

Background

Waterfront Toronto (“WT”) engaged MNP LLP (“MNP”) to conduct an internal audit on cash forecasting in August 2015 in accordance with the FARM-approved Internal Audit Plan for 2015/16. The remaining internal audits for the current fiscal year will be on Billing & Collections and Follow-Up Audit, which are targeted to be completed by March 2016.

Summary

The objective of the internal audit was to review WT’s cash forecasting, systems, management processes and tools in place, including its alignment with the Annual Corporate Plan, reporting to internal and external stakeholders, and consistency with established best practices. MNP presented their internal audit approach, assessment of WT’s cash forecasting strengths and challenges given its unique environment, and detailed findings and recommendations.

Based on MNP’s internal audit, they concluded that WT’s cash flow management processes and tools are generally in line with best practices of similar organizations (e.g., alignment and cohesiveness with strategic plans, excel-based cash forecasting, bottom-up reporting). Key areas that were addressed focused on the following:

- Efficiency of the cash forecasting process;
- Cash forecasting integration opportunities within the accounting system;
- Accountability for cash flow information;
- Cash management and forecasting process documentation; and
- Cash reserve for operations.

No significant findings were noted in the audit. Please see attached Appendix A for a copy of the final audit report.

Committee Action Required

None



Waterfront Toronto

Cash Forecasting Process Review

November 13, 2015

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TABLE OF CONTENTS

- EXECUTIVE SUMMARY 1**
- BACKGROUND..... 1
- OBJECTIVES 1
- RISKS..... 1
- SCOPE 2
- APPROACH..... 2
- CONCLUSION 2
- ACKNOWLEDGEMENT 2
- SUMMARY OF CASH FORECASTING PROCESS STRENGTHS..... 3**
- CASH FORECASTING CHALLENGES 5**
- DETAILED FINDINGS AND RECOMMENDATIONS..... 7**

EXECUTIVE SUMMARY

BACKGROUND

The Government of Canada, the Province of Ontario, and the City of Toronto jointly announced their support for the creation of the Toronto Waterfront Revitalization Corporation (“WT” or “Corporation”) to oversee and lead waterfront renewal. WT was formally established in the fall of 2001 and was up and running in February 2002. Since WT’s inception, much progress has been made on waterfront development projects, strategic infrastructure investments, precinct planning and coordination of numerous direct and indirect stakeholder interests. Instrumental to WT’s success is the effectiveness of its organizational design, implementation strategies and means of funding and financing operations.

WT’s source of funding is currently undergoing a shift from federal, provincial and municipal government grants to other types of revenue streams, such as land and lease sales, rentals, parking and other related income sources. Reliance on public funds has required WT to consistently monitor and manage cash flow; however, the management of cash has become much more important during this shift, introducing new risks and complexities, including the potential use of bank loans, bridge financing and lines of credit.

WT’s goal is to manage cash in such a way as to optimize the availability of cash sufficient to pay for anticipated future operating requirements while maximizing interest revenues on the cash balances available and minimizing interest expenses when borrowing is required.

On August 12, 2015, WT obtained tri-government consent to proceed with borrowing. Subsequent to this approval, WT executed a credit agreement on September 25, 2015 to secure the necessary financing for the organization’s operating needs. As a condition to this financing arrangement, WT is required to report quarterly to the governments on its borrowing activities and quarterly to the lender.

Recently, WT has refined its cash flow forecasting processes, however, due to the importance of being able to effectively project and budget cash inflows and outflows, WT would like to implement further improvements to the process and tools as necessary to support its reporting requirements for lenders and other stakeholders. WT would also like to assess its consistency with best practices in the cash forecasting process.

OBJECTIVES

The objectives of the engagement were to review:

- Cash flow management processes and tools in place;
- Cash flow reporting to senior management, the Finance, Audit & Risk Management (“FARM”) Committee, the Board of Directors, lenders and other stakeholders;
- Cash management practices and the link to WT’s Annual Corporate Plan (which incorporates the Annual Long-Term Plan); and,
- Provide recommendations on WT’s cash management practices as they relate to best practices of similar organizations in terms of tools and processes.

RISKS

Given the stated objectives, the following sample of inherent risks were considered, which are typical in a review of this nature:

- Cash flow is not monitored on a regular basis, resulting in WT not being able to meet its payment obligations and optimize cash for investment opportunities;
- Cash forecasts contain errors, inaccurate/out-of-date information, and/or are not reflective of WT’s short and long-term cash position;
- Assumptions and inputs (internal and external) to the cash forecast are not accurate or timely;
- Cash forecasts are not presented to management for timely decisions to be made; and,

- Annual Corporate Plans are not properly considered in the cash flow management practices resulting in unmet organizational goals and objectives.

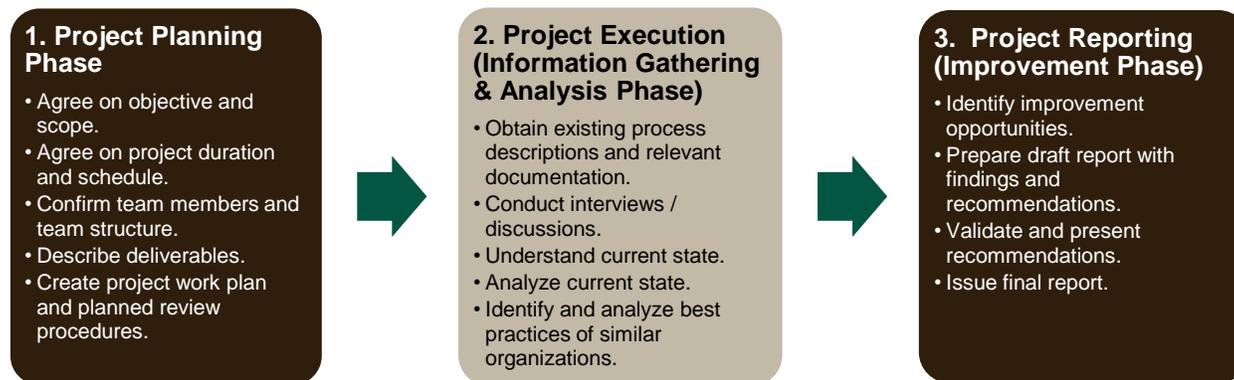
SCOPE

This engagement focused on the following:

- Nature/riskiness of sources of cash (internal and external inputs to cash forecasting);
- Systems/tools used and procedures followed to update and monitor cash forecasts including their frequency;
- Short-term investment strategies and consistency relative to WT's investment guidelines; and,
- Reports presented to senior management, the FARM Committee, the Board, the governments, lender, and other stakeholders.

APPROACH

In accordance with MNP's internal audit methodology, the high level work plan for the audit included the following phases:



CONCLUSION

The following report provides a summary of the strengths identified during the cash forecasting process review (page 3), a listing of cash forecasting challenges (page 5), and our detailed findings and recommendations taking into account the best practices of similar organizations (page 7).

ACKNOWLEDGEMENT

We wish to extend our appreciation to WT management and staff for their co-operation and assistance throughout the engagement.

SUMMARY OF CASH FORECASTING PROCESS STRENGTHS

WT has established a process that captures all known external and internal information and provides a best estimate as to the cash needs and cash position of the organization on a month-to-month basis.

The following table highlights the strengths that we identified throughout our review of the cash forecasting process. These are also areas that WT is in alignment with cash forecasting best practices.

Best Practice Area	Observation
Integration	The organization conducts a thorough information gathering process from various individuals and departments, with key inputs from Accounting, Program Controls, vendors, lender, and Finance.
Alignment and Cohesiveness with Strategic Plans	WT's cash forecasts are prepared with consideration for the organization's strategic plan. Forecasted amounts are consistent with budgeted financial plans (i.e. Annual Corporate Plan) and with the organization's strategic outlook and planned activities.
Assessing reliability of cash flows	WT personnel take appropriate steps, where necessary, to ensure that the cash flows they include in the forecast are reliable and as up-to-date as possible. This may take the form of follow-up contact with key vendors or checking updated information as time goes on, along with excluding cash inflows which cannot be predicted with a satisfactory level of accuracy. This constant routine and coordination facilitate the identification of any changes that should be reflected in the revised forecast.
Variance reporting	WT prepares a summary of the variances between the cash forecasts and actual results. As a result, WT is able to track the extent by which the actual results of cash inflows and outflows deviate from the forecasted figures and the drivers behind the variance. Through this process, WT is able to analyze these metrics and improve its cash forecasting process.
Establishing clear accountability	WT recently implemented the sign-off from the respective individuals/departments involved in the cash forecasting process, prior to submission of the forecast to the Chief Financial Officer ("CFO"). This promotes ownership and accountability for the inputs required to complete the cash forecast.
Reporting to Senior Management, the FARM Committee of the Board, Governments, and Lender	<p>The cash flow management report serves not only as a forecast and performance management tool, but also as a reporting tool. WT is attempting to streamline this reporting to focus on the cash forecast and financial performance of the organization.</p> <p>Cash forecasts are presented by the CFO to the Senior Management Team during periods when there is cash sensitivity. In addition, the CFO provides the FARM Committee of the Board with a high-level summary of the organization's cash flow position and its projected changes within a twelve-month period, on a quarterly basis. This "bottom-up" approach</p>

to internal reporting facilitates communication and awareness of critical events throughout the organization, and promotes buy-in to the organization's cash forecasting process.

Subsequent to WT's drawdown on its credit facility on September 28, 2015, reporting to the governments and lender is done on a quarterly basis. This reporting requirement is pursuant to the tri-government consent obtained on August 12, 2015 and the credit agreement executed with the lender on September 25, 2015.

CASH FORECASTING CHALLENGES

Cash management and cash flow forecasting are crucial for all organizations regardless of size. The ability to develop and leverage accurate cash flow forecasts can help an organization minimize a variety of business risks while achieving its strategic priorities. This is precisely why cash flow forecasting is the concern of treasury executives at all types of organizations. As many as 70% of treasury executives are involved in cash position reporting and forecasting – which is more than for any other activity they perform¹. This means that staff and management contribute significant portions of time to cash flow forecasting in many small to medium organizations.

There are multiple reasons why organizations, WT included, may struggle with developing accurate forecasts:

- Lack of adequate **communication** between stakeholders, information providers and forecasters.
- Inefficient **coordination** of multiple sources of information, resulting in incomplete or inaccurate forecasts, lack of accountability or lack of incentives to provide accurate information.
- Lack of complete **support** from all levels of management and staff.
- Total **visibility** of the cash flow management process is not possible – either through insufficient knowledge of forecast inputs, technology challenges, inability to monitor cash adequately, etc.
- Insufficient **resources** (e.g. technology, tools, etc.) to prepare useful forecasts.
- **Inherent uncertainty** of cash flow expenditures and inflows caused by factors beyond the organization's direct control.

We have reviewed WT's cash flow management processes and tools in place and have considered how these processes compare to leading best practices and the key challenges of forecasting discussed above. Similarities have been noted between the challenges being experienced by WT and those of similar organizations.

Communication

WT recognizes the need for frequent communication with respect to the cash flow process. Program Controls is in contact with vendors with large outstanding contract balances regularly to obtain estimated project costs including timelines when these costs are expected to be incurred and billed, and Accounting follows up on receivables to determine estimated collectability. Cash forecasts are reviewed by the CFO (on a monthly and sometimes weekly basis) and the Senior Management Team during periods when there is cash sensitivity. In addition, the cash forecasts are presented quarterly to the FARM Committee of the Board, governments, and lender. This “bottom-up” approach to internal reporting is consistent with similar organizations.

Coordination

For similar organizations, frequent interaction with the other groups is usually orchestrated by one department. For WT, the preparation of the cash forecast is completed by Finance which coordinates the process of gathering information on a monthly basis from Accounting and Program Controls, prior to submission of the cash forecast to the CFO. There was one instance where a large upcoming payment was excluded from the forecast, however, this instance occurred prior to WT's refinement of the cash forecasting process which now involves sign-offs from the accountable departments.

Support

WT's management supports the cash flow forecast by assigning cash forecasting responsibilities to staff. WT has one individual who coordinates and prepares the cash forecast taking into account information from the monthly bank statements. In the past, the process (including review and sign-off) took up to ten days, each month, for submission to management; whereas other similar organizations complete the preparation of the cash forecast in up to five days. WT is currently streamlining its process to shorten the time required to complete its cash forecast.

¹ Kyriba, *Strategy, Technology and Proactive Treasury Management Survey*, 2014

Visibility

WT is in the unique position of overseeing various construction projects managed by external vendors. This creates inherent challenges with monitoring all aspects of cash flow as the organization does not have control over the work performed and the related billings.

Resources

WT does not have a cash forecasting module within the accounting system or other forecasting tools that it can use and obtain information from for the forecasting process. Excel is the primary tool used to generate the cash forecast with inputs coming from various sources and systems (externally and internally), which is typical for organizations of the same size as WT. Approximately 80-90% of small to medium organizations use Excel or some other spreadsheet-based tool for their cash forecasting needs². The remaining organizations are comprised of some of the largest companies in the world and these entities typically employ complex and large-scale software solutions such as SAP or Oracle which offers a comprehensive and costly suite of modules, including cash forecasting.

WT has experienced operational challenges that come with relying on Excel, such as:

- Lack of integration with WT's accounting system;
- Lack of auto-population capabilities to help save time developing forecasts, and;
- Inability of obtaining information from vendors automatically.

In addition to this, Excel and other simple spreadsheet applications are very prone to human error. More than 90% of spreadsheets contain errors³. Although we did not find any errors, WT's forecasting process relies on multiple spreadsheets which simply compounds the chances of a large mistake occurring and, possibly leading to unexpected borrowing needs or unplanned cash surpluses.

Inherent Uncertainty

WT has the added challenge of facing a great deal of uncertainty over almost every input to its cash flow process, including government funding and major potential inflows from land sales which are uncertain in likelihood, amount and timing. These inflows may also be susceptible to market risks such as real-estate and interest rate fluctuations. Similarly, expenditures relating to WT's major projects are subject to construction delays, billings and other factors which make the timing of cash outflows uncertain. On average, WT's processing and payment of invoices is 30 to 60 days, which is consistent with similarly sized organizations with similar volume of transactions. Typically, the accounts receivable cycle is standardized to account for general terms and typical payment periods. Given the nature of WT's accounts receivables and the organization's funders, a normalized process would be difficult to achieve. Recognizing WT's unique structure with government funding, the organization is looking into opportunities for streamlining and standardizing its accounts receivable process and achieving consistency in government payment intervals in order to shorten the cycle time.

Other challenges being experienced by WT are associated with having multiple receivable agreements, multiple vendors and contracts, and different timing for holdback releases. These circumstances facing WT significantly contribute to its difficulty in generating accurate and reliable cash flow forecasts on a monthly basis.

² Vena Solutions, Infographic – “*The Many Uses of MS Excel and Why It's Not Going Away Any Time Soon*”, 2013

³ ACCA (Association of Chartered Certified Accountants), Article – “*Talking technology – spreadsheet solutions*”, 2015

DETAILED FINDINGS AND RECOMMENDATIONS

This section provides our detailed findings and recommendations on WT's cash forecasting process, as well as an assessment of cash forecasting best practices to WT's current practices.

1. Efficiency of the Cash Forecasting Process

Best Practice

Regardless of the methodology or accounting systems used by companies, all leading organizations aim to streamline their forecasting process as much as possible. This helps increase efficiency, minimize manual errors and increase accuracy. The overall process should occur as smoothly as possible with individuals providing information in their area of expertise and by minimizing the duplication of work by dedicated cash flow resources.

Timing - A cash flow forecast is a living document, which is constantly updated as information becomes available or confirmed. As such, many organizations similar to WT in terms of size and volume of transactions do not measure the length of time a cash flow forecast takes to prepare (including review and sign-off) which could be up to five days. Often, organizations set a cut-off date for inputs and updates to the forecast after which it is reviewed by management for decision making purposes. There are also other organizations that utilize a "rolling" format where information is integrated into the forecast immediately after the information is obtained. Thus, the cash forecast is continuously updated and can provide the organization with better information, especially during cash-critical periods.

Cost Information from Major Projects - Major construction projects, such as those undertaken by WT, should have contracted schedules for work to be performed and billings to be issued, approved and paid, in a common format. Having clear schedules, defines the expectations from both the vendor (in terms of work performed) and from the purchaser (with respect to timing of billings). The use of a common format for the cash flow inputs can greatly facilitate the cash forecasting process.

Data from the Accounting System - Accounting system reports should include all of the necessary information required for the cash flow. Ideally, much of the cash flow data should be provided from the accounting system, including amounts committed, received and paid, as well as the corresponding dates.

Reporting – Cash flow forecasting is seen as a strategic exercise to regularly provide information to management and the Board for decision-making purposes. Similar organizations adopt a practice of periodic reporting, including variance analysis, so that decision-makers are made aware of the organization's financial health.

Observation

Timing - Currently, WT aims for a ten-day turnaround (starting from the beginning of the month) for the presentation of its updated cash flow forecast to the CFO. During this time, information is collected and updated from multiple sources of information including internal and external parties. Given the complicated and unique operating situation with respect to managing multiple program costs and uncertain cash inflows, the current ten-day turnaround is a challenging timeline. Similar to best practices, WT's cash flow is perpetually maintained by a dedicated resource with monthly cut-off dates serving as a guide for Program Controls to obtain relevant information from vendors.

Cost Information from Major Projects - Vendors are contractually obligated to provide progress updates and billing estimate reports to WT on a monthly basis. These reports include actual construction costs, estimated costs for future months and the estimated billings related to the work completed. These progress reports are not on a cash basis and often WT is required to adjust the information contained in these reports to include in the cash forecasts.

Data from the Accounting System - WT uses Navision, an accounting software, and Business Intelligence ("BI"), a report generator, to pull certain information from the accounting system (i.e. information on paid invoices extracted from Navision) into reports that are used in the cash flow forecasting process. One report used by Program Controls to obtain project cost information is to provide data on paid invoices. This report currently does not accurately provide the dates when invoices were paid, instead only displaying the dates when invoices were inputted as payables within the general

ledger. Finance and Program Controls currently spend time going through the accounting system for the invoice data, which is required to establish the actual invoices outstanding for future cash flow periods.

Reporting – WT's Finance Department oversees the monthly (and if necessary, on a weekly basis when expected borrowing is required) coordination and analysis of the cash forecast, which is submitted to other departments for review and sign off, and then submitted to the CFO. The CFO presents the cash forecasts to the Senior Management Team during periods when there is cash sensitivity. In addition, the CFO provides the FARM Committee of the Board with a high-level summary on the organization's cash flow position, its projected changes within a twelve-month period, and a variance analysis, on a quarterly basis. Cash flow reporting to the governments and lender is done on a quarterly basis.

Recommendation

Timing - Given that other similar organizations are able to complete their cash forecasting in up to five days, there is an opportunity for WT to streamline its process and consequently promote better decision-making, especially during cash-critical periods. The use of a "rolling-forecast", if deemed to be feasible for WT, can further shorten the cash forecasting process as the inputs are immediately taken into account when information becomes available.

Cost Information from Major Projects - WT should request cash information from vendors directly. Finance should provide vendors with a project cost cash flow template that outlines the specific cash information that is required for input into the forecast. This will standardize the cash flow inputs required and promote efficiency in the completion of the cash forecasting process.

Data from the Accounting System - We recommend that the BI report be modified to include the required data for cash forecasting purposes.

Reporting – We recommend that WT continue with its periodic reporting of the organization's cash flow to the Senior Management Team, the FARM Committee of the Board, the governments, and lender.

Management Response

Management agrees with the recommendations.

- *Timing* - WT is currently streamlining its process to shorten the time required to complete its cash forecast for submission to the CFO.
- *Cost Information from Major Projects* – When there is an opportunity, WT will explore the inclusion of certain reporting requirements particularly for those vendors with significant contracts.
- *Data from the Accounting System* - IT is currently developing a new report which will extract information from Navision. The report is intended to include the needed information/data for the cash forecasting process (i.e. payment date, name of vendor, contract number, invoice number, amount paid, project code, work package code). Target implementation of this initiative is within Q4 2015/16.
- *Reporting* – WT will continue with its practice of regularly informing and updating the decision-makers, the governments, and lender, regarding the status of the organization's cash flows.

2. Cash Forecasting Integration Opportunities within the Accounting System

Best Practice

Many organizations rely heavily on stand-alone Excel-driven cash flow forecasts, with approximately 80-90% of small to medium organizations using Excel or some other spreadsheet-based tool for their cash forecasting needs⁴. However, Excel can be inefficient for organizations that deal with multiple sources of information and time-sensitive requirements. High-performing organizations leverage accounting systems (such as Oracle or SAP) which include cash forecasting modules. Other organizations have integrated cash forecasting solutions (such as Adaptive Insights or other Corporate Performance Management solutions) into their existing accounting systems. These modules are able to quickly and efficiently produce standard cash forecasts by populating known and expected cash inflows and outflows. Forecasts can then be reviewed by staff to ensure accuracy and to be tailored for information not contained within the system (i.e. future

⁴ Vena Solutions, Infographic – “*The Many Uses of MS Excel and Why It's Not Going Away Any Time Soon*”, 2013

cash inflows not yet confirmed). By integrating the forecasting process into the accounting system itself, organizations can decrease the likelihood and impact of inaccuracy, such as mistakes stemming from spreadsheet version control, incorrect entry or by missing or excluding cash inflows and outflows from the forecast.

Observation

Given the relatively low volume of transactions being handled by WT, it has relied on Excel spreadsheets (which is consistent with best practices of similar organizations) to fulfill its cash flow forecasting requirements, as the current accounting system, Navision 2009, does not have an embedded cash flow forecasting function. In order to obtain the data needed for the cash forecasting, WT extracts some of the required cash flow inputs from the Navision database.

While WT's Navision 2009 system will still be provided with some level of support until January 2020, there is an opportunity for WT to identify and evaluate cash forecasting software solutions that integrate the preferred solution into its current accounting system.

Recommendation

WT should consider identifying cash forecasting software solutions and assess which solution can best be integrated into WT's Navision 2009 system to address the organization's cash forecasting requirements. WT should assess each software solution, including Excel-based cash flow forecasting (which is used by similar organizations), and prepare a cost/benefit analysis to determine which software solutions, if still deemed to be necessary, best meet the overall needs of the organization for future accounting and reporting. WT should also explore additional BI reports that can be extracted from Navision (i.e. information on accounts receivables, payables, etc.) to support the cash forecasting process.

When reviewing the cash forecasting software solutions, we recommend that WT consider the use of a Corporate Performance Management ("CPM") solution in place of continuing the use of Excel.

A CPM cash forecasting solution would integrate with an accounting system, pulling historic information, analyzing the information, providing estimates based on the information and generating a cash forecast in a pre-designed format, looking and operating very similar to an Excel spreadsheet. The solution would also allow for direct input of data not included within the accounting system and has the ability for third parties to provide inputs into the forecast by completing pre-designed templates. A CPM solution can be programmed to meet WT's custom needs by presenting information on Key Performance Indicators ("KPIs") as required, in addition to generating and providing support for sales forecasts. This can provide WT with timely and relevant insight into cash forecasting performance.

This type of solution has been adopted successfully by many mid-sized organizations who cannot implement full cash forecasting modules within their accounting systems and who have outgrown Excel and require data controls and tools for their cash forecasting processes.

Management Response

Management agrees with the recommendation, and recognizes the opportunity to streamline its cash forecasting process by integrating a cash forecasting module into its current accounting system (i.e. Navision 2009). WT intends to evaluate the options, and determine which software solution best addresses the current organizational needs and requirements taking into account key considerations, such as cost of the software, ease of implementation and maintenance, ability to produce standard reports for various departments, applicability and relevance of the system's functionalities, and volume of WT's transactions being captured in the cash forecasting process. Management will likewise explore additional BI reports that can be generated based on information in Navision to improve WT's cash forecasting process.

3. Accountability for Cash Flow Information

Best Practice

For all organizations, accountability for accurate and reliable information is paramount. Individuals who provide information in support of cash flow preparation are usually held accountable in the following ways:

- Sign-off on information provided;
- Tracking of access to and modification of the draft cash flow forecast, either through login ID or access level controls within the system; and,
- Annual sign-off on a “Code of Conduct” or “Commitment to Quality of Work” which addresses accountability for work completed.

These methods ensure that staff are aware that their contribution to the cash flow forecast is important and that the accuracy and reliability of the information provided is a key factor in organizational success.

Observation

During our review, we found that WT has been experiencing large variances from monthly forecasted to actual cash flow. In addition, there was a recent instance (prior to July 2015), where a large payment of \$4 million had not been included in the forecast resulting in urgent actions for cash to be made available through the sale of investments.

The variances are, in part, a result of the inherent uncertainty of WT’s funding environment, however, there could have been a lack of accountability and awareness for the importance of cash forecasting of the various departments providing input into the cash forecasting process.

A refinement was made to the August 2015 cash forecasting process and now individuals that provide input into the cash forecast are required to sign-off prior to submission to the CFO to acknowledge that the information and estimates are complete and accurate as of the forecast date.

Recommendation

We recommend that WT continue to obtain the monthly sign-off from the various individuals and departments that provide input into the cash forecasting process to encourage accountability for accurate and complete information.

Management Response

Management agrees with the recommendation. WT will continue with its practice of obtaining monthly sign-off from the respective individuals/departments to promote accountability and accuracy of information.

4. Cash Management and Forecasting Process Documentation

Best Practice

As with other key processes, leading organizations create, maintain in an easily accessible intranet site, and regularly update documentation for each critical business process which is mainly handled by one individual in the organization. Process documentation should be as thorough as practically possible, discussing roles, responsibilities, timelines, and detailed tasks to be performed. Documentation should allow for any staff member to perform the steps/tasks within the process without a significant amount of assistance. Thorough documentation allows for consistency in the output of the process, efficiency in continuity between staff members and facilitates support from other staff members, as needed.

Observation

WT has created a Cash Flow Forecast Process document, dated May 6, 2015, which provides high-level detail on the objectives for cash forecasting, the roles of the departments involved, the input and sources of data, and the process followed to prepare and verify the cash forecast.

While the information provided in the document is adequate, it would be difficult for someone not familiar with the process to follow the document to gather and prepare a cash forecast, meeting the timeline for completion.

In addition, it is our understanding that the complete process is only intimately known by one individual in Finance who has worked to refine the process over the past few months.

WT is currently working towards improving the Cash Flow Forecasting Process document based on a draft document dated September 25, 2015, which now further explains the various steps involved including supplementary diagrams.

WT also has a document named Treasury & Investment Management Processes & Procedures, dated March 30, 2012. This document has been revised and updated, and renamed the Treasury and Cash Flow Monitoring & Management Processes & Procedures (Investment & Borrowing), reflecting the draft Process document dated September 25, 2015 to include the policies and procedures related to borrowing, and the corresponding reporting requirements. In addition, this document includes details on WT's investment management strategy, financial risk management, cash management, borrowing management, accountabilities for the various processes, and sample approval documents.

Recommendation

WT should continue with streamlining and enhancing the existing Cash Flow Forecast Process document. This updated document should ultimately include detailed step-by-step procedures for each sub-process, names of reports that are obtained from the system and the data they contain, and templates that gather data from various sources. Development of process map(s) may also be helpful in documenting the step-by-step procedures. There should be one document that encompasses the current cash forecasting process and procedures, which should be stored in the organization's shared database.

Management Response

Management agrees with the recommendation to continue with its update of the Cash Flow Forecast Process document to facilitate knowledge sharing, with target completion by December 2015.

5. Cash Reserve for Operations

Best Practice

Organizations similar to the funding structure of WT often experience challenges and fluctuations in cash flow. Prudent organizations often establish operating reserves to cover short-term deficits as they arise. Organizations facing inconsistent cash inflows and outflows in particular benefit from setting aside cash during times of high liquidity for future use.

Observation

WT's current cash position includes restricted and unrestricted cash. Unrestricted cash can be used for day-to-day operations of the organization. Restricted cash includes project holdbacks and a security fund established for certain projects.

WT does not currently have a cash reserve for short-term operational cash flow fluctuations or emergencies.

Recommendation

When WT has a positive cash position, a cash reserve should be established to mitigate the materialization of future cash flow risks, such as the uncertainty of cash inflow timing. The reserve should be set at an amount of approximately two to three months of expenditures to ensure that the organization can pay ongoing payroll and project expenses while arranging longer-term solutions to cover any cash shortages.

We understand that the establishment of an operating reserve is not currently feasible due to the current operating and borrowing environment of the organization, however, WT should still consider the establishment of an operating reserve when the organization has a strong cash position.

Management Response

Management agrees with the recommendation. Pursuant to WT's proposed 2016/17 Annual Corporate Plan which is subject to approval by the Board of Directors, management is intending to establish a \$25M capital reserve in 2016/17 as a contingency measure for unanticipated capital project requirements either due to an increase in budget requirements or revenues not materializing for the projects. If this reserve is not used, it will be appropriated to other waterfront revitalization projects.



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