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February 6, 2017

Ms Cindy Shuttleworth  
Chief Financial Officer  
Collus PowerStream  
43 Stewart Road,  
Collingwood ON L9Y 4M7

Good afternoon Cindy,

I am sure you are aware of my fiduciary duties as Treasurer for the Town of Collingwood, to complete my records I would like your explanation in writing or further documentation for the payments below made from the Collingwood Public Utilities Services Board (CPUSB) while you were the Chief Financial Officer (CFO). A number of these outstanding items have evolved from the continued reviewed of the operational changes since 2012. As CFO, you were a contracted service provider acting in the capacity of CFO with **all** of the fiduciary duties and responsibilities inherent in that title.

The CPUSB and, ultimately the Town of Collingwood, as your client retained your services through Collus PowerStream Solutions to undertake all tasks, duties and responsibilities of the position and expected they would be carried out in a professional manner and that all transactions that occurred during your tenure would be complete and withstand the public scrutiny that municipal records are subject to. As the CFO, one of your duties was to ensure that business was transacted in accordance with Town by-laws and policies as stated in the establishing by-law.

Further to your refusal to provide information related to payments made prior to October 2012 when you assumed the role of CFO for the CPUSB, I will limit my questions to payments made after September 30, 2012. I have attached the background information we have as exhibits and it should be sufficient for you to provide the clarification requested.

1. HSG Group, Inc. – Review of Cost Allocation Methodology (Exhibit A)  
In regard to this report I note the following:  
This report was referred to in the year-end audit letter with the following management comment:

*"In 2013 we retained HSG Group Inc. to review the shared services provided by Collus PowerStream Solutions. The report concluded, "The methodology developed for Collus PowerStream Solutions Corp. to distribute its costs among the businesses it serves is cost-based, consistent with OEB precedent and regulatory practice, and is transparent and efficient."*

This is a direct quote from page 11 of the report. As well, the Collingwood Public Utilities 2014-2016 Business Plan references the report on page 17.

It is unclear as to which entity commissioned this report. The report is titled – Collus PowerStream Solutions Corp. Review of Cost Allocation Methodology but the addendum to the report is addressed to Ms. Cindy Shuttleworth CFO Collingwood Public Utilities Service Boards. Can you clarify which entity commissioned and paid for the report? Were the implications of this report discussed with the CPUSB Board in a candid manner? I see no Board motion that indicates the board accepted or adopted the report as the basis for costing of services. I believe that the 'Services Agreement' (section 3.04) required that changes be initialed and amended schedules attached to the agreement. Was this done? Further, section 11.08 of that agreement states:

*"No amendment to, or change, waiver or discharge of, any provision of this Agreement shall be valid unless in writing and signed by authorized representatives of each Party."*

Was this done?

The 2014-2016 Collingwood Public Utilities Business Plan was presented to Council on June 30, 2014 by Doug Garbutt and Marcus Firman. The written documentation discusses the HSG Group report however, if you listen to that particular Council meeting on Rogers there was no mention of the HSG Group, Inc. report or findings. Why was this particular item not brought to the attention of the Town and the viewing public?

The addendum to the report was received by you on August 20, 2013 whereby Mr. Gorman indicates, "In our report, we evaluated the cost allocation methodology for compliance with the Affiliate Relationship Code ("ARC") as if all inter-company transactions between the entities listed above had to meet the requirement of the ARC." What exactly does this statement mean? What were the implications of this addendum for the CPUSB? Did you, as the CFO of the CPUSB explain the implications of this statement to the Board? As I understand it, for OEB regulatory purposes, the LDC must show that it is not paying more than cost for the services it receives including an allowed return on capital. There was no mechanism to do the same for the Water department. Was the

Water department being treated in the same manner and context as the LDC side?

A review of Table 4 – Summary of Cost Allocation Results on page 11 of the report indicates that Collus PowerStream Solutions Corp. would allocate

- 59.4% of overall costs to Collus Power;
- 32.7% of overall costs to Collingwood Water; and
- 7.9% of overall costs to the Town of Collingwood.

Applying these rates to the operating results of Collus PowerStream Solutions Corp. would produce the following cost allocations:

	Total Administrative Service Revenue	Collus Power Allocation 59.4%	Collingwood Water Allocation 32.7%	Town of Collingwood Allocation 7.9%
2015	\$1,920,993	\$1,141,070	\$628,165	\$151,758
2014	\$2,155,416	\$1,280,317	\$704,821	\$170,278
2013	\$2,165,115	\$1,286,078	\$707,992	\$171,044
2012 <sup>1</sup>	\$2,582,792	\$1,534,178	\$844,573	\$204,041

The amounts that were actually allocated to each of the three (3) entities from the audited financial statements of Collus PowerStream Solutions Corp. were:

	Total Administrative Service Revenue	Collus Power Allocation	Collingwood Water Allocation	Town of Collingwood Allocation
2015	\$1,920,993	\$1,068,008	\$706,526	\$146,549
2014	\$2,155,416	\$1,276,072	\$744,118	\$135,227
2013	\$2,165,115	\$1,106,448	\$921,676	\$136,991
2012	\$2,582,792	\$1,379,500	\$1,057,925	\$145,367

It would appear that, had the HSG Group, Inc. recommendations been used as the cost allocation methodology and ignoring the 2012 figures the combined total of costs allocated to the Town/Water for 2013 to 2015 would have been \$2,534,059 and the actual allocated was \$2,790,997 – a difference of \$256,938. Why the difference?

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<sup>1</sup> 2012 was included in the above table because the fourth quarter expenditures were incurred when you were the CFO. They are here for information only and not used in any further analysis.

2. Report to Collus PowerStream Solutions Corp. – Exhibit 4 – Asset Use Fees (Exhibit B)

When the comments on this document were made, were you acting for the CPUSB or CPS? The computer lease figure of \$21,790 was determined by HSG Group in their report. The addendum to the report clearly states that they “evaluated the cost allocation methodology for compliance with the Affiliate Relationships Code (“ARC”) as if all inter-company transactions between the entities listed above had to meet the requirements of the ARC.” The CPUSB was not an affiliate as defined under the ARC. Why did you recommend or reduce the lease rate based on the restrictions applicable to the LDC? Was it in the best interest of your Client, the CPUSB, and ultimately the Town? Why was this the only change implemented?

3. July 31, 2013 (Exhibit C)

You prepared a seven (7) month variance analysis for the Board and in that review under note 6 you indicate that there was a recategorization of expenses, overall there was a decline in expense of approximately \$143,000. You state that the decline can be attributed to the WT operator position being vacant for part of the year and a reduction in management wages due to a change in wage allocation with shared employees. What change was implemented? Did you implement the HSG Group, Inc. allocation methodology? From the analysis in question 1 it would appear that the allocation methodology used was not that reported on by the HSG Group, Inc.. What methodology did you use? What impact did the retirement of the previous CFO have on the variances?

4. Management Fees 2013 (Exhibit D)

Historically, management fees have been charged to the CPUSB and Collus Power. You indicated to Derek Ali of DFA Infrastructure International Inc. and Carolyn Young of PowerStream that, in fact, it was not a management fee but rather “burden”. You also provided Mr. Ali with a spreadsheet titled “Current Standard Distribution Profiles”. Overall, it indicates that Power receives 54.91% of salary and benefits, Water receives 37.16% and the Town receives 7.93%. I would note that these percentages do not coincide with the HSG Group percentages which were 59.4%, 32.7% and 7.9% respectively. The 2013 management fee or burden charged to the CPUSB was \$210,000 and the amount charged to Collus PowerStream Corp. was \$132,000. Why is the “burden” allocated 61.4% to water 38.6% to Power while the salaries and benefits are allocated based on the percentages noted above? Did the CPUSB know that they were paying significantly more for the burden of shared services than Collus PowerStream Corp.? The management fee or burden figures were the same for 2012. By the way, the information related to Collus PowerStream Corp. is readily available on the Collus PowerStream website.

5. 2013 Labour Cost Summary (Exhibit E)

Based on the "Water Transactions in Solutions" backup documentation (11 out of 12 months) that was transferred to the Town as part of the 43 boxes of information from the CPUSB, I note that while you refer to the "Management Fee" as a burden allocation, you also show a "burden allocation" – why are there are two (2) burden allocations to the CPUSB?

The period from September 2013 to December 2013 for Executive labour costs is significantly higher than at any other period during the year. You processed a monthly bonus accrual amount of \$750 (annual \$9,000) to the Executive salary account. Why were the amounts paid out during September to December 2013 so significantly higher than a \$9,000 bonus could account for? Why are the payments to Solutions for these four (4) months so uncharacteristic of the previous months? They appear to be about \$63,000 higher than normal. As the CFO of the CPUSB, did you question the magnitude of the additional charge? Did you inform the board that these charges were significantly higher than normal? Did they agree to pay them?

Accounting Expense for January 2013 is significantly higher than normal. It would appear that the CPUSB is being charged a portion of Tim Fryer's retirement settlement. If Mr. Fryer was no longer employed what service was he providing the CPUSB that they should pay for? If this is a settlement negotiated by Solutions with their employee, did you question these charges? Did you inform the CPUSB board and did they agree to pay this charge when they were not receiving any service in return?

6. 2014 Labour Cost Summary (Exhibit F)

Ed Houghton 'resigned' as the President & CEO of Collingwood Public Utilities December 31, 2013. Why did you continue to make Executive Labour Cost payments to Solutions from January to May of 2014?

7. October 2012 (Exhibit G)

Georgian Frame Gallery – \$575.05 - invoiced to Collus Power Corp and approved by Ed Houghton with the description of 1 (one) frame re: painting for Mayor – Collingwood Terminal Building in the fall. It is written at the top of this invoice "pay through CPUSB". Why was this payment re-routed to the CPUSB? Since the Mayor is an appointed member of the board, this item should have been disclosed when the board was asked for the remuneration of its members.

8. November 2012 (Exhibit H)

McNulty Printing - \$4,480.45 – invoiced to Collus PowerStream Corp and approved by Ed Houghton with the description of pool promo piece and a copy of the printed material. Why was this payment re-routed to CPUSB? Why did you

expense this through the CPUSB and not bill the Town of Collingwood when you knew the new facilities were not assets of the CPUSB?

9. December 2012 (Exhibit I)

Board minutes – pg 4 – statement attributed to you “It was noted that due to the Town’s budgets not being passed until later in the year, we do not increase our water rate until May, which gives us four months at the old rate.” Was this your practice? If so, you were not conducting the business of the CPUSB in accordance with Town by-laws and it would have been a costly error.

The Town of Collingwood Fees and Charges by-laws provided the authorization to charge the rates as determined not the budget. The rate by-laws were enacted as follows:

- By-law No. 2011-133 passed by Council December 19, 2011 establishing 2012 rates with an effective date of January 1, 2012;
- By-law No. 2012-125 passed by Council December 17, 2012 establishing 2013 rates with an effective date of January 1, 2013;
- By-law No. 2014-021 passed by Council March 17, 2014 establishing 2014 rates with an effective date of April 1, 2014 (these rates were delayed until the new rate study was completed); and,
- By-law No. 2014-088 passed by Council November 24, 2014 establishing 2015 rates with an effective date of January 1, 2015.

10. February 2013 (Exhibit J)

Docu-Link International Inc. (Gilmore Doculink) - \$2,749.29 – invoiced to Collus Power Corp and approved by Marcus Firman with the description of Newsletter – January 2013. There is an attached post-it note that indicates that this is for the “Council newsletter we inserted”. The note also indicates that Ed advised to put it through CPU. Why did you expense this through the CPUSB and not bill the Town of Collingwood when you knew it was a Council related item?

11. May/June 2014 – Blue Mountain Shades & Shutters (Exhibit K)

The CPUSB paid \$16,420 for window coverings at 43 Stewart Road. Under the Town’s Procurement By-law in effect at that time, you were required to get three (3) written quotes. Where are the other two (2) quotes?

12. August 2014 – Cando Rail Services - \$4,881.60 (Exhibit L)

Why was the Water Department charged for expenses that were related to the rail line? Why were these payments not re-billed to the Town?

Your co-operation in this request would be appreciated.

If you require further information to respond to any of these questions, we will attempt to provide you with what you need but it will depend on what was initially provided to the Town.

Yours truly,

TOWN OF COLLINGWOOD

Marjory Leonard  
Treasurer

Encl.

cc: John Brown, CAO

