that the committee members could meet with the auditor, S. Stewart in the absence of management and staff.

The Finance Committee members left the meeting for dinner. The Audit Committee members continued with the IN-CAMERA SESSION with the auditor S. Stewart and these proceedings were not recorded.

5. Review and approval of 2018 Audited Financial Statements by AUC

The committee passed a motion to approve the 2018 audited financial statements via a Doodle poll on March 14, 2019.

6. Recommendation of auditor for FY 2019 by AUC

The committee passed a motion to recommend to Council the appointment of Deloitte as PEO's auditor for FY 2019 via a Doodle poll on March 14, 2019.

7. Other Business

These discussions were conducted in the absence of staff and were not recorded and hence are not minuted.

8. Adjournment

The audit committee meeting adjourned after the in-camera session.

Audit committee action items identified and discussed at the join AUC-FIC meeting on Mar 12, 2019

Item	Action	Action by	Status
1	Provide link to the employee handbook.	M. Braun	Completed
2	Provide information on the defined benefit pension plan and benefits offered to employees who were members prior to 2006.	M. Braun	Completed
3	Send link to procurement policy to all committee members	C. Mehta	Completed
4	Look into HST compliance issues for revenue collection and other fund-raising activities at Chapters	C. Mehta	Work in progress

FINANCE COMMITTEE SESSION (Started after Dinner at 7.45 pm)

After dinner, the Finance committee session commenced at 7.45 pm and Chair of the Finance Committee, M. Chan called the meeting to order.

I. Bhatia and G. Boone from the Audit Committee requested M. Chan if they could attend the FIC meeting as observers.

M. Chan asked the other committee members and they all unanimously confirmed that they were okay with having I. Bhatia and G. Boone attend the meeting as observers.

9. Approval of FIC Agenda

M. Chan asked the committee members if they were okay with the agenda as presented.

The committee members unanimously agreed, and a motion was passed to the effect.

Motion

That the draft Agenda as presented be approved

Moved by L. Cutler and seconded by C. Chan

Motion Carried

10. Approval of Draft Minutes of FIC meeting on January 29, 2019

The committee members had a discussion on the minutes of the FIC meeting held on January 29, 2019.

L. Cutler asked if discussion on item 5 in the minutes (Review of the presentation on membership fee increase by C. Chan and L. Cutler) was done prior to the decision on the membership fee increases.

He was advised that an extensive discussion on the membership fee increase including a review of the presentation on membership fee increase by C. Chan and L. Cutler was held before a motion was passed by the committee.

L. Cutler requested that the numbering of the agenda items in the draft minutes of the FIC meeting on January 29, 2019 be revised to reflect the sequence of the discussion.

The committee members agreed with this suggestion and motion to amend the minutes as proposed by L. Cutler was passed.

Motion

That the revised minutes of the FIC meeting on January 29, 2019 be approved as amended.

Moved by T. Kirkby and seconded by L. Drisdelle

Motion Carried

11. Matters arising from the minutes

After a discussion, the committee members proposed the following changes to the Action items:

Existing action items

#1 Job posting for new non-Councillor FIC members – send a copy of the job description to all members

#9 Request Engineers Canada to explore possibility for creating business case for the alignment / standardization of licensing processes across provinces to reduce IT costs – revise table to include Registrar as responsible staff person for this initiative.

12. Presentation by L. Drisdelle and R. Martini on PEO Financial Strategy

L. Drisdelle and R. Martini made a presentation to the committee members on their analysis, findings and recommendations for PEO's financial strategy going forward. After extensive discussions, the committee members agreed with the immediate key recommendations in the presentation which mentioned the streamlining of the licensure process; a proposal to increase fees and identify new revenue streams; and a real estate investment review which would involve

optimizing capital while potentially creating a more stable and predictable annual revenue stream.

13. Presentation by C. Chan on the 40 Sheppard Rental Income Scenarios

C. Chan walked the committee members through his presentation on the rental income scenarios for 40 Sheppard in which three-year outlook assumptions for three possible scenarios were discussed – a pessimistic scenario, a probable scenario and an optimistic scenario in which the vacancy rates were expected to be eleven percent, five per cent and one percent, respectively.

In the presentation, C. Chan also apprised the committee members on some key observations in which he pointed out that the three-year outlook for the rental income scenarios was likely to improve and that it was important for management to monitor the rental situation closely and update the income scenario periodically to reflect the most up to date developments. Any shortfall in rental income will need to be offset from operations.

C. Chan also suggested that in order to improve the vacancy situation, PEO could consider letting its membership know about vacancies at 40 Sheppard. In addition, he also proposed that PEO could look into the option for additional revenues by way of merchandising.

14. Other Business

M. Chan requested T. Kirkby prepare an information item for Council on the pros and cons of centralized banking for Chapters based on the presentation made by D. Britt from *Professional Institute of the Public Service of Canada* (PIPSC) earlier that afternoon.

M. Chan also requested C. Mehta to look into the benefits of this option for PEO and the manpower implications of centralizing Chapters accounts and savings, by way of transaction and other costs, if any.



S. No	Action items identified at FIC meeting on June 5, 2018	Responsible Staff	Status update
Action Items identified at FIC meeting on Mar 12, 2019			
1	Job posting for new non-Councillor FIC members – send a copy of the job description to FIC members	Staff (Volunteer Mgmt)	To be started
2	Revise deliverable #9 identified during FIC on Sept 6, 2018 to show Registrar as responsible staff	Staff	Completed
3	Prepare presentation for Council on pros-cons of centralizing Chapter bank accounts	T. Kirkby	In-progress
4	Explore possibility of advising members about vacant space for lease at PEO	Staff	In-progress
5	Look into possibility of merchandising options	Staff	In-progress
6	Look into additional staff resources required and potential advantages / savings for PEO if Chapter bank accounts are centralized	C. Mehta	In-progress
Action Items identified at FIC meeting on Jan 29, 2019			
1	Job posting for new non-Councillor FIC members	Staff	To be started
2	Revision of the FIC terms of reference for protocol / guidelines to ensure continuity of members in the FIC (copy attached). Change the Terms of Reference - rolling three-year schedule	K. Reid	Completed
3	Work on rental Income for 40 Sheppard Ave. – provide possible scenarios of the building	C. Chan	Completed
Status of Action Items reviewed at FIC meeting on Oct 16, 2018			
1	Cost saving initiatives / info on Eng. Canada Affinity program	C. Mehta	Completed
2	Past 5 year spend data on all committees and task forces	C. Mehta	Completed
Action items identified at FIC on Sept 6, 2018			
1	Request Engineers Canada to explore the possibility for creating a business case for the alignment / standardization of licensing processes across all provinces to	J. Zuccon	Work-in progress

	reduce IT costs.		
2	Check to see if credit card fees can be passed on to those members who choose to pay their dues via credit card.	C. Mehta	Completed
3	Check about potential liability issues for PEO arising from serving alcohol at various committee meetings/events.	S. Clark	Completed
Action items identified at FIC on July 24, 2018			
1	FIC members to email a list of proposed changes to the Terms of Reference to staff.	FIC	Completed
2	Centralizing Chapter Bank accounts - T. Kirkby to get information from the Professional Institute of Public Service of Canada (PIPSC) on how they went about centralizing bank Chapter accounts.	T. Kirkby	Completed
3	The draft Expense Reimbursement Policy be amended to incorporate the grammatical changes proposed at the FIC meeting.	C. Mehta	Completed