

Agenda

Audit Committee

4th Meeting of the Audit Committee

September 11, 2019, 12:00 PM

Council Chambers

Members

Deputy Mayor J. Helmer (Chair), M. van Holst, J. Morgan, S. Turner, L. Higgs

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The Corporation of the City of London

Consultant Selection/Engagement and Construction Procurement Review

Audit Performed: January 2019 – May 2019
Report Issued: August 2019

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Executive summary

Introduction

As part of the 2018 Internal Audit Plan, a review of the City's consultant selection/engagement and construction procurement practices was conducted. The purpose and objective of this review was to assess the operational processes and controls in place related to consulting and construction procurement including the selection/engagement of consultants and management of contracts which included performance of work for, tendering, change orders and contract administration compliance activities. Specifically, Internal Audit assessed the processes in order to determine whether the practices and controls are designed and are operating effectively, and aligned with leading practice.

Scope

Based on the objectives of our review our scope and procedures focused on the following:

- Assessed the City's governance framework for Consulting and Construction related to procurement activities;
- Assessed Consulting and Construction procurement business practices and relevant controls; and
- Assessed construction procurement project management practices and controls including vendor and contract management.

The detailed internal audit scope can be found in **Appendix 1** of this report.

Each Service Area within the City manages its own consultant and construction procurement and project management thus Internal Audit elected to focus the audit on Environmental and Engineering Services' (EES) procurement activities due to the division's higher percentage of capital spend and risk relative to other Service Areas.

Key strengths



Standard contract documents for municipal construction: The City makes available each standard contract document for municipal construction on the City website. Links to all parts (e.g. general specifications, road, sewer and water specifications) within each section is easily accessible. Relevant forms such as the Contractor Safety Checklists or Supervisor Report Contractor Safety Inspection are included in the City site. Additionally, a yearly summary is attached to the top of the site page enabling viewers to easily understand revisions made to prior year documents.



Engagement with the public: EES' communication strategy to engage the general public demonstrates a commitment to increasing public awareness and enabling opportunities for feedback surrounding construction projects. EES as part of their management of construction planning and projects communicates multiple notices relating to each planned construction project such as notices of planning applications, public meetings, and planned construction. Public meetings are held providing the public with the opportunity to better understand projects and give feedback. Additionally, letters are delivered to property owners/residents providing notice of planned construction in their area. These letters summarize the construction project details, potential impacts and includes contact information to make inquiries. EES has committed to effectively engaging with the public and continues to implement improvements.



Preconstruction meetings: EES holds a preconstruction meeting with each third party contracted to execute construction projects for the City. These meetings are supported by an agenda designed to ensure lines of authority, contact details, contract status, subcontractors and suppliers are defined

and clearly understood and that required forms/templates (e.g., WSIB Clearance Certificate, Work Safety Checklist) have been properly completed and received.



Effective control over changes to construction project scope: Changes to an existing construction project are completed using a Contract Change Order Form. Supporting information is attached to each change order form detailing the related project (e.g., description, original contract price, etc.), nature of the change, and a detailed breakdown of expected costs, if any. The contingency allowance is recalculated based on the additional work and an extension of working days is also captured. Prepared change order forms are reviewed for accuracy and reasonableness and authorized by two separate Project Engineers/Managers, the Contractor, Administrative Services, and where required, the General Manager & City Engineer.

Key observations

Deloitte’s review of Consultant selection/engagement and construction procurement practices identified ten observations in the following areas.

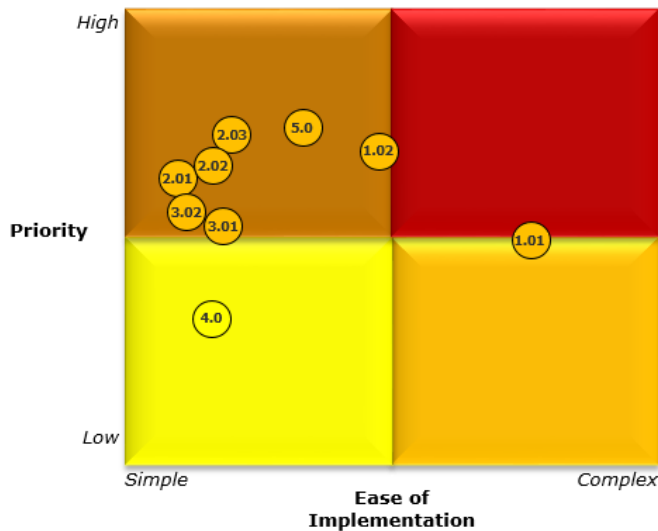
| Priority | High | Medium | Low | Leading Practice |
|--------------|------|--------|-----|------------------|
| Observations | 0 | 8 | 1 | 1 |

| Observation item | Observation description | Priority | Responsible Party | Timing |
|------------------|---|----------|---|---------------|
| CCP 1.01 | Contract lookback reviews are not performed at the end of projects to assess suppliers against contracts terms, conditions and budget. | Medium | Division Manager, Construction Administration | February 2020 |
| CCP 1.02 | A formal process to validate compliance with applicable regulations has not been implemented within EES. | Medium | Division Manager, Construction Administration Director, Financial Services | March 2020 |
| CCP 2.01 | Certain consultant and construction procurement and project management standard operating procedures (SOP) are not formally documented. | Medium | Division Manager, Construction Administration | February 2020 |
| CCP 2.02 | Construction project management forms and templates are not consistently used for all construction projects. | Medium | Division Manager, Construction Administration | March 2020 |
| CCP 2.03 | An EES project dashboard is not in place to summarize construction project activities in a single view to enable more efficient oversight. | Medium | Division Manager, Construction Administration | March 2020 |
| CCP 3.01 | Vendor performance evaluation criteria has not been implemented in EES for consultant performance evaluations. | Medium | Division Manager, Water Engineering | February 2020 |
| CCP 3.02 | Trigger points to initiate frequent vendor performance evaluations are limited. | Medium | Division Manager, Water Engineering | February 2020 |
| CCP 4.0 | Key meeting decisions, actions, and takeaways from Capital Coordinating Committee Meetings are not documented. | Low | Division Manager, Construction Administration | February 2020 |
| CCP 5.0 | The process to approve certain construction consultant awards based on | Medium | Manager, Purchasing and Supply | February 2021 |

the current delegation of authority is resulting in delays to construction starts.

Division Manager, Water Engineering

Priority heat map



Conclusion

Based on our assessment of the City’s consultant selection/engagement and construction procurement practices, we noted eight medium priority and one low observation 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 is in agreement with all findings and have developed detailed action plans 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 CCP 1.0 – Governing consultant and construction projects

| | Observation | Implication | Recommendation | Management comments and action plan | Responsible party and timing |
|-----------|--|--|--|---|--|
| MP | <p>CCP 1.01 Contract lifecycle reviews EES procures a high volume of services and goods that are material to the City’s overall capital spend annually. While EES performs activities and controls during a capital project, EES does not perform lifecycle reviews at the end of consultant and construction project contracts to assess supplier compliance to contractual terms, conditions and budget.</p> | <p>CCP 1.01 Contract lifecycle reviews EES capital projects not reviewed against supplier contractual terms and conditions may lead to unidentified opportunities for cost savings or undelivered terms.</p> | <p>CCP 1.01 Contract lifecycle reviews EES management should implement a program to conduct lifecycle reviews of completed consultant and construction project contracts. Included within this program should be an assessment of EES’ capital projects with criteria applied and threshold to identify projects that would benefit from a review. A defined method and approach to perform the review activities including review against key contract terms and conditions (e.g., discounts, labour costs, subcontracting, equipment, materials, travel, etc.) should be followed. This program could be shared with other Service Areas as needed when other large capital projects are planned and executed.</p> | <p>Management agrees. Numerous processes are in place to help ensure contractual compliance. A comprehensive project closure report will be created that will consolidate and summarize the major contractual terms and conditions for the entire project lifecycle from cradle to grave including lessons learned.</p> | <p>Ugo DeCandido, Division Manager, Construction Administration February 2020</p> |

| Observation | Implication | Recommendation | Management comments and action plan | Responsible party and timing |
|---|---|---|---|--|
| <p>MP</p> <p>CCP 1.02 Validate compliance with applicable regulations</p> <p>EES does not have a formalized process in place to validate compliance with applicable regulations (e.g., Construction Act).</p> <p>For example, the current vendor invoice validation process and relevant data captured does not enable EES management to validate compliance with requirements in the Construction Act coming into effect on October 1, 2019.</p> | <p>CCP 1.02 Validate compliance with applicable regulations</p> <p>The lack of a validation over adherence/compliance with applicable standards and regulations increases the risk that the City is unaware of potential areas of non-compliance or opportunities for improvement.</p> | <p>CCP 1.02 Validate self-compliance with applicable regulations</p> <p>EES management should establish a process to validate compliance with applicable regulations (e.g., Construction Act) at least annually.</p> <p>Specifically, the City has self-identified changes made to the Construction Act and have assigned a task force to develop a solution that will help demonstrate vendor payment compliance. The task force should further engage stakeholders (i.e., EES, Tangible Capital Assets, Accounts Payable) to understand key data points required. Key performance indicators (KPIs) should be implemented as part of the solution to support monitoring procedures (e.g., three days for Project Manager review invoice, four days for Accounts Payable to issue payment).</p> | <p>Management agrees. The introduction of the new Construction Act creates challenges for all municipalities.</p> <p>Staff from across involved service areas will use rapid improvement events to refine the payment process to align with requirements of the Construction Act, including the tracking of workflow to assist.</p> | <p>Ugo DeCandido, Division Manager, Construction Administration & Ian Collins, Director, Financial Services March 2020</p> |

Observation CCP 2.0 – Standard operating procedures (SOP)

| Observation | Implication | Recommendation | Management comments and action plan | Responsible party and timing |
|--|--|---|--|--|
| <p>MP CCP 2.01 Standard Operating Procedures (SOP) EES has standard consultant and construction procurement and project management business processes in place; however the following procedures are not formally documented:</p> <ul style="list-style-type: none"> • EES planning cycle (e.g., project priority and selection, budgeting, etc.) • Project planning (e.g., kick-off, communication, etc.) • Project monitoring (e.g., financial monitoring, bi-weekly site meetings, etc.) • Project reporting (e.g., monthly project summaries, etc.) • Projects where the City acts as the Consultant • Change orders and change order analysis • Consultant/Contractor performance reviews • Contractor pre-qualification • Renew London report | <p>CCP 2.01 Standard Operating Procedures (SOP) Undocumented Standard Operating Procedures (SOP) could lead to ineffective, inefficient, or duplicated processes. Undocumented SOPs may also restrict new and existing staff from fully understanding relevant processes and controls when undertaking their responsibilities.</p> | <p>CCP 2.01 Standard Operating Procedures (SOP) EES management should document key and relevant SOPs, while also establishing a cycle to regularly review and revise SOP documentation on an ongoing basis. The SOP should include the relevant procedure title, position title (responsible party), approval, and date of approval and changes. When preparing to document SOP and create a review cycle, management should consider the following:</p> <ul style="list-style-type: none"> • Generate and maintain an inventory of all SOP documents with document ID; • Store all SOPs in a central location using a corporate approved database (e.g., SharePoint / CityHub) for ease of access by all relevant management and staff; • Document an executive summary for each SOP to clearly articulate role responsibility, management oversight; • Utilize version control, including documenting the date of last revision with management approval; and | <p>Management agrees. EES has many value-added standard consultant and construction procedures in place. Documentation will be improved through the creation of SOPs which includes document control, shared central database, ownership and periodic reviews.</p> | <p>Ugo DeCandido, Division Manager, Construction Administration February 2020</p> |

| Observation | Implication | Recommendation | Management comments and action plan | Responsible party and timing |
|--|---|---|---|--|
| <p>MP CCP 2.02 Construction project management forms and templates</p> <p>Forms and templates established to support existing construction project management practices were not consistently used for all sampled construction projects. Examples include the Project Management Checklist and the Monthly Project Summaries, as well as documentation of bi-weekly site visits.</p> | <p>CCP 2.02 Construction project management forms and templates</p> <p>Underutilization of forms and templates designed to support key project activities and outcomes may lead to inconsistency in executing construction project management processes.</p> | <ul style="list-style-type: none"> Adopt a schedule with assigned responsibility to regularly review and revise SOP and guidelines. <p>CCP 2.02 Construction project management forms and templates</p> <p>EES management should undertake a refresh training to reinforce the expectations for use of forms and templates established to support consistent construction management practices. In addition, EES management should regularly review relevant construction project forms and templates to ensure key project activities and outcomes are properly captured and tracked as intended.</p> <p>Where possible, forms and templates should be shared for adoption and use during consultant and construction projects by other Service Areas.</p> | <p>Management agrees. A comprehensive set of process forms and templates exist and is growing with the addition of new SOPs, forms and templates. Training will be initiated to introduce new documents and refresh on existing practices. Improvements will be shared corporately.</p> | <p>Ugo DeCandido, Division Manager, Construction Administration March 2020</p> |
| <p>MP CCP 2.03 EES project dashboard</p> <p>EES has processes in place with forms such as the project management progress template designed to track and monitor construction project progress against the established budget and estimated working days. However, EES does not have a single dashboard or scorecard to regularly produce and review a status summary of</p> | <p>CCP 2.03 EES project dashboard</p> <p>Without a dashboard or scorecard to regularly review and assess plan progress in aggregate, there is risk that the City may be unaware of events that could affect project</p> | <p>CCP 2.03 EES project dashboard</p> <p>EES Management should develop a single oversight dashboard/scorecard to regularly measure, assess and track all critical project details. When developing this dashboard/scorecard,</p> | <p>Management agrees. EES will create a dashboard that consolidates key metrics such as the schedule performance index (SPI) from individual projects into a program measurement tool.</p> | <p>Ugo DeCandido, Division Manager, Construction Administration March 2020</p> |

| Observation | Implication | Recommendation | Management comments and action plan | Responsible party and timing |
|--|----------------------------------|--|--|------------------------------|
| all critical project details (i.e., budget, milestones, working days, etc.). | objectives and desired outcomes. | <p>Management should consider the following:</p> <ul style="list-style-type: none"> • Define key stakeholders and consult to understand all reporting requirements and reportable information interests; • Incorporate clear status definitions (i.e., on track, deferred, delayed, complete, etc.) into the scorecard/dashboard that will be applied to each planned phase, area of focus and action; • Assign key performance indicators to each area of focus and planned action to clearly articulate relevant insights on the scorecard/dashboard; and • Create a free text section to inform readers of relevant insights. | The tool will assist critical project oversight across programs. | |

Observation CCP 3.0 – Vendor performance evaluation

| Observation | Implication | Recommendation | Management comments and action plan | Responsible party and timing |
|---|---|---|---|---|
| <p>MP CCP 3.01 Vendor performance evaluation criteria EES has implemented a rating system to score consultant and construction</p> | <p>CCP 3.01 Vendor performance evaluation criteria</p> | <p>CCP 3.01 Vendor performance evaluation criteria</p> | <p>Management agrees. The clarification of scoring criteria will be enhanced to</p> | <p>Aaron Rozentals, Division Manager, Water Engineering</p> |

| | | | | | |
|-----------|---|---|--|--|---|
| | performance (e.g., 1 – 7) following the completion of a project. For consultant performance evaluation, each score within the rating system is not supported with clear criteria or expectations. | A lack of a clearly defined scoring system may lead to inconsistent consultant performance evaluations. | EES management should implement an enhanced vendor performance evaluation scoring system that includes clear criteria and expectations to support assigned scoring criteria. | assist project managers and create better consistency. | February 2020 |
| MP | <p>CCP 3.02 Vendor performance evaluation frequency</p> <p>Vendor performance reviews are only conducted by EES following the completion of a project, including multi-year projects. Additionally, some consultants are not evaluated immediately following the completion of the design phase of a project if they are then engaged to perform the construction phase.</p> | <p>CCP 3.02 Vendor performance evaluation frequency</p> <p>Infrequent vendor performance evaluations may lead to untimely performance feedback and restricted ability to further improve third-party relationships or identify when an alternate vendor should be selected for the construction phase.</p> | <p>CCP 3.02 Vendor performance evaluation frequency</p> <p>EES management should amend the existing vendor performance evaluation process by defining additional triggers for when vendor performance evaluations should be conducted, including at the end of a project, specific milestones of a multi-year project, or between the design and construction phases of a project.</p> <p>To standardize the vendor performance evaluation process across all Service Areas engaging external vendors, process documentation (i.e., SOP, forms/templates) should be shared for adoption and consistent application.</p> <p>For further details on SOP, please refer to the recommendation made for observation <i>CCP 2.01 – SOP</i>.</p> | Management agrees. The trigger points for evaluation will be reviewed and the process formalized and shared corporately. | Aaron Rozentals, Division Manager, Water Engineering February 2020 |

Observation CCP 4.0 – Capital Coordinating Committee (C3) meetings

| | Observation | Implication | Recommendation | Management comments and action plan | Responsible party and timing |
|-----------|---|--|--|--|---|
| LP | <p>CCP 4.0 Documentation of Capital Coordinating Committee Meetings</p> <p>Members of the Capital Coordinating Committee (C3) meet quarterly to discuss key construction items such as construction planning, mapping, and costing. However, Committee decisions and key takeaways and actions are not captured and retained for all members to reference and address.</p> | <p>CCP 4.0 Documentation of Capital Coordinating Committee Meetings</p> <p>Unrecorded decisions, takeaways and actions could lead to Committee member misunderstanding of assigned responsibilities, missed actions, and misaligned priorities.</p> | <p>CCP 4.0 Documentation of Capital Coordinating Committee Meetings</p> <p>The Capital Coordinating Committee should designate an individual to capture key decisions and action items with assigned responsibility during each meeting. Captured decisions and action items should be stored in a central location for all Committee members to reference and address.</p> | <p>Management agrees. The C3 group makes strategic group decisions. The outcomes and action items will be better documented, shared and saved.</p> | <p>Ugo DeCandido, Division Manager, Construction Administration February 2020</p> |

Observation CCP 5.0 – Approval of construction consultant award

| | Observation | Implication | Recommendation | Management comments and action plan | Responsible party and timing |
|-----------|---|--|--|---|--|
| MP | <p>CCP 5.0 Approval of construction consultant award</p> <p>The current delegation of authority in the City’s Procurement of Goods and Services Policy requires Committee and City Council to approve request for tender (RFT) awards greater than \$3,000,000 and request for proposal (RFP) awards for professional consulting services greater than \$100,000. In certain scenarios, construction phases of a major project will be</p> | <p>CCP 5.0 Approval of construction consultant award</p> <p>The current delegation of authority to approve RFP awards for consulting projects is restricting the City’s ability to mobilize construction work by the intended start date, which could also cause further delay to the overall project timeline, impact to the</p> | <p>CCP 5.0 Approval of construction consultant award</p> <p>Management should consider alternate practices related to scheduling Council meetings and purchase approval for professional consulting services. City management may consider potential opportunities to promote efficient and timely mobilization of contract awards while maintaining appropriate Council oversight.</p> | <p>Management, in consultation with EES will explore opportunities to reduce the approval time and/or delegated authority of thresholds for consulting engagements that are directly related to construction administration</p> | <p>John Freeman, Manager, Purchasing and Supply & Aaron Rozentals, Division Manager, Water Engineering February 2021</p> |

| Observation | Implication | Recommendation | Management comments and action plan | Responsible party and timing |
|--|---|----------------|---|------------------------------|
| <p>delayed as the construction RFT greater than \$3,000,000 is being awarded and approved, however the related consultant RFP to manage the project has been awarded but not yet approved by Committee and City Council. As a result, eight recommended RFP awards for a professional consultant to manage a construction project made in 2018 had an average time between the RFP Closing Date and Committee Date of 50 days, which does not align with leading practice.</p> | <p>estimated budget, and/or damage to the City's reputation and supplier relationships.</p> | | <p>projects that parallel the administratively awarded tenders for compressed companion constructions. Upon completion of exploration, Civic Administration will bring forward, if warranted, changes to the Procurement of Goods and Services Policy for Council approval.</p> | |

Leading Practice CCP 6.0 – Invoice validation threshold

| Observation | Implication | Recommendation |
|--|---|---|
| <p>LP CCP 6.0 Invoice validation threshold Although the Tangible Capital Assets (TCA) Department has developed a process to reconcile financial information within consultant and construction payment certificates to related invoices received from vendors, a threshold to determine when unreconciled differences should be investigated and resolved has not been defined in the standard procedure narrative and followed.</p> | <p>CCP 6.0 Invoice validation threshold Performing a reconciliation without a threshold for follow-up on unknown differences can lead to inconsistent review practices and potential spend leakage.</p> | <p>CCP 6.0 Invoice validation threshold TCA Management should implement an appropriate threshold when reconciling construction payment certificates with vendor invoices.</p> |

Appendix 1: Internal Audit detailed scope

Specifically, the internal audit addressed the following areas:

Reviewed and assessed the governance framework for Consulting and Construction related to procurement activities:

- Assessed whether roles, reporting lines, and responsibilities are adequately understood by construction administration management and staff to assure personnel are adequately enabled to fulfill procurement related responsibilities
- Reviewed and assessed management activities for consultant selection/engagement (including engineering consultant) and construction outsource planning/management including consultant contract/engagement extensions and in-year changes (e.g., add, alter, or remove planned projects), and
- Assessed governing guidelines and procedures in place to assure standard contract and construction compliance with Canadian Construction Documents Committee (CCDC), Ontario Provincial Standard Specification (OPSS), and other relevant governing requirements (e.g., safety, etc.).

Reviewed and assessed Consulting and Construction procurement business practices and relevant controls:

- Reviewed and assessed existing processes within consultant selection and construction to initiate procurement requests including proposals, tenders, quotations, qualifications, and contingencies
- Reviewed and assessed effectiveness of the change order process including effectiveness of relevant controls to assure change orders are adequate, supported by appropriate documentation, and properly authorized and recorded, and
- Reviewed the existing process for administrative award of tenders to determine if there is value in an incremental increase to the existing threshold.

Reviewed and assessed construction procurement project management practices and controls including vendor and contract management:





- Assessed activities related to contracting external consultants to assist in the preparation of construction procurement documents items
- Evaluated practices in place to actively engage and monitor vendor performance including communicating vendor performance concerns and executing vendor performance reviews
- Reviewed and assessed business process activities to determine contract renewals, extensions and exits, and
- Reviewed construction administration processes and controls in place to report to management on non-financial and financial project activity.

In October 2018, Internal Audit issued a review of the City's procurement process that had assessed the operational effectiveness and efficiency of processes and controls undertaken by the Purchasing and Supply Section responding to procurement. The procurement processes review had focused on the governance framework, business processes and relevant key controls, the eProcurement system and overall process improvement opportunities within the Purchasing and Supply Section. This consulting selection/engagement and construction procurement review differs from the prior review as the focus is on consultant selection, procuring of large construction projects and the retaining of contractors through linked change requests.

Appendix 2: Internal Audit rating scale

Individual observation prioritization

Internal Audit has prioritized each observation and recommendation within this report using a four point rating scale. The four point rating scale is as follows:

| Description | Definition |
|---|---|
|  High | Observation is high priority and should be given immediate attention 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. |
|  Low | Observation does not present a significant or medium control risk but should be addressed 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 this review, the following management and staff were interviewed to gain an understanding of the City’s consultant selection/engagement and construction procurement processes and practices.

| Stakeholder | Position | Division |
|----------------------|--------------------------------------|---|
| Kelly Scherr | Managing Director and City Engineer | Environmental and Engineering Services |
| Scott Mathers | Director, Water and Wastewater | Environmental and Engineering Services - Administration |
| Doug MacRae | Director, Roads and Transportation | Environmental and Engineering Services - Administration |
| Ugo DeCandido | Division Manager | Construction Administration |
| Paul Choma | Environmental Service Engineer | Construction Administration |
| Paul Titus | Project Manager | Stormwater Management |
| Aaron Rozentals | Division Manager | Water Engineering |
| Taylor Eckert | Engineer In Training | Water Engineering |
| Michele Shears | Manager II | Tangible Capital Assets |
| Nathan Asare-Bediako | Manager I | Tangible Capital Assets |
| Kyle Murray | Director | Financial Planning and Business Support |
| John Millson | Sr. Financial Business Administrator | Financial Business Support |
| Geoff Smith | Manager I | Purchasing and Supply |

Appendix 4: Audit procedures performed

As part of the Consultant Selection/Engagement and Construction Procurement Review the following procedures were performed:

- Conducted a planning meeting with the Managing Director of Environmental and Engineering Services and City Engineer, Director of Roads and Transportation, Director of Waste and Wastewater and Division Manager of Construction Administration;
- Updated and issued a finalized Project Charter and request for information;
- Conducted meetings and interviews with City management and staff to obtain an understanding of:
 - The governance framework for consulting and construction related to procurement activities;
 - Consulting and construction procurement business practices and relevant controls;
 - Construction procurement project management practices and controls including vendor and contract management;
- Obtained documentation regarding relevant procedures and controls to perform an inspection of:
 - Procurement of Goods and Services Policy;
 - Construction Act and Construction Lien Act;
 - Civics Works Committee Renew London Report;
 - Renew London Infrastructure Construction Report;
 - Mobility Transportation Master Plan;
 - Capital Coordinating Committee Process Manual;
 - Ontario Provincial Standard Specifications;
 - Environmental and Engineering Services Organization Chart;
 - Environmental and Engineering Services Job Descriptions;
 - Change Order Analysis Report;
 - Construction Overview Civic Works Report;
- Conducted sample testing activities related to outsource planning and management, consultant selection/engagement activities, construction procurement and project management including change orders and vendor performance evaluation, and non-financial and financial project reporting;
- Benchmarked the delegation of authority to approve purchases against Canadian municipalities of a similar size;
- Drafted preliminary observations and verified 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

Date: August 30, 2019

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

From: Jim Pryce, Partner, Deloitte LLP
Aneesa Ruffudeen, Director, Deloitte LLP

Subject: 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 2019 plan is underway. Internal Audit has initiated actions to execute on the plan and expects to complete the projects by the end of 2019.
- b. The remaining 2017-2018 projects continue to progress. Internal Audit expects to complete the remaining IT Security Assessment for the next audit committee meeting in November 2019. The timing has been impacted by vacation schedules. Class Replacement Pre-implementation Project Review remains in ongoing due to delay in the go live date to March 2020.
- c. Internal Audit continues to have quarterly meetings with the City Manager and City Treasurer.
- d. Internal Audit has issued one internal audit report since the last Audit Committee update:
 - i. Construction Procurement Process Assessment: Minor process control or efficiency weaknesses identified. The report identified eight medium priority observations.

Action plans are in place, including a responsible party and timeline, to address the observations noted in the issued report.

2. Internal Audit Plan:

- a. Internal Audit has commenced activities in September to refresh the 2020-2022 internal audit plan. Internal Audit targets to have a draft for approval by the Audit Committee no later than November/December 2019.

3. Audit Observation Status Summary of High and Medium Priority Observations:

- a. Since the June 2019 Audit Committee meeting, Internal Audit closed five (5) medium priority observations including two (2) ITS Portfolio Management and Project Management Assessment, one (1) Building Permit Process Assessment, one (1) Procurement Process Assessment and one (1) Class Replacement Pre-implementation Project Review (Progress Memo).

- b. A total of four (4) medium priority observations are past due as of August 30, 2019 compared to four (4) medium priority observations past due as at June 10, 2019. The current past due items are as follows:
 - i. Three (3) medium priority observations continue to be past due since the last Audit Committee meeting, including two (2) for Building Permit Process Assessment and one (1) for Management Compensation Process Assessment. Building Permit management is currently working with ITS on the recently accepted portal upgrade project, and Employee Systems management continues to recruit for a vacant staff position.
 - ii. One (1) medium priority observation is now past due for Housing Process Assessment.













We are comfortable that management is making progress to remediate open items based on the timelines and work plans in place which they have committed and asserted to completing.

- c. New internal control observations from the Construction Procurement Process Assessment were added to the audit observation listing in the period requiring management attention (8 medium priority observations).







The Corporation of the City of London

January – December 2019 internal audit dashboard as at August 30, 2019

Project status – 2019 internal audit plan

| 2019 Audit plan project | Percent complete | Est. timeframe ¹ | Project status | Report issued |
|---|---|-----------------------------|----------------|---|
| • Parking enforcement assessment |  | 75% Jun – Aug | OT |  |
| • Smart City Office (pre-implementation) assessment |  | 25% Aug – Oct | OT |  |
| • Electronic fund transfer compliance assessment |  | 25% Sept – Nov | OT |  |
| • Dearness Home process assessment |  | 25% Nov – Jan | OT |  |
| • IT cyber risk workshop |  | 50% Jun – Jul | DL* |  |
| • Computerized Maintenance Management System (CMMS) pre-implementation review |  | 25% Sept - Nov | OT |  |

Project status – 2017-2018 internal audit plan

| 2017-2018 Audit plan projects | Percent complete | Est. timeframe ¹ | Project status | Report issued |
|---|---|-----------------------------|----------------|---|
| • Construction procurement process assessment |  | 100% Jan – Jun | |  |
| • IT security assessment |  | 60% Jul – Sept | OT |  |
| • Class replacement pre-implementation project review |  | 65% Ongoing | DL* |  |

OT – On track

DF – Deferred

DL – Delayed

Comments

¹ Agreed timing with management to scope project and kick-off fieldwork

* - Due to the vacation schedules of both Deloitte and City stakeholders, the timing of the IT cyber risk workshop has been delayed until September 2019. Due to a delay for the Class replacement system go live date, the pre-implementation project review remains ongoing.

Internal audit activities – September – November 2019

- IT security assessment (fieldwork and reporting)
- Parking enforcement assessment (reporting)
- Smart City Office (pre-implementation) assessment (fieldwork)
- Electronic fund transfer compliance assessment (fieldwork)
- Dearness Home process assessment (fieldwork)
- IT cyber risk workshop (workshop)
- Computerized Maintenance Management System (CMMS) pre-implementation review (fieldwork)

Other activities

- Internal audit plan refresh for 2020 (September 2019)
- Prepare Audit Committee meeting materials
- Observation follow-ups and validation

2019 Performance metrics

Project customer satisfaction

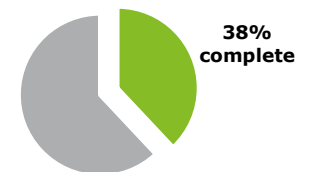
Overall quality of work/satisfaction level? (Based on completed reports surveys returned)

1 3 5



Objective = 4

% complete of the 2019 internal audit plan



Internal audit 2019 reporting

| | Draft (days) | Management comment (days) | Issue final (days) | Final (days) |
|----------------------|--------------|---------------------------|--------------------|--------------|
| • Objective | 5.0 | 15.0 | 10.0 | 30.0 |
| • Performance | N/A | N/A | N/A | N/A |



**City of London Audit Committee Observation Summary
As at August 30, 2019**

| 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 - exceptions 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 August 30, 2019 | | | | | | Timing | 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 June 2019 update | | | |
| 2017/2018 | Building Permit Process Assessment | Jan-18 | 3 | 1 | 1 | 0 | 2 | 1 | Dec-19 | • Management is engaged with ITS on a portal upgrade project. Revised timeline is December 31, 2019. | |
| 2017/2018 | Management Compensation Process Assessment | Apr-18 | 3 | 2 | 2 | 0 | 1 | 0 | Dec-18 | • Management continues to recruit for a vacant Employee Systems staff position. Revised timeline is September 30, 2019 | |
| 2017/2018 | Parking Revenue Generation Assessment | Jun-18 | 5 | 2 | 2 | 3 | 0 | 0 | Dec-19 | | |
| 2017/2018 | Homeless Prevention Assessment | Oct-18 | 4 | 1 | 1 | 3 | 0 | 0 | Dec-19 | | |
| 2017/2018 | Procurement Process Assessment | Oct-18 | 2 | 2 | 2 | 0 | 0 | 1 | Complete | | |
| 2017/2018 | Health and Safety Assessment | Mar-19 | 3 | 1 | 1 | 2 | 0 | 0 | Dec-19 | | |
| 2017/2018 | Housing Process Assessment | Mar-19 | 5 | 0 | 0 | 4 | 1 | 0 | Apr-20 | • Management is developing more effective process support tools. Revised timeline is December 31, 2019. | |
| 2017/2018 | IT Portfolio Management and Project Management Assessment | Mar-19 | 4 | 3 | 3 | 1 | 0 | 2 | Apr-20 | | |
| 2017/2018 | Class Replacement Pre-implementation Project Review (Progress Memo) | Jun-19 | 2 | 1 | 1 | 1 | 0 | 1 | Apr-20 | | |
| 2017/2018 | Construction Procurement Process Assessment | Aug-19 | 8 | 0 | 0 | 8 | 0 | 0 | Feb-21 | | |
| Sub-total 2017/2018 reports | | | 39 | 13 | 13 | 22 | 4 | 5 | | | |
| Total High and Medium observations | | | 39 | 13 | 13 | 22 | 4 | 5 | | | |

Closed per Management: Management has indicated that action plans due to be acted upon by August 30, 2019 are complete.

Closed per IA: Internal Audit has validated Management's assertions of observation closure through review of evidence.

In Progress Observations: Management action plans due beyond August 30, 2019 are underway or management has asserted observations are closed but Internal Audit has not yet validated.

Past Due Observations: Actions plans due by August 30, 2019 have not been fully acted upon.

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