

# Agenda Including Addeds

## Audit Committee

2nd Meeting of the Audit Committee

June 20, 2018, 12:00 PM

Council Chambers

Members

P. Hubert (Chair), A. Hopkins, S. Turner, M. van Holst, S. Khullar

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<b>1. Disclosures of Pecuniary Interest</b>	
<b>2. Consent</b>	
<b>3. Scheduled Items</b>	
3.1 12:00 PM - London and Middlesex Housing Corporation	
a. PWC Cover Report - London and Middlesex Housing Corporation - Report on Internal Audit Results	3
b. PWC Internal Audit of London & Middlesex Housing Corporation	4
<b>4. Items for Direction</b>	
4.1 2017 Financial Audit	
(The City of London - 2017 Financial Report Binder is enclosed separately in Members' envelopes.)	
a. 2017 Financial Statement	
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**6. Confidential (Enclosed for Members only.)**

**6.1 ADDED - Personal Matters/Identifiable Individual/Solicitor-Client Privileged Advice/Litigation/Potential Litigation**

A matter pertaining to personal matters about an identifiable individual with respect to employment-related matters and advice and recommendations of officers and employees of the Corporation including communications necessary for that purpose; advice that is subject to solicitor-client privilege, including communications necessary for that purpose; and litigation or potential litigation, including matters before administrative tribunals, affecting the municipality or board.

**7. Adjournment**



June 5, 2018

Members of the Audit Committee of The Corporation of the City of London

**London & Middlesex Housing Corporation - Report on Internal Audit Results**

On February 15, 2018 we issued a report to the Board of Directors of the London & Middlesex Housing Corporation (LMHC) which included a "Review of operational alignment of funding model and strategic plan". The general scope of this project was determined in collaboration with management and the Board of LMHC with the shared objective of contributing our time and effort in an area that could yield the most valuable results for the LMHC.

The review involved a significant number of interviews across different functional areas of LMHC combined with analysis of business plans, strategic plans, budgets, financial and operational results, review of publicly available strategic reports, review of relevant housing legislation and the shareholder agreement between LMHC and the City of London.

The results of our review have been discussed with both management and the Board of LMHC prior to the report being finalized following Board acceptance on February 15, 2018.

It is clear from the results of our report and in depth discussion with the various stakeholders of LMHC that there are significant challenges ahead for not only LMHC but the public sector housing industry in general. Our hope is that these recommendations within this report will be considered by management to help improve the business outcomes of LMHC from both a risk and operational perspective.

We would again like to express our gratitude to management and the Board of Directors of LMHC for their meaningful time and effort they have contributed to this review.

Kind regards,

A handwritten signature in black ink, appearing to read "Chirag Shah", written over a horizontal line.

Chirag Shah, CPA, CA, MBA  
Partner, Assurance

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\*PwC\* refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

June 7, 2018

Chair and Members  
City of London Audit Committee  
300 Dufferin Avenue  
City of London

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**RE: PWC INTERNAL AUDIT OF LONDON & MIDDLESEX HOUSING CORPORATION**

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On February 28, 2013, as part of the 2013 Municipal Budget Approval process, Council requested Civic Administration to *“work together with LMHC on a review of any shared services opportunities and cost centre savings and efficiencies; it being noted that the Municipal Council has made available the services of PricewaterhouseCoopers LLP (PwC) to assist in this regard”* and *“report back with respect to the potential establishment of a reserve fund for LMHC.”*

PwC completed Phase 1 of this review in 2013, which included the review and alignment of LMHC purchasing policies with the City’s Procurement of Goods and Services Policy for purchased materials and services.

At the request of LMHC, the City of London Audit Committee, at its meeting of December 7, 2016, approved PwC complete the second phase of the shared services review. At that time, it was expected that Phase 2 would focus on areas where LMHC may be directly delivering or purchasing services and supports that the City directly provides, including but not limited to, technology services and purchased professional/administrative services.

Given PwC’s understanding of LMHC’s operations, the lack thereof of any value-for-money considerations and new strategic direction of LMHC, the scope of the internal review was revised to focus on the operational alignment of LMHC’s funding model and strategic plan.

The evaluation of key controls/processes was predicated on an assessment of risk exposure, that is, the nature and extent of potential for loss/risk.

PwC completed the review in the fall 2017 and presented their findings (Attached as **Appendix 1**) at the January 25, 2018 meeting of the LMHC Board. PwC advised of the following review findings:

- i. that LMHC does not have the appropriate level of resources to maintain our properties;
- ii. there has been a growing need for additional costs to cover social supports, community development, intervention, security, etc. that has arisen primarily as a result of the changing demographic of tenants due to Provincial and local priority rules;
- iii. the tenant priority list is not aligned with the City of London’s housing support strategy;
- iv. that LMHC does not have any flexibility with respect to strategic and operational decisions within the shareholder agreement with the City of London;

- v. that the current budgeting process, which is primarily determined based on a percentage year over year change, will not give LMHC sufficient information for funding needs required to implement our new strategic plan; and
- vi. reporting operating expenses on a supplementary basis by “nature” may help illustrate better how resources are being deploy to the various strategic goals.

Notwithstanding the review findings, PwC provided a summary observation of areas for potential further analysis and areas for consideration that PwC would expect LMHC to address. The following table summarizes the six (6) observations:

#	Observation	Rating	Business Impact
1	Insufficient capital funding for deferred maintenance	Needs Improvement	High Business Impact, Difficult to Implement
2	Impact of tenant intake process and priority list	Needs Improvement	High Business Impact, Easy to Implement
3	Tenant priority list is not aligned with the City of London’s housing support strategy	Needs Improvement	High Business Impact, Difficult to Implement
4	Flexibility within shareholder agreement	Satisfactory	High Business Impact, Easy to Implement
5	Zero based budget for new strategic plan implementation	Satisfactory	Low Business Impact, Easy to Implement
6	Operating expenses by function	Satisfactory	Low Business Impact, Easy to Implement

The Board of LMHC, in response to the submitted observations, adopted the following resolutions:

With respect to the recommendations regarding PwC Internal Audit Report:

1. Administration **BE DIRECTED** to prepare an implementation plan respecting the action plans for consideration and approval by the Board at a future meeting of the Board of Directors.
2. Administration **BE DIRECTED** to arrange for the presentation of the Internal Audit Results Report to the City of London’s Audit Committee, including preparing the appropriate covering letter accompanying the Report and for the Report to be made by the Board Chair and Chief Executive Officer.

The remaining part of this letter forms the basis of an implementation plan and presentation to the City of London’s Audit Committee, scheduled for June 20, 2018.

### **Observation #1 – Insufficient capital funding for future maintenance**

#### **Recommended Action Plan:**

LMHC needs to continue to provide information, education, and advocacy to funding agencies, including the Province of Ontario and the City of London to ensure there is full transparency about the urgent and immediate need for capital funding to improve the maintainable quality, safety and satisfaction of tenants. A corporate asset management strategy should be incorporated into the City of London’s Corporate Asset strategy. We (PwC) understand a regeneration plan is also being developed in collaboration with the Housing Development Corporation.

### **LMHC Response:**

LMHC will continue to provide information, education, and advocacy to funding agencies, including the Province of Ontario and the City of London to ensure there is full transparency about the urgent and immediate need for capital funding to improve the maintainable quality, safety and satisfaction of tenants.

As an important first step, LMHC provided an update to SPPC in May 2017 on the state of public housing assets to understand and begin addressing, in a collaborative way, the funding gap between future capital needs and available funding resources. The Facility Condition Assessment (FCA) completed by VFA Inc. concluded that in order to maintain the current Facility Condition Index (FCI) of 9% (good condition) over next twenty (20) years, LMHC will require an annual increase in capital funding of \$21.2 million above the existing budget allocation of \$2.2 million. Over the same period, adding \$11.3 million to the current annual funding would result in an ending FCI of 40% (fair condition). Maintaining the current level of funding would result in an ending FCI of 75% (deficient condition).

More recently, LMHC in partnership with Ontario's Independent Local Housing Corporations (LHC) Forum submitted a response to Ministry of Housing on the modernization of social housing. The submission, entitled "*Increasing Ontario's Independent LHCs Capacity to Deliver Housing within a Social Housing Modernization Framework*" (attached as **Appendix 2**), responded to pre-determined discussion questions. The submission also highlighted a number of current issues and recommendations related to capital repairs, investment/reserves, funding asset management and planning. As a complementary document, the LHC Forum also produced an information sheet (attached as **Appendix 3**) highlighting a number of facts and the value proposition of Independent LHCs in that they are uniquely positioned to help communities across Ontario meet local housing needs through entrepreneurialism and business innovation.

Moving forward, LMHC must now consider the most efficient and effective strategy for the management and sustainability of one of the City's most important assets – Public Housing. This includes the development of a detailed asset management strategy and implementation plan in order to understand and address the identified funding gap between anticipated future lifecycle renewal needs and available funding resources. LMHC is working with Civic Administration to ensure that the asset management strategy can be incorporated into the City of London's Corporate Asset Management Plan as required under Bill 6, *Infrastructure for Jobs and Prosperity Act, 2015* by January 1, 2021.

LMHC is committed to looking for innovative ways to generate alternative sources of revenue and working with Civic Administration to reduce the capital-funding gap identified by the VFA Report over the long term. The appropriate capital funding level for the next multiyear budget cycle will be reviewed upon the completion of a comprehensive asset management strategy and implementation plans. Any adjustments to funding levels will be the subject of multiyear budget requirements, including but not limited to the submission of a business case.

### Regeneration of Public Housing

In addition, the City of London, as articulated in the London Plan, has begun a process to build a strategy and supports to undertake the regeneration of Public Housing sites within its service area, as well as to expand affordable housing options across the community. The City has established a Housing Development Corporation (HDC) to provide leadership, expertise and focus to this work, providing support across the non-profit and the private housing sectors, as well as to LMHC. A key consideration for the City in establishing the HDC was the need to both bring resources to and create a focus on the need for the regeneration of public housing.

LMHC is committed to working closely with the City of London in its role as Service Manager and the HDC to identify financial tools and best practices to support regeneration. Support from the City of London in its capacity of Shareholder for LMHC will be critical to support a framework to enable the changes required to implement the plan.

LMHC has been working with the HDC and Housing Services to articulate guiding principles and develop a plan to support LMHC to begin the process of regenerating public housing communities in our portfolio. This includes leveraging the capacity and contributions of our partners, the City of London and HDC. Planning for regeneration must support LMHC's Strategic Plan and commitment to create a foundation for a culture of change in our organization and the communities we serve.

Over the past year LMHC, HDC and Service Manager Staff have established an informal process to begin to move forward on a plan for Regeneration. Meeting together regularly, a process is underway to prepare the organizations for the work that lies ahead, and to begin to evaluate each of the public housing sites to support a well-considered and prioritized plan for regeneration and renewal over a period of years. It is the shared goal of this team to present an initial plan for regeneration of public housing sites to the LMHC Board by the end of 2018. It is acknowledged that any plan will be a living document that will need to come back to decision makers at regular intervals, as the team responds to new opportunities, potential partnerships and community needs over time.

## **Observation #2 – Impact of tenant intake process and priority list on operating costs**

### **Recommended Action Plan:**

During tenant intake assessment, a two-step approach should be used to (1) identify support service needs of the tenant (a Housing Access Centre responsibility); and (2) use the identification of support service requirements to anticipate growth pressures on support services, mobilize the appropriate response and delivery of support services, determine operating budget requirements and other resources supporting the provision of support services for tenants (an LMHC responsibility).

Concurrently, LMHC should continue to think of new ways to collaborate with its partners such as scheduled site visits by other stakeholders including police services, medical professionals and mental health professionals to try and be as proactive as possible to serve the growing needs of tenants. An assessment of all potential social and affordable housing clients at the Housing Access Centre to determine necessary supports on an individual basis would be extremely valuable in determining the optimal approach in terms of providing those services.

### **LMHC Response:**

A stronger, more responsive social housing system is one in which collaboration and relationship building and partnership development is fundamental. LMHC, other housing providers and service managers are often facing similar challenges and working independently to solve them.

LMHC has attempted (although not in a strategic and/or focused effort) to build partnerships and coordinate with other agencies to offer the required services to support those with complex barriers to housing, yet our staff continue to report that many community partners struggle to support our tenants. Anecdotally staff have contributed this to either fear of safety, or a lack of resources. With the number of agencies providing similar services within our community, many

must compete for funding and resources, rather than collaborating and coordinate the housing and homelessness support network needed.

LMHCs has become the de facto provider of supports and is doing so without the required resources based on our previous mandate and funding by the City to act as a landlord. These pressures have been layered upon an already aging infrastructure and shareholder agreement that typically does not provide the flexibility to generate or retain additional resources to invest in future initiatives or sustainability. The unintended consequences of well-meaning initiatives has exacerbated and contributed to the further deterioration of LMHC properties, creating a negative impact on the health, safety and wellbeing of our tenants and staff.

Despite these challenges, LMHC is committed to working with Civic Administration to review and revise the intake process for housing. The vision would be to have an access system that assesses individual needs and choice and then matches applicants with appropriate housing and the required level of support/assistance to maintain housing stability over the long term within a priority system that aligns with City's housing and homelessness goals and objectives.

LMHC has also taken a significant step forward in looking at a new way to provide supports to both our tenants and community in partnering with the Middlesex London Health Unit (MLHU) and Regional HIV/AIDs Connection (RHAC) to establish a Supervised Consumption Facility (SCF) at 241 Simcoe Street. The collaboration with the MLHU and RHAC will allow us to leverage and share a community asset for the benefit of the whole community while improving tenant safety and increasing support services in social housing.

Based on the idea that upfront housing education and support will lead to tenancies that are more successful and increased housing stability, one of LMHC strategic action plan was to develop a tenant education/onboarding program. This idea has been supported by the Housing Division who is introducing a program called "RentSmart" that provides education and support to tenants, housing providers and community educators with one goal: Successful Tenancies.

### **Observation #3 – Tenant priority list is not aligned with the City of London's housing support strategy**

#### **Recommended Action Plan:**

LMHC needs to work with its sole shareholder, the City of London, to seek a phased approach, which could start with a pilot program to provide proof of concept. The City and LMHC should review housing access systems and make sure the proper level of supports (and resources for those supports) are in place before these complex and high need tenants are housed by LMHC.

#### **LMHC Response:**

LMHC as the largest provider of Rent-Geared to Income Housing in London and Middlesex County has never been fully equipped to operate within these models. Both Provincial and Local Access rules require a high percentage of new tenancies be offered to individuals from the 'Special Priority' or 'Urgent' status list. This means that a significant number of new tenants have experienced chronic or episodic homelessness, violence, addiction and mental health issues. Multiple research studies have shown that those experiencing chronic or repeated episodic homelessness often are coping with multiple complex barriers to housing stability including mental health, substance abuse, unemployment and relationship challenges.



In responding to this issue, LMHC as drafted a proof of concept pilot project (attached as **Appendix 4**) to support housing stability within social housing programs for the City of London's consideration.

#### **Observation #4 – Flexibility within shareholder agreement**

##### **Recommended Action Plan:**

LMHC should discuss with the City of London the feasibility of amending the shareholder agreement to allow for some greater discretion or flexibility in the target number of units, whether non-RGI units can be offered, and the ability for LMHC to launch other forms of revenue generating activities.

##### **LMHC Response:**

LMHC does not have any flexibility with respect to strategic and operational decisions under the terms of a Shareholder Declaration approved by the City of London on June 20, 2011. Since that time, the City has evolved its delivery of social and affordable housing as is true across the Ontario social housing sector. This lack of flexibility restricts LMHC's ability to respond to growing and changing needs such as new and unique capital deficiencies and changing tenant demographics.

In order to enable our strategic plan, LMHC is requesting that the City consider amending the Shareholder Declaration to support our new objectives and acknowledge the following:

- LMHC's role in providing a broader range of housing forms to achieve mixed-income profiles and stronger communities;
- Flexibility to build improved revenue streams and a stronger balance sheet;
- New financial tools/greater financial flexibility in our relationship with funders;
- Performance monitoring based on outcomes confirming the Board's responsibility to lead; and
- Support for our role in advocating for our tenants, taking a leadership role in the sector and supporting broader partnership development.

A discussion paper (attached as **Appendix 5**) has been provided that highlights areas for the City of London's consideration and review for a future shareholder direction.

#### **Observation #5 – Zero based budget for new strategic plan implementation**

##### **Action Plan:**

LMHC should consider a zero based budget/ forecast process, along with a realignment of resources, to evaluate the specific feasibility of strategic goals and objectives. This could be developed separately from the City of London budget process and would give insight into the specific costs of full implementation of the strategic plan. LMHC should also develop a comprehensive financial plan with consideration of both operating and capital to be provided to the City of London as part of next multiyear budget cycle.

##### **LMHC Response:**

LMHC is currently working on achieving the strategic objectives outlined in our 2017-2019 strategic plan. One such objective is the development of a comprehensive financial plan. LMHC's finance department is currently developing a financial planning process that is both long-range and integrated with our strategic plan and annual work plans that will serve as the base for a comprehensive financial plan. Although this is a new approach for LMHC, we

understand that a well thought-out financial plan is a critical document that will serve as a guideline for future financial performance and provide the information needed to make informed strategic and operational decisions.

The aim is to match LMHC's financial resources with the goals and objectives outlined in our strategic plan using a structured analytical approach, thus ensuring the financial plan will serve as the blue print to define our fiscal accountability structure. Such structure will be based on prudent fiscal and operational management that supports accountability, sustainability, competitive positioning, affordability and a valued return on investment based on social, economic and environmental returns to the community.

Along with the effective and efficient management of expenditures, the financial plan will also endeavour to foster a culture of continuous improvement, and a focus on developing supportive and predictable sources of investment. A zero based budget/forecast approach aligns well with our intended accountability structure. As such, LMHC will consider a zero based budgeting along with a realignment of resources while completing this project.

### **Observation #6 – Operating expenses by function**

#### **Recommended Action Plan:**

LMHC should consider whether it would be feasible to report, on a supplementary basis, how the operating expenditures line up against the strategic goals. A high cost in certain function, without improvements in the area, could be an indicator of a focus area for management to consider.

#### **LMHC Response:**

LMHC implemented the first phase of a new ERP system in 2017, in order to better collect data and measure impact. This project was a significant undertaking for our staff group as we shifted from a 15-year-old server based system to a more modern cloud based solution. While this technology promises to bring greater efficiencies, particularly with the roll out of the second phase two, it would not currently support this recommendation. Although LMCH sees value in this recommended action, it would create both administrative and resource pressures which could not be absorbed within our current staffing levels.

### **Conclusion**

LMHC is undertaking business transformation and modernizing our practices to improve how we deliver social housing for residents in our community. LMHC is no longer just a landlord and we want our community to know that we CARE and are taking action. LMHC has used the acronym, CARE, as our slogan for impact and to provide a mnemonic for all stakeholders. For us, CARE means being **C**ollaborative and **C**ommitted; **A**ccountable and **A**ccessible; **R**espectful and **R**esponsive; **E**quity and **E**xcellence.

At LMHC, our new vision centers on healthy homes and communities in London and Middlesex using housing as the foundation to make a difference and positively impact lives. LMHC wants to be part of the solution to social issues in our community by showing that we CARE and by taking action.

With a new strategic direction, we believe that as an independent LHC, LMHC is uniquely positioned to help London meet its local social and affordable housing goals through entrepreneurialism and business innovation. With the support of the City of London and collaboration with our community partners, we can begin to address the observations identified by PwC in their internal audit. More importantly, LMHC can help the City in achieving its goal of strengthening our community and building a diverse and caring community that supports every person and that welcomes and engages us in vibrant, safe and healthy neighborhoods.

Regards,



Digitally signed by Josh  
Browne, CEO, London &  
Middlesex Housing  
Corporation  
Date: 2018.06.07 12:18:43  
-04'00'

Josh Browne  
Chief Executive Officer, LMHC

Cc: Michael Buzzelli, Chair, LMHC Board of Directors  
Sandra Datars Bere, Managing Director Housing, Social Services and Dearness Home  
City of London  
Stephen Giustizia, CEO, HDC

**Appendix 1:** PwC Report on Internal Audit Result of LMHC: Review of operational alignment of funding model and strategic plan

**Appendix 2:** Increasing Ontario's Independent LHCs Capacity to Deliver Housing within a Social Housing Modernization Framework

**Appendix 3:** Ontario's Independent Local Housing Corporations Information Sheet

**Appendix 4:** LMHC Social Housing with Supports: A Proof of Concept, Pilot Project to Support Housing Stability within Social Housing Programs

**Appendix 5:** LMHC Discussion Document: Shareholder Declaration for the Future

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# *London & Middlesex Housing Corporation*

## Report on Internal Audit Results

*Review of operational alignment of funding  
model and strategic plan*

February 15, 2018

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# *Agenda*

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## ***Rating Scale – Opportunities for Improvement***

- **Satisfactory**

Controls are present to mitigate process/business risk, however an opportunity exists for improvement.

Satisfactory



- **Needs Improvement**

Existing controls may not mitigate process/business risk and management should consider implementing a stronger control structure.

Needs  
Improvement



- **Unsatisfactory**

Control weaknesses are significant and the overall exposure to risk is unacceptable. Immediate attention and oversight from management is required.

Unsatisfactory



# **Summary of Risks & Scope**

## ***London & Middlesex Housing Corporation: Review of operational alignment of funding model and strategic plan***

### **Scope**

- Review of funding model compared to (1) operational strategy; (2) cost of delivery and provision of services; (3) capital costs; (4) other municipalities/ non-profit and low income/ subsidized housing providers
- Review of resource allocation to operational activities, including growing tenant needs for social support and community development
- Review of capital asset planning, budgeting and funding
- Review of required support costs (vs. actual costs) to support “housing first” and “housing stability” objectives and their alignment with the City of London’s strategic objectives around poverty reduction and homeless

### **Potential Risks**

- Funding model does not properly reflect the gradual changes to the core services offered by LMHC, specifically for the provision of social services and other support needs.
- Level of funding for the LMHC may not be consistent with other municipalities/ non-profit and low income/ subsidized housing providers
- Capital asset planning, budgeting and funding may not allow for appropriate levels of investment in and maintenance of capital assets
- LMHC may incur increased operational and capital costs due to changing demographic of tenants.
- The LMHC objectives may not be aligned with the City of London
- Current operating budget may not allow for appropriate levels of funding to achieve “housing first” and “housing stability” objectives

### **Controls Operating Effectively**

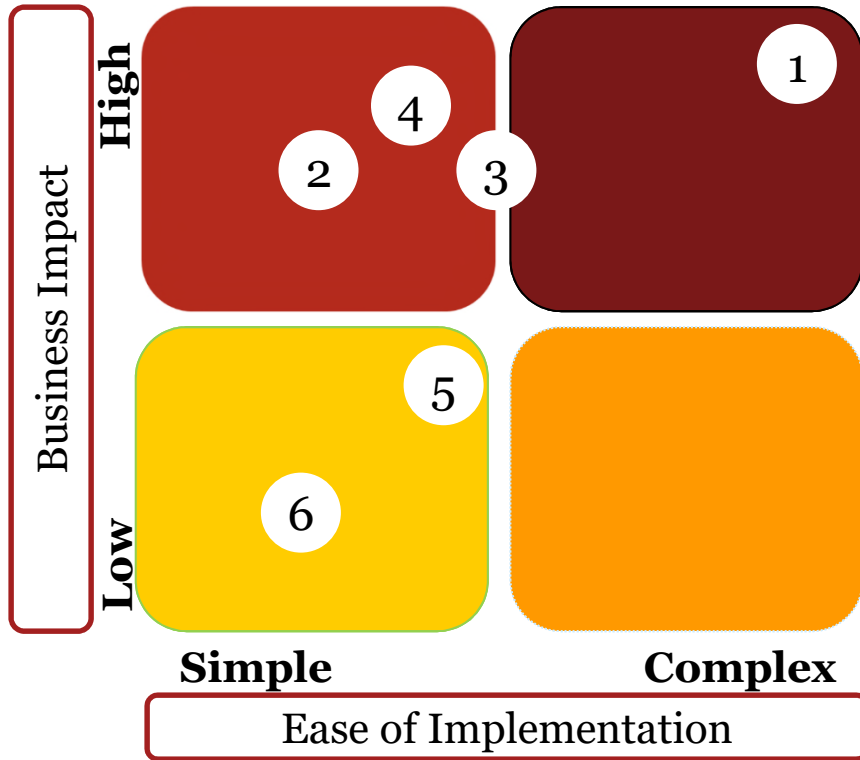
- Prioritization of critical projects for capital and operating spending given the limited resources available
- Limited social service and community outreach resources are effectively deployed by LMHC
- The strategic plan has been designed to align itself with the City of London to address tenant needs

### **Value-for-Money Considerations**

- No value-for-money considerations were identified as part of this review

# Action Plan Summary

## London & Middlesex Housing Corporation: Review of operational alignment of funding model and strategic plan



- High Business Impact, Easy to Implement
- High Business Impact, Difficult to Implement
- Low Business Impact, Easy to Implement
- Low Business Impact, Difficult to Implement

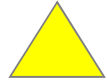
Observations	Timing	Rating
#1: Insufficient capital funding for deferred maintenance	September 2019	Needs improvement
#2: Impact of tenant intake process and priority list	December 2019	Needs improvement
#3: Tenant priority list is not aligned with the City of London's housing support strategy	December 2018	Needs improvement
#4: Flexibility within shareholder agreement	December 2018	Satisfactory
#5: Zero based budget for new strategic plan implementation	2019 budget cycle	Satisfactory
#6: Operating expenses by function	January 2019	Satisfactory



# Observations & Action Plans #1

## London & Middlesex Housing Corporation: Review of operational alignment of funding model and strategic plan

Needs Improvement



### Observation

#### #1 - *Insufficient capital funding for future maintenance*

- The capital funding per unit LMHC receives is low relative to benchmark municipal housing providers. The average capital funding per unit (of \$583) is far below the average of Kingston, Hamilton and Windsor (average of \$995 in 2015 and 2016). This has resulted in a substantive decline in the conditions of the housing units.

### Business Impact

- LMHC does not have the appropriate level of resources to maintain their properties. As a result, the overall condition of their housing units is at great risk and the capital requirement to bring the units back to a satisfactory level become greater each year. The overall condition of the assets can create a reputational risk for both LMHC and their sole shareholder, the City of London and a safety risk for the tenants and employees of LMHC.

### Action Plan

- LMHC needs to continue to provide information, education, and advocacy to funding agencies, including the Province of Ontario and the City of London to ensure there is full transparency about the urgent and immediate need for capital funding to improve the maintainable quality, safety and satisfaction of tenants. A corporate asset management strategy should be incorporated into the City of London's Corporate Asset strategy. We understand a regeneration plan is also being developed in collaboration with the Housing Development Corporation.

### Action Plan Lead

CEO & Director, Assets and Property Services

### Timing

September 2019

# Observations & Action Plans #2

## London & Middlesex Housing Corporation: Review of operational alignment of funding model and strategic plan

Needs Improvement 

### Observation

#### #2 – Impact of tenant intake process and priority list on operating costs

- Control over the tenant priority list has moved to the City of London, granting tenant priority to those with highest needs first. Growth in the number of high-needs tenants LMHC now houses is becoming increasingly costly, and the intake of these individuals has not been matched with the appropriate increase in operating funding to allow LMHC to provide effective services and supports to these tenants.

### Business Impact

- There has been a growing need for additional costs to cover social supports, community development, intervention, security, etc. that has arisen primarily as a result of the changing demographic of tenants. This has placed an increased burden on LMHC from the perspective of limited resources as there has not been a corresponding change to the operating subsidies provided by the City. As a result, LMHC does not have the capacity to proactively deal with some of these growing issues.

### Action Plan

During tenant intake assessment, a two-step approach should be used to (1) identify support service needs of the tenant (a Housing Access Centre responsibility); and (2) use the identification of support service requirements to anticipate growth pressures on support services, mobilize the appropriate response and delivery of support services, determine operating budget requirements and other resources supporting the provision of support services for tenants (an LMHC responsibility).

Concurrently, LMHC should continue to think of new ways to collaborate with its partners such as scheduled site visits by other stakeholders including policy services, medical professionals and mental health professionals to try and be as proactive as possible to serve the growing needs of tenants. As assessment of all potential social and affordable housing clients at the Housing Access Centre to determine necessary supports on an individual basis would be extremely valuable in determining the optimal approach in terms of providing those services.

### Action Plan Lead

Director, Tenant Administration & Director, Corporate Services

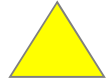
### Timing

December 2019

# Observations & Action Plans #3

## London & Middlesex Housing Corporation: Review of operational alignment of funding model and strategic plan

Needs Improvement



### Observation

#### **#3 – Tenant priority list is not aligned with the City of London’s housing support strategy**

The tenant priority list, which favours an intake of tenants with complex and high needs, is based on a 2005 local housing rule (referred to the “9 of 10” rule). The City of London’s “Housing First” strategy is to “...move individuals and families [experiences homelessness] quickly into housing...with the right level of support”. In absence of the appropriate levels of support for these new tenants, the current intake process cannot be aligned with the Housing First strategy.

### Business Impact

By providing housing without the right level of support for tenants with multiple complex needs prioritized through the “9 of 10” rule, the strategy cannot be fully implemented. Available social support programs offered within the region (including the City of London services along with various other agencies) are fragmented, and a higher level of focus and attention directed on the high needs tenants would yield better results for the Housing First strategy. This would also improve the health, safety and wellbeing of both tenants and LMHC staff.

### Action Plan

LMHC needs to work with its sole shareholder, the City of London, to seek a phased approach which could start with a pilot program to provide proof of concept. The City and LMHC should review housing access systems and make sure the proper level of supports (and resources for those supports) are in place before these complex and high need tenants are housed by LMHC.

### Action Plan Lead

CEO (LMHC) and City of London

### Timing

December 2018

# Observations & Action Plans #4

Satisfactory 

## London & Middlesex Housing Corporation: Review of operational alignment of funding model and strategic plan

### Observation

#### #4 – Flexibility within shareholder agreement

- Within the shareholder agreement with the City of London, LMHC does not have any flexibility with respect to strategic and operational decisions; this includes strategic portfolio/ asset management review, the number of units it offers under RGI programs, and the creation of operational reserves. This lack of flexibility restricts LMHC’s ability to respond to growing needs, capital deficiencies, changing demographics, etc.

### Business Impact

- Some flexibility within the shareholder agreement with the City of London could help relieve some of the current challenges facing LMHC which include growing operating costs, a significant capital deficiency in capital improvements, the need for improved safety and security, and housing support programs for complex high need tenants. Areas for additional flexibility could include, but are not limited to: the ability to make use of an operational reserve, ability to offer non-RGI units and the number of overall units mandated within the agreement.
- Additionally, this could allow LMHC to look into various other revenue generating activities to help offset some of their operating and capital deficiencies.

### Action Plan

- LMHC should discuss with the City of London the feasibility of amending the shareholder agreement to allow for some greater discretion or flexibility in the target number of units, whether non-RGI units can be offered, and the ability for LMHC to launch other forms of revenue generating activities.

### Action Plan Lead

CEO and Chair of the Board of Directors

### Timing

December 2018

# Observations & Action Plans #5

Satisfactory 

## London & Middlesex Housing Corporation: Review of operational alignment of funding model and strategic plan

### Observation

#### #5 – Zero based budget for new strategic plan implementation

- LMHC has put together a transformative strategic plan for 2017 to 2020 which, on implementation, will require significant changes to the operating and capital budget. The current budgeting process, which is primarily determined based on a percentage year over year change, will not give LMHC sufficient information for funding needs required to implement the plan.

### Business Impact

- The strategic plan represents the high level vision and direction for LMHC, but without the appropriate level of detailed budgeting and consideration of a realignment of activities and cost structure there is uncertainty over the implementation and execution plan. This could impact LMHC's chances of achieving the stated goals & objectives. A detailed budget and execution plan will also help LMHC allocate scarce resources to the critical areas within the strategic plan.

### Action Plan

- LMHC should consider a zero based budget/ forecast process, along with a realignment of resources, to evaluate the specific feasibility of strategic goals and objectives. This could be developed separately from the City of London budget process and would give insight into the specific costs of full implementation of the strategic plan. LMHC should also develop a comprehensive financial plan with consideration of both operating and capital to be provided to the City of London as part of next multi year budget cycle.

### Action Plan Lead

CEO and Director, Corporate Services

### Timing

2019 budget cycle

# Observations & Action Plans #6

Satisfactory 

## London & Middlesex Housing Corporation: Review of operational alignment of funding model and strategic plan

### Observation

#### #6– Operating expenses by function

- The current method of reporting includes a presentation of the operating expenses of LMHC by “nature” (i.e. salaries/ wages, maintenance, administration). Under this format, it is difficult to compare how the resources of LMHC are being deployed to the various strategic goals. A supplementary operating statement showing expenses by “nature” (i.e. people investment, asset improvement, IT enhancements, tenant engagement) may be able to illustrate this better.

### Business Impact

- Readers of the Board reporting package may not be able to effectively analyze the operating results relative to the function of the expenses being incurred. For example, there may be \$150k in administration costs incurred during a month, but it is difficult to consider whether this relates to processing of tenant rent, time spent on IT enhancements, etc.

### Action Plan

- LMHC should consider whether it would be feasible to report, on a supplementary basis, how the operating expenditures line up against the strategic goals. A high cost in certain function, without improvements in the area, could be an indicator of a focus area for management to consider.

### Action Plan Lead

Director, Corporate Services

### Timing

January 2019

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## Increasing Ontario's Independent LHCs Capacity to Deliver Housing within a Social Housing Modernization Framework

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Submitted by: Local Housing Corporation Forum

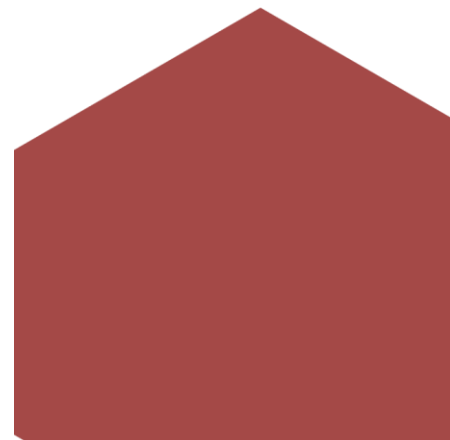
April 30, 2018

### Long-Term Affordable Housing Strategy

Submission to the Social Housing Modernization, Technical Discussion Document #2: A Modern Framework

Submitted via email to: [Housingstrategy.mah@ontario.ca](mailto:Housingstrategy.mah@ontario.ca)

Submitted to: Social Housing Modernization Consultation, Housing Policy Branch, Ministry of Housing, 777 Bay Street, 14<sup>th</sup> Floor, Toronto ON M5G 2E5







## Increasing Ontario's Independent LHCs Capacity to Deliver Housing within a Social Housing Modernization Framework

### INTRODUCTION

This submission is in response to the request for feedback about the province's Technical Discussion Document #2: A Modern Framework. Additional feedback and engagement with the Ministry of Housing (MHO), Ontario was undertaken through a discussion with the Assistant Deputy Minister on March 1, 2018 with the Local Housing Corporation (LHC) Forum. As a key partner of the Ministry of Housing, the LHC Forum is appreciative of this opportunity to provide input at the conceptual phase of the modernization framework.

Our collective discussion of the proposed modern framework has triggered strategic conversations about the transformations that we are enabling within our LHC organizations and how our business practices align with the province's vision and future directions for the sector. As independently operating municipally owned LHCs, we are an important piece of the next generation of social housing. In this vein, the modern framework suggests enabling more flexibility within the system and providing more autonomy and choice for housing providers. There is however, a lack of clarity as to whether this would pertain to LHCs and how our organizations fit within the proposed structure. We raise the following questions for the province to consider and to address in the next steps of its work on the modern framework:

- How does the Social Housing Modernization Framework impact LHCs?
- Where do LHCs fit in and what role do the LHCs play?
- How will the changes be applied to municipal shareholder organizations vs. non-profit organizations?
- How will households currently on RGI assistance be affected by the proposed system?

The contents in this submission include both feedback and recommendations that the LHC Forum have collectively identified as key areas that need to be addressed to improve our business delivery and in support of modernizing the social housing system in which we operate. Although there are 47 Local Housing Corporations that operate across Ontario, this submission is from the municipally-owned independent operating Local Housing Corporations.

### LHC Forum- Who we are



The LHC Forum consists of the CEO or a designated senior level staff representative from the following local housing corporations:

- Ottawa Community Housing
- Windsor Essex Community Housing
- Peterborough Housing
- Cornwall & Area Housing
- Kingston & Frontenac Housing
- London & Middlesex Housing
- CityHousing Hamilton
- Haldimand-Norfolk Housing
- Greater Sudbury Housing

The LHC Forum has been established by the independently operating municipally owned LHCs to enhance information exchanges amongst the sector, improve access to leading edge thoughts on best practices, and increase quality of working environment for their staff.



## ABOUT US:

Approximately half (over 134,000 units) of the total social housing stock in Ontario is comprised within the 47 Local Housing Corporations in Ontario. Of this stock, 70% (over 90,000 units) are administered by the ten housing organizations that comprise the LHC Forum.

Our entities are wholly owned by municipalities respective of our jurisdictions and we operate as independent corporations under the Ontario Business Corporations Act. In total, we own and operate over \$14.9 billion in property assets.

As housing providers we help communities across Ontario meet local housing needs. We are home to over 37,000 senior households, 34,603 families and over 19,600 single adults. In addition, we are a major contributor to the local economy:

- \$502 million is re-injected annually into local economies via contracted services
- \$44.7 million is paid annually in municipal property taxes
- Over 2,600 employed as staff

Furthermore our organizations have been the most proactive housing providers in Ontario to intentionally undertake expansion of our existing portfolio footprint to meet future affordable housing needs. We can boast that we are Ontario's leading developers of affordable housing. From 2018 – 2022 our total investment commitments are close to \$1 billion for redevelopment and new builds.

### 2018-2022 Total Investment Commitments

\$1+ Billion for Redevelopment & new builds

The nature of our portfolios includes a higher proportion of rent-geared-to income units than those of other social housing providers in Ontario. In addition, due to the shortage of supportive housing in the jurisdictions we serve, many people with special needs reside in our units. This has resulted in us being more than just landlords that manage buildings. To enable stable tenancies and to create healthier communities; our business practices extend to include empowering tenants, serving the needs of the vulnerable and bridging the gap between support service need and housing for the clients we serve. We receive, however, "\$0" dedicated support dollars to house or support residents with mental health issues, victims of abuse, addictions, physical and mental disabilities, and mobility and age-related issues.

Under the Housing Services Act (HSA), municipally-owned independent operating LHCs have differing regulations compared to the in-house operated LHCs. We are not financed under a funding formula. Apart from the occasional one-time grant or special funding from another level of government, we obtain government funding from our respective Service Managers. We have a variety of funding arrangements that are negotiated with our SMs, most of which are little more than year to year, budget to budget requests for break-even operating subsidy for the following year. To reduce the amount of funding required from municipalities and to meet the unique needs of residents, we have tried to diversify our business while maintaining our social purpose. For example, we have over 8,000 units in our portfolio that provide homes leased through the rent supplement program.

Our organizations have demonstrated strong resilience amidst a tough operating and financial environment. We have adapted our business models in order to sustain our



organizations, and many of us are currently engaged in business and organizational transformation to enable our organizations to expand and be innovative and responsive to the needs of our communities. As our organizations transform, the re-direction of our business requires recognition that a great deal of change is needed in the sector to build the capacity we need to deliver. Our organizations need to align how we operate in the new social housing modernization environment that province presents us with and the need to meet new challenges in our jurisdictions of housing service provision.

Although the government has made important changes to the legislative and regulatory framework in Ontario, there still remain restrictive regulatory processes and procedures that hinder our organizations pathway toward business transformation and modernizing our practices for future proofing our businesses. In this document we outline the policy changes and tools and capacity support that can enable independent LHCs to address legal obligations and requirements, community needs and contribute to a modernized social housing system.

## MODERNIZING SOCIAL HOUSING

The government's commitment to modernize social housing provides an opportunity for LHCs to help the province shape the sector's future. Our comments and recommendations for modernizing social housing is placed within the context of the questions provided in the Technical Discussion #2 document.

### Discussion Question #1

What works well under the current social housing system?

In our discussions and engagement with the MHO there were several recommended areas

for supporting LHCs that have been reflected in recent regulatory changes, such as:

#### Encouraging mixed income communities

Removing the requirement that public housing projects be exclusively rent-geared-to-income has given LHCs more freedom to create mixed communities and include market units to enhance revenue potential through new rent structures and market segment. We see this as a significant program enhancement.

#### Ministerial Consent

Transferring responsibilities for most transfers and sales of social housing assets from the ministry to Service Manager has enabled our LHCs to be more effective in the planning and portfolio management; efficient and responsive to enable asset leveraging needed for portfolio renewal; and work collaboratively with our service managers to make decisions about our portfolios in a mutually-beneficial manner.

#### Prevailing legislation ensures our viability in the housing sector

The inclusion of the LHC's in the HSA is valuable for our organizations as we are not incorporated as non-profits, and are not captured by most housing provider language. For the amount of public funding that has gone into the assets; we have paid for these assets several times over. It is critical for this asset that we operate to be kept within the system and not lost to the private sector.

#### Funding investments through federal and provincial partnerships

Grant programs like SHARP, SHAI, SHEEP, SHIP provide the funding needed to make our portfolio safe, energy efficient and accessible. It has allowed some LHCs to invest in cost-asset saving upgrades.

#### Provision of rental subsidy

To achieve the goal to end homelessness and that all Canadians have a home, subsidized rental programs must be maintained. With an average income of only \$50,000 for Canadians,



affordability remains an issue. It is not just a matter of supply.

Current government programs for new builds (e.g. IAH) only provide capital funding with no associated rental subsidy.

The issue of supply directly links to the issue of financial viability. The private sector has not played a large role in the provision of social and affordable housing as it is not financially viable without rental subsidy available. The rental subsidy, in some form, works and must be maintained in the future.

### **Exemptions from land transfer taxes**

Expansion of HSA s.167 transfer exemptions to include an amalgamation of portfolios, the transfer of social housing projects from Service Manager to local housing corporation or social housing provider or vice versa. (e.g. exemptions from land transfer taxes) has been beneficial for LHCs.

Several of these changes enable our LHCs to be positioned to be the landlord of choice in the future. As we currently work towards capital repairs, asset management, become mixed income and create a sustainable business model, our LHCs will become the attractive route for low and moderate income households in Ontario.

### **What could be improved under a new, modern framework?**

There must be clarity from the province about how the LHCs fit under the proposed modern framework. Is the new approach intended only for housing providers with operating agreements ending over the next few years or does it also apply to housing providers that may continue to be regulated under the HSA? Further, there needs to be clarity from the MHO if they intend on expanding the framework with additional requirements for local housing corporations.

The province emphasizes that the intention of the modern framework is to replace legacy rules in operating agreements and those in the HSA with an approach that enables housing providers to effectively manage social housing portfolios, foster innovation to better meet tenant's needs, increase the supply of affordable housing; and operate with more financial independence and flexibility.

In response to this, we have identified specific areas for improvements for LHCs which are important considerations in implementing a new modern framework:

### **Disentangle the “one-size-fits-all” prescriptive LHC model placed on the independent operating LHCs**

During the time just prior to devolution, the Ontario Housing Corporation Committee presented a document to the government of the day with concerns that the LHC model change would mean social housing may vary in its delivery across the province and be very different from a tenant/member perspective in 47 Service Manager areas. Local flexibility, while very appropriate and sensitive to local needs has, in fact, enabled this prediction to be true and adjunct to that truth is the fact that LHC's are also quite diverse.

The province must recognize this diverse nature of the LHCs and address the “one-size-fits-all” notion of our organizations under the HSA. This will enable us to transform and evolve into organizations that can leverage our assets, become more entrepreneurial while delivering on our social purpose; and contribute to a modernized social housing sector in Ontario.

### **Requirement for Service Managers to work with LHCs to establish sustainable funding**

Having a sustainable funding agreement with our respective SMs that includes rent subsidy and alternative options is necessary given the nature of our LHC's who do not have integrated services with Service Managers. It is imperative,



that under a new modern framework, any new funding models must consider the need for ongoing capital investment and rising costs, and include a rental subsidy component.

As owners and operators of over \$14.9 billion in social housing assets, we believe that the province and our respective SMs has interest in ensuring that LHCs have the tools and the stability we need to maintain and renew assets for the future. LHCs require money for the rent subsidy to ensure stability of income and to be sustainable. Without rental subsidy, LHCs cannot be financially viable.

If MHO and SMs want us to be entrepreneurial and business-minded, LHCs cannot go year to year requesting for a budget approval or reconciliation. LHCs need to have an established sustained funding mechanism to be able to project for the future. Long-term funding will allow for capital funding.

LHCs can do smarter things when there is stability of funding. In addition, it is a risk mitigation measure for SMs and way of effectively leveraging their dollars.

It is crucial that the province under a modern framework lead the development of a long-term strategy that addresses sustainability of the LHC assets; especially if the LHC are included under the HSA. A first step in this direction is for the province to require that SMs work with LHCs to establish sustainable funding.

**Shift the ministerial consent “download” directly to LHC Board of Directors**

Although the HSA has reduced requirements for the Minister to consent to program administration decisions, some consent requirements remain, in particular, related to portfolio level management of housing assets specific to the sale and disposal of LHC property. LHC's have greater capacity and understanding of its assets than other housing providers and legislation should recognize this

distinction and enable the LHCs to take over this role for its own property. Particularly, if the province is agnostic about who owns the social housing stock.

LHCs now have increasing ability to leverage our assets. Most of us do not have mortgages, we have debentures which do not show on title and the local government can allow us to leverage the assets. We have the ability to access our equity; however, if we have ministerial consent for our own organizations, we could do a lot more.

In our efforts to increase the supply and maintain the quality of our assets; LHCs have invested in developing long term asset management and revitalization plans. Our plans are also considered and approved by our Boards and by the Service Manager and local or regional councils. This process ensures that our decisions and directions for our portfolio, usually developed in partnership with our Service Manager, are informed by Service Manager plans and community need. As LHCs are principally responsible for the delivery of housing, we believe that we should have discretion over the assets under our administration.

We are suggesting shifting the ministerial consent directly to the LHCs so they can make decisions about the transfer (sale) of public housing assets, leveraging, and reuse or regeneration of our properties.

**Require that capital reserves be established for LHC's**

Housing providers are responsible for care and maintenance of their buildings and to ensure that projects are “well managed, maintained in a satisfactory state of repair and fit for occupancy.” (HSA s.69 (2)). As such it would be beneficial for the requirement for LHCs to make capital reserve contributions, in accordance with leading industry practice and to meet our priorities. As part of this consideration, it is



critical that LHCs have responsibility and are able to exert control over its capital reserves. This would enable our organizations to prepare and plan capital expenditures that meet the specific needs of the assets.

LHCs view capital reserves as part of good financial practice; and as such suggest that it should be included as a provider standard and linked to accreditation under the registry. The registry could require that housing providers have established reserves in order to qualify to be in the registry.

### **Allow LHC's to retain surpluses**

There must be a review of the policies and rules related to surpluses or surplus sharing. If LHCs are able to retain operating surpluses, redirect rent supplement surpluses to be used as intended and build capital reserves with unspent capital allocations from a previous year, it would contribute to a sustainable funding model. We would have flexibility to allocate under spending in one program area to other program areas (e.g., operating, capital, rent supplement) and contribute/ withdraw from reverse accounts as determined by the LHC board. The majority of the LHCs would no longer operate in a "use it or lose it" environment.

### **Permit LHCs to administer portable housing benefit**

There is a role for LHCs when it comes to portable benefits. LHCs have experience administering RGI, Rent Supplement and the centralized waiting list. Given these various roles, LHCs could manage the tenancy support and expand this support/business/service out to the private sector. This could be a cost reduction for the system in terms of administration of this benefit.

If LHCs are permitted to support the administration of the portable benefit, it would protect the Service Manager (isolation from risks) and provide a revenue stream for LHCs. It would also allow LHCs to be entrepreneurial in a

manner that effectively utilizes our sector knowledge, client delivery capacity and administration abilities while supporting the sector.

### **Discussion Question #2**

**What current barriers do Service Managers and social housing providers face that make it difficult to provide sustainable housing, and/or to pursue innovative and entrepreneurial approaches or practices?**

**Please provide details related to any legislative, regulatory or policy practices that may be limiting innovation in the housing sector.**

The encouragement from the province for housing providers to pursue innovative and entrepreneurial approaches or practices is a positive signal for the sector. Our LHCs are already far down this path and have demonstrated the capacity and ability to be entrepreneurial while continually maintaining the social purpose. However, innovative approaches often require upfront capacity, financial capital and human capital that organizations don't always have readily available or have the structure and processes in place to facilitate and support this direction.

### **Barriers**

In response to the ministry request for feedback about the barriers that hinder our abilities to provide sustainable housing and to pursue innovation and entrepreneurial approaches and practices; we have identified the following areas:

#### **Accessing funding opportunities to support pursuing innovation and entrepreneurial approaches**

The province through its Innovation, Evidence and Capacity Fund provides an opportunity for housing organizations to access funding to explore innovative approaches and practices. However, LHCs are not always well informed



directly through the province or our respective Service Managers of these types of opportunities. Not only are we uninformed, we must rely on the Service Manager agreeing to participate in whatever funding opportunity there is and if they don't, we cannot access available funding opportunities. This is an example of an administrative barrier that hinders our ability to access resources to pilot and pursue innovative approaches and practices; despite the nature of our organizations qualifying for this specific funding.

If the intention of the MHO is to build housing provider capacity then it must keep the sector informed of such funding opportunities. It is suggested that similar future funding through this program should include a specific stream for housing providers only.

#### **LHCs are not set up to be enterprises**

The current structure and operations of LHC's is one of business agility compared to Service Managers and the municipal world. Not only are we more responsive to day to day operations than LHCs internal to service manager operations; our LHC structure has demonstrated ability and capacity to be developers (create new units/supply). Within the current structure LHCs can be developers and undertake such business activities that would not be possible if part of a municipality.

Despite being encouraged to take a business and entrepreneurial approach, there are risks involved and LHCs need to be prudent. In order to be entrepreneurial, housing providers have to undergo a transition from a successful model to one with market-based opportunities (assets, social value and leveraging). We are currently not set up to be enterprises and restrictions to revenue generation exist.

#### **Providing housing for individuals with high needs, without access to adequate supports is a significant challenge for LHCs**

LHCs as the largest provider of Rent-Geared to Income Housing have never been fully equipped to operate within these models. Both Provincial and Local Access rules require a high percentage of new tenancies be offered to individuals from the 'Special Priority' or 'Urgent' status list. This means that a significant number of new tenants have experienced chronic or episodic homelessness, violence, addiction and mental health issues. Multiple research studies have shown that those experiencing chronic or repeated episodic homelessness often are coping with multiple complex barriers to housing stability including mental health, substance abuse, unemployment and relationship challenges.

LHCs attempt to build partnerships and coordinate with other agencies to offer the required services to support those with complex barriers to housing, yet our staff continue to report that many community partners have stopped showing up. Anecdotally staff have contributed this to either fear of safety, or a lack of resources. With the number of agencies providing similar services within our respective jurisdictions, many must compete for funding and resources, rather than collaborating and coordinate the housing and homelessness support network needed.

LHCs mandate and funding by our shareholders to act as a landlord has become the de facto provider of supports and is doing so without the required resources. These pressures have been layered upon an already aging infrastructure and shareholder agreements that typically do not provide the flexibility to generate or retain additional resources to invest in future initiatives or sustainability. The unintended consequence of the well-meaning initiatives has exacerbated or is already contributing to the further deterioration of LHC properties, and creating a



negative impact on the health, safety and wellbeing of our tenants and staff.

**Removing constraints for redevelopment and renewal**

The real estate industry has typically recognized property as an investment, one with a return. The province, and SMs, can seize this opportunity to invest greater equity into affordable housing. This will serve as a stimulus to the economy and provide an opportunity to leverage the value of these assets in the future. Equity investment will enable providers to reduce their debt servicing cost, making it more financially viable to provide affordable housing to residents.

Current programs, such as the Investment in Affordable Housing (IAH), act as equity and enable building affordable housing to be viable. In certain jurisdictions, such as Peterborough, the primary affordable housing provider has been selected as a developer of choice, enabling the Service Manager to direct funding, such as IAH, to them. This streamlined process would reduce administrative and procurement related costs to provide even greater value to both the City and housing providers.

The IAH program alone, however, is insufficient to supply the housing needed to meet the demand. The cost to build new is greater than retrofit. As such, funding for alternative approaches would enable housing providers to deliver such solutions.

A key challenge to the provision of affordable housing is the high cost to build, which cannot be recuperated through revenue generation or rental profit. Building new has been undertaken only to the extent that grant funding has been available. A portion of the high costs are for land purchase and development fees. In order to meet the demand for affordable housing (nearly triple the current supply), changes are needed. The government could stimulate this

infrastructure investment and development by providing access to available government land or buildings (e.g. schools, warehouses, etc.). Government lands could be repurposed and/or made available for affordable and social housing. This is happening in California, for instance, where a registry of available land is being developed to support potential affordable housing developments.

Tax incentives can also support affordable housing development, such as a property tax exemption on new and existing affordable housing stock. To be most effective, the exemption would apply to the entire housing development, even where affordability is stratified and inclusive of market units. Since 1972, the federal Income Tax Act has undergone a number of revisions that have had progressively detrimental effects on rental investors. The Goods and Services Tax (GST), now the Harmonized Sales Tax (HST), has increased the cost of building rental units. Currently, the private sector is not eligible for the same level of rebates as the not-for-profit sector; and small landlords cannot be considered businesses under the Income Tax Act. The United States has utilized tax incentives in an attempt to stimulate the development of affordable housing. Their Low Income Housing Tax Credit Program allows tax credits for development costs for up to 15 years for capital investments made in affordable housing.

Providing homes for all in need is a factor of not only available housing but also associate rental subsidy. Current IAH funding provides for a capital contribution, however, without ongoing rental subsidy for the units built, it is also not viable nor meeting the biggest need – deep subsidy need. Furthering this dilemma is the requirement to rent at 70% or 80% of average market rent (BMAR). Housing providers with Rent Geared to Income (RGI) and Rent Supplement will in fact be ‘made whole’ on the rent for a unit; BMAR provides less revenue to cover the





costs. Thus again, making it more difficult to achieve a financially sustainable housing development. The current conditions associated with IAH funding limit or prevent the transfer, or use of, rental subsidy (i.e. RGI, rent supplement), as it is considered 'double dipping'. This is contrary to the requirement and desperate need to renew old housing stock portfolios.

Therefore, in summary, to assist in portfolio renewal:

- Fund retrofit not just new build to further leverage government funding available (better value)
- Allow for direct equity contributions to a developer of choice to avoid costs from all parties
- Provide greater up front equity contributions to reduce overall operating costs (debt financing) making it more financially viable and increasing ability to provide more affordable units
- Provide and/or allow for use of rental subsidies in IAH or equivalent funded housing developments to ensure viable projects
- Remove or limit requiring for 70%/80% market rent units to ensure more viable projects
- Amend and introduce flexibility in annual Service Levels to recognize the cycle of renewal

**Sharing of information and privacy legislation**

The sharing of information between social housing landlords, community-based support agencies and healthcare providers is one of the biggest barriers that our LHC experience in creating successful tenancies and supporting tenants.

Concerns about privacy legislation often mean that our LCH are excluded from discussions about the provision of care and support in their

communities. Often, social housing landlords are unaware that tenants' relationships with support providers have ceased or that they have been released from a hospital, until their tenancy is in jeopardy. Similarly, housing provider staff may struggle to know how much information they can share with support providers or families if they see a resident struggling or at risk of eviction. There is uncertainty about the application of privacy legislation and the absence of shared understanding between landlords, healthcare agencies and community-based care providers about what information can be shared with whom and this prevents effective responses to individual and community need.

We encourage the province to clarify privacy legislation and to convene a working group of housing providers, healthcare providers, community-based agencies and tenants to develop protocols and best practices for the sharing of information. It is important to resolve privacy concerns so that stakeholders can work together to better support tenants.

**Lack of coordinated data to support policy and evidenced-based informed decision making**

Ontario has a reputation of a fragmented data collection system and its limited data mobilization ability to support the sector to determine policy decisions and design future housing programs. The current system makes it difficult to compare all but basic unit-level data between LHCs. Data collection and a coordination mechanism should be accompanied by funding to build sector capacity.

A common data set with defined standards as proposed for the registry would be crucial for evidenced-based decision making.



## Legislative, Regulatory and Policy Practices

Below are several related legislative, regulatory and policy practices that limit our organization's ability to pursue innovative and entrepreneurial approaches and practices.

### **Public Sector Accounting Board (PSAB) rules**

Under PSAB rules, municipalities have to consolidate LHCs into their books and this makes it look like LHCs are in debt. The PSAB rules do not reflect the true debt capacity or lending value to a financial institution when we attempt financing. When we want to talk about financing it can be scary for a municipality because the loans skew financials, and we are seen as a liability. This presents a negative picture to Service Managers and Councilors within our municipalities when it comes to decision making to support our strategic directions and for investing additional capital. This can result in clawing back our organizations ability to be innovative and entrepreneurial.

### **Municipal Property Assessment (MPAC) property values are not based on actual rent revenues**

MPAC values and classifies all properties in Ontario and prepares annual Assessment Rolls for use by municipalities and the province of Ontario to calculate property and education taxes. Historically, most social and affordable housing have been assessed by MPAC using a multi-residential (more than 7 units) rate which is based in part on the gross income potential of the properties and in part on neighboring multi-residential unit assessments.

According to MPAC, "the 2008 current value assessment (CVA) valuation [used for social housing properties] was based on the rental returns from 2007". These would have reflected actual revenues from subsidized and market rents. However, it appears that the 2012 MPAC assessments were calculated as if the buildings would achieve full market rent on all units. The increased MPAC assessments appear to be the

result of a change in practice rather than a change in legislation or provincial policy. The impact of increased assessments varies by social housing program. New affordable housing projects and providers with former federal operating agreements must manage property tax increases with existing reserves. Some may not be able to do so. Property tax increases are likely to impact LHCs. In order to stabilize costs and preserve housing affordability, the province could create a special category for social and affordable housing under the Ontario Assessment Act, 1990, that bases property values on actual rent revenues, not full market rates.

### **Prescribed Provincial Waiting List Priorities**

With the SPP program implementation and policy enhancements for survivors of domestic violence and survivors of human trafficking, there continues to be a significant number of unconsidered consequences, mainly: 1) vacant units being increasingly filled by SPP households; and 2) creates limitations for diversifying our rent mix to support mixed income communities. Even with a portable housing benefit program for SPP households, there continues to be an increasing trend in SPP applicants being housed in our portfolios, and as units become vacant their priorities must be accommodated over non-priority applicants. We are housing individuals with acute needs but there is no consistent framework of supports or funding dollars aligned with the policy to enable these households to stabilize their housing.

The province should be responsible for addressing the affordability and support needs of survivors of domestic violence and human trafficking. The current mandatory SPP requirements should be removed from the HSA and instead replaced with a provincial program, aligned with support services as part of a broader provincial commitment and strategy to support survivors to find affordable housing. LHCs need to be allowed to



incorporate better alternatives and establish priorities based on their building stock and local community need.

### **Flexibility Regarding Provincial Service Level Standards**

Service Level requirements designed under a government program to maintain the number of units in a given portfolio; currently constraints renewal initiatives. Such legacy programs do not allow the transfer of the subsidy to another unit. This is counterproductive to the renewal objective, as renewal or divesting of an old housing stock 'married' to this funding, means funding will be lost. Further, while renewal is occurring, requiring housing providers to leverage their assets, divestiture is required to create equity for new development. This will affect, in essence reduce, the number of units available; until new units are built and available. This cannot be done simultaneously as housing providers do not have sufficient equity without divesting the assets. Therefore, flexibility is needed in the annual Service Level obligations.

A new approach can still keep housing providers (ultimately Service Managers) accountable, yet provide flexibility. Annual reporting could include and indicate units affected by renewal, such as forecasted or actual divested and forecasted new/replacement units to be provided within a given timeline (e.g. 3-5 years).

Historically rental supplements, similar to the new portable housing benefits, have been made available. This type of rental subsidy allows greater flexibility as it is portable and is provided to the individual rather than be associated with the unit. At minimum, the use and provision of this type of rental subsidy along with the IAH equity investment for new development, would increase the viability of development and number of subsidized units.

### **Coordinated Access System**

MHO is proposing a coordinated access system with a vision for one access system as a way of accessing housing need and other needs and matching up with housing appropriately-connecting to other types of housing assistance/supports.

Any system redesign would need to include a provision that communities would be required to develop and implement a coordinated access and assessment system for shelter, rapid rehousing, prevention, transitional housing and permanent supportive housing along with social and affordable housing or even home ownership or home modifications programs.

Successfully coordinated access processes can help communities move toward their goal of ending homelessness by matching people with the housing and support they need and connecting them to those resources quickly. Need and support requirements should be linked to tools and housing options available within a community.

Coordinated access can:

- Help unclog the system by moving people more quickly through the referral process
- Reduce duplication of efforts and help serve clients better.
- Assist communities with ending chronic homelessness by sparking conversations about targeting the most expensive resources to those that have been homeless the longest.

Successfully coordinated access requires the participation of all housing and service providers in the community, making it critical that organizations involved in supportive housing projects:

- Participate in a designated community process to coordinate access to housing, including the use of coordinated referrals



and triage, common applications, common entrance criteria and centralized wait-lists. If the community does not have coordinated access to housing, the supportive housing project partners clearly communicate the referral and application process to the entire community.

- Participate in or lead efforts to ensure that community application processes, documentation of eligibility and intake processes are streamlined and efficient, so that applicants are not asked for the same information on multiple occasions.
- Prioritize persons that community data identify as having a high need for services (such as a high vulnerability index score) or frequently utilizing crisis systems (frequent users) for all available units.
- Move towards a choice based model of selection housing options rather than the current chronological model.

In addition to offering tenants the opportunity to choose among multiple units of supportive housing, it is also important that the community has supportive housing in a range of models and locations. In many communities, supportive housing is almost entirely found in a single model, such as single-site buildings with 100% supportive housing concentrated in a few neighborhoods. Since tenants have family and other connections to diverse communities, communities should mirror that diversity in the overall supportive housing available to tenants.

The organizations that are part of a supportive housing project team play a significant role in addressing systemic issues such as homelessness or affordable housing availability in the community. By participating in community planning processes, the supportive housing project team can push for needed changes and ensure that the project contributes to the

achievement of overall community and Provincial goals.

Participating in data management systems and sharing data within the bounds of confidentiality also can be important in understanding the most successful interventions in the community. This ensures that housing and service providers can continue to improve and learn from one another.

An effective coordinated access system is impossible without first addressing the multiple concerns identified by Service Managers and housing providers in relation to waiting list provisions under the HSA.

- Amendments to the HSA waiting list requirements to support its use more broadly than for RGI (e.g. eligibility, offers, internal transfers, selection of tenants).
- Amendments to exclude modified units without dedicated support services from the definition of special needs housing and exempt special needs units from the HSA application, tenant selection and review process requirements.

**Removing the requirement of multiple rent collection in cases of fluctuating income/household member; not to be applied retroactively and standardizing tax documentation with go-forward implementation**

Currently, in any given year, LHCs undertake more than one calculation per household (requiring a rental calculation). Modernizing rent calculations for subsidized tenants done based on an annual income tax, rather than the current continual and multiple rent calculations would provide multiple benefits from tenant, housing provider and government perspective as outlined herein.

LHCs have identified retroactive rent adjustments as a common trigger for rent arrears. In fact, an example of a built-in system



issue is when a senior moves from Ontario Disability Support Program (ODSP) to Canadian Pension Plan (CPP). Their income decreases and they move to a 30% Rent Geared to Income (RGI) calculation, as opposed to the previous rent based on a historic Ontario scale developed between the Ministries. Consequently, the rent increases and they automatically have a retroactive rent adjustment resulting in rental arrears. Removing this obstacle would prove more efficient, lead to more successful tenancies and positive mental health.

The current RGI approach, with near immediate rent increases when income increases, does not provide an incentive for individuals to increase income, education or gain employment. These are key drivers of affordability and pressures on affordable housing. Further, the 'income' definition for affordable housing assistance should match other regulatory definitions. The 2017 Ontario budget cited changes to Ontario Works and Ontario Disability Support Program with respect to how income is treated. This should be examined for alignment.

Similarly, those receiving disability have the fear of losing disability income forever if they wish to try and re-enter the workforce. There needs to be greater alignment of the overall objective of these policies and programs with housing, recognizing the overall housing system; and the creation of mechanisms that promote re-entry into the labour market. Employment, health, education and immigration policies are all great influencers to income and hence affordability; and ultimately affordable housing.

## MOVING FORWARD- A MODERN FRAMEWORK FOR SOCIAL HOUSING

### REGISTRY OF HOUSING PROVIDERS WITH A SOCIAL PURPOSE & HOUSING PROVIDER ACCREDITATION

Standalone LHC's view the Housing Registry as an excellent step to begin the process of equalizing not only standards but opportunities across all Service Manager areas. Currently, all 47 LHC's are as diverse in their operations, ability to be entrepreneurial and access funding from their Service Managers. There are 47 different approaches to risk, service delivery, tenant and community engagement and political influence. As part of a Registry, we envision this entity to be able to serve as a platform for LHC's to highlight their ability to deliver core services, share best practices and demonstrate excellence.

With a common standard for all to achieve and possibly a series of standards or tiers above the norm that will lend credibility to those that are developing new properties, planning regeneration projects of current communities and are innovative in their practices.

Standards of housing providers if applied equitably throughout the province, ensures that financial institutions, councils and boards of directors will have an accurate measuring tool for the performance of their housing providers and funding will be distributed using merit as a determinant. This will also measure each provider against the same standard while allowing for the differences that have evolved in each Service Manager areas that suit their geography, demographics and the need for services and the ability to provide them.

Funding for operations will, as we understand, be a negotiation between the provider and their Service Manager, an exercise which is very familiar to LHC's.



The Registry, will need to consider, when a provider is not achieving the base standards, if inadequate funding is the issue or the allocation and distribution of the funds received are being used resourcefully. Again this may lead to equalization and a setting of best practices and key performance indicators, both of which can be used by providers to improve their services.

### Discussion Question #3

What are some basic standards that all housing providers should meet in order to be included in a housing provider registry?

The organizations representing the LHC Forum are accountable to our respective Service Managers, Boards and communities. We have reporting requirements and established indicators and standards to enable assessment of performance that ensure our organizations are set up to be successful. Despite the varying size and scale of our organizations there are several fundamental and common standards that we adhere to and that we suggest housing providers should be in a position to demonstrate, namely:

#### **Social Purpose Mandate**

Having a clear and well-articulated vision and mission should be an important strategic standard for housing providers in a registry. This is especially important if the province intends on ensuring that housing providers in the registry are organizations that are committed to delivering on a social purpose. A charter specifying the organization's social purpose and commitment to provide housing that low-and moderate-income Ontarians can afford, could be the key standard output.

#### **Governance**

A housing organization should have a properly functioning board, and a board selection process in place that requires terms for board members. This will enable a periodic refresh of Board members. If a housing provider in a

registry is accessing funding opportunities through this framework then there should be records and accountability standards that they must adhere to even in its simplistic form, as in meetings and minutes.

#### **Financial Sustainability**

As good practice and as a basic standard, housing providers should have an informed understanding of their financial status and be able to report on this periodically to the Registry. In addition to demonstrating budget preparation and monitoring, financial reporting, and audit functions; it will also critical for housing providers especially those coming out of the EOA process to continue to monitor and understand their viability. There are available sector tools to assist housing providers to complete project and portfolio viability assessments. For LHCs to participate in a Housing Registry and to adhere to this standard, we would need to have a sustainable funding mechanism in order to project into the future; and demonstrate financial sustainability.

Without being able to demonstrate financial sustainability, it could impact our placement on the Registry and further impact how much funding we get. It would put us in a disadvantage compared to other housing providers that are funded differently; unless the province establishes a different classification of standards and accreditation for the LHCs.

A sustainable funding agreement with our SMs, will ensure that we are in a position to access funding, have business cases prepared for incentives and benefits and maintain accurate building condition assessments.

#### **Operations**

One of the cornerstones of a successful housing provider is having strength in its daily operations. There are basic operation standards that all housing providers should meet as part of a housing provider registry. A component of these standards would be the day to day



maintenance of buildings as well as preventative maintenance, building safety (e.g. life safety systems) and building renewal. These are typically reported on by housing providers and should continue to be part of a housing registry.

Housing providers are becoming more sophisticated in their Information Technology Systems. As part of a registry, providers would want to demonstrate the work flow mapping of their business processes and how the Information Management Systems support service delivery and performance tracking.

Another key focus in the operations of housing providers is vacancy management. This includes areas such as arrears, occupancy, unit turnovers, and sustained residencies. These items are fundamental and significant to the operations of housing providers to ensure they are best meeting the affordable housing service level needs of their respective communities.

For the above identified areas, it is critical that policies and procedures are in place to provide a framework for these elements of the operations. A housing registry would necessitate that providers were able to illustrate that they have key operational policies and procedures in place and they are being followed. As well, as a basic standard, housing providers would want to have a performance monitoring system in place that would include operational KPIs, benchmarks and best practices.

### **Resident Management**

There is currently a great deal of discussion and activity at the provincial level regarding resident management. As we move forward and transition away from the traditional RGI system to incorporating models such as the portable housing benefit, housing providers and service managers will need to be attentive to hitting service level targets. Some of the basic

standards that all housing providers should meet to be part of a registry would include:

- Leases/Occupancy subsidy agreements
- Approved targets for portfolio established under current and future legislation
- Internal transfer waiting list
- Resident files
- Over-housed residents
- Eviction rates
- Policies relating to resident management (e.g. Complaints & Confidentiality Policies)

It is important that the documents, processes and models that are incorporated into the standards of resident management for the housing registry continue to support and optimize the lived experience for current and future residents.

### **Asset Management**

There are several key components of asset management that we suggest is necessary and within a housing provider's realm to produce as part of the standard requirements. These are preventive maintenance plans, building condition assessments, capital repair plans, and unit inspection reports. As a basic standard, housing providers should have some basic elements of an asset management plan and be able to demonstrate how maintenance and upkeep of the projects are being undertaken (e.g., energy efficiency upgrades).

### **Environmental and Energy Sustainability**

The current political and funding environment has a keen interest in implementing and demonstrating environmental and energy efficiencies. These components often go hand in hand with asset management plans to ensure the longevity and fiscal health of the housing stock.

It is expected that any government funding for capital repair, new builds and redevelopment will require reporting on the outputs and outcomes. Adherence to some basic standards would place housing providers in a better



position to access funding dollars. We suggest for this area standards for housing providers could be:

- Energy management plan for portfolio
- Energy audits completed on each building every 5 years
- Complies with Ontario's Energy and Water Reporting and Benchmarking regulation (O.Reg.20/17)
- Monitors and benchmarks energy consumption of part or all of portfolio in an energy management software
- Set energy reduction targets for portfolio and annually reviews progress to targets
- Board-approved energy policy including energy reduction targets for portfolio
- Completed energy efficiency and/or greenhouse gas reduction retrofits in portfolio
- Ground level operations and maintenance staff have completed training on energy management from an accredited energy training organization

If specialized standards are developed for providers interested in expansion and new development the following standards may be applicable:

- Pursuing one or more projects to develop, redevelop, or retrofit a building to the level of Passive House standard, LEED certification, Net-Zero, minimum 15% energy savings over building code (such as Union and Enbridge Gas Savings by Design programs), or similar. Formal certification may not be required.
- Health impacts or standards when planning energy efficient initiatives (e.g. pursues WELL Certification or similar)

**Tenant/Resident Engagement**

At the core of a social housing provider's mandate is to meet the housing needs of tenants. The extent to which this is done well, should include a third party client driven assessment of service delivery via a tenant satisfaction survey. Client feedback mechanisms exist for most businesses; as it has

been recognized that clients are the best source of information and can identify areas for improvement. There is opportunity to standardize and deploy tenant satisfaction surveys across all housing providers. This provides for greater objectivity, economies of scale and "benchmark ability". Surveying every 2 or 3 years is sufficient and allows for actions and improvements to be made from the findings.

Other customer feedback and satisfaction mechanism should also exist for providers. These can take many forms, including brief 3-5 question pulse checks by call centre operators for 1 out of every 25 callers; customer service/care campaigns.

**Capital Reserves**

Require that housing providers within the Registry maintain a capital reserve fund and have a capital reserve plan. A capital reserve plan is a good practice management tool that can help housing providers; (1) budget for the future costs for major repairs and replacement of capital items, (2) gain an improved understanding of the physical condition of the asset(s), (3) maintain the assets in a safe, efficient and structurally-sound condition, and (4) make good decisions about investing the capital reserve.

The suggested standards above are critical to the nature of any housing organization to ensure that it is a well-run business, meets its social purpose, preserves its asset and provides a safe home for the people that it houses.

The province must recognize that standards should be simple, provide a minimum baseline, and reflect current best practices. A cautionary note is that the Registry should also pay attention to the quality of the standard reported and not just evaluate compliance to the baseline.





In the development of any standard; MHO must consider the range of standards that CMHC (i.e., accessibility, asset management, environmental) will require for housing providers to demonstrate through their new funding programs. This is critical to ensure that the reporting of standards from MHO and CMHC have some alignment which can limit some of capacity issues that may be faced by some housing providers.

In the implementation of standards, the province should consider the size of housing providers, their internal capacity and resources to support demonstrating standards. A larger number of housing providers in Ontario have less than 100 units and some of these organizations may have no intention to grow. On the other hand there are providers with over 100 units to 1,000 units with plans for development and/or to provide more units; and there are housing providers with over 1,000 units that have plans for development and are on a trajectory of business diversification and growth.

Although there should be a set of core standards, it is suggested that there should be a tiered approach to enable housing providers to achieve the required standards and feel more comfortable participating in a registry. If a tiered approach is considered there could be additional standards that housing providers would need to demonstrate to access particular incentive, grants and benefits.

#### Discussion Question #4

What benefits or incentives would be valuable to housing providers in deciding whether or not to participate in a housing provider registry?

Some benefits and incentives that would be of value to LHCs and housing providers are:

- Rental subsidy
- Direct access to government and private sector funding

- A "rating" that makes housing providers attractive to lenders
- Capital and green energy grants
- Qualification that makes tenants want to rent with us, especially if they have a portable housing benefit
- Access to financial loans
- Offset development cost charges
- Tax advantages- HST exemptions
- Allow housing providers to keep savings resulting from energy efficiencies etc.
- Priority (first right of refusal) for available land and development opportunities
- "Partners of Choice" for cross governmental projects that promote holistic housing such as health, education and employment 'hubs'

#### Discussion Question #5

Under the new framework, what type of body or level of government would be best suited to:

- a) Assess providers participating in a registry against a series of province-wide standards?
- b) Manage a list of accredited providers?

The LHC Forum recommends that an independent industry sector body that has provincial scope (not owned by the province) is best placed to deliver on the MHO objectives of a Housing Registry and accreditation. An independent entity with housing industry knowledge and expertise could be invested with the authority to ensure effective standard management of the sector. In fact, it would be advantageous for an independent body to provide a focused platform for the sector for governance, financial management and performance responsibilities in what is at present a transitioning nature of the regulatory landscape.



There will be benefits to creating a body that is independent of government in structure and in the execution of its functions. Political independence and autonomy to act free from policy and funding considerations are fundamental to the integrity and credibility of a 'body' and would be key to attracting finance into the sector. It is recommended that an appeal mechanism be established as part of the process and or procedural function of the body.

An independent body will also provide confidence in the stability of the sector. This will provide security for continued government investment, as well as attracting increased investment from the private sector. In addition, independent oversight and reporting would adhere to openness and transparency for all stakeholders including social housing tenants.

It is imperative however that any entity that is responsible for the delivery of this function has strong housing sector knowledge and works with the sector to leverage sector capacity and intelligence. This process must be a sector led initiative. Of importance is that the province recognizes that there will be additional financial impacts to a housing provider to participate in the registry. The accreditation costs should not be put on small housing providers; and neither should LHCs bear the cost for the sector.

The MHO has indicated that they have looked at models in other jurisdictions, in particular UK and Ireland. It is recommended that the province also review the Canadian models that have been used by the long term care and health sector and LEED. Lessons learned with respect to structure, implementation and capacity to adhere are important considerations to ensure an effective and mutually beneficial process.

## CAPACITY-BUILDING AND SUPPORT

### Discussion Question #6

What tools and supports will enable Service Managers and housing providers to take advantage of new opportunities and build capacity within a modern framework?

The Ministry's recognition for capacity-support is critical in the current operating environment to ensure that housing providers are in a state of readiness to transition into and while operating under a modern framework.

We have outlined the types of support and tools that the province can enable to assist LHCs and other housing providers in the delivery of social housing.

### **Facilitate the development of a governance and human resource strategy for the non-profit housing sector**

A Human Resource strategy for the non-profit housing sector will help mitigate the risks posed by the loss of critical knowledge, expertise and capacity to effectively manage and administer housing projects and portfolios. It would help raise the profile of sector and the problem of eroding human capital. This would also facilitate the development of the plan for providers within the registry, and the sector, to use in assessing and addressing key issues, such as on-going governance, education/training, succession planning, and staff retention needs within the sector. This would be a step toward improving the long-term viability of non-profit and social housing. Opportunities exist to develop a strategic plan in partnership with key stakeholder groups, including:

- Chartered Institute of Housing, Canada
- Housing Services Corporation
- Ontario Non-Profit Housing Corporation
- Service Manager Housing Network
- Co-operative Housing Federation of Canada – Ontario Region
- Institute of Housing Management
- Real Estate Institute of Canada



The rationale is to create a system of training and accreditation that will form the foundation of the skill set required for non-profit housing administration.

**Amend the Housing Services Act, and other acts as required, to enable sharing of information and disclosure to other service providers to improve client service**

Although section 174 of the HSA permits the sharing of information collected under the HSA, it is only for the purposes of determining eligibility. Restrictions on disclosure of personal information hamper client service. Currently non-financial data and information based on eligibility can be shared with OW and ODSP. Sharing information on arrears is critically important as it would enable LHCs to provide good service to our clients receiving social assistance and can pro-actively prevent an eviction. For example, not all tenants receiving OW or ODSP are on rent direct. It is not unusual for these households to miss rent payment thereby placing them in an arrears status. This can continue over months and the collective arrears are a financial burden that a household may not be able to repay, ultimately leading to eviction. If an LHC were able to share arrears data or even the fact that a household is in arrears with social services, we would be able to work through a remedial process to ensure that tenants are not at risk of losing their housing.

**Create a permanent automated income verification (AIV) program for housing income tested programs using Canada Revenue Agency tax data**

We encourage the province to re-engage the Canada Revenue Agency (CRA) and the Ministry of Finance to determine and establish a permanent automated income verification process specific to the RGI system. Income verification for rent-geared-to-income is currently completed by residents providing paper documents in-person. If individuals fail to provide required documents, they will not receive or may lose needed benefits. People

who are vulnerable are at particular risk, as they may face additional challenges to providing income verification. LHCs spend a significant amount of staff resources to administer RGI calculations and follow up with households for annual household income updates.

The existing AIV service developed is used by several provincial income-tested programs (e.g., Ontario Child Benefit, Northern Ontario Energy Credit) but it does not include the RGI program. The expansion of the AIV to the RGI program is a critical component of human services integration. It will significantly reduce the RGI administrative costs, improve service delivery, simplify the provincial income test and calculation for RGI; reduce duplication and provide individuals with a streamlined experience. More broadly it would link with the provincial benefits transformation initiative which aims to automate service delivery of income support programs. Further, the AIV service is in keeping with the new provincial Poverty Reduction strategy, supporting the strategic directions to end homelessness. The province is in the best position to make an efficient, cost effective AIV service available to all municipalities.

An efficient and accurate administration of RGI, inclusive of checks and balances, is dependent on IT systems. More sophisticated systems are costly and require ongoing investment such as IT specialists and upgrades to maintain. Such investment and capacity is either a great strain or does not exist in smaller providers. In an environment where resources are already strained, IT/IM requirements further exacerbate the challenge. Subsidy programs should leverage current government systems where possible, such as the income verification by CRA, and alleviate the drain of resources on providers. This at minimum and immediately could include only annual rent calculations. Longer term, this could evolve to shared service offering for administration of subsidy.



As technology introduces further opportunities to housing providers and tenants including onsite health care, education and employment opportunities, so does the need to enhance technological capacity among housing providers. This ranges from integrating technology into new builds, to leveraging technology for maintenance (e.g. heating management systems) to providing virtual services to tenants. Accreditation could be broadened to recognize this new component of housing. Return on investment (ROI) business cases, supplier agreements and 'project implementation teams' can be undertaken as a centralized and shared services model to support housing providers. Partnerships and a more formal role for educational institutions to support the viability of affordable and social housing is required.

**Establish a Tenant Engagement Housing Funding Stream to support community development activities for the residents that live in social housing**

It is evident under the modern framework that the province has interest in tenant engagement. The HSA mandates LHCs to provide physical housing but is silent about the need for community development or tenant support services. Nonetheless, LHCs enhance housing services to promote stronger communities. Our organizations provide various methods of tenant participation and accordingly we specifically budget for resources to support community development and resident empowerment initiatives or seek partnerships and resources to improve safety, human and social services, education, and job opportunities for residents. Many of the initiatives are socially driven community development activities to engage residents in their neighbourhood, participate in the decision-making process related to the communities they live in, and fostering tenant economic opportunities.

While LHCs share many of the same responsibilities as private sector landlords, our task is intensified by the additional need for the social and physical development of our tenants. Some of the many programs and initiatives are targeted to reducing isolation amongst seniors, creating apprenticeship opportunities for youth, developing leadership skills, and fostering social enterprise activities for residents. There is a direct correlation between tenant engagement activities and the financial impact on the company. Such activities build more vibrant communities and community cohesion, improves quality of life and inadvertently can improve health outcomes and reduce social costs. However, inconsistent funding prevents long-term sustainability of initiatives. Although worth every dollar spent on our residents, we recommend that the Ministry of Housing establish a pool of financial resources dedicated to supporting tenant engagement activities specific to social housing.

**Discussion Question #7**

[How can all partners- the province, Service Managers, housing providers, and tenants- work together to better support tenants and minimize impacts in the transition to a new framework?](#)

A stronger, more responsive social housing system is one in which collaboration and relationship building and partnership development is fundamental. LHCs, other housing providers and service managers are often facing similar challenges and working independently to solve them. To better support tenants and minimize impacts in the transition to a new framework, we have identified several significant partnerships that the Ministry of Housing can facilitate to achieve better outcomes for the people we house.



### **Ministry of Housing's Continued Engagement with the LHC Forum**

The LHC Forum and the Ministry of Housing has fostered an ongoing relationship over the last few years. This has resulted in increased collaboration between the LHC Forum and MHO including the opportunity to be involved in the province's work on social housing modernization, through our participation on the Discussion Forum and technical working groups. Consequently, this has enabled the province to directly engage with representatives from the LHC Forum to understand a housing provider perspective (not typical of most housing providers) and make policy and regulatory changes on issues as it relates uniquely to standalone LHCs.

Given the nature of the independent LHCs and its role as reflected under the Housing Service Act; we continue to welcome additional engagement opportunities and dialogue with the province. The province would benefit from our perspectives and participation to co-design programs, for policy development and for consulting on the modernization framework, specifically with the role of LHCs within a new structure. We are also in a unique position to be able to consult and work with the Ministry for the purposes of implementing pilots and should the province want to workshop with the LHCs directly.

### **Greater collaboration is needed between institutions/organizations that are discharging their clients and LHCs that are housing individuals following discharge**

Greater collaboration is needed between institutions/organizations that are discharging their clients and LHC's who are housing people following discharge. The focus should be on thorough case planning prior to discharge and ongoing supports to ensure sustained tenancies following discharge, especially regarding:

- MCYS for the youth population that end their care under CAS

- MJUS for people who are done their incarceration
- MOHLTC/LHIN for services in areas of mental health, health, psycho-geriatric, etc.

### **Facilitate formal partnership and alignment of service and funding across Ministries, Local Health Integration Networks (LHIN) and with LHCs**

Increasingly, LHCs are met with barriers across various sectors, all of which play an important part in delivering a coordinated service to our clients. The current trend in all areas of business is the streamlining of service delivery for the client yet we do not share ideas, resources or information that would benefit a common client. We encourage the province to continue its focus on collaborating planning across ministries and facilitating partnerships amongst the LHINs, Service Manager and LHCs. We also recommend that MHO undertake a consultation with the LHCs and sector stakeholders specifically geared to finding funding and supports for tenants that are vulnerable. By convening the varying stakeholders together to better understand the housing environment in which we operate, the challenges in obtaining support for our tenants, will enable a planned, purposeful and committed way towards the same objectives and will prevent duplication.



## CONCLUSION

The province's recognition that the governing and regulatory nature of the social housing landscape is changing and needs a refresh is a positive sign. This is occurring at a time when our LHCs are also undertaking business transformation and modernizing our practices to improve how we deliver social housing for residents in our communities. As the province through MHO makes transitions and contemplates changes to establish the next generation of social and affordable housing provision in Ontario; it is important to account for the significant role that LHCs have in the new era for housing; and give attention to how the LHCs work within the modern framework.

The very nature of our portfolios and subsidized rent makes a strong case for the forthcoming modern framework to support our abilities to continue our business transformation, be entrepreneurial and excel our innovative activities; all undertaken within a social purpose mission for providing a safety net for residents living in our local communities that generally experience limited housing mobility.

As independent operating LHCs we have demonstrated our ability to deliver housing in a changing environment for over 20 years, and have proven that we are stable and a significant avenue for investment in the years ahead. Our LHC model contributes to the overall sustainability of the sector and the flexibility and innovation that occurs within our organizations exceeds the pace and scale of LHCs that are internally run within the service manager structure.

Our overarching business objectives of safeguarding government and public investment, managing risk and achieving best outcomes for tenants, the long-term strategic development of our portfolios, and the support partnerships we enable; align with provincial objectives. We have the same shared interest.

The province through the proposed modern framework is creating new opportunities for innovation, flexibility and freedom which we as LHCs embrace. This submission articulates the LHC Forums ideas for being supported through the modern framework, and provides suggestions for supporting our provision of housing to enable sustaining our portfolios and ensuring successful tenancies. As the province considers the role of local housing corporations in the broader delivery housing system; we encourage MHO to continue the dialogue and the engagement with the LHC Forum to help us better support you in the planning and implementation of a modern social housing system.

### **Local Housing Corporation (LHC) Forum:**

For additional feedback and/or to seek clarification with respect to this submission you may contact:

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# Ontario's Independent Local Housing Corporations

helping communities across Ontario meet local housing needs through entrepreneurialism and business innovation.

## meet community needs by providing 40% of the social housing in Ontario

- Wholly owned by municipalities but operated as independent corporations under the *Ontario Business Corporations Act*
- Most residents pay rent-geared-to-income



**94,182**  
homes

**37,294**  
seniors

**34,603**  
families

**19,665**  
adult  
singles



**\$14.9 Billion**  
in property assets



**45 Years**  
average age of  
housing stock

## more than just a landlord



Independent LHCs don't just manage their own buildings. To reduce the amount of funding required from municipalities and meet the unique needs of residents, they have diversified their businesses.



**8,728**

rent supplement leases managed for  
community non-profits

Due to the shortage of supportive housing, many people with special needs reside in LHC units

**\$0**

dedicated support dollars for residents with:

- Mental health issues
- Victims of abuse
- Addictions
- Physical and mental disabilities
- Mobility and age-related issues

LHCs have addressed this by:

- Partnering with community agencies
- Implementing eviction prevention strategies
- Supporting resident engagement & community development

## a major contributor to the local economy



**\$502 Million**  
re-injected annually  
into local economies via  
contracted services

**\$44.7 Million**  
paid annually  
in municipal property  
taxes

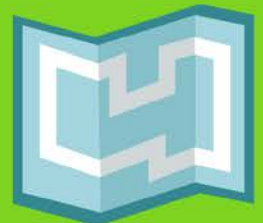
**2,672**  
employed as staff  
in 2017

## well-positioned to meet future affordable housing needs

Ontario's leading developers  
of affordable housing:

**\$1+ Billion**  
in new development,  
2018-2023

- Local business with focus on community goals
- Flexibility and business agility due to external relation to municipality
- Existing portfolio footprint:
  - Excellent redevelopment, intensification opportunities to better meet current and future housing needs
  - Available for asset leveraging due to expiring debentures
  - Leverage economies of scale for redevelopment



## Ontario's Independent LHCs are:



Cornwall & Area  
Housing Corporation  
Société de logement de  
Cornwall et de la région

WINDSOR ESSEX  
**CAC**  
COMMUNITY HOUSING CORPORATION



Kingston & Frontenac  
**Housing**  
CORPORATION



Peterborough  
Housing Corporation

**CITYHOUSING**  
HAMILTON

GREATER SUDBURY  
HOUSING CORPORATION



SOCIÉTÉ DE LOGEMENT  
DU GRAND SUDBURY

**LM** LONDON &  
MIDDLESEX  
HOUSING CORPORATION

Toronto Community Housing



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**London & Middlesex**  
HOUSING CORPORATION

# Social Housing with Supports

A PROOF OF CONCEPT, PILOT PROJECT TO  
SUPPORT HOUSING STABILITY WITHIN SOCIAL  
HOUSING PROGRAMS

## INTRODUCTION

The need to address homeless and housing issues has reached a critical tipping point. Reports show that in London there are 2,600 people searching for emergency shelter annually.<sup>1</sup> Two surveys conducted during 2016; one over three days and one Point-In-Time count, suggest that of the respondents 59% and 52% respectively were considered chronically homeless.<sup>2</sup> Addressing these issues is top of mind for individuals and communities across Canada. This is evidenced by three of the top four themes identified in Canada Mortgage and Housing Corporation's (CMHC) "Let's talk Housing Report": to provide housing for people with low incomes and other distinct needs, to build a stronger affordable housing sector, and to renewing social housing.<sup>3</sup>

## BACKGROUND

London has a strong history of responding to housing and homelessness issues. In 2003a local housing rule, further revised in 2005, referred to as the "9 of 10 rule" targeted housing to individuals in order of need<sup>4</sup>. In 2010 London embraced the possibilities of Housing First as a pragmatic solution to homelessness "to move individuals and families [experiencing homelessness] quickly into housing. . . with the right level of support."<sup>5</sup> Both initiatives are viable to house those with the most need. However, developing a cohesive plan to provide the necessary level of supports has been complicated for our community as support agencies in London operate within a fragmented service delivery model. To provide housing for individuals with these needs, without access to adequate housing supports has created significant challenges for LMHC.

LMHC, as London's largest provider of Rent-Geared to Income Housing has never been fully equipped to operate within these models. The "9 of 10" rule requires that 90% of new tenancies are offered to individuals from the 'Urgent' status list. This means that a significant number of new tenants have experienced chronic or episodic homelessness. This is important to understand as multiple research studies have shown that those experiencing chronic or repeated episodic homelessness often are coping with multiple complex barriers to housing stability including mental health, substance abuse, unemployment and relationship challenges.<sup>6</sup> LMHC attempts to build partnerships and coordinate with other agencies to offer the required services to support those with complex barriers to housing, yet our staff continue to report that many community partners have stopped showing up. Anecdotally staff have contributed this to either fear of safety, or a lack of resources. With the number of agencies providing similar services within our jurisdiction, many must compete for funding and resources, rather than collaborate and coordinate the housing and homelessness support network needed. As outlined in the "London For All" plan "a coordinated response is needed to account for the complexity of these issues."<sup>7</sup>

LMHC mandated and funded by its shareholder to act as a landlord has become the de facto provider of supports and is doing so without the required resources. These pressures have been layered upon an already aging infrastructure and a shareholder agreement that does not provide the flexibility to generate or retain additional resources to invest in future initiatives or sustainability. Thus, the unintended consequences of the well-meaning initiatives described above has exacerbated an already underfunded organization, contributing to the further deterioration of LMHC properties, and creating a negative impact on the health, safety and wellbeing of our tenants and staff.

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<sup>1</sup> A. Oudshoorn as cited by Gignac, "Homeless Death Toll in London, Ont. Nearly on Par with Toronto."

<sup>2</sup> City of London, "Solving Homelessness Together London's 2015-2016 Enumeration-Results," 24.

<sup>3</sup> Government of Canada, "What We Heard - Shaping Canada's National Housing Strategy," 14.

<sup>4</sup> City of London, "Housing Division Notice — HDN #2005-90."

<sup>5</sup> City of London, "London's Homeless Prevention System.pdf," 1.

<sup>6</sup> Hennessy and Grant, "Developing a Model of Housing Support: The Evidence from Merseyside.," 338.

<sup>7</sup> City of London, "London for All Report."

## PROPOSED SOLUTION

In LMHC’s new strategic plan launched earlier this year, we outline that we will improve renew and maintain the homes we offer, Support Housing Stability and Prevent Homelessness, and Engage Empower and Assist our tenants. These strategic goals align with the city of London’s 2015-2019 Strategic Plan as shown below in Figure 1.

### Shared Goals

City of London		LMHC
<ul style="list-style-type: none"> <li>• Strengthening Our Community</li> </ul>	↔	<ul style="list-style-type: none"> <li>• Improve, renew and maintain the homes that we offer</li> <li>• Stake out critical role in supporting housing stability and preventing homelessness</li> <li>• Engage, Assist &amp; Empower Tenants</li> </ul>
<ul style="list-style-type: none"> <li>• Building a Sustainable City</li> </ul>	↔	<ul style="list-style-type: none"> <li>• Improve, renew and maintain the homes that we offer</li> </ul>
<ul style="list-style-type: none"> <li>• Growing Our Economy</li> </ul>	↔	<ul style="list-style-type: none"> <li>• Establish long-term financial growth and stability</li> </ul>

Figure 1

### Common Objectives

City of London		LMHC
<ul style="list-style-type: none"> <li>• Diverse, inclusive and welcoming community</li> <li>• Caring and compassionate services</li> </ul>	↔	<ul style="list-style-type: none"> <li>• Create a Tenant engagement strategy</li> <li>• Foster housing stability by providing tenant onboarding and education programs</li> <li>• Expand and improve tenant communication channels</li> <li>• Improve building conditions to make them more functional</li> </ul>
<ul style="list-style-type: none"> <li>• Robust infrastructure</li> <li>• Strong and healthy environment</li> <li>• Beautiful places and spaces</li> </ul>	↔	<ul style="list-style-type: none"> <li>• Ensure capital improvements relate to the annual capital plan and long term capital replacement strategy</li> <li>• Improve building conditions to make them more functional</li> </ul>
<ul style="list-style-type: none"> <li>• Urban Regeneration</li> </ul>	↔	<ul style="list-style-type: none"> <li>• Develop an asset strategy with the internet to have "a shovel in the ground"</li> </ul>

Figure 2

While we are eager to implement our new Strategic Plan and excited that, through its alignment with the City of London’s Strategic plan, we will be able to partner with our shareholder to further both our long-term visions. We are also cognizant that any implementation plans need to be data driven and evidence-

based. We have some solid data relating to the state of our capital infrastructure from the VFA Facility Condition Assessment presented to London's Strategic Priorities and Policy committee at the Meeting on May 15, 2017<sup>8</sup>. However, at this time we lack the data from which to build a portfolio-wide, evidence-based response to address the need for housing supports.

There is an evident lack of data across the Canadian Social Housing sector. According to CMHC, there are gaps in available housing data including information on:

- households that live in social and affordable housing;
- the physical condition of Canada's social and affordable housing stock;
- opportunities for site redevelopment or increasing density;
- seniors' housing, including both market and government-funded housing;
- Outcome-based indicators or qualitative data, which would show how government-housing programs contribute to positive outcomes for clients and help identify any gaps in housing programs and services.<sup>9</sup>

Filling these data gaps is so significant to the development of housing solutions across the country that the 2017 federal budget committed \$241 million to strengthen the Canadian housing sectors data collection, analytics, and research capacity.<sup>10</sup>

Currently LMHC faces a dichotomy between the need for data and proper planning, and the cost of lost opportunity to our tenants, our capital infrastructure, and our broader community. The longer we wait to develop solutions the more our tenants' outcomes, capital infrastructure and the health and safety of communities have the potential to deteriorate. To address this dichotomy we have created a balanced approach that will provide more immediate opportunities while enabling data collection and mitigating risk.

We propose a phased approach starting with a pilot program to provide proof of concept and allow us to build a solid replicable, evidenced-based architecture for future regeneration and revitalization projects. Using a supportive mixed-use model built upon Results Based Accountability principals and Social Return on Investment (SROI) metrics. We will include external research expertise to implement a longitudinal study at the onset. This will allow us to provide both LMHC and the City of London with the data points needed to understand:

- The current states of specific social housing properties
- distinctive housing supports needed to achieve success within a Housing First model
- the efficacy of a supportive housing model substantiated by measurable participant outcomes.
- impacts of supportive housing on the broader community
- the economic return of this investment in terms of cost diversion and other SROI metrics

The longitudinal study will initially focus on a housing supports needs assessment per property. This coupled with the capital infrastructure data already in place will allow us to determine an appropriate site to conduct the pilot. Along with the opportunity to provide housing supports and build community collaboration, the pilot will also include sustainable capital upgrades to one of our buildings.

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<sup>8</sup> Browne, "Update On The State of Public Housing Assets."

<sup>9</sup> Canada Mortgage and Housing Corporation, "Let's Talk Housing - Housing Data We Can Rely On."

<sup>10</sup> Government of Canada, "Budget 2017."

We have engaged in discussions with two potential community partners who are eager to work with us in developing a supportive housing program. We have also met with a member of Western’s Centre for Research on Health Equity and Social Inclusion(CRHESI) who indicated potential support in conducting the research component discussed herein, and a willingness to assist in securing funding for this component of the project. While there is a need to conduct more community consultation and partnership development, preliminary efforts have indicated that there is an appetite to support this project across our community.

## CONCLUSION

Housing First offers a real solution to homelessness. Conversely, research shows that the success of the model “must be adapted to local conditions, and must be followed by the provision [multiple] services.”<sup>11</sup> One of the founders of the Housing First model, Sam Tsemberis asserts that positive Housing First outcomes for chronically homeless require the implementation of wraparound supports in the form of Intensive Case Management (ICM) delivered by qualified, professionals.<sup>12</sup> While LMHC is committed to support London’s Housing First model, we have struggled to provide the supports needed within London’s fragmented service delivery model.

Based on the research and best practices from other Local Housing Corporations across Ontario we believe that a mixed-use community including a supportive housing program offers the best option for both LMHC and the broader London community. However, due to a lack of housing data, it would not be prudent to move ahead with a large-scale supportive housing project, and yet we still must address the needs of our tenants, the decline of our social housing communities and the deterioration of our capital infrastructure. We propose developing a pilot program as a platform to collect and analyze data, measure success and provide a proof of concept. This pilot holds the potential to be replicated on a larger scale and provide a real and sustainable solution to homelessness and housing in London. We therefore ask that that council support such a pilot by requesting a more comprehensive business case.

---

<sup>11</sup> Cohen, “Stories of Those Homeless Who Don’t Fit the ‘Housing First’ Model| Nonprofit Quarterly,” para. 8.

<sup>12</sup> Tsemberis, *Housing First*.

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**LONDON & MIDDLESEX**  
HOUSING CORPORATION

# LMHC Shareholder Declaration

A DISCUSSION DOCUMENT TO SUPPORT  
LMHC'S STRATEGIC PLANNING INITIATIVES

## INTRODUCTION

London Middlesex Housing Corporation (LMHC) operates under the terms of a Shareholder Declaration approved by its sole shareholder, the City of London on June 20, 2011. Since that time the City has evolved its delivery of social and affordable housing as is true across the Ontario social housing sector.

This document will discuss various aspects of the current Shareholder Direction that might be reconsidered in the context of future directions for both LMHC and the City of London in meeting its overall community, social and affordable housing goals.

## PURPOSE

Time has passed since the current Shareholder Declaration was executed, a new strategic focus has been articulated for LMHC, and the City has confirmed its organization and strategy for the development and expansion of housing services, facilities and programs. When the original document was created the declaration was constructed around a goal of restricting the powers of LMHC and managing a transitional period.

It is worth noting that when the City created the Housing Development Corporation (HDC), the Shareholder Direction was written explicitly to enable the creativity and reach of the organization. In order for LMHC to meet the goals of its new Strategic plan and to be an effective partner, it will be important to consider delegating greater scope to the Board of Directors and the Corporation, as well as confirming LMHC's modernized corporate direction.

## MANDATE

Equally, the mandate of LMHC as articulated in the objectives section of the agreement might be revisited to consider language that encourages and supports allowing the organization to partner in new ways to meet the objectives of its strategic plan, enabling new partnerships and the potential for joint ventures with the community, the HDC, as well as other agencies or funders. At the same time, it will be important to ensure that the scope supports risk management, ensuring that the Shareholder is informed and able to anticipate issues. For example, new language that enables processes wherein the Shareholder can support an overall plan, and allow the LMHC autonomy and flexibility to carry out a plan over a period of time, within the multi-year budget planning cycle would be useful.

Mandates of public housing companies such as LMHC are changing, as is illustrated in the LMHC Strategic plan and in the expectations of the Province and Service Managers as new programs emerge that treat housing as one part of the system that both responds to the needs of vulnerable citizens, and creates healthy communities. It is understood that sophisticated housing providers both own building assets and are enablers and partners in programs and supports for mental and physical health, for positive communities and to support the renewal and development objectives of the municipalities in which they operate. Those realities require a new approach to governance, and more flexible mandates in order to optimize the assets and skills of organizations like LMHC.



## GOVERNANCE

In order to be successful LMHC requires a Board that is committed and focused on meeting both its fiduciary responsibilities and the goals set out in the strategic plan. It will be important to recruit Board members who can bring a sophisticated skill set and who can commit to the time and effort necessary to ensure active and committed leadership. To accomplish those goals, the Shareholder Declaration might be amended to facilitate LMHC Board and Executive team in having a stronger role to play in the recruitment and selection of Board members, while continuing to maintain Council's role in appointing the Board.

LMHC could lead the process of Board member recruitment through an active Board recruitment process, advertising and vetting for key skills required and managing an interview process to ensure that candidates fully understand the role and requirements of a Board position. That would allow for the LMHC Board to propose suitable candidates to council for consideration.

## MANAGING ASSETS AND LONG-TERM FINANCIAL SUSTAINABILITY

LMHC is well on its way to creating a long-term asset management strategy, the shareholder declaration is written to support a property management operation, without a focus on long-term strategy. The revised declaration should articulate the responsibility of the corporation and the Board for long-range planning and the financial tools to do that effectively. For example, extending the budgeting framework work to incent LMHC to build surpluses that can begin to create an operational reserve would be the first step toward creating a strong financial base. It will be equally important to support LMHC in portfolio management, by allowing flexibility in moving funds across budget categories to most effectively manage its business. Any program to support the regeneration of LMHC over time will require the organization to take on debt, and it may, therefore, be useful to incorporate language similar to that used in the HDC declaration around debt limits and reporting requirements.

The current declaration makes limited mention of the impact of moving to a mixed-income model and incorporating housing funded through either the Canada Ontario Affordable Housing program or other resources. It also doesn't acknowledge the changes that will come from End of Operating Agreement impacts and the need to restructure budgets and financing accordingly. Much of the current financial arrangement is articulated in the Appendix A - Accountability rules, which would need to be restructured to support the strategic plan going forward. The new LMHC strategic plan speaks to high standards and accountability, it may be that a new declaration could be more focused on outcomes rather than rules - again the language in the HDC declaration moves in this direction.

## PARTNERSHIPS, JOINT VENTURES, NEW ROLES

The creation of the HDC supports the ability of the Service Manager to deliver affordable housing and community programs in new ways, providing the support and expertise to manage more sophisticated real estate transitions such as land swaps, and mixed-use communities. Those tools may be critical to the success of LMHC's regeneration, and it may then make sense to mirror the language in the HDC declaration in order for LMHC to have the scope to be an effective partner and to maximize those opportunities. A number of similar organizations have now incorporated language to allow for subsidiaries for development purposes, new partnership models, etc. Shareholder support for these sorts of strategies could be managed through regular reporting and the multi-year business planning cycle.

As the social housing sector changes and LMHC refreshes its operation that may be new roles that it can play to both ensure the sustainability of the organization as well as to support Service Manager and community needs. The shareholder direction could either explicitly speak to those potential roles or be written in a way to enable processes to gain approval. For example, some service managers have explicitly said that if they need to place a project that has been abandoned or become a project in difficulty that cannot be resolved, it is expected that the municipal housing provider will assume the property. Other Service Managers have looked to their municipal housing companies to play a substantive role in their Homes First or other supportive programs either as host or in partnership with others. Some housing providers have created new ventures to create revenue streams either through subsidiaries or within the existing company providing their services to the broader sector. Some housing providers have become the host of or deliverer of new kinds of community programs, a good example being the Homeward Bound model initiated and licensed by Woodgreen that is now being offered by a number of housing providers. Change in the system will mean that housing providers may be called upon to play a much broader range of roles and to be much more nimble in being able to respond to opportunities.

## **TENANT ENGAGEMENT , SECTOR LEADERSHIP AND COMMUNITY BUILDING**

The LMHC strategic plan clearly moves the organization away from a bricks and mortar tradition, articulating a strong commitment to tenant engagement and community building. It also acknowledges the importance of LMHC playing a strong leadership role in the broader community and in the sector. It speaks to co-ordinating diverse community stakeholders and pursuing purposeful partnerships.

Some similar organizations have language in shareholder declarations supporting the importance of these roles, and ensuring that funding is targeted towards activities that support the organization in achieving goals in these areas. For example funding for support services like social work, the ability to apply for and manage funding with partners such as universities for research or the delivery of a health funded program in LMHC space and as well as membership and leadership support to sector organizations.

## PwC Internal Audit Results

*Review of operational alignment of funding model and strategic plan*



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ACCOUNTABLE  
RESPONSIVE • EQUITABLE



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# Background

On February 28, 2013, Council requested Civic Administration to work with LMHC to review any shared services opportunities and made available the services of PricewaterhouseCoopers LLP (PwC) to assist in this regard and to report back on the potential establishment of a reserve fund for LMHC.

# Phase 1



A review and alignment of LMHC purchasing policies with the City's Procurement of Goods and Services Policy for purchased materials and services.



## Phase 2

At the request of LMHC, the City of London Audit Committee, at its meeting of December 7, 2016, approved PwC complete the second phase of the shared services review.



# SCOPE

- The operational alignment of LMHC's funding model and its new strategic plan, predicated on risk exposure by focusing on the nature and extent of potential for loss/risk.

# Observations & Findings

## Capital Funding

LMHC does not have the appropriate level of resources to maintain our properties

## Support Costs

Growing need to cover costs for social supports, community development, intervention, security, etc.

## Priority List

The tenant priority list is not aligned with the City of London's housing support strategy

## Flexibility

LMHC does not have any flexibility with respect to strategic and operational decisions

## Budget Process

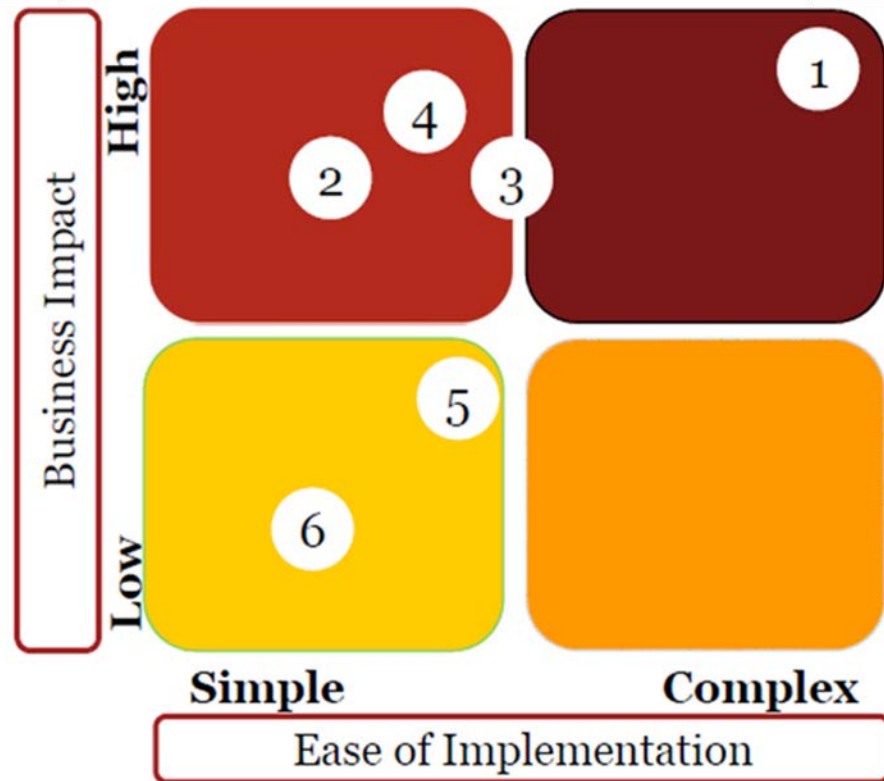
Current budget based on % of year over year change, will not give LMHC sufficient information to fund the our strategic plan

## Reporting

reporting operating expenses on a supplementary basis by "nature", may help illustrate how to resource the various strategic goals



# Action Plan Summary



- High Business Impact, Easy to Implement
- High Business Impact, Difficult to Implement
- Low Business Impact, Easy to Implement
- Low Business Impact, Difficult to Implement

PricewaterhouseCoopers LLP

Observations	Timing	Rating
#1 Insufficient capital funding for deferred maintenance	September 2019	Needs Improvement
#2 Impact of tenant intake process and priority list	December 2019	Needs Improvement
#3 Tenant priority list is not aligned with the City of London's housing support strategy	December 2018	Needs Improvement
#4 Flexibility within shareholder Agreement	December 2018	Satisfactory
#5 Zero based budget for new strategic plan implementation	2019 budget cycle	Satisfactory
#6 Operating expenses by function	January 2019	Satisfactory

# PwC Rating Scale

- Satisfactory

Controls are present to mitigate process/business risk, however an opportunity exists for improvement.

Satisfactory



- Needs Improvement

Existing controls may not mitigate process/business risk and management should consider implementing a stronger control structure.

Needs  
Improvement



- Unsatisfactory

Control weaknesses are significant and the overall exposure to risk is unacceptable. Immediate attention and oversight from management is required.

Unsatisfactory



# Capital Funding

PwC Observation

**Insufficient capital  
funding for future  
maintenance**

Business Impact

**Overall  
condition of  
housing units  
at great risk**

LMHC Response

**Advocacy,  
Capital Asset  
Strategy,  
Innovation,  
Regeneration**

# Support Costs

PwC Observation

**Impact of tenant intake and priority list on operating costs**

Business Impact

**LMHC does not have the capacity to be proactive**

LMHC Response

**Collaborate to build a responsive system**

# Priority List

PwC Observation

**Tenant Priority list  
not aligned with City  
Housing Support  
Strategy**

Business Impact

**More housing  
supports  
would  
improve  
health, safety  
& wellbeing**

LMHC Response

**Supportive  
Housing Pilot  
Program &  
Associated  
Study**

# Budget Process

PwC Observation

**Zero based budget  
to align with new  
strategic plan**

Business Impact

**Will help  
allocate  
resources to  
critical areas  
within the  
strategic plan**

LMHC Response

**Developing a  
comprehensive  
financial plan**

# Reporting

PwC Observation

Report operating expenses by function

Business Impact

The ability to more effectively analyze operating results

LMHC Response

Focus on technology & data collection

# Flexibility

PwC Observation

**Flexibility within  
Shareholder  
Agreement**

Business Impact

**Relieve some  
current  
challenges  
and allow for  
more revenue  
generation**

LMHC Response

**Request  
Shareholder  
Declaration  
Review**



# Thank You



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# The Corporation of The City of London

**Audit Findings Report  
For the year ended December 31, 2017**

*KPMG LLP*

Licensed Public Accountants

Prepared as of June 4, 2018 for presentation on June 20, 2018

[kpmg.ca/audit](http://kpmg.ca/audit)



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# Executive summary

## Purpose of this report

The purpose of this Audit Findings Report is to assist you, as a member of the Audit Committee, in your review of the results of our audit of the consolidated financial statements of The Corporation of the City of London (the “Corporation”) as at and for the year ended December 31, 2017.

This Audit Findings Report builds on the Audit Plan we presented to the Audit Committee on February 7, 2018.

## Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you.

## Audit risks and results

A number of **significant financial reporting risks** were presented to you in our Audit Planning Report. These included the presumed risk of management override of controls as well as the risk over the completeness of accruals, which was noted as a significant estimate. These risks have been addressed in our audit.

We also discussed with you some **other areas of audit focus**. We have identified matters to report to the Audit Committee in respect of them.

See pages 6 – 7.

\*This Audit Findings Report should not be used for any other purpose or by anyone other than the Audit Committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

# Executive summary (continued)

## Finalizing the audit

As of June 4, 2018 we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include:

- completion of our legal testing procedures, including obtaining responses to our external legal letters;
- tie-out of the consolidation workbook and financial statements, including notes;
- obtaining the signed management representation letter;
- completing our discussions with the Audit Committee;
- obtaining evidence of Council's approval of the financial statements.

We will update the Audit Committee, and not solely the Chair (as required by professional standards), on significant matters, *if any*, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

## Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

We have identified other observations with respect to the following:

- Non-capitalization of certain HST amounts related to the purchase of TCA
- processing of payroll for casual employees
- monitoring of WIP balances
- confirmation of unrestricted deposit balances at year-end

See pages 14 - 16.

## Critical accounting estimates

Overall, we are satisfied with the reasonability of critical accounting estimates.

The critical areas of estimates relate to: employee future benefits, liabilities for contaminated sites, landfill closure and post-closure liability, legal and other accruals.

See pages 8-9.

## Independence

We have included a copy of our independence letter, which notes that we are independent with respect to the Corporation, within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any other standards or applicable legislation or regulation.

## Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

# Audit risks and results

Inherent risk of material misstatement is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls. We highlight our significant findings in respect of significant financial reporting risks as identified in our discussion with you in the Audit Plan.

Significant financial reporting risks	Our response and significant findings
<p>Completeness of accruals</p>	<p><i>Audit Approach</i></p> <ul style="list-style-type: none"> <li>We obtained an understanding of management’s process and calculations.</li> <li>We obtained corroborative evidence to support management’s assumptions and reviewed subsequent payments, where possible.</li> <li>We sent legal letters to internal and external legal counsel and risk management, reviewed Council minutes, severance agreements, reports prepared by external consultants etc. to identify any potential unrecorded liabilities.</li> </ul> <p><i>Findings</i></p> <p>No significant issues were noted.</p>
<p>Fraud risk from management override of controls</p>	<p>This is a presumed risk. We have not identified any specific additional risks of management override relating to this audit.</p> <p><i>Audit Approach</i></p> <p>As this risk is non-rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include:</p> <ul style="list-style-type: none"> <li>testing of journal entries and other adjustments;</li> <li>retrospective review of estimates;</li> <li>evaluating the business rationale of significant unusual transactions.</li> </ul> <p><i>Findings</i></p> <p>No significant issues were noted.</p>

# Audit risks and results (continued)

We identified other areas of focus for our audit in our discussion with you in the Audit Plan.

Significant findings from the audit regarding other areas of focus are as follows:

Other areas of focus	Our response and significant findings
<p>Capital projects and acquisitions</p>	<p><i>Audit Approach</i></p> <ul style="list-style-type: none"> <li>• KPMG performed substantive testing over capital additions and disposals, including the determination of when capital expenditures are transferred from assets under construction and amortization begins.</li> <li>• KPMG reviewed management’s determination of the useful lives of capital assets and the related amortization rates. KPMG also recalculated amortization expense.</li> <li>• KPMG used data and analytics to perform specific tests regarding WIP transfers, holdbacks and disposals of tangible capital assets.</li> </ul> <p><i>Findings</i></p> <ul style="list-style-type: none"> <li>• No reportable differences were identified as a result of procedures performed. KPMG has identified a process improvement observation related to the monitoring of WIP accounts. The observation is described on page 16.</li> <li>• There have been no changes to the amortization rates used in the prior year which are reasonable given the nature of assets and their useful lives.</li> </ul> <p>See page 10 for further details on the data and analytics performed.</p>
<p>Payroll and employee future benefits</p>	<ul style="list-style-type: none"> <li>• The balance of employee future benefits is comprised of the following: <ul style="list-style-type: none"> <li>○ Post-employment and post-retirement benefits of \$89.8 million (2016 - \$86 million) - includes health, dental, life insurance and long-term disability, which are provided to retirees until they reach 65 years;</li> <li>○ WSIB accrual of \$46.7 million (2016 - \$43.3 million) – as a Schedule 2 Employer, the Corporation must finance its own costs related to WSIB;</li> <li>○ Vacation liability of \$16.2 million (2016 - \$16.3 million) – relates to vacation credits earned but not taken by employees as at December 31; and</li> <li>○ Unused sick leave liability of \$2.2 million (2016 - \$3.2 million) – represents the liability for accumulated vested sick days that can be taken in cash by an employee on termination.</li> </ul> </li> <li>• The calculation of employee benefits payable requires Management to make certain estimates, including estimates of discount rate, salary escalation, retirement age, expected health care and dental costs, and estimated claim costs.</li> <li>• The liability for the post-employment and post-retirement benefits is determined through an actuarial valuation which was prepared by Mercer as of December 31, 2015 and extrapolated for fiscal 2017.</li> <li>• The liability for workplace safety and insurance costs is determined by WSIB. The vacation and unused sick leave liabilities are accrued in the financial statements when they are earned by employees.</li> </ul>

Other areas of focus	Our response and significant findings
Payroll and employee future benefits (continued)	<p><i>Audit Approach</i></p> <ul style="list-style-type: none"> <li>• KPMG obtained corroborative evidence to support the reasonableness of assumptions provided by management to the actuaries that are used in developing the valuation and calculating the liability.</li> <li>• In a prior year, KPMG performed testing over the employee attributes provided to Mercer to perform the valuation.</li> <li>• KPMG agreed the WSIB accrual to the statement received from the WSIB.</li> <li>• KPMG took a combined approach to testing payroll expense, which included both substantive and control testing.</li> </ul> <p><i>Findings</i></p> <ul style="list-style-type: none"> <li>• Based on work performed over assumptions used in the actuarial valuation, KPMG concurs with Management that these amounts are fairly stated as at December 31, 2017</li> <li>• A control observation has been identified as a result of our procedures. The control observation has been summarized on page 15.</li> </ul>
Taxation, user charges, and transfer payments revenue	<p><i>Audit Approach</i></p> <ul style="list-style-type: none"> <li>• KPMG performed substantive procedures over these revenue streams by inspecting the supporting billings and tracing to cash receipt in the bank.</li> <li>• KPMG ensured revenue was recorded in the correct fiscal period by reviewing a sample of revenue transactions prior and subsequent to year-end and ensuring appropriate cut-off was achieved.</li> <li>• KPMG assessed the reasonability of property tax revenues based on the assessed values of properties provided by the Municipal Property Assessment Corporation and Council-approved tax rates.</li> </ul> <p><i>Findings</i></p> <p>No issues were noted in the testing performed.</p>



# Critical accounting estimates

In accordance with Canadian public sector accounting standards, management is required to disclose information in the financial statements about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities within the next financial year. Generally, these are considered to be “critical accounting estimates.”

We consider the landfill closure liabilities and accrued legal liabilities to be critical accounting estimates.

Asset / liability	KPMG comment
Landfill closure and post-closure liability	<ul style="list-style-type: none"> <li>• The Corporation is required to accrue anticipated closure and post-closure costs for existing and closed landfill sites in accordance with the Ontario Environmental Protections Act and PS 3270.</li> <li>• The liability is the estimated cost to date, based on a volumetric basis, of the expenditures relating to those activities required when the site stops accepting waste.</li> <li>• Determination of this liability is dependent upon significant Management estimates including expected and remaining capacity of the landfill, expected closing costs and estimated time needed for post-closure care.</li> <li>• The estimated liability for the landfill sites is calculated as the present value of anticipated future cash flows associated with closure and post-closure costs.</li> <li>• At December 31, 2017, the landfill accrual amounted to \$36.7.0 million (2016 - \$34.4 million), \$27.4 million of which related to the future closure of the active landfill and \$9.7 million relating to monitoring of closed landfills.</li> <li>• We obtained an understanding of the calculation through discussions with the Corporation’s Solid Waste Management Division Manager. We reviewed the analysis prepared by Management and obtained corroborative evidence to support Management’s assumptions. The assumptions used by Management in the calculation are considered reasonable based on the audit evidence obtained and are consistent with the assumptions and estimates made in other sections of the financial statements.</li> </ul>
Accrued liabilities	<ul style="list-style-type: none"> <li>• Management accrues estimates for liabilities that have been incurred at year end, but not yet paid, within accounts payable and accrued liabilities in the financial statements.</li> <li>• Included within this balance are estimates related to provisions for personnel and legal matters in the amount of \$4.7 million (2016 - \$20.8 million). The accrual for personnel matters amounted to \$0.7 million (2016 - \$17.1 million) and includes amounts for matters which will be taken to arbitration and other internal grievances. The accrual for legal matters amounted to \$4.0 million (2016 - \$3.7 million) and is comprised of lawsuits brought against the Corporation by external parties.</li> </ul>

Asset / liability	KPMG comment
	<ul style="list-style-type: none"> <li>• Management has accrued these amounts based on previous experience with matters that were similar in nature, based on information provided by the HR department and based on assessment included in both internal and external legal letters.</li> <li>• Also included within this balance are significant estimates related to liabilities for contaminated sites. A liability of \$1.2 million (2016 - \$1.3 million) for remediation of contaminated sites has been recognized, net of any expected recoveries.</li> <li>• We obtained an understanding of the calculation through discussions with Management and obtained corroborative evidence to support assumptions.</li> <li>• Management has accrued these amounts based on reports prepared by independent consultants to estimate the cost of remediation.</li> <li>• Management has represented that these balances are fairly presented for financial reporting purposes.</li> <li>• With respect to accrued liabilities, we have: <ul style="list-style-type: none"> <li>○ Discussed with Management the nature and rationale for the accrual;</li> <li>○ Reviewed Management's assessment of the likelihood of incurring the liability for each claim, range of possible outcomes, and the amount in the range that has been accrued in the financial statements;</li> <li>○ Compared the current period accruals to the amounts accrued at the prior year end for significant fluctuations;</li> <li>○ Reviewed the Corporation's in-house legal letter for any potentially unrecorded accruals at year end;</li> <li>○ Reviewed legal letters obtained from external legal counsel to ensure all claims have been accrued at year end and that likelihood of outcome for each claim as reported by external counsel is consistent with Management's assessment;</li> <li>○ Reviewed results of the environmental assessment prepared by independent third party consultants; and</li> <li>○ Where possible, reviewed subsequent payments to determine whether the liability at year end is reasonably stated.</li> </ul> </li> </ul>

We believe management's process for identifying critical accounting estimates is considered adequate.

# Data & Analytics in the audit

As previously communicated in our Audit Planning Report, we have utilized Data & Analytics (D&A) in order to enhance the quality and effectiveness of the audit. We have summarized areas of the audit where D&A tools and routines were used.

Area(s) of focus	D&A tools and routines	Our results
Journal entry testing	Utilized computer-assisted audit techniques (CAATs) to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing as a response to the fraud risk from Management override of controls.	No issues noted during the test.
Tangible capital assets - WIP	Utilized CAATs to compare the WIP detail in fiscal 2017 to the WIP detail in fiscal 2016, testing any projects that did not incur costs in fiscal 2017 and still remain in WIP. This routine obtained audit evidence over the completeness of tangible capital assets and amortization expense.	Refer to page 16 for discussion of audit findings.
Tangible capital assets – Disposals	Utilized CAATs to compare the disposal listing to the asset detail, testing assets that were recorded in both listings. This routine obtained audit evidence over existence of tangible capital assets.	No issues noted during the test.
Holdback accrual	Utilized CAATs to compare the tangible capital asset WIP listing to the holdbacks accrual listing, testing any significant WIP project that did not have a corresponding holdback accrual. This routine obtained audit evidence over the completeness of holdback accruals.	No issues noted during the test.

# Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Corporation's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter included in the Appendices.

We also highlight the following:

<b>Form, arrangement, and content of the financial statements</b>	Adequate
<b>Application of accounting pronouncements issued but not yet effective</b>	<ul style="list-style-type: none"> <li>• PS 3210 Assets – applicable for the year ending December 31, 2018</li> <li>• PS 3320 Contingent Assets – applicable for the year ending December 31, 2018</li> <li>• PS 3380 Contractual Rights – applicable for the year ending December 31, 2018</li> <li>• PS 2200 Related Party Disclosures – applicable for the year ending December 31, 2018             <ul style="list-style-type: none"> <li>◦ As noted in our Audit Planning Report, Management will be implementing a process to ensure that all related party relationships have been identified, including those with key management, members of Council or Boards of the City and its Boards and Commissions.</li> </ul> </li> <li>• PS 3420 Inter-Entity Transactions – applicable for the year ending December 31, 2018</li> <li>• PS 3430 Restructuring Transactions – applicable for the year ending December 31, 2019</li> <li>• PS 1201 Financial Statement Presentation – applicable for the year ending December 31, 2020</li> <li>• PS 3041 Portfolio Investments – applicable for the year ending December 31, 2020</li> <li>• PS 3450 Financial Instruments – applicable for the year ending December 31, 2022</li> <li>• PS 2601 Foreign Currency Translation – applicable for the year ending December 31, 2022</li> </ul> <p>No concerns at this time regarding future implementation.</p>

# Other matters

Professional standards require us to communicate to the Audit Committee Other Matters, such as material inconsistencies or material misstatements, identified fraud or non-compliance with laws and regulations, consultations with other accountants, significant matters relating to the Corporation's related parties, significant difficulties encountered during the audit, and disagreements with management.

We have highlighted below other significant matters that we would like to bring to your attention:

Matter	KPMG comment
Debt Issuances	Debentures totaling \$41 million were issued in March 2017. KPMG reviewed the accounting for this transaction in detail during the audit and found no issues.

# Adjustments and differences

Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences.

Professional standards require that we request of management and the Audit Committee that all identified differences be corrected. We have already made this request of management.

## Corrected adjustments

The management representation letter includes one adjustment identified as a result of the audit, communicated to management and subsequently corrected in the financial statements.

## Uncorrected differences

We did not identify differences in excess of \$765,000 that remain uncorrected.

# Control observations

In accordance with professional standards, we are required to communicate to the Audit Committee any control deficiencies that we identified during the audit and have determined to be significant deficiencies in ICFR.

## Significant deficiencies

Description	Potential effect
No significant control deficiencies were noted. Please see other control observations on pages 15-16.	

# Control observations (continued)

Other control deficiencies may be identified during the audit that do not rise to the level of significant deficiency.

Below is a summary of these other control observations that we identified during the audit:

Description	Potential effect
<p>Non-capitalization of HST under \$1,000 relating to operating additions paid through a purchase order</p>	<p>During our testing over tangible capital asset additions, we noted one instance where the HST portion of an operating addition was recorded separately from the pre-tax amount. In this instance, as the HST portion was under the capitalization threshold applied by the Corporation, the amount was expensed. KPMG notes that both the pre-tax amount and applicable HST should both be capitalized if the underlying asset is capital in nature.</p> <p>While this represents a control deficiency, it should be noted that it has not been identified as a significant deficiency due to the fact that the impact is limited in nature. KPMG performed procedures to quantify the impact of similar HST adjustments and notes that the aggregate difference did not result in a misstatement that exceeded our misstatement posting threshold. KPMG recommends that management implement review procedures to ensure that tangible capital asset additions are being recorded at an aggregate amount which includes HST.</p>
<p>Payroll – Agency 3</p>	<p>During our control testing over the payroll process, we noted one instance where there was a significant time lag between when the employee was terminated and when the payroll department received the termination form. This instance related to Agency 3 – Casual workers and as such we do not consider this to be a pervasive deficiency. As a result of this time lag, the employee was paid nominal amounts for statutory holidays that they were not entitled to.</p> <p>While this represents a control deficiency, it should be noted that it has not been identified as a significant control deficiency due to the fact that the total payroll for Agency 3 is not considered significant to the financial statements. KPMG recommends that Management implement a process whereby all terminations are forwarded to the payroll department in a timely manner and Managers review any pay subsequent to termination to ensure that it is warranted.</p> <p>Management is undertaking steps to implement processes in an effort to remediate the deficiency.</p>
<p>Confirmation of unrestricted deposit balances at year-end</p>	<p>While performing confirmation of reserve funds held by a third party, KPMG noted that an adjustment had not been recorded to bring the statement of financial position to the correct values as at December 31, 2017. KPMG notes that the quantified difference is less than our audit misstatement posting threshold. As such, an adjustment has not been proposed.</p> <p>KPMG recommends that management perform confirmation of all third party funds held as at December 31 to gain assurance that assets held by the Corporation are appropriately reported at year-end.</p>



Description	Potential effect
Monitoring of WIP balances	<p>KPMG used data and analytics to perform procedures over WIP balances that did not incur costs in fiscal 2017 and remained in WIP as at December 31, 2017. We noted two instances where conditions indicated that costs included in WIP are not expected to contribute to the Corporation's ability to provide future goods and services thereby not meeting the definition of TCA. KPMG quantified the impact and notes that the difference is below our audit misstatement posting threshold. As such, an audit adjustment has not been proposed.</p> <p>We recommend that management implement additional procedures such that WIP balances are reviewed by project managers to gain assurance that the future economic benefit is in excess of the net book value of the asset.</p>

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# Appendices

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**Appendix 1: Financial Indicators**

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**Appendix 2: Required communications**

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**Appendix 3: Independence**

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**Appendix 4: Management representation letter**

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**Appendix 5: Background and professional standards**

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**Appendix 6: Lean in Audit**

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# Appendix 1: Financial Indicators



# Indicators of Financial Performance



# Financial Indicators

## A. Reporting on financial condition

In Canada, the development and maintenance of principles for financial reporting fall under the responsibility of the Accounting Standards Oversight Council ('AcSOC'), a volunteer body established by the Canadian Institute of Chartered Accountants in 2000. In this role, AcSOC provides input to and monitors and evaluates the performance of the two boards that are tasked with establishing accounting standards for the private and public sector:

- The Public Sector Accounting Board ('PSAB') establishes accounting standards for the public sector, which includes municipal governments; and
- The Accounting Standards Board ('AcSB'), which is responsible for the establishment of accounting standards for Canadian entities outside of the public sector.

In May 2009, PSAB released a Statement of Recommended Practice that provided guidance on how public sector bodies should report on indicators of financial condition. As defined in the statement, financial condition is *'a government's financial health as assessed by its ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others'*. In reporting on financial condition, PSAB also recommended that three factors, at a minimum, need to be considered:

- **Sustainability.** Sustainability is the degree to which the City can deliver services and meet its financial commitments without increasing its debt or tax burden relative to the economy in which it operates. To the extent that the level of debt or tax burden grows at a rate that exceeds the growth in the City's assessment base, there is an increased risk that the City's current spending levels (and by association, its services, service levels and ability to meet creditor obligations) cannot be maintained.
- **Flexibility.** Flexibility reflects the City's ability to increase its available sources of funding (debt, taxes or user fees) to meet increasing costs. Municipalities with relatively high flexibility have the potential to absorb cost increases without adversely impacting affordability for local residents and other ratepayers. On the other hand, municipalities with low levels of flexibility have limited options with respect to generating new revenues, requiring an increased focus on expenditure reduction strategies.
- **Vulnerability.** Vulnerability represents the extent to which the City is dependent on sources of revenues, predominantly grants from senior levels of government, over which it has no discretion or control. The determination of vulnerability considers (i) unconditional operating grants such as OMPF; (ii) conditional operating grants such as Provincial Gas Tax for transit operations; and (iii) capital grant programs. Municipalities with relatively high indicators of vulnerability are at risk of expenditure reductions or taxation and user fee increases in the event that senior levels of funding are reduced. This is particularly relevant for municipalities that are vulnerable with respect to operating grants from senior levels of government, as the Municipal Act does not allow municipalities to issue long-term debt for operating purposes (Section 408(2.1)).

# Financial Indicators

## B. Selected financial indicators

As a means of reporting the City's financial condition, we have considered the following financial indicators (\*denotes PSAB recommended financial indicator).

Financial Condition Category	Financial Indicators
Sustainability	<ol style="list-style-type: none"> <li>1. Financial assets to financial liabilities*</li> <li>2. Total reserves and reserve funds per household</li> <li>3. Total operating expenses as a percentage of taxable assessment*</li> <li>4. Capital additions as a percentage of amortization expense</li> </ol>
Flexibility	<ol style="list-style-type: none"> <li>5. Residential taxes per household</li> <li>6. Total long-term debt per household</li> <li>7. Residential taxation as a percentage of average household income</li> <li>8. Total taxation as a percentage of total assessment*</li> <li>9. Debt servicing costs (interest and principal) as a percentage of total revenues*</li> <li>10. Net book value of tangible capital assets as a percentage of historical cost of tangible capital assets*</li> </ol>
Vulnerability	<ol style="list-style-type: none"> <li>11. Operating grants as a percentage of total revenues*</li> <li>12. Capital grants as a percentage of total capital expenditures*</li> </ol>

A detailed description of these financial indicators, as well as comparisons to selected municipalities, is included on the following pages.

Our analysis is based on Financial Information Return data. Given the timing of financial reporting for municipalities, the analysis is based on 2016 FIR data as 2017 FIRs are not available at the time of this report.

# Financial Indicators

## C. Selecting Comparator Municipalities

There are a number of factors that will influence the financial performance and position of municipalities, including but not limited to geographic size, number of households, delegation of responsibilities between upper and lower tier levels of government and services and service levels. Accordingly, there is no 'perfect' comparative municipality for the City. However, in order to provide some perspective as to the City's financial indicators, we have selected comparator municipalities that have comparable:

- Governance structures (i.e. single-tier municipality);
- Household levels; and
- Geographic size.

Based on these considerations, the selected comparator municipalities are as follows:

Municipality	Population	Households	Area (square km)
London	383,822	175,342	420.35
Ottawa	968,580	409,643	2790.3
Hamilton	558,397	222,918	1117.29
Windsor	217,188	99,233	146.38
Kingston	123,798	53,518	451.19
Guelph	131,794	54,881	87.22

# Financial Indicators

## FINANCIAL ASSETS TO FINANCIAL LIABILITIES

This financial indicator provides an assessment of the City's solvency by comparing financial assets (including cash, investments and accounts receivable) to financial liabilities (accounts payable, deferred revenue and long-term debt). Low levels of financial assets to financial liabilities are indicative of limited financial resources available to meet cost increases or revenue losses.

### TYPE OF INDICATOR

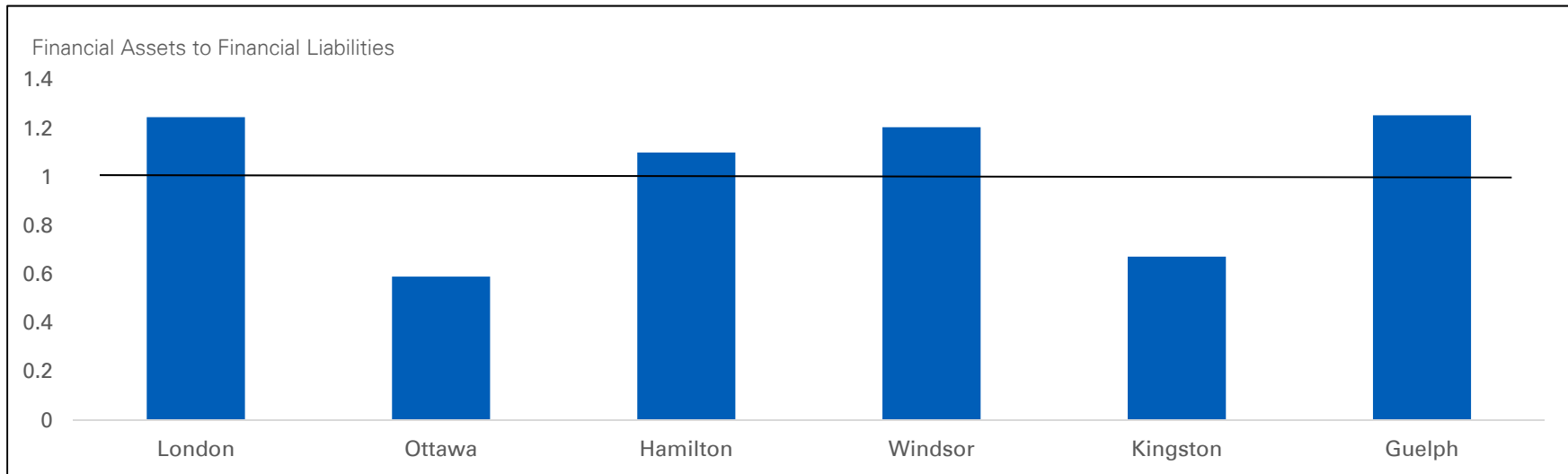
Sustainability ✓  
Flexibility  
Vulnerability

### FORMULA

FIR Schedule 70, Line 9930,  
Column 1 divided by FIR  
Schedule 70, Line 9940,  
Column 1

### POTENTIAL LIMITATIONS

- Financial assets may include investments in government business enterprises, which may not necessarily be converted to cash or yield cash dividends
- Financial liabilities may include liabilities for employee future benefits and future landfill closure and post-closure costs, which may (i) not be realized for a number of years; and/or (ii) may not be realized at once but rather over a number of years





# Financial Indicators

## TOTAL RESERVES AND RESERVE FUNDS PER HOUSEHOLD

This financial indicator provides an assessment of the City's ability to absorb incremental expenses or revenue losses through the use of reserves and reserve funds as opposed to taxes, user fees or debt. Low reserve levels are indicative of limited capacity to deal with cost increases or revenue losses, requiring the City to revert to taxation or user fee increases or the issuance of debt.

### TYPE OF INDICATOR

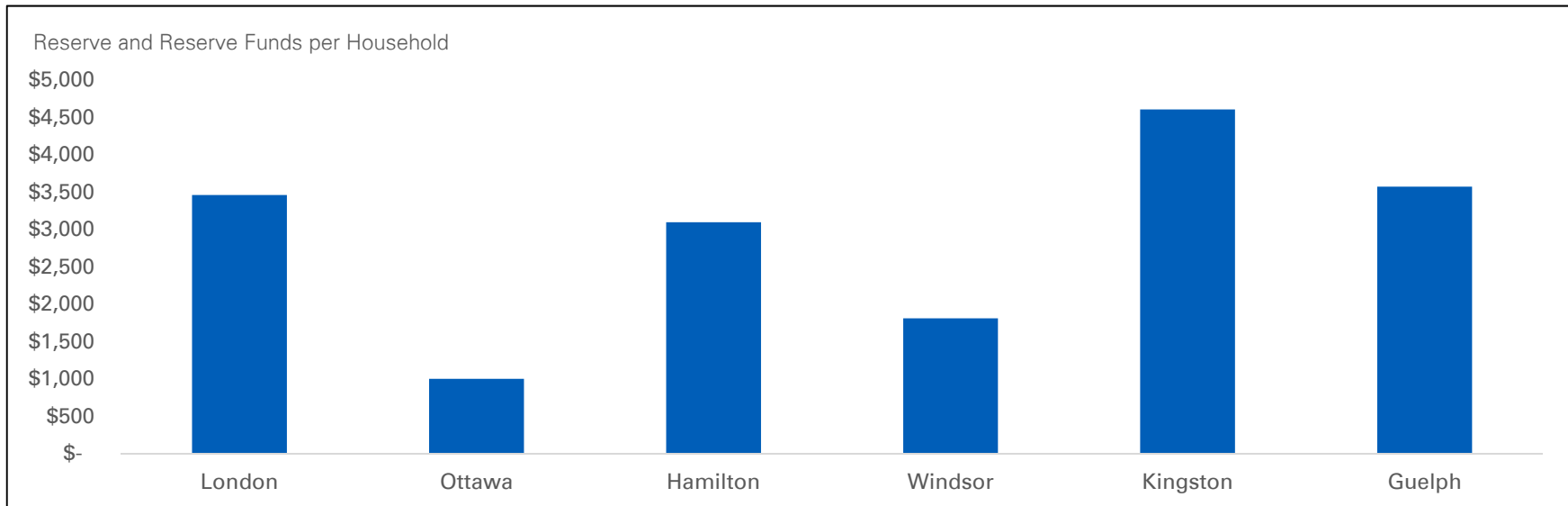
Sustainability ✓  
 Flexibility  
 Vulnerability

### FORMULA

FIR Schedule 70, Line 6420,  
 Column 1 divided by FIR  
 Schedule 2, Line 40, Column 1

### POTENTIAL LIMITATIONS

- Reserves and reserve funds are often committed to specific projects or purposes and as such, may not necessarily be available to fund incremental costs or revenue losses
- As reserves are not funded, the City may not actually have access to financial assets to finance additional expenses or revenue losses



# Financial Indicators

## TOTAL OPERATING EXPENSES AS A PERCENTAGE OF TAXABLE ASSESSMENT

This financial indicator provides an assessment of the City's solvency by determining the extent to which increases in operating expenses correspond with increases in taxable assessment. If increases correspond, the City can fund any increases in operating costs without raising taxation rates.

### TYPE OF INDICATOR

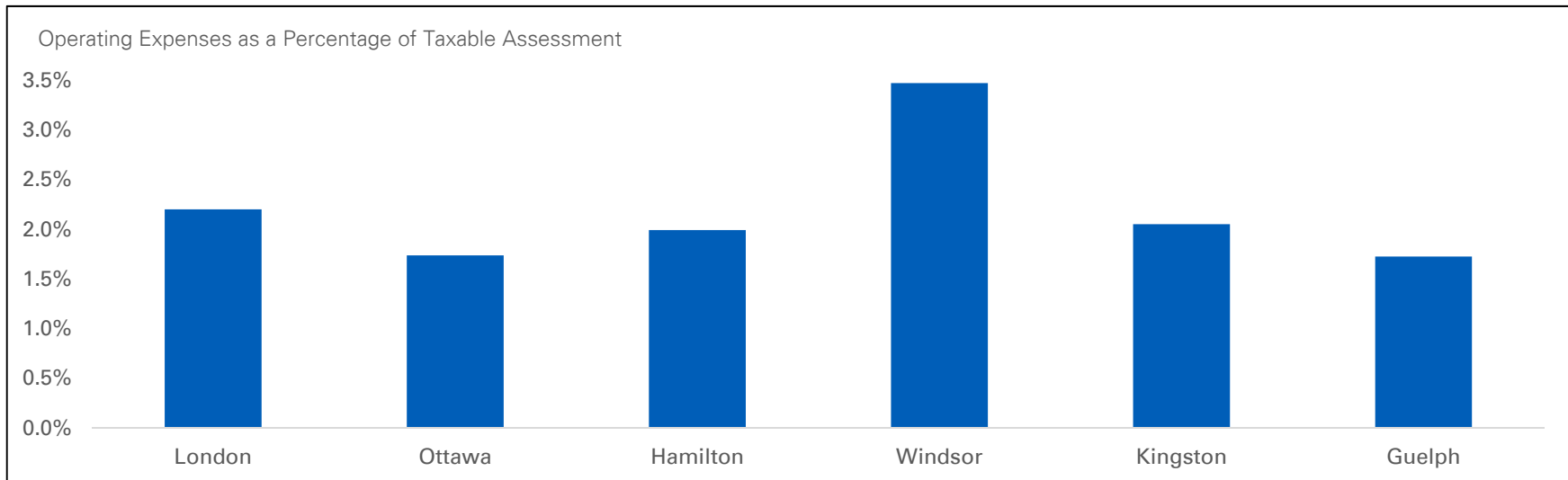
Sustainability ✓  
Flexibility  
Vulnerability

### FORMULA

FIR Schedule 40, Line 9910, Column 7 less FIR Schedule 40, Line 9910, Column 16 divided by FIR Schedule 26, Column 17, Line 9199

### POTENTIAL LIMITATIONS

- As operating expenses are funded by a variety of sources, the City's sustainability may be impacted by reductions in other funding sources that would not be identified by this indicator.



# Financial Indicators

## CAPITAL ADDITIONS AS A PERCENTAGE OF AMORTIZATION EXPENSE

This financial indicator provides an assessment of the City's solvency by assessing the extent to which it is sustaining its tangible capital assets. In the absence of meaningful reinvestment in tangible capital assets, the City's ability to continue to deliver services at the current levels may be compromised.

### TYPE OF INDICATOR

Sustainability ✓  
Flexibility  
Vulnerability

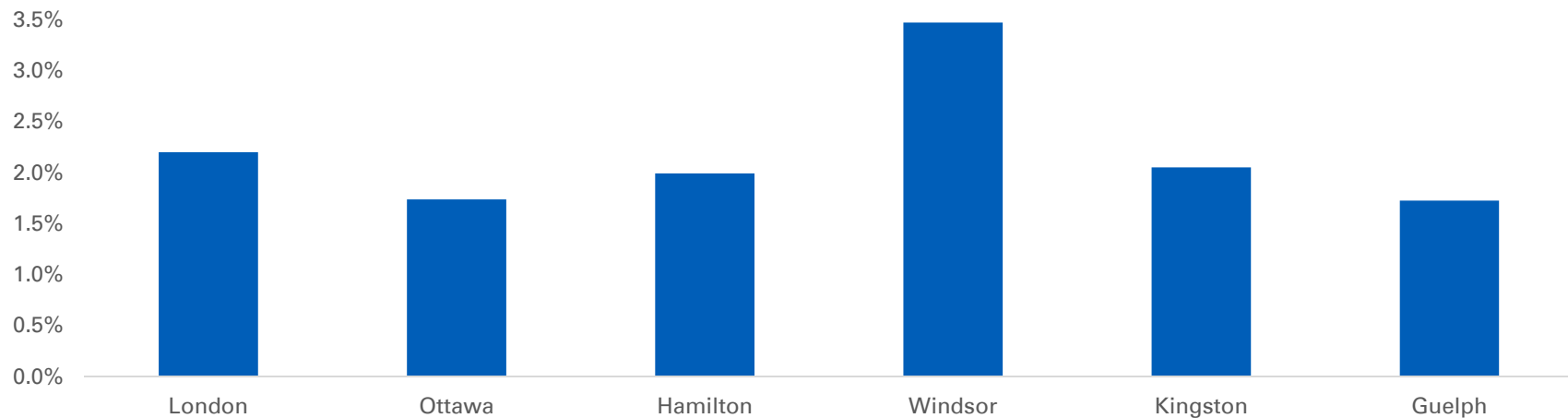
### FORMULA

FIR Schedule 51, Line 9910,  
Column 3 divided by FIR  
Schedule 40, Line 9910,  
Column 16

### POTENTIAL LIMITATIONS

- This indicator considers amortization expense, which is based on historical as opposed to replacement cost. As a result, the City's capital reinvestment requirement will be higher than its reported amortization expense due to the effects of inflation.
- This indicator is calculated on a corporate-level basis and as such, will not identify potential concerns at the departmental level.

Capital Additions as a Percentage of Amortization Expense



# Financial Indicators

## RESIDENTIAL TAXES PER HOUSEHOLD

This financial indicator provides an assessment of the City's ability to increase taxes as a means of funding incremental operating and capital expenditures.

### TYPE OF INDICATOR

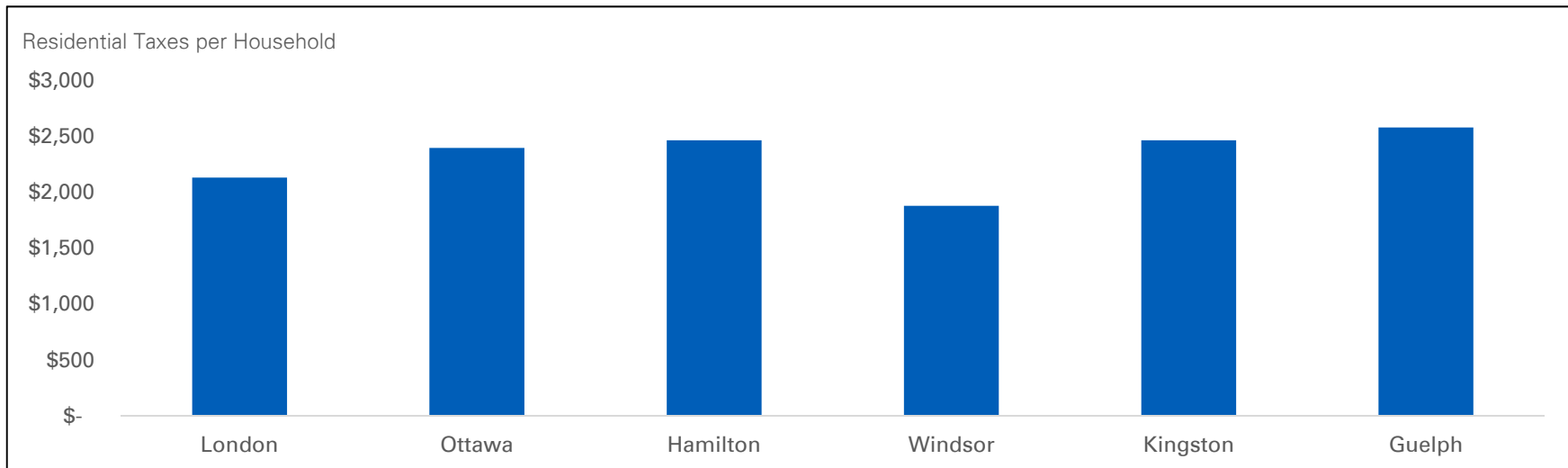
Sustainability  
Flexibility ✓  
Vulnerability

### FORMULA

FIR Schedule 26, Line 0010 and Line 1010, Column 4 divided by FIR Schedule 2, Line 0040, Column 1

### POTENTIAL LIMITATIONS

- This indicator does not incorporate income levels for residents and as such, does not fully address affordability concerns.
- This indicator is calculated based on lower-tier taxation only and does not consider upper tier or education taxes.
- This indicator does not consider the level of service provided by each municipality



# Financial Indicators

## TOTAL LONG-TERM DEBT PER HOUSEHOLD

This financial indicator provides an assessment of the City's ability to issue more debt by considering the existing debt load on a per household basis. High debt levels per household may preclude the issuance of additional debt.

### TYPE OF INDICATOR

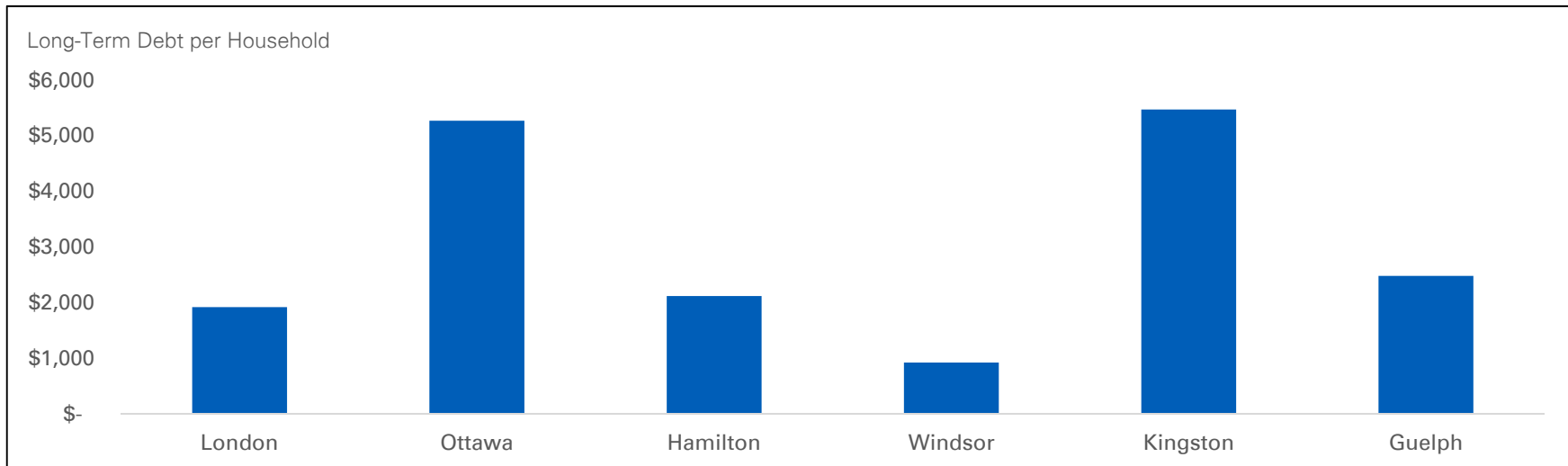
Sustainability  
Flexibility ✓  
Vulnerability

### FORMULA

FIR Schedule 70, Line 2699,  
Column 1 divided by FIR  
Schedule 1, Line 0040, Column  
1

### POTENTIAL LIMITATIONS

- This indicator does not consider the Provincial limitations on debt servicing cost, which cannot exceed 25% of own-source revenues unless approved by the Ontario Municipal Board



# Financial Indicators

## RESIDENTIAL TAXATION AS A PERCENTAGE OF HOUSEHOLD INCOME

This financial indicator provides an indication of potential affordability concerns by calculating the percentage of total household income used to pay municipal property taxes.

### TYPE OF INDICATOR

Sustainability  
Flexibility ✓  
Vulnerability

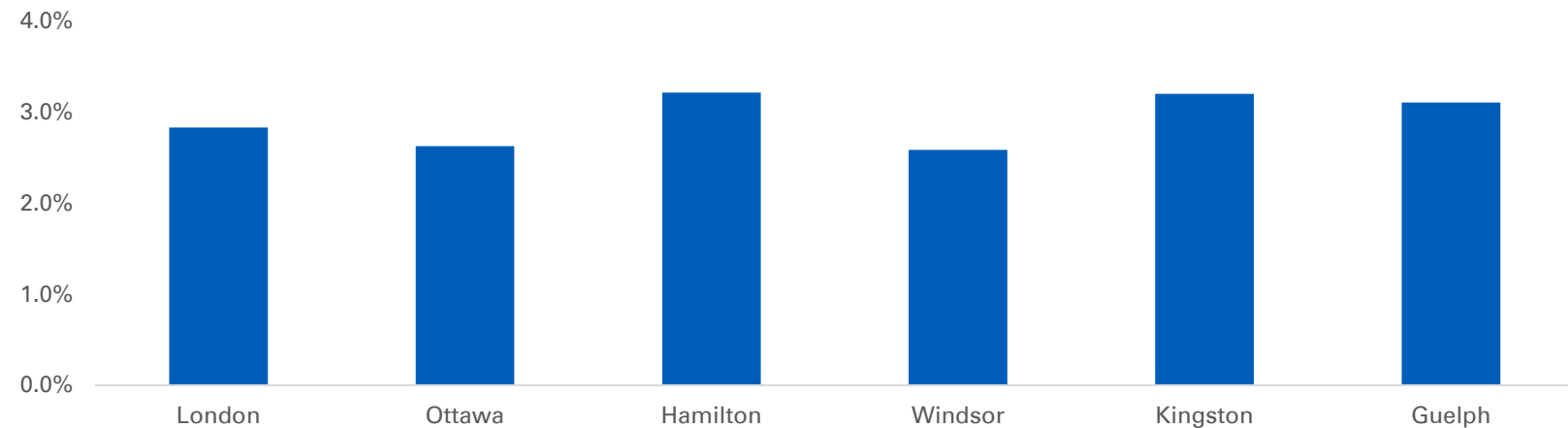
### FORMULA

FIR Schedule 26, Line 0010 and Line 1010, Column 4 divided by FIR Schedule 2, Line 0040, Column 1 (to arrive at average residential tax per household). Average household income is derived from the National Housing Survey.

### POTENTIAL LIMITATIONS

- This indicator considers residential affordability only and does not address commercial or industrial affordability concerns.
- This indicator is calculated on an average household basis and does not provide an indication of affordability concerns for low income or fixed income households.

Residential Taxation as a Percentage of Household Income



# Financial Indicators

## TOTAL TAXATION AS A PERCENTAGE OF TOTAL ASSESSMENT

This financial indicator provides an indication of potential affordability concerns by calculating the City's overall rate of taxation. Relatively high tax rate percentages may limit the City's ability to generate incremental revenues in the future.

### TYPE OF INDICATOR

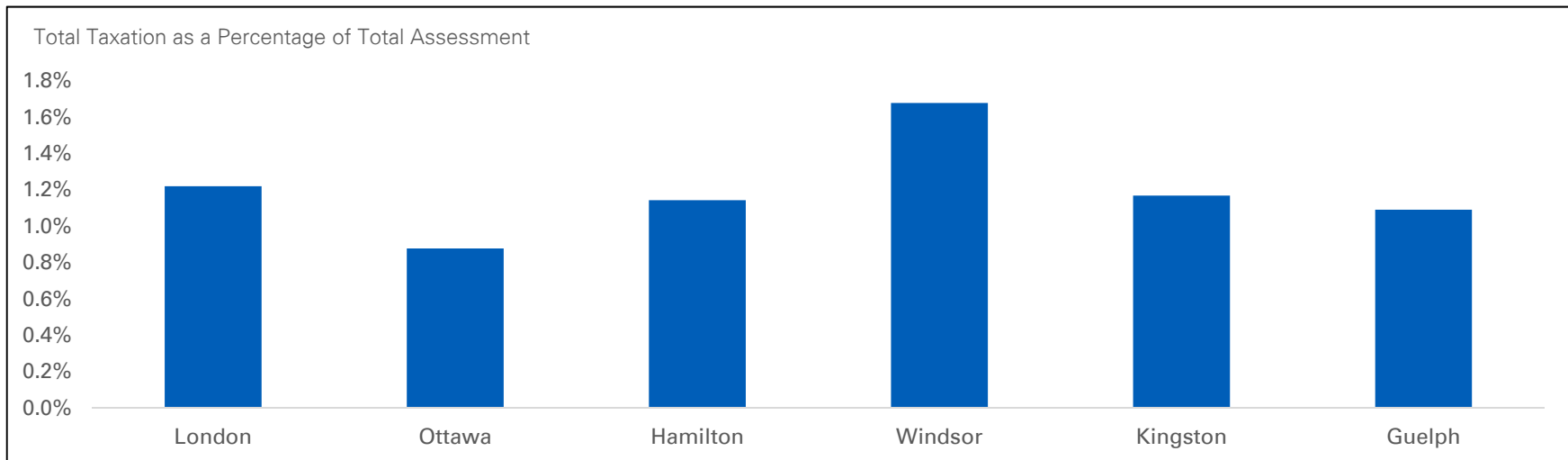
Sustainability  
Flexibility ✓  
Vulnerability

### FORMULA

FIR Schedule 26, Line 9199 and Line 9299, Column 4 divided by FIR Schedule 26, Line 9199 and 9299, Column 17.

### POTENTIAL LIMITATIONS

- This indicator considers the City's overall tax rate and will not address affordability issues that may apply to individual property classes (e.g. commercial).



# Financial Indicators

## DEBT SERVICING COSTS (INTEREST AND PRINCIPAL) AS A PERCENTAGE OF TOTAL REVENUES

This financial indicator provides an indication as to the City's overall indebtedness by calculating the percentage of revenues used to fund long-term debt servicing costs. The City's ability to issue additional debt may be limited if debt servicing costs on existing debt are excessively high.

### TYPE OF INDICATOR

Sustainability  
Flexibility ✓  
Vulnerability

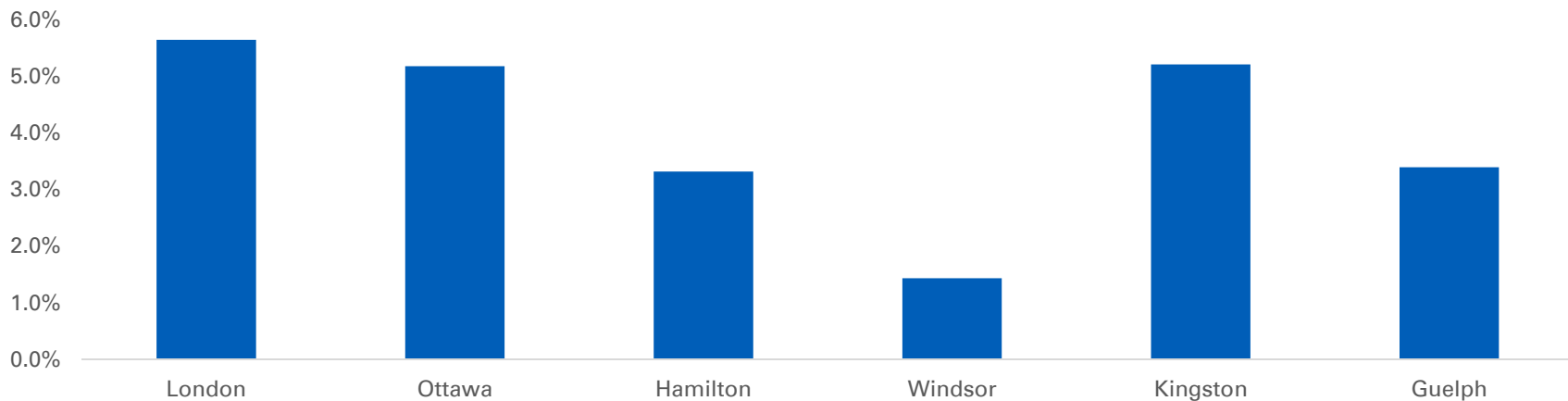
### FORMULA

FIR Schedule 74C, Line 3099, Column 1 and Column 2 divided by FIR Schedule 10, Line 9910, Column 1.

### POTENTIAL LIMITATIONS

- No significant limitations have been identified in connection with this indicator

Debt Servicing Costs as a Percentage of Total Revenues





# Financial Indicators

## NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS AS A PERCENTAGE OF HISTORICAL COST OF TANGIBLE CAPITAL ASSETS

This financial indicator provides an indication as to the extent to which the City is reinvesting in its capital assets as they reach the end of their useful lives. An indicator of 50% indicates that the City is, on average, investing in capital assets as they reach the end of useful life, with indicators of less than 50% indicating that the City's reinvestment is not keeping pace with the aging of its assets.

### TYPE OF INDICATOR

Sustainability  
Flexibility ✓  
Vulnerability

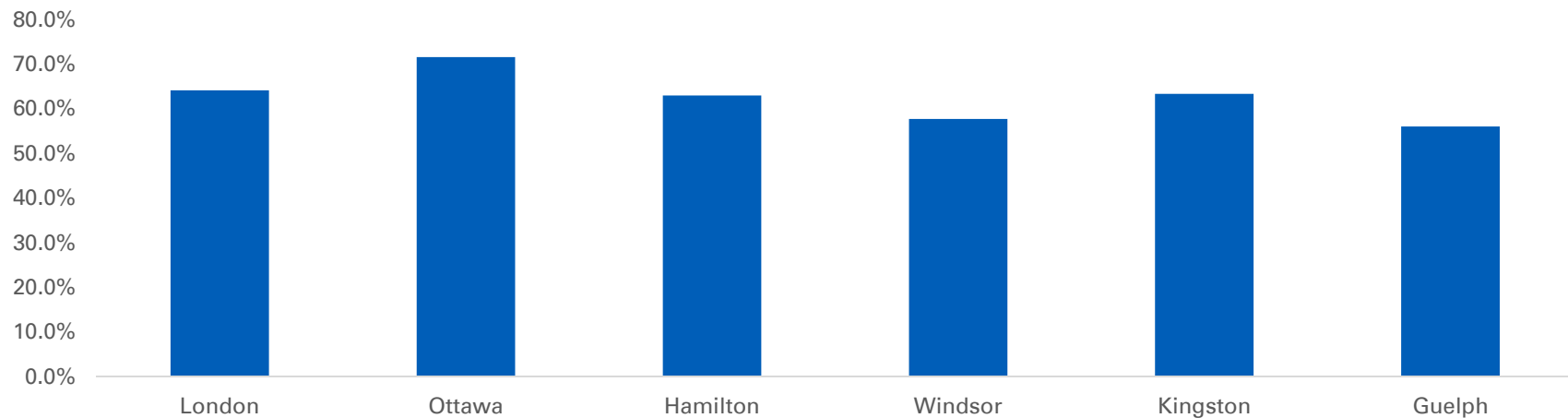
### FORMULA

FIR Schedule 51A, Line 9910, Column 11 divided by FIR Schedule 51A, Line 9910, Column 6.

### POTENTIAL LIMITATIONS

- This indicator is based on the historical cost of the City's tangible capital assets, as opposed to replacement cost. As a result, the City's pace of reinvestment is likely lower than calculated by this indicator as replacement cost will exceed historical cost.
- This indicator is calculated on a corporate-level basis and as such, will not identify potential concerns at the departmental level.

Net Book Value of Tangible Capital Assets to Historical Cost of Tangible Capital Assets



# Financial Indicators

## OPERATING GRANTS AS A PERCENTAGE OF TOTAL REVENUES

This financial indicator provides an indication as to the City's degree of reliance on senior government grants for the purposes of funding operating expenses. The level of operating grants as a percentage of total revenues is directly proportionate with the severity of the impact of a decrease in operating grants.

### TYPE OF INDICATOR

Sustainability  
Flexibility  
Vulnerability ✓

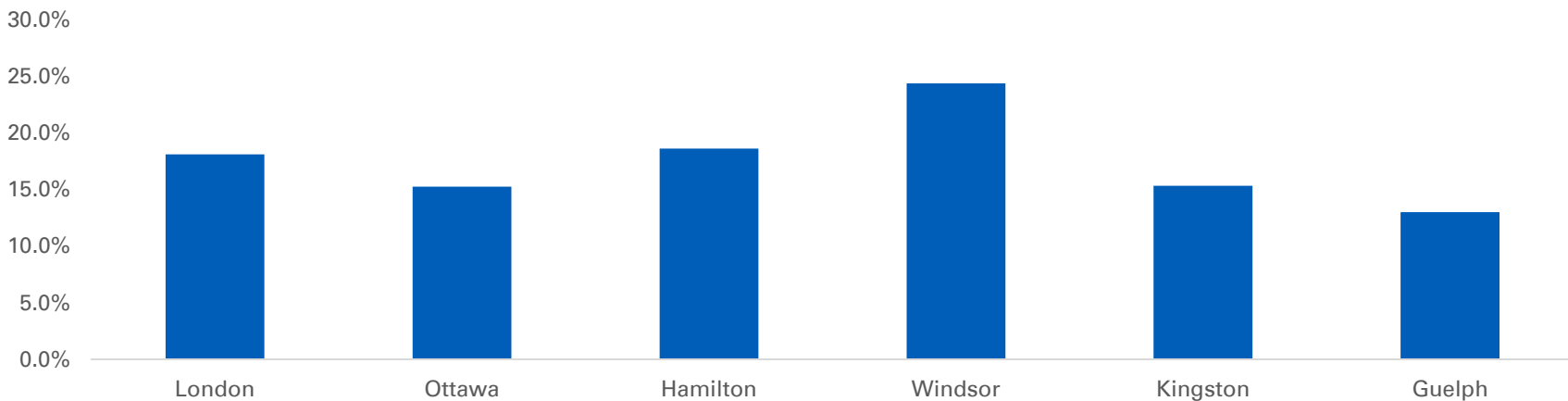
### FORMULA

FIR Schedule 10, Line 0699,  
Line 0810, Line 0820, Line  
0830, Column 1 divided by FIR  
Schedule 10, Line 9910,  
Column 1.

### POTENTIAL LIMITATIONS

- To the extent possible, the City should maximize its operating grant revenue. As such, there is arguably no maximum level associated with this financial indicator.

Operating Grants as a Percentage of Total Revenues



# Financial Indicators

## CAPITAL GRANTS AS A PERCENTAGE OF TOTAL CAPITAL EXPENDITURES

This financial indicator provides an indication as to the City's degree of reliance on senior government grants for the purposes of funding capital expenditures. The level of capital grants as a percentage of total capital expenditures is directly proportionate with the severity of the impact of a decrease in capital grants.

### TYPE OF INDICATOR

Sustainability  
Flexibility  
Vulnerability ✓

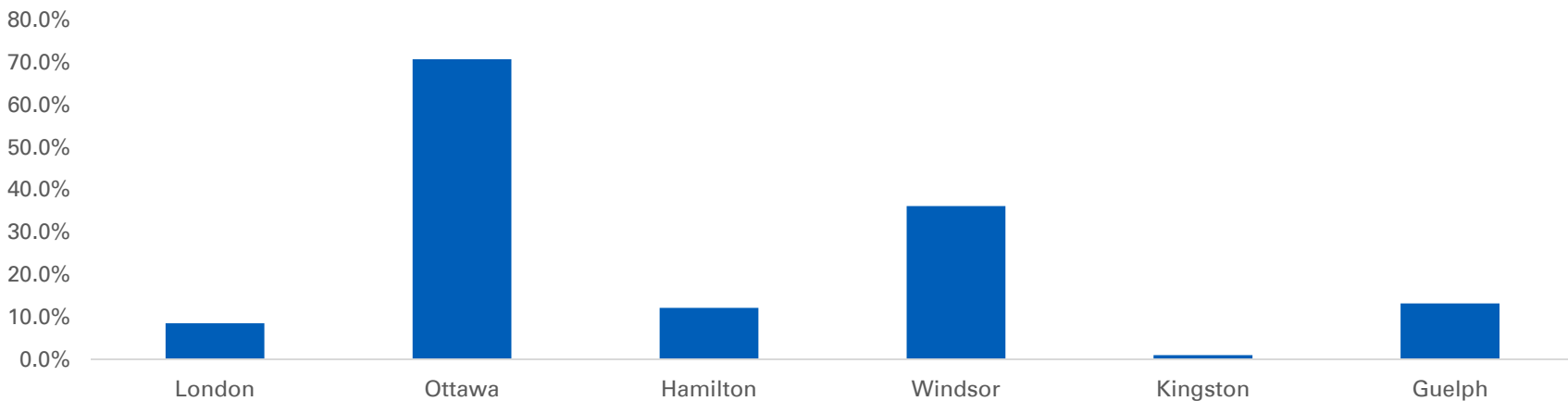
### FORMULA

FIR Schedule 10, Line 0815,  
Line 0825, Line 0831, Column 1  
divided by FIR Schedule 51,  
Line 9910, Column 3.

### POTENTIAL LIMITATIONS

- To the extent possible, the City should maximize its capital grant revenue. As such, there is arguably no maximum level associated with this financial indicator.

Capital Grants as a Percentage of Total Capital Expenditures





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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

## Appendix 2: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements
- **Management representation letter** – We will obtain the signed management representation letter from Management at the completion of the annual audit. In accordance with professional standards, copies of the management representation letter will be provided to the Audit Committee.  
*See Appendix 4.*
- **Independence letter** – While professional standards no longer require that we communicate our independence on an annual basis to private entities, we chose to continue to do so for the comfort of the Audit Committee in knowing that we are independent of the Corporation and its related entities. We have attached our independence letter.

*See Appendix 3.*

# Appendix 3: Independence

**Audit Committee**

The Corporation of the City of London  
300 Dufferin Avenue  
London, Ontario N6A 4L9

Date

Ladies and Gentlemen

Professional standards specify that we communicate to you in writing all relationships between the Entity (and its related entities) and our firm, that may reasonably be thought to bear on our independence.

In determining which relationships to report, we consider relevant rules and related interpretations prescribed by the relevant professional bodies and any applicable legislation or regulation, covering such matters as:

- a) provision of services in addition to the audit engagement
- b) other relationships such as:
  - holding a financial interest, either directly or indirectly, in a client
  - holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client
  - personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client
  - economic dependence on a client

**PROVISION OF SERVICES**

The following summarizes the professional services rendered by us to the Entity (and its related entities) from January 1, 2017 up to the date of our auditors' report:

<b>Description of Professional Services</b>
<p><b>Audit and audit related</b></p> <ul style="list-style-type: none"> <li>• Audit of the consolidated financial statements of the Corporation for the year ended December 31, 2017</li> <li>• Audit of all individual Boards and Commissions, Trust Funds, and PUC financial statements for the year ended December 31, 2017, as outlined in our engagement letter</li> <li>• Audit of the Dearness Program Report and Dearness Long-Term Care Report</li> <li>• Audit of Water Financial Statements and specified auditing procedures over Water projects, as required by Ministry agreements</li> <li>• Review of Childcare Program Envelopes</li> <li>• Review of Ontario Works</li> <li>• Federal audit of Homelessness Partnering Strategy</li> </ul> <p>Specified auditing procedures over the City of London Closed Circuit Television System for the year ended 2017</p>
<p><b>Tax</b></p> <ul style="list-style-type: none"> <li>• Preparation of corporate tax return for London Middlesex Housing Corporation</li> <li>• Preparation of corporate tax return for Eldon House</li> <li>• Preparation of corporate tax return for Housing Development Corporation, London</li> <li>• Preparation of corporate tax return for Argyle Business Improvement Area Board of Management</li> </ul>

Professional standards require that we communicate the related safeguards that have been applied to eliminate identified threats to independence or to reduce them to an acceptable level. Although we have policies and procedures to ensure that we did not provide any prohibited services and to ensure that we have not audited our own work, we have applied the following safeguards regarding the threats to independence listed above:

- We instituted policies and procedures to prohibit us from making management decisions or assuming responsibility for such decisions.
- We obtained pre-approval of non-audit services and during this pre-approval process we discussed the nature of the engagement and other independence issues related to the services.



- We obtained management’s acknowledgement of responsibility for the results of the work performed by us regarding non-audit services and we have not made any management decisions or assumed responsibility for such decisions.

**OTHER RELATIONSHIPS**

We are not aware of any other relationships between our firm and the Entity (and its related entities) that may reasonably be thought to bear on our independence from January 1, 2017 up to the date of our auditors’ report.

**CONFIRMATION OF INDEPENDENCE**

We confirm that we are independent with respect to the Entity (and its related entities) within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation from January 1, 2017 up to the date of our auditors’ report.

**OTHER MATTERS**

This letter is confidential and intended solely for use by those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purposes.

KPMG shall have no responsibility for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

Chartered Professional Accountants, Licensed Public Accountants

# Appendix 4: Management Representation Letter

(Letterhead)

KPMG LLP  
1400-140 Fullarton Street  
London, Ontario  
N6A 5P2

Date

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as “financial statements”) of The Corporation of the City of London (“the Entity”) as at and for the period ended December 31, 2017.

*General:*

We confirm that the representations we make in this letter are in accordance with the definitions as set out in [Attachment I](#) to this letter.

We also confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

*Responsibilities:*

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated September 15, 2016, including for:
  - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.
  - b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements, such as all financial records and documentation and other matters, including (i) the names of all related parties and information regarding all relationships and transactions with related parties; and (ii) the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements, and providing you with access to such relevant information. All significant board and committee actions are included in the summaries.
  - c) providing you with additional information that you may request from us for the purpose of the engagement.

- d) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.
- e) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
- f) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.
- g) providing you with written representations that you are required to obtain under your professional standards and written representations that you determined are necessary.
- h) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that management, and others within the entity, did not intervene in the work the internal auditors performed for you.

*Internal control over financial reporting:*

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which we are aware.

*Fraud & non-compliance with laws and regulations:*

- 3) We have disclosed to you:
  - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
  - b) all information in relation to fraud or suspected fraud that we are aware of and that affects the financial statements and involves: management, employees who have significant roles in internal control over financial reporting, or others, where the fraud could have a material effect on the financial statements.
  - c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.
  - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.
  - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

*Subsequent events:*

- 4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

*Related parties:*

- 5) We have disclosed to you the identity of the Entity's related parties.
- 6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.
- 7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

*Estimates:*

- 8) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

*Going concern:*

- 1) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.
- 2) We confirm that we are not aware of material uncertainties related to events or conditions that may cast doubt upon the Entity's ability to continue as a going concern.

*Misstatements:*

- 3) We approve the corrected misstatements identified by you during the audit described in [Attachment II](#).

*Non-SEC registrants or non-reporting issuers:*

- 4) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

*Commitments & contingencies:*

- 5) There are no:
  - a) other liabilities that are required to be recognized and no other contingent assets or contingent liabilities that are required to be disclosed in the financial statements in accordance with the relevant financial reporting framework, including liabilities or contingent liabilities arising from illegal acts or possible illegal acts, or possible violations of human rights legislation
  - b) other environmental matters that may have an impact on the financial statements

*Accounting Policies:*

- 6) The accounting policies selected and applied are appropriate in the circumstances.

- 7) There have been no changes in, or newly adopted, accounting policies that have not been disclosed to you and appropriately reflected in the financial statements.

*Environmental Matters:*

- 8) The Entity has appropriately recognized, measured and disclosed environmental matters in the financial statements.

*Estimates / Measurement Uncertainty:*

- 9) We are responsible for making any fair value measurements and disclosures included in the financial statements.
- 10) For recorded or disclosed amounts that incorporate fair value measurements:
  - a) the measurement methods are appropriate and consistently applied.
  - b) the significant assumptions used in determining fair value measurements represent our best estimates, are reasonable, are adequately supported and have been consistently applied.
  - c) the resulting valuations are reasonable.
  - d) presentation and disclosure is complete and appropriate and in accordance with the relevant financial reporting framework.

*Assets & Liabilities – General:*

- 11) We have no knowledge of material unrecorded assets or liabilities or contingent assets or liabilities (such as claims related to patent infringements, unfulfilled contracts, etc., whose values depend on fulfillment of conditions regarded as uncertain or receivables sold or discounted, endorsements or guarantees, additional taxes for prior years, repurchase agreements, sales subject to renegotiation or price re-determination, etc.) that have not been disclosed to you.
- 12) We have no knowledge of shortages that have been discovered and not disclosed to you (such as shortages in inventory, cash, negotiable instruments, etc.).
- 13) We have no knowledge of capital stock repurchase options or agreements or capital stock reserved for options, warrants, conversions, or other requirements that have not been disclosed to you.
- 14) We have no knowledge of arrangements with financial institutions involving restrictions on cash balances and lines of credit or similar arrangements and not disclosed to you.
- 15) We have no knowledge of agreements to repurchase assets previously sold, including sales with recourse, that have not been disclosed to you.
- 16) We have no knowledge of side agreements (contractual or otherwise) with any parties that have not been disclosed to you.

*Comparative Figures/Financial statements:*

- 17) We have no knowledge of any significant matters that may have arisen that would require a restatement of the comparative figures/financial statements.

*Receivables:*

- 18) Receivables reported in the financial statements represent valid claims against customers and other debtors for sales or other charges arising on or before the balance sheet date, and do not include amounts relating to goods shipped on consignment or approval. Receivables have been appropriately reduced to their net realizable value.

*Long-Lived Assets:*

- 19) The Entity has appropriately grouped long-lived assets together for purposes of assessing impairment.
- 20) We have reviewed long-lived assets, including amortizable intangible assets, to be held and used, for impairment, whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable.

*Provisions:*

- 21) Provision, when material, has been made for:
- a) losses to be sustained in the fulfillment of, or inability to fulfill, any sales commitments.
  - b) losses to be sustained as a result of purchase commitments for inventory or other assets at quantities in excess of normal requirements or at prices in excess of prevailing market prices.
  - c) losses to be sustained as a result of the reduction of excess, damaged, unusable or obsolete inventories to their estimated net realizable value.
  - d) losses to be sustained as a result of other-than-temporary declines in the fair value of investments.
  - e) losses to be sustained from impairment of property, plant and equipment, including amortizable intangible assets.
  - f) losses to be sustained from impairment of goodwill and/or non-amortizable assets.

*Asset Retirement Obligations:*

- 22) All legal obligations associated with the retirement of tangible long-lived assets have been recognized, including those under the doctrine of promissory estoppel. The obligations were recognized when incurred using management's best estimate of fair value.

*Revenues:*

- 23) All sales transactions entered into by the Entity are final and there are no side agreements (contractual or otherwise) with customers, or other terms in effect, which allow for the return of merchandise, except for defectiveness or other conditions covered by the usual and customary warranties.

*Financial Instruments, Off-Balance-Sheet Activities, Hedging and Guarantees:*

- 24) Guarantees, whether written or oral, under which the Entity is contingently liable, including guarantee contracts and indemnification agreements, have been recorded in accordance with the relevant financial reporting framework.
- 25) Off-balance sheet activities, including accounting policies related to non-consolidation of certain entities and revenue recognition, have been recorded and disclosed in the financial statements. Specifically, for those off-balance sheet activities in which the Entity is a transferor of financial assets, the off-balance sheet vehicle is either a qualifying special purpose entity as defined in the relevant financial reporting framework, or the Entity is not the primary beneficiary pursuant to the relevant financial reporting framework. For those off-balance sheet activities in which the Entity is a sponsor, administrator or lessee, the off-balance sheet vehicle is not controlled by the Entity for accounting purposes because the Entity is not the primary beneficiary pursuant to the relevant financial reporting framework.
- 26) The following information about financial instruments has been properly disclosed in the financial statements:
  - a) extent, nature, and terms of financial instruments, both recognized and unrecognized;
  - b) the amount of credit risk of financial instruments, both recognized and unrecognized, and information about the collateral supporting such financial instruments; and
  - c) significant concentrations of credit risk arising from all financial instruments, both recognized and unrecognized, and information about the collateral supporting such financial instruments.

*Employee Future Benefits:*

- 27) The employee future benefits costs, assets and obligation, if any, have been determined, accounted for and disclosed in accordance with the financial reporting framework.
- 28) There are no arrangements (contractual or otherwise) by which programs have been established to provide employee future benefits.
- 29) All arrangements (contractual or otherwise) by which programs have been established to provide employee benefits have been disclosed to you and included in the determination of pension costs and obligations.
- 30) The set of actuarial assumptions for each plan is individually consistent.
- 31) The discount rate used to determine the accrued benefit obligation for each plan was determined by reference to market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments; or inherent in the amount at which the accrued benefit obligation could be settled.
- 32) The assumptions included in the actuarial valuation are those that management instructed Mercer to use in computing amounts to be used by us in determining pension costs and obligations and in making required disclosures in the above-named financial statements, in accordance with the relevant financial reporting framework.



- 33) In arriving at these assumptions, management has obtained the advice of Mercer, but has retained the final responsibility for them.
- 34) The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.
- 35) All changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of pension costs and obligations and as such have been communicated to you as well as to the actuary.
- 36) The extrapolations are accurate and properly reflect the effects of changes and events that occurred subsequent to the most recent valuation and that had a material effect on the extrapolation.
- 37) All material events and changes to the plan subsequent to the most recent actuarial valuation have been properly reflected in the extrapolation.

*Management's Use of Specialists:*

- 38) We agree with the findings of Michael Losee Division Manager, Solid Waste Management as management's expert in preparing the estimate for the landfill closure and post-closure liability. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

Yours very truly,

---

Mr. Ian Collins, Director of Financial Services

---

Ms. Anna Lisa Barbon, Managing Director, Corporate Services, City Treasurer, Chief Financial Officer

I have recognized authority to take, and assert that I have taken responsibility for the financial statements.

cc: Audit Committee

## ***Attachment I – Definitions***

### *Materiality*

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

### *Fraud & error*

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

### *Related parties*

In accordance with public sector accounting standards, *related party* is defined as:

- A situation when one party has the ability to exercise control or shared control over the other. Two or more parties are related when they are subject to common control or shared control. Related parties also include key management personnel and close family members.

In accordance with public sector accounting standards, a *related party transaction* is defined as:

- A transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party. These transfers are related party transactions whether or not there is an exchange of considerations or transactions have been given accounting recognition. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

**Attachment II – Summary of Audit Misstatements Schedule**

**The Corporation of the City of London  
December 31, 2017  
Summary of Corrected Audit Misstatements**

(\$'000)		Annual surplus effect	Financial position		
Description	F/J/P	(Decrease) Increase	Assets (Decrease) Increase	Liabilities (Decrease) Increase	Accumulated surplus (Decrease) Increase
To reclassify amounts paid for assumed assets from TCA donated asset revenue to WIP.	F	1,469	1,469	-	1,469
<b>Total corrected misstatements</b>		<b>1,469</b>	<b>1,469</b>	<b>-</b>	<b>1,469</b>

# Appendix 5: Background and professional standards

## Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

## Documents containing or referring to the audited financial statements

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.

# Appendix 6: Lean in Audit™

## An innovative approach leading to enhanced value and quality

In March 2018, KPMG utilized our new innovative audit approach, Lean in Audit, to improve our understanding of the payroll process and help deliver real insight to the Corporation. With the assistance of organizational stakeholders and hands-on tools, such as walkthroughs and flowcharts, our team was able to enhance our understanding of the process and control environment. The workshop allowed us to provide actionable quality and productivity improvement observations which were presented in a report to management. As a follow up to the workshop, we have met with management to discuss the application of such insights to streamline processes, improve efficiencies, increase productivity and drive overall performance. We encourage management to ask us for more information on any of the matters covered in the report and beyond.



[kpmg.ca/audit](http://kpmg.ca/audit)



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<b>TO:</b>	<b>CHAIR AND MEMBERS AUDIT COMMITTEE</b>
<b>MEETING ON: JUNE 20, 2018</b>	
<b>FROM:</b>	<b>G. KOTSIFAS, P. ENG. MANAGING DIRECTOR DEVELOPMENT &amp; COMPLIANCE SERVICES AND CHIEF BUILDING OFFICIAL</b>
<b>SUBJECT:</b>	<b>ADDENDUM REPORT TO THE INTERNAL JANUARY 2018 AUDIT REPORT</b>

<b>RECOMMENDATION</b>
-----------------------

That, on the recommendation of the Managing Director, Development and Compliance Services and Chief Building Official, the following action plans for the implementation of the recommendations of the Deloitte audit, dated January, 2018, attached in Appendix 'A', **BE RECEIVED** as addendum to the aforementioned audit report.

<b>PREVIOUS REPORTS PERTINENT TO THIS MATTER</b>
--

- DELOITTE - Building Permit Review - Internal Audit Report – January, 2018

<b>BACKGROUND</b>
-------------------

In November 2017, Deloitte conducted a review of the Building Division's permit issuance processes, as part of the 2017 Internal Audit Plan.

The internal audit review focused on:

- processes and internal controls
- operational effectiveness and efficiency of processes and controls related to building permit issuance.
- testing of sample documents to evaluate compliance with the Building Code Act and other applicable law.

The audit concluded with three (3) medium priority action items and one (1) low priority. In its review of the audit, the Audit Committee requested a report back as to how the actions items would be implemented.

A copy of Deloitte's audit report is provided in Appendix 'A' of this report.

---

**ADDENDUM REPORT**

With respect to the audit report, Building Division management is in agreement with the findings. Management action plans were provided under each observation in the original audit report. Additional, detailed action plans were requested and are shown under each original observation.



## AUDIT REPORT EXCERPT:

### **Observation 1.0: Compliance to legislative time frames**

- **Observation:** Based on results of sample testing, Internal Audit identified that although there has been improvement, the Building Division does not consistently meet the time frames for building permit issuance outlined within the Ontario Building Code. Internal audit noted that 2017 was a record year for building permit application volumes within the Building Division, compounded by significant staffing challenges. Per discussion with management, as of late 2015, an equivalent portion of 40% of plan examination staff moved on, resulting in vacancies that were difficult to fill due to lack of qualified candidates. However, the results of the sample testing included that 20% of sample failed to meet legislative time frames and there is currently no data available to support the root cause analysis of the non-compliance.
- **Risk & implication:** Inability to meet legislative time frames may result in perception of poor customer service and increases the City's risk with respect to compliance with legislative requirements.
- **Management action plan:** Building Division management will work to perform the following actions to support compliance with legislative time frames. **(1) Review possibility to utilize the AMANDA database's capability for enhanced tracking; (2) consider an internal 'classification' system based on permit application type/complexity to assist with data analysis; (3) consider appending electronic plans review comments within AMANDA for tracking purposes; and (4) explore the possibility of automated communication to applicants when an incomplete permit application has been accepted.**

## DETAILED ACTION PLAN:

### **1.0 (1) Utilizing AMANDA database for enhanced tracking**

Staff has further reviewed the possibility of using the AMANDA database to track plan review timeframes. Specifically, the existing "To Start", "To End", "Started" and "Ended" information tabs were explored to see if they could automatically be populated to facilitate tracking of plans under review. It was determined that changing these parameters would be a large undertaking with significant changes to the way the permit applications are processed. Alternatively, manually populating these date fields by Plan Examination staff was also explored and it was determined that this would require additional data entry with adverse impact to the overall plan review process. Seeing that additional technology improvements as identified below under Observation 2.0 are underway or will be implemented in the future, it is more beneficial to implement those instead.

### **1.0 (2) Internal 'classification' system based on permit application type/complexity.**

Staff is exploring the possibility of utilizing a colour-coding tag system on Industrial, Commercial, and Institutional (ICI) permit application drawings that will identify each application by extent of scope. This will allow review staff to 'at a glance' determine which applications require extensive reviews based on work scope and which don't. A slip is currently attached to the permit drawings identifying whether, in addition to architectural review, structural, mechanical, and fire protection reviews are also required. This slip will be colour-coded to assist with the identification of plan review complexity.

**Timing for completion: August 2018**

### **1.0 (3) Appending electronic plans review comments within AMANDA for tracking purposes**

AMANDA contains comment boxes for each plan review process. Staff will be using these comment 'boxes' to provide details as to the tracking of the permit application drawings. Each comment box is 'date stamped' providing the ability for

management to confirm date of entry and be able to plot a 'map' of the plans review process for each application and establish a timeline as to when each review process was conducted.

**Timing for completion: Currently implemented**

**1.0(4) Automated communication to applicants when an incomplete permit application has been accepted.**

Staff was originally exploring the possibility of providing automated communication to applicants when incomplete permit applications were accepted. Upon further review, it was determined that it would be more feasible to communicate to applicants not only the fact that an incomplete application was submitted but also provide a copy of the application intake checklist that will identify what information is outstanding as well as a brief explanation of the review process, expected service delivery timelines as well as a link to our Building portal where they can track the progress of the reviews.

**Timing for completion: July 2018**

**AUDIT REPORT EXCERPT:**

***Observation 2.0: Technology improvements***

- **Observation:** *The Building Division uses the AMANDA system as a platform, to process building permits, site plans, and zoning information. Internal Audit noted that there is currently limited tracking within the AMANDA system for internal handoffs for a building permit application. Thus resulting in an inability to track delays and/or bottlenecks throughout the issuance process.*
- **Risk & implication:** *Inefficiencies may lead to exceeding legislative time frames increasing the perception of poor customer service and the City's risk with respect to compliance with legislative requirements.*
- **Management action plan:** *Building Division management will explore the possibility of enhancing the AMANDA database for tracking purposes.*

**DETAILED ACTION PLAN:**

The original management action plan was further discussed at the Audit Committee meeting and additional information was requested from civic administration with respect to the term 'explore'.

The following actions have either been taken or will be taken by Building Division management to implement tracking improvements:

**I. Automated email notification system enhancement.**

Plan examination staff as well as management receive automated email notifications overnight for applications deemed as complete upon intake. These notifications provide a status update based on where a permit application sits in the 'queue' in terms of the number of days from its receipt. Plan reviews typically consist of Architectural, Mechanical, and Structural reviews, with the exception of small residential buildings. Management worked with Information Technology Services (ITS) staff to improve the notification system so that notices are only provided closer to the permit issuance due date. This was completed and with the modified notification emails, the tracking of the applications is improved, allowing for the determination of where any bottlenecks might exist.

**Timing for completion: Completed and in production**

**II. AMANDA modifications to de-couple review processes.**

Certain review processes have been introduced in AMANDA by default. In some cases daily notifications are sent to plan examiners despite the fact that they are not assigned a review based on the discipline of review (i.e. structural, mechanical,

fire protection). Staff is proposing to work with ITS in order to de-couple selected review processes so that notifications are only sent to staff directly involved with a particular review. The current AMANDA set up introduces default review process. This improvement will reduce permit review inefficiencies as unnecessary notices will no longer be sent.

**Timing for completion: These changes will be incorporated into the Building Folder Project as there are dependencies with process enhancements targeted for this project. The timing for completion of the Building Folder Project is expected to be known in Q4 2018.**

III. **Develop enhanced AMANDA report to track review days allocated towards individual reviews based on discipline.**

Management has collaborated with ITS to develop an enhanced tracking report where a detailed breakdown by review discipline will be provided in terms of number of processing days . A sample is provided in Appendix 'B'. Management is continuing to work with ITS to further refine and test the data prior to implementation.

**Timing for completion: Currently in testing; September 2018**

**AUDIT REPORT EXCERPT:**

***Observation 3.0: Formalized process documentation***

- ***Observation:*** *There are limited formalized processes documented for management to ensure processes and controls are operating effectively throughout the year and that the controls established are being consistently followed. Furthermore; for new hires there is limited detailed documentation for reference during their initial period with the Building Division and their training consists of job shadowing.*
- ***Risk & implication:*** *The lack of detailed documented procedures increases the risk that processes and controls are not being consistently followed as per management's expectations.*
- ***Management action plan:*** *While a procedure manual is available to staff, Building Division management will explore the possibility to enhance it in a more detailed format. In addition, will utilize electronic, automated communication format for permits 'holding for fees', as well work on the production of a monthly 'fee report' that will track fees received as well as fees refunded.*

**DETAILED ACTION PLAN:**

I. **Implementation of formalized process for review of permit applications.**

The audit noted that while training binders for new staff are in existence, detailed checklists for the actual "review" of plans are not available. An additional small residential checklist will be developed that will help new staff identify Building Code items that must be checked when reviewing permits. A new Code interpretation database within the "Y" drive, has been set up and accessible by plan review staff wherein Building Code interpretations previously discussed/reviewed as a group during plan reviews, will be stored. New staff will be able to use this knowledge base as part of their training. Monthly staff meetings will continue to be held whereby plan review issues are addressed. The above will help ensure consistency of the plan review processes.

**Timing for completion: Database currently active (April 2018) ; Checklist: August 2018**

**II. Implementation of enhanced communication for “Hold for Fees” permit application status.**

Staff are exploring an automated and trackable method whereby permit applicants are notified that their plan reviews have been completed and that upon payment of outstanding fees, their permit is ready to be issued. The current process involves manual telephone communication by the customer service representatives. Seeing email addresses are now accompanying just about every permit application, an automated email being sent would be more effective and efficient in terms of service delivery. To address this management action plan, Development and Compliance will submit a project request to the city wide Information Technology Steering Committee (ITSC) for review and prioritization within the full City of London project portfolio.

**Timing for completion: To be determined upon the conclusion of the ITSC review and prioritization process.**

**III. Production of a monthly ‘fee report’ that will track fees received as well as fees refunded**

In accordance with the Building By-law B-6, there arise circumstances where permit fee refunds are due. An example for this would be the case where more than six months have elapsed from the date an application was received and the applicant has not provided outstanding information so that the permit can be issued. While there are various steps that involve a refund, there has not been an inter-department capability for an ad-hoc report to be run to determine what the total fees refunded were within a given timeframe.

**Timing for completion: To be determined upon the conclusion of the ITSC review and prioritization process.**

**AUDIT REPORT EXCERPT:**

**Observation 4.0: Continuous education**

- **Observation:** *Through discussion with management and staff, Internal Audit noted a lack of a formalized annual continuous education plan for Building Division staff. Much of the continuous education was ad-hoc in nature and based on upcoming changes to the Ontario Building Code. Additional continuing education is available to staff through the Ontario Building Officials Association on a first come first serve basis. However, internal audit noted that there is no scheduled plan or framework for ongoing training, updated processes, common review errors or other professional development opportunities.*
- **Management action plan:** Management will establish an annual training matrix to identify upcoming topics for staff training.

**DETAILED ACTION PLAN:**

**I. Continuous Education.**

The audit report noted that there was a lack of a formalized education plan. As part of the yearly performance reviews with staff, management will ask what topic-specific training staff feels would be beneficial for the upcoming year. Management will also make suggestions as required with respect to this training. Management has held meetings with Fanshawe College representatives to discuss the possibility of enhanced training for staff through their continuing education studies program. In addition, management is currently collaborating with the Ontario Building Officials

Association to set up formal training courses here in London for Building Division staff involved in the permit issuance process.

**Timing for completion: December 2019**

<b>CONCLUSION</b>
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In November 2017, Deloitte conducted a review of the Building Division's permit issuance processes as part of the 2017 Internal Audit Plan. Civic Administration was requested to submit an addendum report outlining specific details of the proposed action plan. Detailed action plans have been provided for each audit observation and have been included in this report.

This report was prepared with the assistance of Angelo DiCicco, Manager Plans Examination.

<b>PREPARED BY:</b>	<b>SUBMITTED BY:</b>
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PK/pk

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c.c. A. DiCicco, Manager Plans Examination

A. L. Barbon, Managing Director, Corporate Services and City Treasurer, Chief Financial Officer

I Collins, Director, Financial Services

APPENDIX 'A'



**The Corporation of the City of  
London**  
Building Permit Review  
Internal Audit Report

Audit performed: November - December 2017  
Final report issued: January 2018

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# Executive summary

## Introduction

As part of the 2017 Internal Audit Plan, Deloitte performed a review of the City of London's ("City's") Building Permit issuance processes. The review commenced in November 2017 and was completed in December 2017. The internal audit review was performed to ensure adequate processes and internal controls are in place to mitigate significant risks over building permits issuance within the City. The review assessed the operational effectiveness and efficiency of processes and controls in place to manage building permit issuances and Deloitte performed sample testing as deemed appropriate to evaluate the extent of building permit issuance compliance with the Building Code Act, the Ontario Building Code, related municipal by-laws and other applicable laws.

## Building Permit Issuance

The Building Division is responsible to review all building permit applications for the City in order to ensure the proposed project's compliance with all applicable zoning by-laws and building code requirements. A building permit application may either be submitted in person at the Building Division counter in City Hall, via the online E-permit system, or by mail. The E-permit system is only used for applications for certain residential plumbing or simple additions and alterations for single detached homes, new single/semi detached and town houses. The Building Division issues a building permit once all reviews required by the type of permit have been completed satisfactorily. These reviews must comply with legislative time frames dependent on the type of building and nature of the proposed work provided a complete application has been submitted. Construction of a project may begin once the building permit has been issued.

The detailed purpose and objectives of this review were to:

- Review and assess the governance framework and organization structure for the Building Division;
- Review and assess Building Division business processes and relevant key controls; and
- Review and identify overall process improvement opportunities within the Building Division.

The specific agreed upon scope details between management and internal audit are in **Appendix 1**.

## Key strengths

**Efforts for continuous improvement:** Building Division management continuously monitors the need to implement new strategies to adjust for increasing demand and improve the overall metrics associated with meeting legislative time frames for building permit issuance. For example, in order to meet record volumes in 2017, the Building division recently re-organized the data input responsibilities within the division and contracted two additional Customer Service Representatives on a temporary basis to add to the team. As indicated by management, this change has contributed to increasing compliance metrics for permits under the 10-day legislative time frame by approximately 10%.

**Commitment to Customer Service:** The Building Division has demonstrated a strong focus of customer service within its processes. Management has indicated that in addition to meeting the legislative time frames, the Building Division's priority is to ensure a strong sense of customer service. For example, the Building Division has created a Home Owner's Guide to Building Permits, Home Builder's Guide to Building Permits and Acceptable Permit Intake Guidelines for applicants to reference prior to submitting their application. The Building Division also ensures a preliminary review of the application by plan examiners to ensure the applicants are aware of all application requirements.

**Governance Monitoring Activities:** The Building Division has implemented governance activities to monitor the overall performance of the division. These activities include on going monitoring on compliance to legislative time frames, year-over-year construction value of permits and daily email notifications for permit applications approaching or exceeding legislative time frames.

**Roles and Responsibilities:** The Building Division staff interviewed demonstrated a clear understanding of their roles and responsibilities as it relates to building permit processes. Building Division staff were able to communicate how their responsibilities contribute to the different stages of the building permit review and issuance process.

**Processes align to Ontario Building Code:** The Building Division has implemented processes to align to guidance set forth by the Ontario Building Code such as, but not limited to, permit issuance legislative timeframes, building inspections, reasons for refusal and conditional permits.

## Key observations

Deloitte's review of the Building Permit issuance practices identified the following observations:



Priority	High	Medium	Low
Observations	0	3	1

### Medium priority observations

#### **Observation 1.0: Compliance to legislative time frames**

- **Observation:** Based on results of sample testing, Internal Audit identified that although there has been improvement, the Building Division does not consistently meet the time frames for building permit issuance outlined within the Ontario Building Code. Internal audit noted that 2017 was a record year for building permit application volumes within the Building Division, compounded by significant staffing challenges. Per discussion with management, as of late 2015, an equivalent portion of 40% of plan examination staff moved on, resulting in vacancies that were difficult to fill due to lack of qualified candidates. However, the results of the sample testing included that 20% of sample failed to meet legislative time frames and there is currently no data available to support the root cause analysis of the non-compliance.
- **Risk & implication:** Inability to meet legislative time frames may result in perception of poor customer service and increases the City's risk with respect to compliance with legislative requirements.
- **Management action plan:** Building Division management will work to perform the following actions to support compliance with legislative time frames. (1) Review possibility to utilize the AMANDA database's capability for enhanced tracking; (2) consider an internal 'classification' system based on permit application type/complexity to assist with data analysis; (3) consider appending electronic plans review comments within AMANDA for tracking purposes; and (4) explore the possibility of automated communication to applicants when an incomplete permit application has been accepted.
- **Responsible party:** Angelo DiCicco, Manager, Plans Examination December 2018

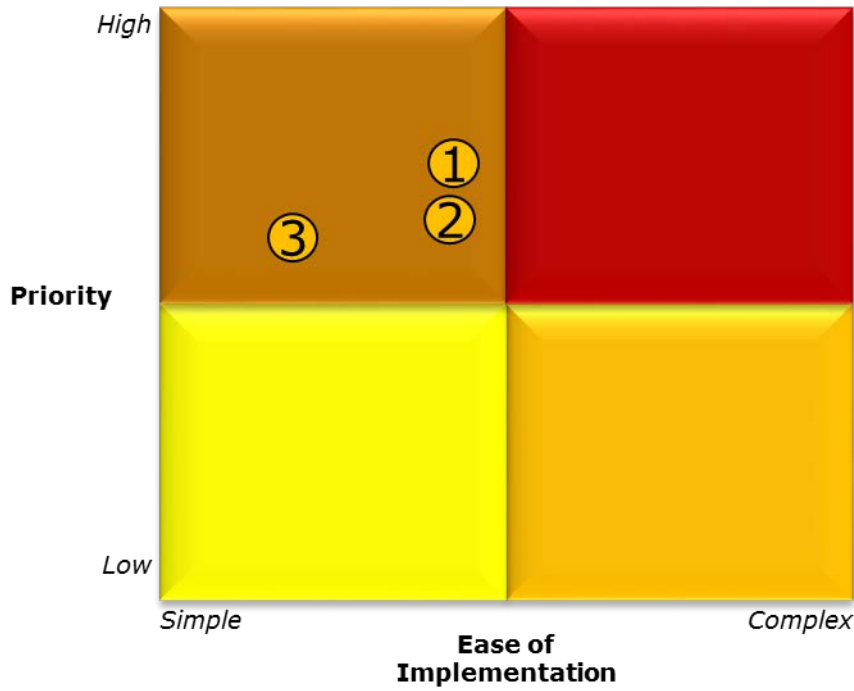
#### **Observation 2.0: Technology improvements**

- **Observation:** The Building Division uses the AMANDA system as a platform, to process building permits, site plans, and zoning information. Internal Audit noted that there is currently limited tracking within the AMANDA system for internal handoffs for a building permit application. Thus resulting in an inability to track delays and/or bottlenecks throughout the issuance process.
- **Risk & implication:** Inefficiencies may lead to exceeding legislative time frames increasing the perception of poor customer service and the City's risk with respect to compliance with legislative requirements.
- **Management action plan:** Building Division management will explore the possibility of enhancing the AMANDA database for tracking purposes.
- **Responsible party:** Angelo DiCicco, Manager, Plans Examination December 2018

#### **Observation 3.0: Formalized process documentation**

- **Observation:** There are limited formalized processes documented for management to ensure processes and controls are operating effectively throughout the year and that the controls established are being consistently followed. Furthermore; for new hires there is limited detailed documentation for reference during their initial period with the Building Division and their training consists of job shadowing.
- **Risk & implication:** The lack of detailed documented procedures increases the risk that processes and controls are not being consistently followed as per management's expectations.
- **Management action plan:** While a procedure manual is available to staff, Building Division management will explore the possibility to enhance it in a more detailed format. In addition, will utilize electronic, automated communication format for permits 'holding for fees', as well work on the production of a monthly 'fee report' that will track fees received as well as fees refunded.
- **Responsible party:** Angelo DiCicco, Manager, Plans Examination February 2019

Priority heat map

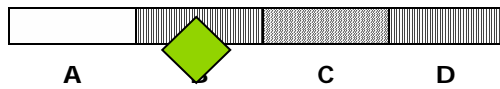


Conclusion

Based on our review of Building Permit issuance processes we noted three medium and one low observation weaknesses with the potential to impair the effectiveness of current processes. The issues noted in the report should be addressed in a timely manner to enhance current controls and mitigate relevant risks.

Management has provided action plans for the observations noted in the 'Detailed observations and recommendations' section.

The following scale depicts our overall conclusion for the priority of observations noted for improvement within this review as it relates to the scope of areas audited as outlined above:



Description	Definition
A	No or insignificant process control or efficiency weaknesses identified
B	Minor process control or efficiency weaknesses identified
C	Moderate process control or efficiency weaknesses identified
D	Significant control process or efficiency weaknesses identified Impairing the effectiveness of the process

# Detailed observations and recommendations

## Observation 1.0 – Compliance to legislative time frames

Observation	Implication	Recommendation	Management comments and action plan	Responsible party and timing
<p><b>1.0 Compliance to legislative time frames</b></p> <p>Through sample testing and documentation review, Internal Audit noted that although there has been improvement, the Building Division does not consistently meet the time frames for building permit issuance outlined within the Ontario Building Code. Specifically, 20% of samples failed to meet legislative time frames.</p> <p>Internal audit noted that 2017 was a record year for volumes within the Building Division compounded by significant staffing challenges. Per discussion with management, as of late 2015, an equivalent portion of 40% of plan examination staff moved on resulting in vacancies that were difficult to fill due to lack of qualified candidates.</p> <p>Although the results of the sample testing included that 20% of samples failed to meet legislative timeframes, there is currently no data to support the root cause analysis for non-compliance. Furthermore, the overall percentage of building permits issued beyond legislated time frames is reported on, however there is no specific analysis performed on why those permits were issued late or had delivered notification to the applicant late.</p> <p>Internal Audit noted that the following may contribute to not meeting legislative time frames, such as:</p> <ul style="list-style-type: none"> <li>• High turnover and resulting staffing shortage in the Building Division</li> <li>• Staff potentially indicate incomplete applications as complete in order for the application to fall under regular legislative time frame processing guidelines.</li> <li>• As the majority of permit applications are submitted in person at</li> </ul>	<p><b>1.0 Compliance to legislative time frames</b></p> <p>Inability to meet legislative time frames may result in perception of poor customer service and increases the City's risk with respect to compliance with legislative requirements.</p>	<p><b>1.0 Compliance to legislative time frames</b></p> <p>Management should consider developing a process to document the reason for delays in permits issued or applicants notified beyond the legislated time frame. Management should consider including the following:</p> <ul style="list-style-type: none"> <li>• Total durations of days spent with each reviewer, e.g. zoning, plans examination, structural examination, mechanical examination, site plan approval</li> <li>• Description of interactions with the applicant (if any)</li> <li>• Overall reason of delay</li> <li>• Overall complexity of the application</li> </ul> <p>After documenting the reason(s), management can analyze the data to identify the top reasons for delays in building permit issuance or notification and take corrective steps to improve the timeliness of the process.</p> <p>Management should also consider the following:</p> <ul style="list-style-type: none"> <li>• Creating a plan to supplement the shortage of staff in the Building Division in order to meet increasing demand and volumes</li> <li>• Reviewing the building permit intake process to consider only</li> </ul>	<p><b>Management agrees.</b></p> <p>Management will perform the following actions to support compliance with legislative time frames:</p> <ul style="list-style-type: none"> <li>• Review possibility to utilize the AMANDA database's capability for enhanced tracking.</li> <li>• Consider an internal 'classification' system based on permit application type/complexity to assist with data analysis.</li> <li>• Consider appending electronic plans review comments within AMANDA for tracking purposes.</li> <li>• Explore the possibility of automated communication to applicants when an incomplete permit application has been accepted.</li> </ul> <p>Management notes that to assist with increased volume, they have officially reallocated work and focused the property standards officers (PSOs) to assist with new construction.</p>	<p>Angelo DiCicco, Manager, Plans Examination</p> <p>December 2018</p>

Observation	Implication	Recommendation	Management comments and action plan	Responsible party and timing
<p>the Building Division counter, with the multiple reviews required within any given building permit application, in most cases, is reviewed sequentially. Therefore, delays in one part of the review can significantly impact the overall time to issue a building permit. As deficiency notifications must include all reasons the permit is deficient, dependency on sequential review can significantly increase the risk of delayed notification and/or issuance.</p>		<p>allocating complete building permit applications to the legislative time frame requirement. Management should ensure front line staff communicate to applicants that legislative time frames for review will not be applied to partial applications. Alternatively, the applicant should be provided the option to obtain the missing documentation and re-submit the complete application at a later time.</p> <ul style="list-style-type: none"> <li>Management should continue to consider prioritizing the enhancement of the e-permit system to handle additional permit types. Enhancing the e-permit capabilities will facilitate obtaining electronic plans and thus allow for concurrent review of the building permit and decreased time spent on scanning drawings.</li> </ul>		

**Observation 2.0 – Technology improvements**

Observation	Implication	Recommendation	Management comments and action plan	Responsible party and timing
<p><b>2.0 Technology improvements</b> The Building Division uses the AMANDA system as a platform, to process building permits, site plans, and zoning information. Internal Audit noted that there is currently limited tracking within the AMANDA system for internal handoffs for any given permit application. Although AMANDA does have the ability to track the start and end dates for each internal review within the process, the current configuration does not allow the start and end dates to be updated as it has been assigned to auto populate. Thus, in its</p>	<p><b>2.0 Technology improvements</b> Inefficiencies may lead to exceeding legislative timeframes increasing the perception of poor customer service and the City's risk with respect to compliance with legislative requirements.</p>	<p><b>2.0 Technology improvements</b> Management should conduct a review of the AMANDA system for efficiency opportunities for enhanced tracking and automation within current processes. Specifically, Management should review the process for amending the current configuration of the start and end dates in the AMANDA system to include functionality for reviewers to edit based on the time they spent for each review. This will allow</p>	<p><b>Management agrees.</b>  Management will explore the possibility of enhancing the AMANDA database for tracking purposes.</p>	<p>Angelo DiCicco, Manager, Plans Examination  December 2018</p>

Observation	Implication	Recommendation	Management comments and action plan	Responsible party and timing
<p>current configuration, AMANDA cannot be used to track the true time spent by each reviewer.</p>		<p>management to track the review lifecycle and identify where bottlenecks or analyze delays that may occur throughout the process.</p>		

**Observation 3.0 – Formalized Processes**

Observation	Implication	Recommendation	Management comments and action plan	Responsible party and timing
<p><b>3.0 Formalized process documentation</b></p> <p>Through discussion with Management, Internal Audit noted there are limited formalized processes documented for management to ensure processes and controls are operating effectively throughout the year and that the controls established are being consistently followed. Furthermore; for new hires there is limited detailed documentation for reference during their initial period with the Building Division and their training consists of job shadowing.</p>	<p><b>3.0 Formalized process documentation</b></p> <p>The lack of detailed documented procedures increases the risk that processes and controls are not being consistently followed as per management’s expectations</p>	<p><b>3.0 Formalized process documentation</b></p> <p>The Building Division should formally document their processes and controls for building permit issuance operations. When creating the documentation, the Building Division should consider the following:</p> <ul style="list-style-type: none"> <li>The various processes and controls to issue a building permit throughout its lifecycle to ensure Building Permit staff consistently adhere to the expectations and processes set out by Management.</li> <li>Formalized processes to track and monitor permits that are holding for fees in order to contact the applicant in a timely fashion. Management should review the capabilities in AMANDA for automatic notifications for hold for fee permits, and review the current system’s functionality.</li> <li>Formalized processes to track and monitor the refunds administrated on a monthly basis within the Building Division, including keeping a listing of all refunds administered within the year.</li> </ul>	<p><b>Management agrees.</b></p> <p>While a procedure manual is available to staff, management will explore the possibility to enhance it in a more detailed format.</p> <p>Management will also perform the following actions with respect to refunds:</p> <ul style="list-style-type: none"> <li>Utilize electronic, automated communication format for permits ‘holding for fees’.</li> <li>Work on the production of a monthly ‘fee report’ that will track fees received as well as fees refunded.</li> </ul>	<p>Angelo DiCicco, Manager, Plans Examination</p> <p>February 2019</p>

**Observation 4.0 – Continuous education**

Observation	Implication	Recommendation	Management comments and action plan	Responsible party and timing
<p><b>4.0 Continuous education</b></p> <p>Through discussion with management and staff, Internal Audit noted a lack of a formalized annual continuous education plan for Building Division staff. Much of the continuous education was ad-hoc in</p>	<p><b>4.0 Continuous education</b></p> <p>Lack of formal ongoing training may lead to a lack of guidance on how to</p>	<p><b>4.0 Continuous education</b></p> <p>Management should review key opportunities for training in order to create a formal training plan for Building Division staff</p>	<p><b>Management agrees.</b></p> <p>Management will establish an annual training matrix to identify upcoming topics for staff training.</p>	<p>Angelo DiCicco, Manager, Plans Examination</p> <p>September 2018</p>

Observation	Implication	Recommendation	Management comments and action plan	Responsible party and timing
<p>nature and based on upcoming changes to the Ontario Building Code. Additional continuing education is available to staff through the Ontario Building Officials Association on a first come first serve basis. However, internal audit noted that there is no scheduled plan or framework for ongoing training, updated processes, common review errors or other professional development opportunities.</p>	<p>comply with Building Division policies and procedures, and missed opportunity to further staff's professional development.</p>	<p>that includes objectives/topics to be covered over the calendar year. The plan should consider:</p> <ul style="list-style-type: none"> <li>• Upcoming building code changes</li> <li>• New/Updated Processes</li> <li>• Ontario Building Official's Association training schedule</li> <li>• Common review errors</li> <li>• Ongoing professional development</li> </ul>		

# Appendix 1: Internal Audit Detailed Scope

## **Review and assess the governance framework and organization structure for the Building Division**

- Reviewed and assess the current Building Division's organizational structure and departmental charts to ensure roles, reporting lines, and responsibilities are effectively designed and established to enforce existing policies, guidelines, and procedures;
- Assessed whether roles, reporting lines, and responsibilities are adequately understood by staff to ensure staff are enabled to fulfill their responsibilities;
- Assessed governing guidelines and procedures in place to assure the building permit application process is adhering to legislation and meeting established timelines;
- Assessed the governing guidelines in place to review and assess the fees associated to issuing a building permit;
- Reviewed and assess existing procedures to communicate with other stakeholders involved in the process prior to issuing a building permit; and
- Reviewed and assess monitoring activities established to assure the building permit process is achieving established metrics or key performance indicators.

## **Review and assess Building Division business processes and relevant key controls**

- Reviewed the existing processes within the Building Division to issue permits to Builders, Professionals, Designers and the general public (homeowners etc.) and assess its adequacy to complying with subscribed policies, procedures and guidelines;
- Reviewed select building permit applications and evaluate procedures to assess the adequacy to mitigate residual business risks (i.e., timeline to issue, adhering to legislation, etc.), assure transparency, and efficiently execute the process;
- Reviewed the building permit application process and evaluate procedures to validate that permits requests have been administered in a timely manner and within established timelines;
- Reviewed the process in place for the Building Division to decline the issuance of building permits; and
- Reviewed the process in place for the Building Division to communicate with internal stakeholders on questions related to a specific building permit application.

## **Review and identify overall process improvement opportunities within the Building Division**





- Reviewed and assess existing building permit issuance processes to identify opportunities for efficiency or standardization.



# Appendix 2: Internal Audit rating scale

## Individual observation prioritization

Internal audit observations and recommendations are prioritized on the following basis.

Description	Definition
 High	Observation is high priority and should be given immediate attention (e.g. 0-3 months) due to the existence of either significant internal control risk or a potential significant operational improvement opportunity.
 Medium	Observation is a moderate priority risk or operational improvement opportunity and should be addressed in the near term (e.g. 3-6 months).
 Low	Observation does not present a significant or medium control risk but should be addressed (e.g. within a 6-12 month time frame) to either improve internal controls or process efficiency.
 Leading Practice	Consideration should be given to implementing recommendations in order to improve the maturity of the process and align with leading practices.

# Appendix 3: Stakeholder involvement

In conducting the review the following management and staff were interviewed to gain an understanding of the Building Permit Issuance processes and practices.

Stakeholder	Position
George Kotsifas	Managing Director, Development and Compliance Services and Chief Building Official
Peter Kokkoros	Deputy Chief Building Official
Various – Deloitte met with various managers and staff in the Building Division to gather an in-depth understanding of building permit issuance practices and perform audit procedures.	

# Appendix 4: Audit procedures performed

As part of the Building Permit issuance review the following procedures were performed:

- Conducted a planning meeting with Deputy Chief Building Official within Building Division;
- Updated and issued a finalized Project Charter and request for information; and
- Conducted meetings and interviews with sample Building Division stakeholders and process owners involved in the Building Permit issuance process to:
  - Gain an understanding of the current Building Permit issuance expectations and practices;
  - Identify and gain an understanding of the various Building Permit issuance procedures including procedures to issue, monitor, track, refund and cancel building permits.
  - Gain an understanding of management's oversight of Building Permit issuance practices;
- Obtained documentation regarding relevant procedures and controls to perform an inspection of:
  - Building Code Act;
  - Ontario Building Code;
  - City of London Building By-law
  - Sample of Building Permit Applications initiated from Nov 2016-Nov 2017;
  - Building Permit Issuance Procedure Manuals;
  - Job descriptions of various Building Division staff;
  - Official Organizational Chart;
  - Building Permit Application Checklist;
  - Building Permit Application Form
  - Development and Compliance Services Building Division Monthly Report;
  - Acceptable Application Intake Document
  - Building Permit History as of 2000;
  - Bill 124 Report for January, June & November 2017
- Conducted strategic sample testing activities related to building permit issuance procedures to identify areas of noncompliance against the Ontario Building Code;
- Drafted observations and validated observations with management;
- Conducted a closing meeting with key management stakeholders to validate and communicate our findings; and
- Issuance of this internal audit report with our detailed observations.



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**APPENDIX 'B'**

Sample permit review processing timeframes report

## Legislative Time Frames Summary Report

For the period 2016-12-01 to 2016-12-05

PERMIT	Issue Target (Days)	Days to Issue	Days to Deficiency	Days in Zoning	Days in Arch	Days In Struct	Days in Mech	Days in Fire Prot
16-115357	10	138		0	8			
16-258998	10	40	12	7	10		10	
16-259992	10	35		5	12		12	
16-261483	10	23		3	11		11	
16-261750	10	21		7	9		9	
16-261751	10	21		2	10		10	
16-262694	10	15		4	16		16	
16-262308	10	15		3	10		10	
16-262417	10	13		2	8		8	
16-262309	10	15		0	10		10	
16-262689	10	13		2	10		10	
16-262573	10	13	11	3	13		11	
16-261386	20	25		1	20	20		
16-261690	20	23		2	23	20	22	23
16-261769	20	22		2	22	22	21	22
16-261661	20	22		0	22	21	22	21



## **The Corporation of the City of London** Management compensation process assessment

### Internal Audit Report

Audit performed: October 2017 - January 2018  
Final report issued: April 23 2018

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# Executive summary

## Introduction

As part of the 2017 Internal Audit Plan, Deloitte performed an internal audit of the Corporation of the City of London's ("City") management compensation process. The internal audit commenced in October 2017 and fieldwork was completed in February 2018. The purpose and objective of this internal audit was to evaluate the operational effectiveness and efficiency of processes and controls undertaken by the Human Resources & Corporate Services Service Area in updating the new compensation rates into the relevant management compensation systems as well as an assessment of the City's procedures to process management payroll.

## Management compensation

Human Resources & Corporate Services Service Area (HR) at the City has embarked on an initiative over the last two years to review and update the management compensation strategy, philosophy, and program. An independent consultant was engaged to assist in reviewing and assessing the City's management compensation strategy and program against industry best practices. Following the finalized engagement, HR was tasked with realizing the recommendations made by the consultant. This major initiative was undertaken to establish and implement a more simplified management compensation strategy and program. This simplification of the new strategy and program also lends itself to process efficiency and effectiveness enhancement opportunities.

There are two divisions within HR, Rewards & Recognition and Employee Systems, who are responsible for administering management compensation increases resulting from annual performance reviews. Rewards & Recognition's role is to obtain the performance review results and consult with the Senior Leadership Team to finalize the compensation distribution list. Rewards & Recognition is also responsible for advising City management of their compensation increases via a letter. Employee Systems receives direction from Rewards & Recognition to update the relevant management employee compensation information in the JD Edwards system using an approved compensation increase list. Employee Systems is also responsible for calculating any retroactive pay, with consideration given to employee benefit implications.

The detailed purpose and objective of this internal audit was to:

- Review and assess the City's practices surrounding the review of data input into the management compensation systems; and
- Evaluate the processes and controls in place to ensure the ongoing integrity of data within the management compensation system.

The specific agreed upon scope details between management and internal audit are included in **Appendix 1: Internal Audit detailed scope**.



## Key strengths

**Accuracy of management compensation information:** Control activities are in place to ensure the accuracy and completeness of management compensation including information used in the determination of compensation increases and the subsequent upload of the final rates to the JD Edwards system. Rewards and Recognition performs activities to calculate new management compensation increases using credible inputs applied to defined MS Excel formulae based on the management compensation program. Additionally, effective controls are in place for Employee Systems to receive the final compensation information and update the JD Edwards system.

**Accuracy of management employee retroactive pay:** Controls are in place for Employee Systems to calculate the management compensation retroactive pay. Retroactive pay is determined in MS Excel where formulae are effectively applied to relevant management data with consideration given to related items (e.g., pension implications, compensation effective date, etc.). Retroactive pay values are adequately reviewed by Employee Systems management for accuracy and subsequent payments.

**Management employee profile updates:** The City maintains effective procedures for Employee Systems to process management employee profile updates. Procedures and controls are effectively designed to ensure all change requests are received using a standardized Payroll Action Form that evidences the appropriate approvals and the population of relevant information. Change requests for management employees received, such as changes due to promotion and leave, were updated in JD Edwards in a timely manner.

**JD Edwards system controls:** Within the JD Edwards system, the City utilizes an audit trail function to maintain records of changes. This function maintains system record changes, such as changes to employee compensation rates or employee status, enabling Employee Systems to more effectively and efficiently identify unwarranted changes. An audit trail report is reviewed prior to each bi-weekly management payroll to validate the integrity of management employee data. Additionally, Employee Systems also utilizes other JD Edwards control functions such as restricted user access and rules to control payment abilities.

## Key observations

Deloitte’s review of the management compensation practices identified the following observations:

Priority	High	Medium	Low	Leading Practice
Observations	0	3	1	0

### Medium priority observations

#### **Observation 1.0: Payroll liability account reconciliation**

- **Observation:** The Manager of Employee Systems reconciles the payroll liability accounts, including payroll liability accounts for management compensation. However, the reconciliation of payroll liability accounts is only performed on an annual basis.
- **Risk & implication:** There is risk that payroll liability accounts could be financially misstated if reconciliations are not completed on a frequent basis.
- **Management action plan:** Employee Systems currently reconciles the payroll liability account balances annually. Employee Systems will fill an existing vacancy to allocate responsibility for undertaking this process on a quarterly basis and establish a procedure in this regard. This procedure will include established monitoring and oversight to ensure timely completion.
- **Responsible party:** Julie Kovacs, Manager, Employee Systems

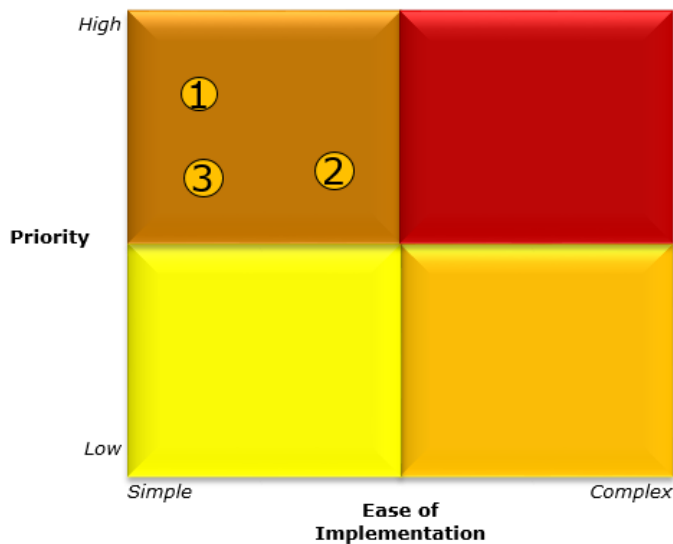
**Observation 2.0: Temporary off cycle and acting pay compensation increases**

- **Observation:** There is an informal process for Rewards & Recognition to receive expected end dates for new temporary off cycle and acting pay compensation increases. These end dates are subsequently provided to Employee Systems to code in the JD Edwards system. Inspection of the system determined that there were no end dates uploaded to systemically stop payments.
- **Risk & implication:** There is risk that overpayments are made to management employees if end dates are not coded in the JD Edwards system.
- **Management action plan:** Rewards and Recognition will develop a procedure for ensuring Employee Systems receives a start and end date for all current and future temporary off cycles or acting pay adjustments. Employee Systems will ensure the date is entered into JDE. Employee Systems will develop a quarterly report for Rewards and Recognition to note when a temporary compensation is nearing its end date. A procedure will be developed by parties outlining this process
- **Responsible party:** Sue Miller, Manager, Rewards and Recognition

**Observation 3.0: Management compensation program procedural documentation**

- **Observation:** There is a need for HR to further document management compensation procedures including procedures to obtain and reconcile data, finalize performance ratings and adjust compensation, receive appropriate approvals, update the JD Edwards system for payroll, and process retroactive payments.
- **Risk & implication:** The lack of revised and formalized documented practices could lead to ineffective, inefficient, or duplicated processes.
- **Management action plan:** Employee Systems and Rewards and Recognition will revise and formalize documented management compensation program practices. Specifically, the procedures to obtain and reconcile data, finalize performance ratings and adjust compensation, receive appropriate approvals, update the JD Edwards system for payroll, and process retroactive payments.
- **Responsible party:** Gary Bridge, Manager, Human Resources & Corporate Services

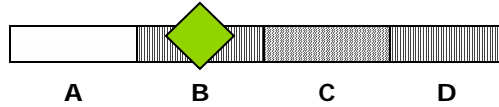
Priority heat map



### Conclusion

Based on our assessment of management compensation practices we noted three medium priority observations with the potential to impair the effectiveness of current processes. The issues noted in the report should be addressed in a timely manner to enhance current controls and mitigate relevant risks.

The following scale depicts our overall process conclusion as it relates to the scope of areas audited as outlined above:



Description	Definition
A	No or insignificant process control or efficiency weaknesses identified
B	Minor process control or efficiency weaknesses identified
C	Moderate process control or efficiency weaknesses identified
D	Significant control process or efficiency weaknesses identified Impairing the effectiveness of the process

# Detailed observations and recommendations

## Observation 1.0 – Payroll liability account reconciliation

Observation	Implication	Recommendation	Management comments and action plan	Responsible party and timing
<p><b>1.0 Payroll liability account reconciliation</b></p> <p>There are defined processes established for Employee Systems to match and verify payroll registers to the vouchers each pay period. Additionally, the Manager of Employee Systems reviews the accrued wages during the first pay periods of a new fiscal year to ensure prior fiscal year payment allocations are correct.</p> <p>However, based on review and discussion with Employee Systems management, the reconciliation of payroll liability accounts is performed annually.</p>	<p><b>1.0 Payroll liability account reconciliation</b></p> <p>There is risk that payroll liability accounts could be financially misstated if reconciliations are not completed on a frequent basis.</p>	<p><b>1.0 Payroll liability account reconciliation</b></p> <p>Employee Systems should reconcile all relevant payroll liability account balances on a more frequent basis (i.e. quarterly, monthly). When implementing the control, the following should be considered:</p> <ul style="list-style-type: none"> <li>• Allocate responsibility to an appropriate individual with adequate segregation of duties to perform the reconciliation;</li> <li>• Establish clear follow-up procedures supported by defined thresholds and timelines; and</li> <li>• Establish monitoring and oversight to ensure performance of payroll account reconciliations are performed in a timely manner.</li> </ul>	<p><b>Management Agrees.</b></p> <p>Employee Systems currently reconciles the payroll liability account balances annually.</p> <p>Employee Systems will fill an existing vacancy to allocate responsibility for undertaking this process on a quarterly basis and establish a procedure in this regard. This procedure will include established monitoring and oversight to ensure timely completion.</p>	<p>Julie Kovacs, Manager, Employee Systems</p> <p>September 30, 2018</p>

**Observation 2.0 – Temporary off cycle and acting pay compensation increases**

Observation	Implication	Recommendation	Management comments and action plan	Responsible party and timing
<p><b>2.0 Temporary off cycle and acting pay compensation increases</b></p> <p>Existing practices at the City allow management employees to receive temporary off cycle or acting pay adjustments that results in their salary being “off-grid” (i.e., salary outside of the standard pay grid). For example, if a management employee temporarily takes on additional duties in addition to their existing responsibilities. Currently, there is an informal process for Rewards &amp; Recognition to obtain end dates from the Service Area management for the off cycle salary increases. Internal Audit noted through inspection of the Management Compensation Guideline that temporary compensation increases must have a specified end date. However, Internal Audit inspected the JD Edwards system and noted that existing temporary off cycle and acting pay increases do not have an end date attached within the system.</p> <p>Through sample testing, no overpayments were identified.</p>	<p><b>2.0 Temporary off cycle and acting pay compensation increases</b></p> <p>There is risk that overpayments are made to management employees if end dates are not coded in the JD Edwards system.</p>	<p><b>2.0 Temporary off cycle and acting pay compensation increases</b></p> <p>The City should enhance the current process to ensure that Service Area management provide expected end dates when communicating temporary compensation increases to Rewards &amp; Recognition.</p> <p>When formalizing the process, the City should consider the following:</p> <ul style="list-style-type: none"> <li>• Communicating pay period results to management responsible for Service Area budgets.</li> <li>• A template that requires an expected end date used for Service Area management to submit for temporary compensation increases.</li> <li>• Periodic (e.g., monthly, quarterly) confirmation from Service Area management affirming that temporary compensation increases are still active.</li> </ul> <p>In addition, Employee Systems should formalize practices to receive end dates from Rewards &amp; Recognition and code end dates within JD Edwards system to prevent overpayments.</p>	<p><b>Management Agrees.</b></p> <p>Rewards and Recognition will develop a procedure for ensuring Employee Systems receives a start and end date for all temporary off cycles or acting pay adjustments. Employee Systems will ensure end date is entered into JDE. Employee Systems will develop a quarterly report for Rewards and Recognition to note when a temporary compensation is nearing its end date. A procedure will be developed by parties outlining this process.</p>	<p>Sue Miller, Manager, Rewards and Recognition June 30 2018</p>

**Observation 3.0 – Management compensation program procedural documentation**

Observation	Implication	Recommendation	Management comments and action plan	Responsible party and timing
<p><b>3.0 Management compensation program procedural documentation</b></p> <p>Internal Audit noted that while relevant guidelines are in place to establish and apply clear compensation criteria and rules, there is a need to formalize the documentation available for Rewards &amp; Recognition and Employee Systems to execute procedures effectively and consistently. Informal documentation exists, however documentation of procedures to obtain and reconcile the data, finalize performance ratings and adjust compensation, receive appropriate approvals, update the JD Edwards system for payroll, and process retroactive payments is required.</p> <p>Additionally, multiple existing process guide documents, including Payroll Processing, Time Accounting, and Updating Master Files have not been reviewed and revised since 2012.</p>	<p><b>3.0 Management compensation program procedural documentation</b></p> <p>The lack of revised and formalized documented practices could lead to ineffective, inefficient, or duplicated processes.</p>	<p><b>3.0 Management compensation program procedural documentation</b></p> <p>Rewards &amp; Recognition and Employee Systems should work to revise and formalize documented management compensation program practices. Specifically, the procedures to obtain and reconcile data, finalize performance ratings and adjust compensation, receive appropriate approvals, update the JD Edwards system for payroll, and process retroactive payments. When drafting these documents, HR should consider the following:</p> <ul style="list-style-type: none"> <li>• Clearly define roles and responsibilities including decision-making authority;</li> <li>• Collaborate with all relevant process owners to capture all areas of responsibility;</li> <li>• Review existing procedures and revise, where needed, to align with program parameters to achieve objectives;</li> <li>• Write clearly articulated procedures for ease of understanding and consistent performance;</li> <li>• Use a flexible, modular outline to allow for efficient modifications; and</li> <li>• Store documents centrally for easy reference.</li> </ul>	<p><b>Management Agrees.</b></p> <p>Employee Systems and Rewards and Recognition will revise and formalize documented management compensation program practices. Specifically, the procedures to obtain and reconcile data, finalize performance ratings and adjust compensation, receive appropriate approvals, update the JD Edwards system for payroll, and process retroactive payments.</p> <p>Currently undergoing a JD Edwards system upgrade for payroll, which is estimated to be complete by November 2018. Employee Systems and Rewards Recognition will not be able to finalize documented management compensation program practice until this time.</p>	<p>Gary Bridge, Manager, HR and Corporate Services December 2018</p>

Observation 4.0 – Performance management program guide

Observation	Implication	Recommendation	Management comments and action plan	Responsible party and timing
<p><b>4.0 Performance management program guide</b></p> <p>HR maintains a performance management guide and template letters used to educate and communicate relevant items to key stakeholders including program principles, timelines, and performance results. There is a need for HR to increase clarity in the following areas:</p> <ul style="list-style-type: none"> <li>• <b>Annual Performance and Development Cycle:</b> The performance guide requires enhanced clarity for stakeholders to understand where the compensation increases and retroactive pay timelines fit within the performance cycle.</li> </ul> <p>HR also develops key milestone dates for the performance management program. Milestones created for 2016 performance year were not met due to inherent reliance on related procedures performed outside of HR. Management also noted that key milestones have not been met for the previous two cycles.</p>	<p><b>4.0 Performance management program guide</b></p> <p>There is risk that unclear timelines can lead to misunderstanding of milestones and expectations.</p>	<p><b>4.0 Performance management program guide</b></p> <p>HR should review the current Performance Management Program Guide and update the information to reflect the current process and practical estimated timeframes. HR may consider the following:</p> <ul style="list-style-type: none"> <li>• Collaborate with key stakeholders to identify challenges facing the current program cycle, including timing of source inputs;</li> <li>• Consult with key stakeholders to assess challenges including reasonableness of the current cycle milestones;</li> <li>• Assess opportunities to enhance existing program practices to meet existing milestones or consider revising program cycle;</li> <li>• Create an implementation plan to implement enhancements or adjust program cycle; and</li> <li>• Enhance existing monitoring practices to actively evaluate effectiveness against program cycle.</li> </ul>	<p><b>Management Agrees.</b></p> <p>Rewards and Recognition will consider collaborating with key stakeholders to identify challenges facing the current program cycle, reasonableness of the current cycle milestones; assess opportunities to enhance existing practices, create an implementation plan to implement enhancements; and enhance existing monitoring practices. Rewards and Recognition will enhance the performance guide to clearly outline where the compensation increases and retroactive pay timelines fit within the performance cycle.</p>	<p>Sue Miller, Manager, Rewards and Recognition September 30, 2018</p>

# Appendix 1: Internal Audit detailed scope

Specifically, the internal audit addressed the following areas:

## **Reviewed and assessed the City's practices surrounding the review of data input to the management compensation payroll system and tools:**

- Reviewed management compensation procedures to record and retain relevant information including tax table updates, salary scale updates, and time and attendance and assessed the ability to process in a timely manner;
- Reviewed the processes surrounding the addition, change and deletion of employees records within the management compensation payroll system;
- Reviewed the process for reviewing, approving, monitoring and reporting of payroll transactions and activities; and
- Reviewed the process for management to review management compensation data input into the system and assessed the adequacy and timeliness of their review.

## **Evaluated the integrity of the data within the payroll system used for the management compensation program:**





- Reviewed the flow of information into the payroll system and assessed the process to identify gaps that exposes risk of data inaccuracies;
- Assessed and validated the internal controls in place surrounding the process to collect and maintain relevant information for management compensation; and
- On a sample basis, assessed the extent of data integrity for the relevant information input and stored within the management compensation payroll system.



# Appendix 2: Internal Audit rating scale

## Individual observation prioritization

Internal Audit will prioritize each observation and recommendation within a report using a three point rating scale. The three point rating scale will be as follows:

Description	Definition
 High	Observation is high priority and should be given immediate attention (e.g. 0-3 months) due to the existence of either significant internal control risk or a potential significant operational improvement opportunity.
 Medium	Observation is a moderate priority risk or operational improvement opportunity and should be addressed in the near term (e.g. 3-6 months).
 Low	Observation does not present a significant or medium control risk but should be addressed (e.g. within a 6-12 month timeframe) to either improve internal controls or process efficiency.
 Leading Practice	Consideration should be given to implementing recommendations in order to improve the maturity of the process and align with leading practices.

# Appendix 3: Stakeholder involvement

In conducting the assessment, the following management and staff were interviewed to gain an understanding of the City’s management compensation processes and practices.

Stakeholder	Position
Sue Miller	Manager IV Rewards & Recognition, Human Resources & Corporate Services
Gary Bridge	Manager IV Human Resources & Corporate Services
Julie Kovacs	Manager III, Employee Systems, Human Resources & Corporate Services
Liliana Osowski	Manager II, Payroll Operations, Human Resources & Corporate Services
Various – Deloitte met with various management and staff in the Human Resources & Corporate Services Service Area to gather an in-depth understanding of the management compensation processes and practices and perform audit procedures.	

# Appendix 4: Audit procedures performed

As part of the management compensation process assessment the following procedures were performed:

- Conducted a planning meeting with the Managers of Rewards & Recognition, Employee Systems, and Human Resources & Corporate Services (HR);
- Updated and issued a finalized Project Charter and request for information;
- Conducted meetings and interviews with HR management and staff to:
  - Gain an understanding of management compensation program expectations and practices;
  - Identify and gain an understanding of the various management compensation procedures including procedures to finalize management compensation increases, update compensation increases within relevant systems and tools, and process management payroll; and
  - Gain an understanding of HR's procedures and controls over management employee data;
- Obtained documentation regarding relevant procedures and controls to perform an inspection of:
  - Performance Guide Jan 2017;
  - Management Compensation Guidelines Feb 2017;
  - Payroll Processing;
  - Updating Master File;
  - Time Accounting;
  - Kronos Audit Checklist;
  - Payroll Action Form / Payroll Action Form 2;
  - Various checklists (e.g., retirement, termination, new hire, leave, etc.);
  - New hire, termination, and retirement emails;
  - Salary grid including transition to one grid Excel sheet;
  - Management Performance and Compensation Timeline with Milestones;
  - Agency 09 management employee listing;
  - Final 2017 compensation increases from 2016 performance review;
  - 2017 retroactive pay from 2016 performance review;
  - Off-cycle, TMPA, and Acting Pay Tracker;
  - Year-end accrued wage to payroll ledger reconciliation;
  - Monthly payroll liability reconciliation;
  - 2017 Pay Schedule;
  - Memo to Managers;
  - Sample Letter to Employees;
  - Sample payroll documentation (Prepay register, all paycodes balancing, prepay balancing, payroll register, all pay codes, direct deposit file creation, bank file email)
- Conducted strategic sample testing activities related to management compensation increases, management employee profile changes (e.g., terminations, promotion, etc.), and management payroll procedures to identify areas for improvement;
- Drafted observations and validated observations with management;
- Conducted a closing meeting with key management stakeholders to validate and communicate our findings; and

- Issued this internal audit report with our detailed observations.



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## Memo

<b>Date:</b>	June 1, 2018
<b>To:</b>	Members of The Corporation of the City of London Audit Committee
<b>From:</b>	Jim Pryce, Partner, Deloitte LLP
<b>Subject:</b>	Internal Audit Summary Update

Internal Audit has included a summary memo with our material to highlight major accomplishments since our last update to the Audit Committee and to draw your attention to the matters of greatest importance. We will cover these documents in more detail at the meeting and respond to all questions you may have.

### **1. Internal Audit Dashboard Report:**

- a. The approved 2017-2018 plan continues to be executed. Internal Audit continues to engage management in scoping meetings for upcoming reviews and has regular meetings with the City Manager and City Treasurer.
- b. Internal Audit has issued one project report since the last Audit Committee update: Management compensation process assessment. Action plans are in place, including a responsible party and timeline, to address the observations noted in the issued report.
- c. Internal Audit will proactively work with management to improve the performance metrics of finalizing internal audit reports.

### **2. Internal Audit Plan:**

- a. The original audit plan included a post-implementation review of the Class Replacement System where plans for the system replacement have changed and implementation is now scheduled for 2019. Management has requested that Internal Audit perform a pre-implementation review of the Class Replacement System as part of the 2017-2018 Internal Audit plan. Management prefers to have Internal Audit engaged through the process to assist with ensuring the controls system is designed appropriately.

### **3. Audit Observation Status Summary of High and Medium Priority Observations and past due observation trending analysis:**

- a. Internal Audit closed one (1) high priority observation for the Parks & Recreation cash handling review.
- b. Four (4) observations are past due as of June 1<sup>st</sup>, 2018 compared to zero (0) past due as of January 2018 including two (2) medium priority observations for the Parks and Recreation cash handling review and two (2) high priority observations for the Freedom of information

process assessment. Through inquiry, Internal Audit determined that management appears to be performing activities towards completing planned actions within a revised timeline.




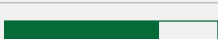
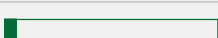
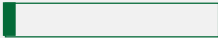
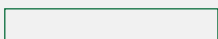
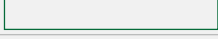
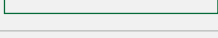
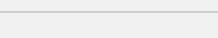
- c. We are comfortable that management is making progress on remediating open items based on the timelines established and work plans in place which they have attested too.

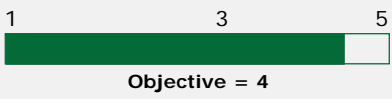
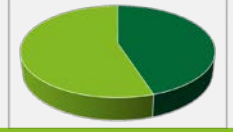
**4. Reports issued:**

- a. Management compensation process assessment: Minor process control or efficiency weaknesses identified. The report identified three medium priority observations.

## The Corporation of the City of London

June 2017 - December 2018 internal audit dashboard as at June 1, 2018

Project status – 2017-2018 Internal audit plan			
2017-2018 Audit plan projects	Percent complete		Report issued
<input type="checkbox"/> Parks & Recreation cash handling process review	 100%		<input checked="" type="checkbox"/>
<input type="checkbox"/> Freedom of information process assessment	 100%		<input checked="" type="checkbox"/>
<input type="checkbox"/> Management compensation process assessment	 100%		<input checked="" type="checkbox"/>
<input type="checkbox"/> Building permit process assessment	 100%		<input checked="" type="checkbox"/>
<input type="checkbox"/> Parking revenue generation assessment	 95%		<input type="checkbox"/>
<input type="checkbox"/> Homelessness prevention management process assessment	 70%		<input type="checkbox"/>
<input type="checkbox"/> IT portfolio management and project management assessment	 5%		<input type="checkbox"/>
<input type="checkbox"/> IT security assessment	 5%		<input type="checkbox"/>
<input type="checkbox"/> Procurement process assessment	 5%		<input type="checkbox"/>
<input type="checkbox"/> Housing process assessment	 0%		<input type="checkbox"/>
<input type="checkbox"/> Class replacement project post-implementation review*	 0%		<input type="checkbox"/>
<input type="checkbox"/> Health and safety assessment	 0%		<input type="checkbox"/>
<input type="checkbox"/> Construction procurement process assessment	 0%		<input type="checkbox"/>

Internal audit activities – June 2018 – September 2018				
<input type="checkbox"/> Parking revenue generation assessment (reporting)				
<input type="checkbox"/> Homelessness prevention management process assessment (fieldwork & reporting)				
<input type="checkbox"/> Housing process assessment (scoping & fieldwork)				
<input type="checkbox"/> IT portfolio management and project management process assessment (scoping & fieldwork)				
<input type="checkbox"/> Procurement process assessment (scoping & fieldwork)				
<input type="checkbox"/> Health and safety assessment (scoping & fieldwork)				
<input type="checkbox"/> IT security assessment (scoping)				
<input type="checkbox"/> Construction procurement process assessment (scoping)				
<input type="checkbox"/> Class replacement project post-implementation review* (scoping)				
Other activities				
<input type="checkbox"/> Prepare quarterly Audit Committee meeting materials				
<input type="checkbox"/> Observation follow-ups and validation (quarterly)				
2017-2018 Performance metrics				
<input type="checkbox"/> <b>Project customer satisfaction</b>				
Overall quality of work/satisfaction level? (Based on completed reports surveys returned)				
		<b>% complete of the 2017-2018 internal audit plan</b> 45% complete 		
Internal audit 2017-2018 reporting				
	Draft (days)	Management comment (days)	Issue final (days)	Final (days)
<input type="checkbox"/> <b>Objective</b>	5.0	15.0	10.0	30.0
<input type="checkbox"/> <b>Performance</b>	7.0	23.0	18.75	48.75

\* - Management request to move to a pre-implementation review.



City of London Audit Committee Observation Summary  
As at June 1, 2018

LEGEND:	
Observations closed	All observations have been addressed by management
Remediation in progress	Observations in progress are being addressed by management including observations where initial timeline was missed but a plan is in place for remediation that appears acceptable
Remediation in progress - exception noted	Management has missed implementation deadlines for observations and no adequate resource plan has been identified
Management accepts the risk	Management has accepted the remaining risk

Report Summary			Observation Status for Management Action Plans due June 1, 2018							Past Due Observation Commentary
Internal Audit Plan Year	Report	Report Issue Date	Total High & Medium Observations	Observations Closed Per Management	Closed Per Internal Audit*	In Progress Observations (Not Due)	Past Due Observations	Observations Closed by IA Since Jan 29, 2018 update	Timing	
2017/2018	Parks and Recreation Cash handling review	Nov-17	3	1	1	0	2	1	May-18	• Two observations are past due as issuance of revised Cash Handling Policy is outstanding. Revised timeline is Dec 2018
2017/2018	Freedom of information process assessment	Jan-18	2	0	0	0	2	0	May-18	• Two observations are past due as issuance of Privacy Policy is outstanding. Revised timeline is Dec 2018
2017/2018	Building permit process assessment	Jan-18	3	0	0	3	0	0	Feb-19	
2017/2018	Management compensation process assessment	Apr-18	3	0	0	3	0	0	Dec-18	
<b>Sub-total 2017/2018 reports</b>			<b>11</b>	<b>1</b>	<b>1</b>	<b>6</b>	<b>4</b>	<b>1</b>		
<b>Total High and Medium observations</b>			<b>11</b>	<b>1</b>	<b>1</b>	<b>6</b>	<b>4</b>	<b>1</b>		
<p>Closed per Management: Management has indicated that action plans due to be acted upon by June 1, 2018 are complete.</p> <p>Closed per IA: Internal Audit has validated Management's assertions of observation closure through review of evidence.</p> <p>In Progress Observations: Management action plans due beyond June 1, 2018 are underway or management has asserted observations are closed but Internal Audit has not yet validated.</p> <p>Past Due Observations: Actions plans due by June 1, 2018 have not been fully acted upon.</p> <p>Observations Closed by Internal Audit since last update: Management has indicated in the current period that action plans are complete and Internal Audit has validated through review of evidence</p> <p>Note *: Observation closed by Internal Audit once validation of activities undertaken have been independently verified by Internal Audit</p>										



## **The Corporation of the City of London** Parking Revenue Generation Assessment

Audit Performed: February – April 2018  
Final Report Issued: June 2018

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# Executive summary

## Introduction

As part of the Internal Audit Plan, an assessment of the City of London (the 'City') Parking Services' revenue generation commenced in February 2018. Citizens of London and visitors have access to convenient short-term on-street parking and long-term off-street parking that is intended to support businesses, commercial and institutional facilities as well as entertainment venues. Parking Services has recently taken on large initiatives including implementing the new parking enforcement technology and rebranding Parking Services. Specifically, the new parking enforcement technology implementation was divided into three phases:

1. Live enforcement data, ticket management, and court process,
2. Mobile Payment App, Overnight Parking Pass module, and
3. Paid Parking Permit module, Administrative Monetary Penalties (AMP), Assets & Operations module.

The purpose and objective of this review was to:

- Review the processes and controls in place to manage Parking Services' cash transactions, cash deposits, and cash reconciliations;
- Review the processes to monitor cash handling for Parking Services; and
- Review the Parking Services' budgeting and strategic prioritization processes.

## Key strengths

**Revenue handling activities:** Parking Services has implemented effective activities to adequately control the intake of money as revenue from different sources. Specifically, Parking Services maintains effective procedures and controls to accept, record, reconcile and deposit money for on-street and off-street parking, monthly parking permits, and ticket payment. All revenue sources including parking meters (coin), mobile Honk app, master meter (credit card), and front counter office payment transactions are operating effectively in a controlled environment.

**Information technology systems:** Parking Services is committed to adopting information technology system solutions that meet the desired needs for effective and efficient parking service operations. In 2016, Parking Services introduced the Command Center hub, a central parking database, to their environment where they have been able to realize significant operational improvements such as customizable and automated reporting. As an extension of this hub, Parking Services is also nearing the implementation phase for an asset and operations module designed to more effectively record and monitor parking revenue and expenses.

**Roles and responsibilities:** Parking Services staff interviewed during this assessment demonstrated a clear understanding of their roles and responsibilities as it relates to revenue generation and related parking service operations. Parking Services staff were able to communicate how their responsibilities not only contribute to the generation of revenue but also demonstrated a need to maintain effective control through proper segregation of duties and to avoid any duplication of efforts.

## Key observations

Deloitte’s review of the parking revenue generation practices identified the following observations:

Priority	High	Medium	Low	Leading Practice
Observations	2	3	3	0

### High priority observations

#### **Observation 1.0: Parking Services strategy**

- **Observation:** A clear overall Parking Services strategy for the City has not been formally documented or consistently articulated. There is a need for Parking Services to establish an overall strategic direction to clearly articulate desired/target outcomes for parking by-law enforcement. It is also unclear how performance targets and metrics are used to measure the effectiveness of parking programs.
- **Risk & implication:** Absent desired outcomes defined, Parking Services may not have clearly articulated what it is seeking to achieve with respect to the goals and expectations of the service delivery and how to demonstrate progress towards those objectives.
- **Management action plan:** Management recognizes the need to establish and adopt a formal parking management strategy for the City. However noting that this strategy would also incorporate the work already performed for the London Downtown Parking Strategy.
  - Parking Services management will work to establish and adopt an overall strategy by:
  - Performing activities to recruit a municipal specialist resource (September 2018).
  - Leveraging the municipal resources to assist in development of a financial funding strategy to be ready for the 2020 budget (June 2019).

Developing an initial draft of the parking management strategy in consultation and collaboration with relevant stakeholders, e.g. Senior Leadership Team, Council, etc. (December 2019).
- **Responsible party:** Orest Katolyk, Chief Municipal Law Enforcement Office, December 31, 2019

#### **Observation 2.0: Parking Services risk inventory**

- **Observation:** There is currently no formal documentation to demonstrate that Parking Services has identified and defined parking services related risks, including existing or emerging risks. The risks are not formally monitored which may lead to Parking Services misaligning attention and resources.
- **Risk & implication:** There is no common view on the set of key parking risks, which may lead to a lack of clarity on which risks Parking Services should be focusing both attention and resources.
- **Management action plan:** During the process to develop the parking management strategy as outlined in the action plan for 1.0, Management will record the key risks and opportunities identified. Within this list, Management will consider the current activities and controls to mitigate those risks, and/or conclude whether the risk is acceptable given current business operations. In addition, Management may consult with the City’s Risk Management Division for assistance with these efforts.
- **Responsible party:** Orest Katolyk, Chief Municipal Law Enforcement Office, December 31, 2019

## Medium priority observations

### **Observation 3.0: Customer service monitoring**

- **Observation:** Parking Services does not currently maintain a formal mechanism to solicit feedback from customers for parking related service offerings including enforcement, on/off-street parking, and mobile app experiences. Additionally, procedures to address received customer feedback have not been formally documented. There are also no clear criteria to consistently evaluate feedback, nor guide the escalation of issues if required.
- **Risk & implication:** Parking Services may be unaware of customer feedback that demonstrates a need or opportunity for improvement or changes to customer service delivery.
- **Management action plan:** Management recognizes that when paying for a parking infraction most feedback received is negative. To encourage the capturing of relevant and constructive feedback Management will narrow the scope of feedback to specific services and/or initiatives. In addition, management will formalize the process to address customer feedback, in terms of criteria to evaluate feedback and escalate issues.
- **Responsible party:** Orest Katolyk, Chief Municipal Law Enforcement Office, March 31, 2019

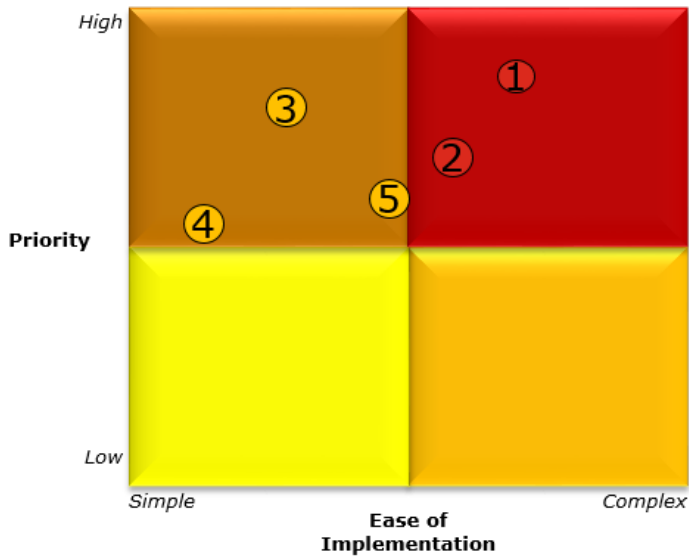
### **Observation 4.0: Documented procedures**

- **Observation:** Internal Audit noted that a limited number of business processes are documented for Parking Services to ensure standard operating procedures (SOP) are performed effectively and consistently throughout each year. These processes include budget to actual comparisons, invoice processing, bank statement reconciliations, and fund remittance. Internal Audit also noted that of the currently documented processes and guidelines some did not have a date of last revision recorded, or had not been revised since 2010.
- **Risk & implication:** The lack of documented practices could lead to ineffective, inefficient, or duplicated processes. The lack of documented SOP may restrict Parking Services' ability to effectively onboard and train new staff.
- **Management action plan:** Management will prepare standard operating procedures and/or refresh where required.
- **Responsible party:** Annette Drost, Manager of Municipal Law Enforcement Services, Parking Services, June 30, 2019.

### **Observation 5.0: Asset management operations**

- **Observation:** Current asset management practices involve manual performance of related reconciliations, recorded results, and manual preparation of the relevant journal entries for posting by the Financial Services department. Specifically for meter coin revenue, there is heavy reliance on manual procedures. The current process requires additional time to perform operations, as well as, a higher risk of inaccurate results due to its manual nature. Management has self-identified this issue and per discussion with Management, Internal Audit noted that Parking Services is currently planning to implement the Gtechna module for asset management operations beginning in 2018.
- **Risk & implication:** Manual and time consuming operations could result in ineffective allocation of resources. There is also risk of inaccurate data that may be used as an input to Parking Services reporting and analysis activities.
- **Management action plan:** Management will continue with the implementation of the Gtechna module for asset management operations, with consideration for the recommended points. Noting that Parking Services is working closely with IT during this implementation and go-live dates are dependent on the agreed upon project schedule.
- **Responsible party:** Annette Drost, Manager of Municipal Law Enforcement Services, Parking Services, June 30, 2019.

### Priority heat map

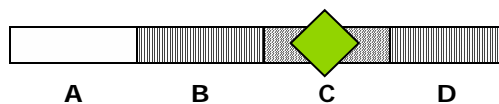


### Conclusion

Based on our assessment of parking revenue generation practices we noted two high priority observations with significant operational improvement opportunity, three medium priority observations with the potential to impair the effectiveness of current processes and three low priority observations with minor potential to impair the effectiveness of current processes. The issues noted in the report should be addressed in a timely manner to enhance current controls and mitigate relevant risks.

Management is to provide action plans for the observations noted in the 'Detailed observations and recommendations' section.

The following scale depicts our overall process conclusion as it relates to the scope of areas audited as outlined above:



Description	Definition
A	No or insignificant process control or efficiency weaknesses identified
B	Minor process control or efficiency weaknesses identified
C	Moderate process control or efficiency weaknesses identified
D	Significant control process or efficiency weaknesses identified Impairing the effectiveness of the process

# Detailed observations and recommendations

## Observation 1.0 – Parking Services strategy

Observation	Implication	Recommendation	Management comments and action plan	Responsible party and timing
<p><b>1.0 Parking Services strategy</b></p> <p>The 2016 – 2019 Parking Business Plan notes the objective, “To build a better City by providing a successful Parking Service”, however beyond the recent development of the London Downtown Parking Strategy, a clear overall parking services strategy for the City has not been formally documented or consistently articulated.</p> <p>Internal Audit also noted it was unclear as to how the City uses the performance targets from the 2016 – 2019 Parking Business Plan and annual metrics reported to Municipal Benchmarking Network (MBN) of Canada to measure and monitor the effectiveness of parking programs in the absence of a formal strategy.</p>	<p><b>1.0 Parking Services strategy</b></p> <p>Without desired outcomes defined, Parking Services may not have clearly articulated what it is seeking to achieve with respect to the goals and expectations of the service delivery and how to demonstrate progress towards those objectives</p>	<p><b>1.0 Parking Services strategy</b></p> <p>Parking Services should establish and adopt a formal parking management strategy. When establishing a parking services strategy, Management should consider the following:</p> <ul style="list-style-type: none"> <li>• Collaborate with the Senior Leadership Team and Council to define the direction of Parking Services with respect to providing parking space and by-law enforcement, and subsequently develop a clear parking services vision and mission and ensure these aspirations align with City strategy;</li> <li>• Create key objectives and guiding principles to establish an environment that can control strategic activities and decision making, as well as, measure achievements;</li> <li>• Evaluate core capabilities to better understand and inform decisions when developing a strategy including:                         <ul style="list-style-type: none"> <li>◦ Customer understanding –Ability to know the customer base, uncover unarticulated needs within the City, and identify opportunities.</li> </ul> </li> </ul>	<p><b>Management Agrees</b></p> <p><b>Action plan:</b></p> <p>Management recognizes the need to establish and adopt a formal parking management strategy for the City. However noting that this strategy would also incorporate the work already performed for the London Downtown Parking Strategy.</p> <p>Parking Services management will work to establish and adopt an overall strategy by:</p> <ul style="list-style-type: none"> <li>• Performing activities to recruit a municipal specialist resource (September 2018).</li> <li>• Leveraging the municipal resources to assist in development of a financial funding</li> </ul>	<p>Orest Katolyk, Chief Municipal Law Enforcement Office</p> <p>December 31, 2019</p>



- Innovation – Capacity to translate understanding of customer needs into an effective brand and services.
  - Brand building – Build and deploy a distinctive brand for strengthening customer satisfaction and loyalty.
  - Service delivery – Capability concerns and investing in partnerships to deliver more value to customers.
  - Document a schedule to review periodically the strategy, vision, mission, guiding principles and objectives to refresh in response to parking trends and external factors in order to sustain a current and effective model.
- Developing an initial draft of the parking management strategy in consultation and collaboration with relevant stakeholders, e.g. Senior Leadership Team, Council, etc. (December 2019).

Once the parking management strategy has been established, Parking Services management should also identify the measures that would support ongoing monitoring of progress towards objectives, performance measure targets and strategic goals, and provide standard reporting as required to Senior Leadership Team and/or Council.

In addition, following from the development of a parking management strategy and implementation of administrative monetary penalty process, Management may consider the opportunity to revisit the workflow within the Parking Services department.

strategy to be ready for the 2020 budget (June 2019).

Observation 2.0 – Parking Services risk inventory

Observation	Implication	Recommendation	Management comments and action plan	Responsible party and timing
<p><b>2.0 Parking Services risk inventory</b></p> <p>There is currently no formal documentation to demonstrate that Parking Services has identified and defined parking services-related risks, including existing or emerging risks. Consequently, risks are not formally monitored or trended which may lead to Parking Services misaligning attention and resources.</p>	<p><b>2.0 Parking Services risk inventory</b></p> <p>There is no common view on the set of key Parking Services risks, which may lead to a lack of clarity on which risks Parking Services should be focusing both attention and resources.</p>	<p><b>2.0 Parking Services risk inventory</b></p> <p>In conjunction with observation 1.0, during development of parking management strategy and through ongoing operations, management should perform an exercise to formally identify and prioritize the risks faced by Parking Services. Management should also establish a cycle to identify emerging risks and regularly evaluate existing risks on an ongoing basis.</p>	<p><b>Management Agrees</b></p> <p><b>Action plan:</b></p> <p>During the process to develop the parking management strategy as outlined in the action plan for 1.0, Management will record the key risks and missed opportunities identified. Within this list, Management will consider the current activities and controls to mitigate those risks, and/or conclude whether the risk is acceptable given current business operations.</p> <p>In addition, Management may consult with the City's Risk Management Division for assistance with these efforts.</p>	<p>Orest Katolyk, Chief Municipal Law Enforcement Office December 31, 2019</p>

Observation 3.0 – Customer service monitoring

Observation	Implication	Recommendation	Management comments and action plan	Responsible party and timing
<p><b>3.0 Customer service monitoring</b></p> <p>Parking Services does not currently maintain a formal mechanism to solicit feedback from customers with respect to all parking related service offerings (e.g., enforcement, on/off-street parking, mobile app, etc.). While Parking Services currently provides a method to report specific types of requests for parking by-law enforcement, there is no clear mechanism to intake customer feedback for parking services more broadly (e.g., complaints about Parking Enforcement Officers, Parking Services staff, parking availability, etc.). The 'Report a Parking Complaint' webpage is solely a general mailbox for submitting complaints requiring Parking Enforcement Officers to investigate.</p> <p>Additionally, procedures to address received customer feedback have not been documented. There are no clear criteria to consistently evaluate feedback, nor guide escalation of issues.</p>	<p><b>3.0 Customer service monitoring</b></p> <p>There is risk that Parking Services is unaware of customer feedback that demonstrates a need or opportunity for improvement or changes to customer service delivery.</p>	<p><b>3.0 Customer service monitoring</b></p> <p>Parking Services should consider formalizing a mechanism for intake of customer service feedback with respect to all parking related service offerings (e.g. enforcement, on/off-street parking, mobile app, etc.). An example of the mechanism may include a dedicated mailbox or survey. This mechanism should be supported by operational activities with assigned responsibility and clear expectations. When establishing a formal mechanism, Parking Services management should consider:</p> <ul style="list-style-type: none"> <li>• Required supporting operational activities, including ongoing monitoring of feedback received, criteria to evaluate feedback, and criteria to escalate to appropriate City management for resolution;</li> <li>• Collaborating with stakeholders and peer municipal parking services leadership to determine needs and use of customer service information that is measurable and meaningful;</li> <li>• Identifying key performance indicators (e.g., meter down time, etc.) and operational metrics measuring activities that could objectively demonstrate customer service levels; and</li> <li>• Formalizing a reporting process to actively gauge, interpret and monitor any identified trends within received customer feedback.</li> </ul>	<p><b>Management Agrees.</b></p> <p><b>Action plan:</b></p> <p>Management recognizes that when paying for a parking infraction most feedback received is negative. To encourage capture of relevant and constructive feedback, management will aim the mechanism at specific services and/or initiatives such as potential expansions to payment options or methods (i.e., Administrative Monetary Penalties).</p> <p>In addition, management will formalize the process to address customer feedback, in terms of criteria to evaluate feedback and escalate issues.</p>	<p>Orest Katolyk, Chief Municipal Law Enforcement Office</p> <p>March 31, 2019</p>

Observation 4.0 – Documented procedures

Observation	Implication	Recommendation	Management comments and action plan	Responsible party and timing
<p><b>4.0 Documented procedures</b> Internal Audit noted a limited number of business processes are documented for Parking Services to ensure standard operating procedures (SOP) are performed effectively and consistently throughout each year. This includes a lack of documentation surrounding procedures to perform budget to actual comparisons, and to process invoices to make payment, reconcile bank statements, verify MTO funds received, and remit funds to MTO. In addition, the results of business processes have not been documented, for example approval of void tickets, daily cash balancing, revenue recording and deposits, MTO remittance, expense recording, and accounts payable.</p> <p>Internal Audit also noted that of the currently documented processes and guidelines, including Cancellation Guidelines and Cale Credit Card Bank Deposit Instructions (i.e., meter revenue) either they do not have a date of last revision recorded, or have not been reviewed and revised since 2010. Currently, there is no schedule with assigned responsibility to regularly review and revise</p>	<p><b>4.0 Documented procedures</b> The lack of documented practices could lead to ineffective, inefficient, or duplicated processes.</p> <p>The lack of documented SOP may restrict Parking Services' ability to effectively onboard and train new staff.</p>	<p><b>4.0 Documented procedures</b> Parking Services should document all relevant SOP while also establishing a cycle to regularly review and revise SOP documentation on an ongoing basis. When preparing to document SOP and create a review cycle, Parking Services management should consider the following:</p> <ul style="list-style-type: none"> <li>• Performing a gap assessment on current operations and future-state desires to understand implications on SOP documentation;</li> <li>• Generating an inventory of all standard operating procedures documents and creating and recording performance of a review schedule at an appropriate frequency;</li> <li>• Utilizing tracked changes within Microsoft Word and version control while also documenting the date of last revision with management approval to clearly articulate completion of any review and revision.</li> <li>• Documenting an executive summary for each SOP to clearly articulate role responsibility, management oversight, etc.; and</li> <li>• Storing all relevant documentation centrally for ease of access using a City approved database (e.g., SharePoint, etc.).</li> </ul>	<p><b>Management Agrees.</b> <b>Action plan:</b> Management will prepare standard operating procedures and/or refresh where required.</p>	<p>Annette Drost, Manager of Municipal Law Enforcement Services, Parking Services June 30, 2019</p>

Observation	Implication	Recommendation	Management comments and action plan	Responsible party and timing
standard operating procedures and guidelines.				

Observation 5.0 – Asset management operations

Observation	Implication	Recommendation	Management comments and action plan	Responsible party and timing
<p><b>5.0 Asset management operations</b></p> <p>Internal Audit noted that current asset management practices involve manual performance of related reconciliations, record results, and manual preparation of the relevant journal entries for posting by the Financial Services department.</p> <p>Specifically for meter coin revenue, there is heavy reliance on manual procedures to reconcile actual coin received, record actual revenue on paper, independently reconcile revenue recorded on paper, record reconciled revenue on multiple Microsoft Excel sheets, and prepare the journal entries for approval and posting. This current process requires additional time to perform operations as well as a higher risk of inaccurate results due to its manual nature.</p> <p>Management has self-identified this issue and per discussion with Management, Internal Audit noted that Parking Services is currently planning to implement the Gtechna module for asset management operations during 2018.</p>	<p><b>5.0 Asset management operations</b></p> <p>Manual and time-consuming operations could result in ineffective allocation of resources. There is also risk of inaccurate data that may be used as an input to Parking Services reporting and analysis activities.</p>	<p><b>5.0 Asset management operations</b></p> <p>Parking Services should continue to proceed with implementation of Gtechna module for asset management operations to realize opportunities to have more efficient and effective asset management through automation. When assessing different options for adoption, Parking Services management should consider the following:</p> <ul style="list-style-type: none"> <li>• Performing a cost-benefit analysis to understand the return on investment from adopting automated activities;</li> <li>• Assessing alternatives to understand alignment with strategic priorities, key objectives and City goals;</li> <li>• Document detailed user requirements are documented and leverage to ensure module specifications are appropriate for needs of Parking Services;</li> <li>• Ensuring identified risks within the asset management processes have been appropriately mitigated within the Gtechna module, and an audit trail is available for detailed investigation as required; and</li> <li>• Reviewing current role responsibilities to better fit the potential process frameworks with consideration given to effective segregation of duties.</li> </ul>	<p><b>Management Agrees.</b></p> <p><b>Action plan:</b></p> <p>Management will continue with the implementation of the Gtechna module for asset management operations, with consideration for the recommended points.</p> <p>Noting that Parking Services is working closely with IT during this implementation and go-live dates are dependent on the agreed upon project schedule.</p>	<p>Annette Drost,                  Manager of Municipal Law Enforcement Services,                  Parking Services                  June 30, 2019</p>

Observation 6.0 – User access permission: Gtechna system

Observation	Implication	Recommendation	Management comments and action plan	Responsible party and timing
<p><b>6.0 User access permission: Gtechna system</b></p> <p>There is a lack of procedures designed to periodically review user access permissions to the Gtechna system. Through sample-based testing, it was also determined that some individuals no longer employed by Parking Services still hold active access permissions to Gtechna modules.</p> <p>There are also no approved standard access permissions recorded to ensure permissions are appropriately designed and controlled for each role and periodically reviewed to remain current with role responsibilities.</p>	<p><b>6.0 User access permission: Gtechna system</b></p> <p>There is risk that individuals may have inappropriate access that could lead to unauthorized activities on the Gtechna system.</p>	<p><b>7.0 User access permission: Gtechna</b></p> <p>Parking Services management should formalize a review process to ensure that user access permissions are periodically reviewed and updated as needed. When formalizing the process, Parking Services management should consider the following:</p> <ul style="list-style-type: none"> <li>• Documenting standardized access level permissions by role considering segregation of duties and privileged access. This includes defining and recording exceptions to standard permissions;</li> <li>• Creating a schedule to periodically review all access level permissions to remain current with role responsibilities and staff changes;</li> <li>• Assigning responsibility to an individual with adequate knowledge to perform an effective review;</li> <li>• Implementing a standard template to record and store performance of each review including validation of required changes; and</li> <li>• Establishing an oversight mechanism to ensure that periodic reviews and resulting actions are completed in a timely fashion.</li> </ul>	<p><b>Management Agrees.</b></p> <p><b>Action plan:</b></p> <p>Management will develop and implement procedures for the regular review of user access permissions in Gtechna system to ensure that appropriate access is maintained.</p>	<p>Annette Drost, Manager of Municipal Law Enforcement Services, Parking Services March 31, 2019</p>

*Observation 7.0 – Ministry of Transportation of Ontario (MTO) cheque validation*

Observation	Implication	Recommendation	Management comments and action plan	Responsible party and timing
<p><b>7.0 MTO cheque validation</b> Existing practices for Parking Services to validate the amount of MTO cheques received for Defaulted Fines Control Centre (DFCC) court fines and DFCC fine amounts requires enhancement. Parking Services is currently performing procedures to independently calculate the DFCC court fine portion of the cheque. There is a need to enhance procedures to more effectively verify the DFCC fine amount portion.</p> <p>In addition, there is no formalized process in place for Parking Services to follow-up with the MTO when cheque amounts cannot be reconciled.</p>	<p><b>7.0 MTO cheque validation</b> There is risk that the City is not receiving the full amount owed by the MTO as agreed upon in the relevant contract for parking tickets processed with MTO.</p>	<p><b>7.0 MTO cheque validation</b> Parking Services should enhance the current process to ensure that the full amount of each cheque received from the MTO is reasonably reconciled. Parking Services management should perform an evaluation to identify, develop, and implement a mechanism to reconcile each cheque to within a reasonable level of comfort. Recording of the performance of this reconciliation should also be maintained for management to perform periodic reviews as a form of active oversight.</p> <p>Parking Services management should also document a formal process to follow-up with the MTO for instances where a cheque is not received when expected or received for an incorrect amount. This document should list the main point of contact and be reviewed periodically to remain current with contract obligations.</p>	<p><b>Management Agrees.</b> <b>Action plan:</b> Management can only verify the information as provided by the MTO, which is currently being completed within Parking Services. Management also agrees that enhancements to the documentation is required and will develop and implement standard operating procedures to validate MTO cheques. This SOP will include standard follow-up procedures when amounts cannot be reasonably validated.</p>	<p>Annette Drost, Manager of Municipal Law Enforcement Services, Parking Services September 28, 2018</p>



*Observation 8.0 – Contracted Commissionaires employee engagement*

Observation	Implication	Recommendation	Management comments and action plan	Responsible party and timing
<p><b>8.0 Contracted parking enforcement officer engagement</b></p> <p>There has been high turnover of the contracted parking enforcement officers (the “Commissionaires”) who serve the City. Between January 1, 2016 and December 31, 2017, 10 officers left the service for reasons including inability to pass training, rescinding job acceptance, involuntary termination, and different employment opportunities.</p>	<p><b>8.0 Contracted parking enforcement officer engagement</b></p> <p>There is risk that continued contracted Commissionaires employee turnover could lead to increased costs and ineffective delivery of parking services.</p>	<p><b>8.0 Contracted parking enforcement officer engagement</b></p> <p>Parking Services management should consider and develop additional methods to assist in lowering the rate of turnover in the contracted Commissionaires.</p> <p>Strategies to consider, include the following:</p> <ul style="list-style-type: none"> <li>• Instituting a periodic meeting for all officers to come together as a team and discuss relevant topics, current concerns, and leading practice;</li> <li>• Recognize and emphasize positive outcomes that clearly relate to Parking Services achieving key objectives;</li> <li>• Rolling out an engagement survey to the contracted Commissionaires to gain input of any practical suggested recommendations to further support retention efforts; and</li> <li>• Revising upcoming request for quotes (RFQ) and request for proposals (RFP) to include qualitative factors, e.g. turnover metrics clause, uniform subsidies, and/or part time hours...</li> </ul>	<p><b>Management Agrees.</b></p> <p><b>Action plan:</b></p> <p>Management will look to continue with the periodic meetings for all officers to discuss relevant topics and leading practice.</p> <p>In addition, during the next round of contracting with a third party vendor, Parking Services will look to include additional qualitative factors in the RFQ and RFP to address additional contracted parking enforcement officer engagement opportunities.</p>	<p>Annette Drost, Manager of Municipal Law Enforcement Services, Parking Services June 30, 2019</p>

# Appendix 1: Internal Audit detailed scope

Specifically, the internal audit addressed the following areas:

## **Reviewed and assessed the processes and controls in place to manage Parking Services' cash transactions, cash deposits, and cash reconciliations**

- Reviewed existing cash handling process, policies, by-laws, and guidelines to collect, control, and secure cash including segregation of duties;
- Assessed existing procedures to receive and administer parking related disputes; and
- Assessed the roles and responsibilities of staff to ensure segregation of duties as well as duplication of effort

## **Assessed procedures and controls, on a sample basis, and identified opportunities for operational efficiencies. Reviewed and assessed the processes to monitor cash handling for Parking Services**

- Reviewed activities in place to govern the collection, control, and deposits of cash;
- Assessed procedures that identify and report cash handling process exceptions (e.g., non-compliance with Corporate Cash Handling Directives, etc.); and
- Assessed procedures that actively oversee cash intake and cash accounts including related reconciliations (e.g., cash from meters, bank account balances, etc.).





## **Reviewed and assessed the Parking Services' budgeting and strategic prioritization processes**

- Reviewed the current framework in place for budget development and strategic prioritization;
- Reviewed the budget allocation for commissioner enforcement and evaluated in relation to current priorities;
- Assessed the procedures that evaluate sources of revenue and related costs in relation to current priorities; and
- Reviewed the process in place that aligns the practices and activities with the current budget and priorities.

# Appendix 2: Internal Audit rating scale

## Individual observation prioritization

Internal Audit will prioritize each observation and recommendation within a report using a three point rating scale. The three point rating scale will be as follows:

Description	Definition
 High	Observation is high priority and should be given immediate attention (e.g. 0-3 months) due to the existence of either significant internal control risk or a potential significant operational improvement opportunity.
 Medium	Observation is a moderate priority risk or operational improvement opportunity and should be addressed in the near term (e.g. 3-6 months).
 Low	Observation does not present a significant or medium control risk but should be addressed (e.g. within a 6-12 month timeframe) to either improve internal controls or process efficiency.
 Leading Practice	Consideration should be given to implementing recommendations in order to improve the maturity of the process and align with leading practices.

# Appendix 3: Stakeholder involvement

In conducting the assessment, the following management and staff were interviewed to gain an understanding of the City’s parking revenue generation processes and practices.

Stakeholder	Position
Annette Drost	Manager, Municipal Law Enforcement Services, Parking Services
Angela Gilker	Manager, Accounts Payable, Financial Services
Kelly Medinilla	Manager, Accounting, Financial Services
Various – Deloitte met with various management and staff in the Parking Services Service Area to gather an in-depth understanding of the management compensation processes and practices and perform audit procedures.	

# Appendix 4: Audit procedures performed

As part of the Parking Revenue Generation Assessment the following procedures were performed:

- Conducted a planning meeting with the Chief Municipal Law Enforcement Officer, Managing Director of Development and Compliance Services and Chief Building Official, and Manager of Municipal Law Enforcement Services;
- Updated and issued a finalized Project Charter and request for information;
- Conducted meetings and interviews with Parking Services management and staff to:
  - Gain an understanding of the processes and controls in place to manage cash transactions, cash deposits, and money reconciliations;
  - Identify and obtain an understanding of the processes to monitor cash handling for Parking Services; and
  - Obtain an understanding of the budgeting and strategic prioritization framework and processes including budget development and review of operational activities against parking priorities;
- Obtained documentation regarding relevant procedures and controls to perform an inspection of:
  - 2017 Parking Year End Monitoring;
  - 2018 Budget Guidelines;
  - Guide Parking Enforcement;
  - London Downtown Parking Strategy;
  - London Ontario Parking Management Best Practices – Tool Box;
  - MBN Canada 2016 Performance Measurement Report;
  - Asset Management SOW;
  - Parking Tickets and Pass Stats 2014 – 2017;
  - Parking Replacement: Meter Parking Automation Requirements;
  - Top 10 Parking Questions;
  - Traffic & Parking By-law;
  - Overnight Parking Memo;
  - Cale Credit Card Bank Deposit Instructions;
  - Daily Reconciliation Instructions;
  - Month-end Disbursement Instructions;
  - Cancellation Guidelines; and
  - Inquiry – Standard Operating Procedures;
- Conducted sample testing activities related to cash handling controls, revenue related operational controls, monitoring controls, and budgeting and strategic prioritization to identify areas for improvement;
- Drafted observations and validated observations with management;
- Conducted a closing meeting with key management stakeholders to validate and communicate our findings; and
- Issued this internal audit report with our detailed observations.



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