



Auditor General
MANITOBA

Report to the Legislative Assembly

Investigation Report – Manitoba Municipalities and the Department of Municipal and Northern Relations

Independent Report

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August 2025

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August 2025

Honourable Tom Lindsey
Speaker of the Legislative Assembly
Room 244, Legislative Building
450 Broadway
Winnipeg, Manitoba R3C 0V8

Dear Honourable Speaker:

It is an honour to submit my report, titled *Investigation Report – Manitoba Municipalities and the Department of Municipal and Northern Relations*, to be laid before Members of the Legislative Assembly in accordance with the provisions of Section 28 of *The Auditor General Act*.

Respectfully submitted,

**Original Signed by : Tyson
Shtykalo**

Tyson Shtykalo, FCPA, FCA
Auditor General

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Auditor General's comments

Each year, the Province of Manitoba provides significant funding to municipalities to support local governance, infrastructure, and services. With this funding comes a responsibility—both for municipalities and the Department of Municipal and Northern Relations—to ensure effective stewardship of public resources.

In recent years, my Office has undertaken several investigations involving municipalities, where we have found gaps in oversight. These investigations were initiated following tips we received from concerned Manitobans.

The most frequent requests that come through our stakeholder concern line continue to involve rural municipalities, with allegations often related to financial mismanagement and accountability.

This report was initiated in response to a special request from the Minister of Finance under Section 16 of *The Auditor General Act*, following a cybersecurity incident involving the Municipality of Westlake-Gladstone. Given the broader concerns we hear from Manitobans, I took this opportunity to also examine six other allegations related to municipalities, as well as the Department of Municipal and Northern Relations' oversight of municipalities.

Regarding the cybersecurity incident, we found the Municipality of Westlake-Gladstone did not investigate the root cause of the incident. This highlights the urgent need for all municipalities to implement baseline cybersecurity controls, such as those recommended by the Canadian Centre for Cyber Security.

Of the six allegations we investigated, we found three had some concerns substantiated, revealing improper procurement, unauthorized expenditures, and governance failures.

This report includes several recommendations for the Department to improve government oversight.



Recent investigations involving municipal oversight

- In 2021, we found the Province was not providing municipal councils with sufficient information to manage development corporations.
- Also in 2021, we found the City of Winnipeg did not comply with internal policies when it sold the former Vimy Arena.
- In 2018, we found the RM of De Salaberry had significant gaps in its internal controls, which led to untendered contracts being awarded and unsupported expense claims.

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I would like to thank the staff of the municipalities and the Department for their cooperation throughout this investigation. I also extend my appreciation to my audit team for their diligence and commitment in completing this important work.

**Original Signed by: Tyson
Shtykalo**

Tyson Shtykalo, FCPA, FCA
Auditor General

Report highlights

What we did

- The Auditor General received a Section 16 request from the Minister of Finance to examine and audit the operations and accounts of various municipalities, including the Municipality of Westlake-Gladstone.
- Subsequently, we:
 - Examined Westlake-Gladstone's response to a cybersecurity incident.
 - Investigated six allegations involving municipalities.
 - Assessed whether the Department of Municipal and Northern Relations provides sufficient oversight in addressing complaints against municipalities.

What we found

Municipality of Westlake-Gladstone

The cybersecurity incident was not investigated for root cause

- Between December 19, 2019, and January 5, 2020, unauthorized withdrawals were made from an account held by the Municipality of Westlake-Gladstone.
- The municipality did not investigate the cybersecurity incident for root cause.
- As a result, a critical opportunity was missed to understand how the incident occurred and how to prevent future breaches.

Municipal allegations

Three of the six allegations we investigated had some concerns substantiated

- The substantiated allegations included not following a purchasing policy, claiming ineligible expenses, and improper governance.

Department oversight

Weak oversight of municipalities

- The Department:
 - Does not adequately follow up on complaints about municipalities.
 - Does not have sufficient oversight over how municipalities use government grants.
 - Performs minimal review of financial information municipalities are required to submit to the Province (including financial plans and statements).

What we recommend

This report includes 5 recommendations related to cybersecurity and enhancing oversight of public funds provided to municipalities.

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Background

The Auditor General received a Section 16 request from the Minister of Finance through an Order in Council (#343/2022) dated September 6, 2022. Section 16 of *The Auditor General Act* permits the Lieutenant Governor in Council, the Minister of Finance, or the Public Accounts Committee to request a Special Audit which the Auditor General may accept.

The Order in Council stated that the Department of Municipal Relations heard from citizens with concerns related to council governance, financial management, oversight, and public accountability in various municipalities, including the Municipality of Westlake-Gladstone.

The request asked the Auditor General “to examine and audit the operations and the accounts of various Municipalities, including the Municipality of Westlake – Gladstone (altogether, the “Municipalities”).”

The Auditor General accepted this request and decided to examine the Municipality of Westlake-Gladstone and an additional 6 municipalities. The results of these investigations are contained in this report.

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Scope and approach

We conducted our investigation between January 2023 and February 2024. The scope of our investigation covered various allegations dating back as far as five years.

There were three areas for our work.

First, we examined the Municipality of Westlake-Gladstone's response to a significant cybersecurity incident and assessed the adequacy of the municipality's investigation.

Second, we selected municipalities where we were made aware of allegations. These allegations were selected from two sources: tips we received through our **stakeholder concerns line** over the past five years and a list of concerns we received from the Department of Municipal and Northern Relations. We performed procedures to determine if the allegation were substantiated or not. The allegations relate to the period before the 2022 municipal elections and were selected from the following municipalities:

- Swan Valley West
- St. Andrews
- West St. Paul
- Lorne
- Ethelbert
- Springfield

Third, we assessed the adequacy of the policies and procedures used by the Department of Municipal and Northern Relations (the Department) in addressing complaints received. This included understanding the Department's oversight and stewardship of grants provided to the municipalities.

We interviewed Department and municipality staff, reviewed information provided by all organizations, and documented processes. Our investigation was conducted under the authority of *The Auditor General Act*.

Stakeholder concerns line -

The Auditor General may initiate an audit as a result of information received from concerned stakeholders. We encourage Manitobans to:

- Report fraud, waste, and mismanagement.
- Provide information related to audits currently in progress.
- Share suggestions for new audits.

This information can be shared with us through our citizen concerns line (citizen.concerns@oag.mb.ca or 204-945-3351).

We review all the tips we receive to determine whether the information falls within the Auditor General's mandate. The Auditor General determines whether further action is taken.

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1 Cybersecurity incident at Westlake-Gladstone not investigated by the municipality for root cause

Between December 19, 2019 and January 5, 2020, unauthorized withdrawals were made from an account held by the Municipality of Westlake-Gladstone (the Municipality) at the Stride Credit Union (Credit Union). There were 48 withdrawals, each just under \$10,000, totalling \$472,377.15.

An unknown actor accessed and made the withdrawals from the Municipality's bank account using the Credit Union's online banking services. In January 2020, the Municipality detected the unauthorized withdrawals and notified the Credit Union and the RCMP. The Credit Union then shut down the account. The RCMP investigated the withdrawals and concluded that they could not find the funds or the actor(s) involved.

Our inquiries with the Municipality and our review of documentation determined that the Municipality did not perform an investigation at the time of the incident to determine the root cause of how unauthorized access to its online banking account was obtained.

When an information system is compromised, it is considered a cybersecurity incident. Because this incident involved an unknown actor gaining unauthorized access to the Municipality's bank account using the Credit Union's online banking system, it is considered a cybersecurity incident.

When a cybersecurity incident occurs, the response should include an investigation to establish the root cause. Establishing how the incident occurred (in this case how someone gained unauthorized access to the Municipality's bank account using the Credit Union's online banking system) will help determine the actions needed to prevent similar incidents and identify the party responsible for causing it. Understanding root cause can also help determine what controls should be implemented to rapidly detect cybersecurity incidents. These controls may reduce the impact of future events or even prevent them from occurring again.

A key step in responding to a cybersecurity incident is prompt investigation. This is because as time passes the incident becomes more challenging to investigate. System event logs—a key resource used in investigations—may only be retained for a limited period.

Cybersecurity threats are one of the biggest risks organizations face, due to the growing reliance on technology (including widespread adoption of cloud-based storage and artificial intelligence). It is critical for organizations of all sizes to act appropriately to ensure they are resilient to cybercrime, which could have financial and privacy impacts.

Cybersecurity control framework – is a set of guidelines for mitigating cybersecurity risks.

The **Canadian Centre for Cyber Security** is the Government of Canada's single unified source of expert advice, guidance, services and support on cyber security for Canadians.

There are a variety of strong **cybersecurity control frameworks** available to organizations. These include the National Institute of Standards and Technology (NIST) Cyber Security Framework, ISO 27001, and Center for Internet Security (CIS) Critical Security Controls; however, the implementation of these controls can be expensive and resource intensive for many small- to medium-sized organizations. As a result, the **Canadian Centre for Cyber Security**, which is part of the Government of Canada's Communications Security Establishment, has documented a condensed set of controls that mitigate most cyber threats with an investment of resources that is more attainable for small- and medium-sized organizations. These controls are called the *Baseline cyber security controls for small and medium sized organizations*.

Implementing these baseline cybersecurity controls prior to the unauthorized withdrawal from the Municipality's bank account could have helped the Municipality promptly detect, and possibly prevent, the incident.

Examples of these controls include:

- Documenting an incident response plan detailing responsibilities for handling incidents and contact information, including any external parties that will be used to manage the incident response.
- Requiring two-factor authentication to be used for important accounts such as financial accounts, system administrators, privileged users, and senior executives.
- Providing all employees with cyber security awareness training.

The Province of Manitoba's Municipal Advisory Services confirmed it has not provided any guidance to municipalities regarding cybersecurity controls. In the absence of guidance from the Province, we recommend municipalities implement controls to ensure they are protected from cybersecurity threats based on a recognized cybersecurity framework, such as the Canadian Centre for Cyber Security's baseline cybersecurity controls.

While we did not examine what cybersecurity controls exist in other Manitoba municipalities, it is important that all municipalities implement at least these baseline cybersecurity controls.



Recommendation 1

We recommend that all municipalities implement, at minimum, the Canadian Centre for Cyber Security's baseline cybersecurity controls, where they are not already implemented.



Recommendation 2

We recommend that the Department of Municipal and Northern Relations implement oversight processes to monitor compliance with these controls.

2 Three out of six allegations had some concerns substantiated

We regularly receive tips and concerns about Manitoba municipalities through our stakeholder concerns line. We also received a list of concerns from the Department of Municipal and Northern Relations, related to municipalities.

We selected six allegations from these two sources to investigate. The allegations selected related to the following municipalities:

- Swan Valley West (**SECTION 2.1**)
- St. Andrews (**SECTION 2.2**)
- West St. Paul (**SECTION 2.3**)
- Springfield (**SECTION 2.4**)
- Lorne (**SECTION 2.5**)
- Ethelbert (**SECTION 2.6**)

We found three of the six allegations had some concerns substantiated.

2.1 Municipality of Swan Valley West

Allegation

The Municipality of Swan Valley West (the Municipality) purchased a fire truck without tendering, which is a violation of its purchasing policies.

Conclusion

PARTIALLY CONFIRMED – Two of the three fire trucks were not purchased in accordance with the Municipality's purchasing policy.

Additionally, one of the fire trucks was purchased without a council resolution until several months after the purchase.

Work performed

We visited the municipal office and asked for all the documentation about the fire truck purchase. We were told that there were actually three fire trucks that were purchased.

Group buying is a program where vendors are pre-approved by an association on behalf of its member organizations. This allows rural municipalities (RMs) to use the approved vendors without having to tender themselves. Municipalities still have to post documentation on MERX to indicate that they are using the program.

2020 pumper – new

This fire truck was purchased on March 19, 2021, from a vendor that was included in the **group buying** program. We were told by staff that it had to be purchased immediately because it was the only one available in Manitoba, and the municipality would have to wait several months to get another one. The Municipality filed the appropriate documentation on MERX, which is a website where tenders are posted, and payment was approved by council on March 26, 2021.

Because the fire truck was purchased from a vendor approved by the group buying program, it did not have to be tendered. However, Section 169(1) of *The Municipal Act* states that a municipality may make an expenditure only if it is:

- a. provided for in the council's interim operating budget, operating budget, or capital budget;
- b. made in respect of a disaster or emergency declared by the council or head of council under *The Emergency Measures Act*;
- c. ordered by a court or The Municipal Board to be paid; or
- d. authorized by the council under this section.

The purchase of this fire truck did not meet any of these conditions, however it was completely funded by a grant received from the Province during the year.

2015 pumper – used

There was \$330,000 in the 2022 capital budget for a fire truck – pumper. This fire truck was purchased used from a volunteer fire department in West Virginia, United States. The Municipality could not provide any evidence that this truck was tendered.

This former reeve purchased this truck. He transferred C\$300,000 to the Municipality's U.S. dollar account and then transferred the payment to the fire department in West Virginia. The former reeve travelled to West Virginia to purchase the truck and drove it back. The Municipality could not provide any documentation about this transaction except that the C\$300,000 withdrawal was included on the bank statement. The documentation about the truck indicates that it was purchased for US\$225,000. That works out to C\$290,902, using the 1.2929 exchange rate listed on the customs documentation.

All of this occurred without a timely council resolution. The resolution is dated September 27, 2022 (four months after the purchase) and approves a total cost of \$304,300.

Wildlands fire truck - new

This fire truck was included on the 2022 capital budget at an amount of \$300,000. It was purchased in February 2022 for \$285,000. The payment was approved by council at the February 8, 2022, meeting as part of the approval of the listing of cheques.

The fire truck was purchased from a vendor that was not on the list of group-buying approved vendors. The Municipality could not provide any evidence that this fire truck was tendered.

2.2 Rural Municipality of St. Andrews

Allegation

The Rural Municipality of St Andrews (the RM) inappropriately used \$713,000 received under the Safe Restart Agreement, funded by the provincial and federal governments to assist communities build back up from the effects of the COVID-19 pandemic.

Specifically, the allegation stated the RM provided funds to a community club for utilities and payroll without performing any due diligence as to whether the club actually needed the funds and could not fund the expenses on its own.

Conclusion

UNSUBSTANTIATED - Funds provided under the Safe Restart Agreement are considered operating funds and can be used by the RM for any purpose council wishes.

Work performed

We asked for and received a complete list of all expenditures made by the RM using the funding received under the Safe Restart Agreement.

The first payment made by the RM was to a community club for \$80,000. The RM was unable to provide support for the first payment. There was a council resolution approving this payment which indicates that a policy would be developed to provide COVID assistance to other clubs in the RM.

The Pandemic Funding for Community Organizations Policy was adopted on February 5, 2021. The policy allows community clubs to claim reimbursement for utilities and payroll with appropriate proof that the expense was incurred.

We reviewed the payments made to the two largest recipients. Except for the first \$80,000 payment, all requests for funds were backed up by evidence that the payroll and utility expenses had been made. All payments also went through the normal payment cycle and were approved by council.

The letter from the Premier of Manitoba to all RMs announcing the funding indicates that the funds provided under the Safe Restart Agreement are considered operating funds and can be used by RMs for any purpose their respective councils wish.

2.3 Rural Municipality of West St. Paul

Allegations

1. The 2022/23 equipment rental tender was not done in accordance with the Rural Municipality of West St Paul's purchasing policies.
2. The Public Works Building was not tendered in accordance with required tendering practices.

Conclusion

UNSUBSTANTIATED – There was no evidence that the equipment rental tender or the Public Works Building tender were done inappropriately.

Work performed

1. Equipment rental tender

Each year, the Rural Municipality of West St. Paul (the RM) tenders for equipment rental rates. All types of heavy equipment are included in the list including graders and front-end loaders. When the RM needs equipment, it can use the list and call on the lowest bidder for that particular piece of equipment. A vendor could have the lowest bid for one piece of equipment but be the highest on another. All bids received are recorded on the master equipment rental spreadsheet.

We reviewed the tendering of the 2022/23 equipment rental. The tender was publicly advertised, as required. We verified that all tenders were received before the deadline and agreed all tenders received to the master equipment rental spreadsheet. We found no discrepancies.

2. Public Works Building

The Public Works Building design/build project was originally tendered on May 6, 2021, with a closing date of May 20, 2021. The lowest bid was for \$540,000. The Chief Administrative Officer and the Public Works Manager recommended that the low bid be accepted. After a lengthy discussion, council voted against awarding the tender to the lowest bidder. There were concerns that the company was not bonded and that it was new, with no previous work council could view. Except for a YouTube video of the council discussion, there was no documentation explaining the reason that the lowest bidder wasn't selected. We asked the Association of Manitoba Municipalities, a municipal advocacy organization, if this was good tendering practice and were told that the reasons why a low bidder was not accepted should be documented.

The project was again tendered in June 2021 with a closing date of July 2, 2021. This time the low bid came in at \$769,760.99. This amount was more than the budgeted amount and could not be accepted.

In 2022, the budget for the project was increased and the project was split into a design/build tender—meaning interested parties bid separately for the building design and for the construction. A different company was the winning bidder for each of the design and build phase.

2.4 Rural Municipality of Springfield

Allegation

Councillors in the Rural Municipality of Springfield (the RM) claimed ineligible expenses on their expense reports.

Conclusion

CONFIRMED – Over the nine-month period examined, councillors expensed and were paid approximately \$3,000 more than was allowed by the RM.

Work performed

We reviewed the expense reports of all councillors of the RM for January to October 2022. We compared all expenses claimed to the RM's Bylaw #19-02. The untitled bylaw establishes the rates, taxable allowances, types, and conditions of payments to be made to members of council and council committees.

We found that the most common ineligible expense claim was for travel. The bylaw indicates that only time spent engaged in business is claimable and accordingly, travel would not be eligible.

Using a strict interpretation of how the bylaw is worded, we noted that councillors were overpaid approximately \$3,000 for the period January to October 2022.

2.5 Municipality of Lorne

Allegation

The Municipality of Lorne (the Municipality) purchased graders without following any tendering process.

Conclusion

UNSUBSTANTIATED – The Municipality purchased graders in 2022 in accordance with group buying rules.

Work performed

We attended the municipal office and reviewed the process used to purchase the graders in 2022.

The Municipality posted on MERX, a website where tenders are posted, that it intended to participate in the group buying program coordinated by the Association of Manitoba Municipalities (AMM). Posting on MERX is a requirement for any Municipality wanting to participate in group buying.

The Municipality then selected two companies from the AMM's list of approved group buying vendors. It asked the two companies to make presentations before council. The Municipality selected the graders for purchase based on these presentations. This process was unusual. Typically, municipalities select an approved vendor and work out a deal with them. However, there is no issue with purchasing graders the way the Municipality did.

2.6 Municipality of Ethelbert

Allegation

The former Head of Council improperly authorized procurements and generally operated unilaterally without involving council in the decisions.

Conclusion

CONFIRMED – Documentation showed several instances of improper governance by the former Head of Council.

Work performed

We contacted the current Chief Administrative Officer and current Head of Council of Ethelbert about this allegation. We were provided with a long history of questionable actions performed by the former Head of Council. Most of these instances involved circumventing the policies and procedures of the municipality and *The Municipal Act*. Below are three examples.

- The former Head of Council purchased a vehicle through an online auction from Alberta, then travelled there to pick it up. The individual was reimbursed for his travel without any knowledge or approval of Council.
- When the municipality offered surplus property for tender, the former Head of Council's son was one of the bidders. Conflict of interest rules would require that the former Head of Council excuse himself from all discussions and council decisions of the sale. The former Head of Council refused to excuse himself from this discussion. Ultimately the property was sold to his son.
- The former Head of Council ordered water and sewer lines for a project on his own instead of involving Public Works. The former Head of Council ordered the wrong size lines, resulting in an expense of several thousand dollars.

3 The Department lacks a comprehensive oversight process for municipalities

Municipalities and their councils have a duty to ensure that effective stewardship exists over all assets belonging to rural municipalities (RMs). Effective stewardship includes ensuring that assets are obtained, safeguarded, and used in accordance with *The Municipal Act* (the Act) and the bylaws of the municipality, and:

- Following accepted procurement practices.
- Promoting effective internal controls.
- Effectively planning for the future.

When the Department of Municipal and Northern Relations (the Department) is made aware of weak municipal stewardship over assets, it should have a process in place to review and take steps to rectify the situation.

We found the Department lacks a comprehensive oversight process for municipalities. We based this on the following findings:

- The Department's complaint process lacks appropriate follow-up (**SECTION 3.1**).
- The Department lacks oversight of municipal use of government grants (**SECTION 3.2**).
- The Department performs minimal review of required municipal financial submissions (**SECTION 3.3**).

3.1 Department's complaint process lacks appropriate follow-up

The Department provided us with complaints it received from members of the public. Many of the complaints alleged some municipalities were not using funds in accordance with rules and regulations set out in the Act, or in their own bylaws. We selected some of these complaints for review in **SECTION 2**.

One of the complaints we reviewed in Section 2, was an allegation involving the Municipality of Swan Valley West. We examined what the Department did about this allegation. Department staff reviewed this allegation and were aware that the municipality was not following appropriate tendering practices and its own policies and bylaws. There was no further work or communication from the Department on this matter. We inquired and were told this is a typical response from the Department. The Department emphasized that a municipal council is a mature and responsible level of government, and its authority is respected in handling complaints made by the public.

The Department typically uses the following general response to the public in addressing complaints:

[Municipality Name] is considered a mature and responsible government, and therefore it has the authority and responsibility to make decisions about its operations and services.

You may also wish to engage with your council representative or the municipality's administrative office regarding this matter.

Finally, if required, you may wish to contact the Manitoba Ombudsman's Office.

The Department also indicated it does not believe the Act has a mechanism which would allow it to conduct investigations. However, Section 191 of the Act requires the auditor of a municipality to make any further examination requested by the minister. If the Department wanted to investigate a specific aspect of a municipality, the minister could request the municipal auditor perform the examination.

The nature of the concerns, the extent the RMs conduct their own procedures, and data/trends should be considered in the departmental responses to complaints. Given that public funding is involved, complaints are an important consideration in determining the type of oversight to be implemented by the department. **SECTION 3.2** provides our findings regarding how complaints should be considered when providing grants to municipalities.

3.2 Department lacks oversight of municipal use of government grants

Department oversight of municipalities is important. It helps identify and manage the risks associated with grant disbursement. These risks include financial mismanagement, fraud, and non-compliance with key requirements.

By assessing risks on a case-by-case basis, departments can implement targeted measures to mitigate these risks. For example, if a municipality is known to skip procurement best practices (such as public requests for proposals), the Province could impose certain requirements in funding agreements to ensure these practices are followed.

Broadly, oversight mechanisms help ensure municipalities comply with relevant laws, regulations, and policies.

We assessed the Department's process for oversight of government grants and found it did not utilize a risk-based approach. A risk-based approach includes identifying the significance and likelihood of risks occurring. These risks include financial mismanagement, fraud, and non-compliance. Public complaints, media coverage, audit reports, and discrepancies in information provided to the Department could help identify these risks.



Recommendation 3

We recommend that the Department of Municipal and Northern Relations implement a risk-based approach to oversight of grants to municipalities.

One tool that the Department could use as part of a risk-based approach is conditional grants.

Future funding could be made conditional on the municipality operating in accordance with its own rules and *The Municipal Act*. These conditions would help the Department monitor compliance with regulatory requirements and take corrective actions when necessary.

Staff told us the Act does not allow the Department to place conditions on the funding it gives to municipalities. However, we found several avenues which would allow the Department to make grants to municipalities conditional:

1. Section 418(1)(q) of the Act allows the minister to make a regulation respecting any matter the minister considers necessary or advisable to carry out the intent and purpose of the Act.
2. Section 10 of *The Municipal Taxation and Funding Act* allows the Lieutenant Governor to make regulations:
 - a. defining words or expressions used but not defined in this Part;
 - b. respecting municipal grants, including reporting requirements for grant recipients and terms and conditions that may be imposed on grants;
 - c. providing authority to investigate, inspect or audit any matter pertaining to a municipal grant;
 - d. respecting any matter the Lieutenant Governor in Council considers necessary or advisable for the purposes of this Part.
3. Section 7(6) of the *Municipal Taxation and Funding Act* allows the minister to impose terms and conditions on a municipal grant.



Recommendation 4

We recommend that the Department of Municipal and Northern Relations add a defined process for when non-compliance is noted. This could include consequences such as withholding funds, financial penalties, requiring additional conditions being placed on funding, etc.

3.3 The Department performs minimal review of required municipal financial submissions

The Minister of Municipal and Northern Relations is responsible for the Act, which outlines the requirements for the formation, dissolution, and governance of municipalities in Manitoba. The Act holds municipalities accountable for the public money they receive. Under the Act, municipalities are required to annually submit specific financial information to the Department. The required information can assist the Department in understanding how municipalities use the funds that have been provided to them. The information received by the Department is only meaningful if the Department uses the information effectively.

Among other things, the Act requires municipalities to submit all of the following information to the Department each year:

- An approved (by council) financial plan by May 15 of the year it relates to.
- Audited financial statements by June 30 of the following year.
- Property tax bylaw that has been approved by council by June 15.

3.3.1 Financial plans are not adequately reviewed by the Department

Section 162(1) of the Act explains that a financial plan must consist of all of the following:

- An operating budget.
- A capital budget.
- An estimate of operating revenue and expenditures for the following year.
- A five-year capital expenditure program.

This information allows all stakeholders to understand how the municipality plans to use the funds it receives from the Province and from taxpayers.

We asked the Department what it does with the financial plans. We were told that the financial plans are not reviewed until the property tax bylaws are submitted and then they are reviewed for tax revenue accuracy. The plans are also reviewed to ensure that they do not contain a deficit, which is when budgeted revenues exceed budgeted expenses.

We reviewed the work done by the Department on the tax bylaw at five municipalities. The Department verifies the mill rates of the RM and that they have been recorded correctly on the financial plan. Any errors that are found are communicated to the municipality and the Department ensures that the changes are made.

The Department does not review for completeness of the financial plan, if a full operating and capital budget is included, or if a five-year capital expenditure program plan is included.

There is no variance analysis conducted by the Department, and as such, there is no comparison of actual results (when financial statements are received) to budget.

We also asked if other aspects of the financial plan would be reviewed if there were known issues in the past. For example, would the Department review the capital budgets if it had received complaints about municipalities inappropriately purchasing capital assets. We were told that they do not investigate such complaints.



Recommendation 5

We recommend that the Department of Municipal and Northern Relations develop a comprehensive risk-based process which details:

- a. What should be done to ensure completeness of the financial documents received.
- b. What variance analysis should be performed.
- c. What red flags should be examined.

3.3.2 Audited financial statements are tracked, but there is little consequence for non-compliance

The Act requires the audited financial statements of municipalities be completed by June 30 of the year following the year for which the audit is prepared. For example, audited statements for December 31, 2024 are due by June 30, 2025.

We obtained a spreadsheet from the Department which tracked whether municipalities were up to date with their financial statement submissions.

We noted that 33 municipalities out of 137 (24%) had not submitted at least one year of their financial statements as required. We asked the Department what is done when the financial statements are not submitted in accordance with the requirements of the Act. Although the Act provides for a \$5,000 fine for this, the provision has never been used. Instead, Government of Canada grant payments are withheld until municipalities are compliant with this section. We verified this with four municipalities that had not yet submitted at least one year of audited financial statements. We asked the municipalities how they dealt with the loss of this revenue. We were told that they are able to just manage without it. This indicates that the withholding of these payments has little effect on the non-compliant municipalities.

All government departments have stewardship of the public funds that they disburse. The Department disbursed \$67 million to municipalities (not including the City of Winnipeg) during the 2022-23 fiscal year through unconditional grants. There are no requirements to receive the funding or any deliverables required to account for the funding.

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Summary of recommendations and responses from officials

This section provides a summary of all the recommendations in this report, along with the responses from the Department.

Recommendation 1

We recommend that all municipalities implement, at minimum, the Canadian Centre for Cyber Security's baseline cybersecurity controls, where they are not already implemented.

» Departmental response

Not applicable as this applies to all municipalities.

Recommendation 2

We recommend that the Department of Municipal and Northern Relations implement oversight processes to monitor compliance with these controls.

» Departmental response

Manitoba's legislative framework for municipalities respects their autonomy as democratically accountable governments and does not provide prescriptive requirements for how municipalities conduct their internal operations. This is intended to respect the authority of elected officials to govern appropriately within their local context.

However, Municipal and Northern Relations recognizes that municipalities do face cybersecurity threats regularly, and that it is advisable for municipalities to take these threats seriously and adopt best practices. Doing so will decrease the risks to municipal operations and assets and protect Manitobans.

Municipal and Northern Relations accepts the recommendation and acknowledges that the Department can play a larger role in encouraging these best practices within municipalities and monitoring the implementation of baseline cybersecurity practices by Manitoba municipalities. To that end, the Department will partner with the Manitoba Municipal Administrators and the Association of Manitoba Municipalities to prepare guidance on these baseline cybersecurity controls for municipalities and survey municipalities on their current cybersecurity practices. Through various events and communication channels, the Department will continue to encourage municipalities to adopt such practices highlighting the importance of implementing such safeguards, in the context of councils' responsibility for the stewardship and safeguarding of municipal assets.

Recommendation 3

We recommend that the Department of Municipal and Northern Relations implement a risk-based approach to oversight of grants to municipalities.

» Departmental response

Manitoba's legislative framework for municipalities respects their autonomy as democratically accountable governments and does not provide prescriptive requirements for how municipalities conduct their internal operations. However, if there is a reported or discovered breach to any of the municipal obligations or conditions articulated under funding agreements for capital projects, the department may exercise its rights to terminate the funding agreement and recover any portion of Manitoba's contribution that has been advanced to the municipality, or the full repayment of funds where merited. This provision is captured in all capital project funding agreements issued by the department.

Municipal and Northern Relations accepts the recommendation and commits to exploring options for a risk-based approach related to the provision of operating funding.

Recommendation 4

We recommend that the Department of Municipal and Northern Relations add a defined process for when non-compliance is noted. This could include consequences such as withholding funds, financial penalties, requiring additional conditions being placed on funding, etc.

» Departmental response

Municipal and Northern Relations accepts the recommendation and is committed to exploring options for increasing municipal compliance to requirements under the Municipal Act, particularly related to annual financial plans, audited financial statements, and financial accountability matters.

Recommendation 5

We recommend that the Department of Municipal and Northern Relations develop a comprehensive risk-based process which details:

- a. What should be done to ensure completeness of the financial documents received.
- b. What variance analysis should be performed.
- c. What red flags should be examined.

» Departmental response

As governments, municipalities' elected councils ultimately have the final authority over, and responsibility for, the content and decisions contained within their own budgets.

Municipal Financial Plans must contain specific components required by legislation. Additionally, the Department does review the accuracy of information related to property taxation, given the Department's role in printing property tax statements on behalf of most municipalities. The Department already advises municipalities of any issues that are identified for their consideration, while respecting council's ultimate jurisdiction over their budgetary decisions.

Municipal and Northern Relations accepts the recommendation and will expand its current review of municipal Financial Plans in a comprehensive and risk-based way. This will include a review for the completion of components required by legislation, and an extended review on a risk-basis to identify other matters for the consideration of municipal councils and administrators.

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» Vision

Government accountability and public administration excellence for Manitobans.

» Mission

To provide independent information, advice and assurance on government operations and the management of public funds.

» Values

Independence – We are independent from government and our work is objective and unbiased.

Integrity – We act with honesty and uphold high ethical standards.

Innovation – We promote innovation and creativity in what we do and how we do it.

Teamwork – We work as a team by sharing each other's knowledge and skills to reach our goals.

Auditor General

Tyson Shtykalo, FCPA, FCA

Assistant Auditor General, Investigations & Projects

Jeffrey Gilbert

Assistant Auditor General, IT & Projects

Wade Bo-Maguire

Audit Principal

James Wright

Audit Team

Ryan Riddell

Communications Manager

Frank Landry

Admin Support

Tara MacKay

Alexandra Dela-Cruz

Ivanna Romero

Graphic Design

Waterloo Design House

The Office of the Auditor General of Manitoba acknowledges with respect that we conduct our work on the ancestral lands of Anishinaabeg, Anishininewuk, Dakota Oyate, Denesuline, and Nehethowuk Nations, and on the National Homeland of the Red River Métis. We respect the Treaties that were made on these territories, we acknowledge the harms and mistakes of the past, and we dedicate ourselves to move forward in partnership with Indigenous communities in a spirit of reconciliation and collaboration.



Auditor General
MANITOBA

For more information, please contact our office at:

Office of the Auditor General
500-330 Portage Avenue
Winnipeg, Manitoba R3C 0C4
Phone: 204-945-3790
contact@oag.mb.ca | www.oag.mb.ca

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