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TO:	CHAIR AND MEMBERS AUDIT COMMITTEE MEETING ON SEPTEMBER 26, 2013
FROM:	PwC INTERNAL AUDITORS
SUBJECT:	Quarterly Report on Internal Audit Results a) Corporate Services - Finance: Facilities and property utilization b) Corporate Services - Finance: Property tax assessments and collections

RECOMMENDATION

That on the recommendation of PwC, this report **BE RECEIVED** for information and the action plans identified in Appendices A and B **BE RECOMMENDED** for approval.

PREVIOUS REPORTS PERTINENT TO THIS MATTER

Risk Assessment and 3-Year Risk-Based Audit Plan from PricewaterhouseCoopers – Audit Committee March 31, 2011.

Risk Assessment and 2013 Risk-Based Audit Plan - Audit Committee January 31, 2013

BACKGROUND

This report has been prepared in line with the reporting process defined within the Risk Assessment and 3-Year Risk-Based Audit Plan provided to the Audit Committee on March 31, 2011.

The purpose of this report is to communicate the results of internal audit projects completed to date, which include the following projects:

- Corporate Services - Finance: Facilities and property utilization
- Corporate Services - Finance: Property tax assessments and collections

PwC requests Audit Committee approval of the action plans developed in collaboration between PwC and City management. Please also refer to the formal presentation document attached in Appendix C.

RECOMMENDED BY:
PwC INTERNAL AUDITORS

APPENDIX A – Corporate Services - Finance: Facilities and property utilization

Summary of Risks & Scope
Corporate Services - Finance: Facilities and property utilization

Scope

- Corporate energy management processes
 - Facility project management
 - Facility monitoring and maintenance (note that maintenance and leasehold improvement processes were not reviewed in detail as a third-party consultant has been engaged to review processes in these areas)
- Facility planning, design and construction
 - Space utilization

Potential Risks

- Energy may not be effectively monitored and used efficiently by all divisions
- The current software systems employed by Facilities may not be utilized to their full extent
- Facility condition may not be tracked in accordance with the lifecycle renewal process
- Communications between Facilities and other divisions may be insufficient, resulting in poor facility design/maintenance and creating additional cost
- Space utilization may not be monitored or maximized, resulting in additional cost

Controls Operating Effectively

- Facilities oversees the majority of design and construction projects, as well as facility maintenance projects, which creates efficiencies through centralization of these processes.
- Staff in the Facilities design and construction group demonstrate flexibility to accommodate unplanned projects.
- Lifecycle renewal projects with similar expected due dates are bundled to minimize the amount of ongoing disruption to customers.
- The Project Issues Database contains a matrix of criteria which is used by staff to guide the prioritization of projects.

Value-for-Money Considerations

- Establishing a long-term corporate space planning strategy and growth projections to make informed decisions on future space planning needs could result in cost savings of \$130k - \$270k.
- If the City is able to utilize London Public Library (LPL) space for civic administrative space, this could save \$85k - \$260k annually.
- Additional analysis of contingency funds and change orders for construction projects may lead to additional savings.
- More effective energy monitoring and application for and tracking of energy incentives could result in cost savings.
- Automating the processing of energy invoices through EnergyCAP will reduce inefficiencies.

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Observations & Action Plans

#1: Space utilization goals

Observation:

There are currently no strategic objectives regarding space utilization or lease costs set at the corporate level that are regularly communicated and tracked to guide civic administrative space-planning decisions, reduce lease costs, and minimize the City's leased property footprint.

It is estimated that the City is paying approximately 3 - 4% more per square foot than current average market rates for its leased space in the London downtown core.

Business Impact:

A potential risk exists that, in lacking corporate objectives for space utilization and lease costs over its civic administrative space, the City may be making sub-optimal space planning decisions and incurring additional costs.

Action Plan:

It is recommended that the City develop corporate objectives regarding space utilization and lease costs over its civic administrative space, the City may be making sub-optimal space planning decisions and incurring additional costs.

It is estimated that if the City set an objective to reduce its civic administrative leased space or its civic administrative lease costs by 5% - 10% it could achieve annual savings of approximately \$130k - \$270k.

Action Plan Lead:

Manager, Facilities Design & Construction
& Managing Director, Corporate Services and City Treasurer, Chief Financial Officer

Timing:

December 31, 2014

#2: Space utilization - data collection and monitoring

Observation:

Data describing space utilization is currently not being collected or monitored by the City.

Business Impact:

There is a potential risk that failure to perform ongoing monitoring of space utilization could inhibit the City's ability to detect inefficient use of administrative space and/or identify trends such as a growing demand for additional space. This could lead to uninformed space planning decisions and additional costs.

Action Plan:

Individual service areas should collect space utilization data and provide it to Facilities on a consistent basis. Ongoing monitoring of space utilization should be performed in order to assess the sufficiency of civic administrative space and efficiency in which it is used. Facilities should lead monitoring efforts by setting key performance indicators (such as % of occupancy of workstations/offices, FTE/square foot) and providing guidance to assist service areas in their ongoing collection and communication of space utilization data. Facilities should analyze the data collected by service areas to identify space utilization trends and ensure future space planning decisions are informed.

Action Plan Lead:

Manager, Facilities Design & Construction

Timing:

December 31, 2014

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#3: Long term space need requirements

Observation:

There are currently minimal communications between the respective City divisions and Facilities regarding long-term growth/attrition projections of the various service areas.

Business Impact:

A potential risk exists that the City could make short-sighted space planning decisions as a result of a lack of anticipated growth/attrition. This could lead to excess costs associated with acquiring additional space that may not be required or in having to acquire space with limited planning time.

Action Plan:

It is recommended that Facilities collect space requirement information and long-term growth/attrition projections covering the next 5-10 years from the various service areas within the City. This information should be used to guide long-term space planning and space acquisition activities by the City.

Action Plan Lead:

Manager, Facilities Design & Construction

Timing:

December 31, 2014

#4: Project contingency expenditures

Observation:

A retroactive review of three typical construction projects found that the average contingency allowance was 5% - 10% of the total tendered project cost. Of this amount, approximately 20% - 30% was spent on avoidable items which did not meet the criteria for contingency drawn-downs. Additionally, draw-downs of the contingency allowance are not being categorized to determine the source of the cost overrun (eg: unforeseen site conditions).

Business Impact:

A potential risk exists that the contingency allowance is being used inappropriately on items that are avoidable in nature, rather than the intent of the contingency funds, which is to cover unavoidable costs associated with construction. This results in additional costs being incurred by the City.

Action Plan:

It is recommended that the project managers categorize and track contingency funds spent through the change order process and confirm that only appropriate costs are being drawn-down from the contingency allowance. The process for approving contingency spends should be reviewed to ensure contingency fund change orders meet the definition of "contingency" before proceeding.

Action Plan Lead:

Division Manager, Facilities

Timing:

March 31, 2014

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#5: Tracking of change orders by project

Observation:

Facilities does not set and monitor target rates for change orders during projects.

Business Impact:

A potential risk exists that the lack of a formal target and subsequent monitoring could result in the City spending more funds on costs that are avoidable in nature.

Action Plan:

It is recommended that Facilities set formal change order targets. It is also recommended that Facilities monitor results against the targets to ensure spending on change orders is appropriate and contractors who create unusually high levels of change orders are monitored for future projects.

Action Plan Lead:

Division Manager, Facilities

Timing:

March 31, 2014

#6: Energy consumption anomalies

Observation:

Regular monitoring of real-time energy consumption reports does not occur in facilities having interval-type electrical meters which read and store such data. There are currently no formalized procedures defining the investigation and resolution process for energy consumption anomalies that are detected.

Business Impact:

There is a potential risk that failure to monitor real-time energy consumption reports may result in excess consumption going unnoticed year-over-year (eg: consistently leaving lights on overnight when it is not required). The lack of a formalized process for the investigation and resolution of energy consumption anomalies may delay the resolution of potential issues, thereby increasing avoidable energy costs to the City.

Action Plan:

It is recommended that the energy analyst monitor real-time energy consumption reports associated with facilities having interval-type electrical meters. The energy analyst should also be responsible for identifying consumption anomalies and ensuring that they are investigated by the designated accountable individuals within the City no later than the month following the one in which the anomaly was identified. A live actions and issues log should be maintained and circulated to track status of anomalies.

Action Plan Lead:

Corporate Energy Management Engineer

Timing:

March 31, 2014

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#7: Energy incentive tracking

Observation:
The energy management group may not be consistently setting savings targets for its energy management initiatives or monitoring the resulting savings associated with the initiatives undertaken.

Business Impact:
A potential risk exists that the funding budgeted for energy management initiatives may be resulting in a lower return on investment and higher future energy costs than expected. Additionally, in neglecting to track the energy savings and communicate the success of energy initiatives to Council, there is a potential risk that there will be a further reduction in Facilities’ energy management budget.

Action Plan:
It is recommended that management establish goals related to energy savings, and monitor the success of performance against those goals to ensure the sustainability of the Facilities budget moving forward. It is also recommended that energy savings initiatives are tracked to ensure the City capitalizes on the most advantageous projects.

Action Plan Lead:
Corporate Energy Management Engineer

Timing:
March 31, 2014

#8: Energy management software training

Observation:
The current energy management software (EnergyCAP) utilized by Facilities is not being implemented to its full potential. Additionally, the current process for manually inputting energy invoices can be automated through the use of EnergyCAP.

Business Impact:
A potential risk exists that the under-utilization of the EnergyCAP system may lead to inefficient use of staff time on manual processes that could be automated. Additionally, there is a potential risk that the reporting capability of the system may not be fully utilized resulting in less effective tracking and monitoring of the City’s energy costs.

Action Plan:
It is recommended that the opportunity to automate utility bill processing be further explored. It is also recommended that all Facilities staff that work with the EnergyCAP system be given training on the various reports and full capabilities of the system.

Action Plan Lead:
Corporate Energy Management Engineer

Timing:
December 31, 2013

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#9: Facilities extending service area

Observation:

Facilities is not providing services to all service areas within the City of London, including water, wastewater and pollution control. Although these divisions have specific equipment and regulations, many aspects of their facilities are consistent with other City buildings.

Business Impact:

A potential risk exists that the maintenance and monitoring of facilities not under the control of the Facilities division may be inadequate resulting in additional costs to maintain the service level required of the facility. There could also be economies of scale through centralizing building management.

Action Plan:

It is recommended that Facilities work with the water, wastewater and pollution control divisions to determine what services Facilities may be able to provide to them.

Action Plan Lead:

Division Manager, Facilities

Timing:

December 31, 2013

#10: Involving energy management in the planning phase

Observation:

The energy management group may not be consulted during the planning stage for projects with an energy incentive opportunity undertaken by divisions other than Facilities.

Business Impact:

There is a potential risk that failure to include the energy management group during the planning stage of project construction could result in missed opportunities to secure energy grants/initiatives and/or other energy consumption-related savings.

Action Plan:

It is recommended that the energy management group investigate methods to ensure it is notified when a planned project meets the specified criteria for energy management.

Action Plan Lead:

Corporate Energy Management Engineer

Timing:

December 31, 2013

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#11: Energy credit signing authority

Observation:
Currently the applications for incentives through the Ontario Power Authority’s (OPA) saveONenergy program must be approved by the Mayor or City Clerk as the signature line on the program’s applications includes the following declaration: “I have authority to bind the company”.

Business Impact:
There is a potential risk that the extended time required to obtain the necessary approval results in the failure to meet the deadline to obtain the energy grant/incentive. This results in lost savings by the City.

Action Plan:
It is recommended that it be investigated whether signing authority for the saveONenergy program applications can be delegated to the Facilities Division Manager. Signing authority is required as the OPA becomes entitled to any ‘Environmental Attributes’ associated with the subsidized project upon completion of the project.

Action Plan Lead:
Corporate Energy Management Engineer

Timing:
December 31, 2013

#12: Tracking of current condition of City assets

Observation:
The current software system (ReCAPP) used by the City to track details regarding the condition of City facilities may contain outdated information.

Business Impact:
A potential risk exists that the ReCAPP system may reflect outdated facility conditions. As a result, deteriorating facility conditions may be identified in a less timely manner, which may lead to higher lifecycle renewal costs.

Action Plan:
It is recommended that the ReCAPP system be updated to reflect the current conditions of the City facilities. Additionally, it is recommended that the ReCAPP system be updated on a regular basis to reflect the continued maintenance and inspection of City facilities and to reflect an accurate facility condition index.

Action Plan Lead:
Division Manager, Facilities

Timing:
December 31, 2015

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#13: Portfolio/project management software

Observation:

Facilities is presently in the process of investigating the suitability of Eclipse Enterprise software (which is currently used by the ITS group) as a solution for its portfolio/project management. Currently, individual documents and spreadsheets are maintained externally from JD Edwards for each project and uploaded to the LiveLink database.

Business Impact:

There is a potential risk that the manual and decentralized process of managing portfolios of projects may be an inefficient use of staff time, result in duplication of efforts, and increase the likelihood for lost information and version control issues.

Action Plan:

It is recommended that the City continue investigating the opportunity to purchase and implement portfolio/project management software to improve the ability to manage ongoing portfolios of projects.

Action Plan Lead:

Division Manager, Facilities

Timing:

March 31, 2014

#14: Service level agreement

Observation:

Facilities does not have an updated service level agreement with the corporate security division. This agreement does not include the most current practices of the respective divisions.

Business Impact:

A potential risk exists that the outdated agreements could lead to a duplication of work being performed. Additionally, the lack of communication may lead to delays in projects being completed, as corporate security must sign off on project plans before a project can be undertaken.

Action Plan:

It is recommended that Facilities update their service level agreement with corporate security. Additionally, it is recommended that there is a single point of contact established within corporate security for individual projects.

Action Plan Lead:

Division Manager, Facilities

Timing:

December 31, 2013

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#15: Monitoring contractor performance

Observation:

Contractor performance on City projects is not consistently being monitored and communicated to the purchasing division in a timely manner.

Business Impact:

A potential risk exists that poor contractor performance is not being documented and communicated to purchasing, resulting in the contractor being able to obtain further City contracts.

Action Plan:

It is recommended that the project managers be educated on Section 20.5 of the City Procurement Policy, which requires the service area manager to institute a vendor performance evaluation process in contracts where the manager and/or purchasing and supply determine that a performance evaluation would be appropriate. In addition, the process for consultant performance monitoring should be reviewed for consistency with City Procurement Policy. It is further recommended that the project managers communicate details of poor performing contractors and consultants to purchasing in a timely manner.

Action Plan Lead:

Division Manager, Facilities

Timing:

December 31, 2013

#16: Leasable space at London Public Library

Observation:

It has been recommended to the London Public Library (“LPL”) that they request the City’s Facilities division to perform a space assessment of the Central library to determine whether there is capacity for creating additional leasable office space.

Business Impact:

There is a potential opportunity for the City and LPL to work together to utilize LPL-owned space with civic administration office space to save dollars currently paid to third-party landlords.

Action Plan:

It is recommended that the Senior Leadership Team review the information gathered from the Central Library space assessment to evaluate the potential for leasing space from LPL in the future.

It is estimated that if the City transferred 4,000 - 12,000 square feet of its leased space to the LPL’s Central library, annual savings of approximately \$85k - \$260k could be achieved. An assumption has been made that any transfer of lease costs from a third party to LPL will result in a direct cost savings as the City partially subsidizes LPL’s budget. Additionally, these cost savings do not reflect one-time costs associated with relocating civic administration to LPL.

Action Plan Lead:

Division Manager, Facilities & Managing Director, Corporate Services and City Treasurer, Chief Financial Officer

Timing:

June 30, 2014

APPENDIX B – Corporate Services/Finance - Property tax assessments and collections

Summary of Risks & Scope
Corporate Services/Finance - Property tax assessments and collections

Scope

- Property value assessments
 - Property tax categorization and rates
 - Property tax calculations
 - Completeness of property taxes
- Billings
 - Collections
 - Property tax information systems
 - Performance monitoring

Potential Risks

- Property value assessments and categorizations may not be accurate compared with the records of the Municipal Property Assessment Corporation (MPAC)
- Property tax rates charged may not be in line with approved rates
- Property taxes charged may not be complete
- Uncollected accounts may accumulate and remain outstanding
- Sufficient and appropriate performance monitoring may not exist

Controls Operating Effectively

- MPAC information is accurately captured in the City's systems, including property value assessments and property categorizations
- Property tax calculations and billings are accurately performed
- An appropriate level of effort is put towards collections procedures, as the rate of uncollected accounts averages 2.37% per year across 2010-2012, which is below the average of surrounding municipalities at 2.97%.

Value-for-Money Considerations

- The recommendation to consider the feasibility of implementing electronic property tax billing may result in savings of \$3,100 to \$7,700 if the acceptance rate for this option is between 2% and 5%.

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#1: Electronic property tax billing

Observation:

An opportunity to save costs exists by considering a transition to electronic billing from the current paper billing of all property tax invoices and reminders.

The following municipalities have implemented electronic billing with acceptance rates of:

- City of Hamilton - 2%
- City of Ottawa - 4.8% (water bills 8.8%)

Business Impact:

A potential risk exists that funds are being spent on paper and postage when there is an opportunity to offer electronic billing. This may result in savings of \$3,100 to \$7,700 if the acceptance rate for this option is between 2% and 5%.

Action Plan:

It is recommended that the City assess the feasibility of implementing electronic billing for property tax accounts, which would include assessing the potential acceptance rate by account holders, compliance with assessment legislation, a cost-benefit analysis and impacts on other areas of the division.

Action Plan Lead:

Division Manager, Taxation & Revenue

Timing:

March 31, 2014

#2: Review of tax policy regarding industrial and commercial tax rates

Observation:

In the 2013 tax policy report, City management identified the fact that the City's industrial class ratio is the highest in the city, and much higher than the commercial class ratio.

Tax ratios compare the municipal rate for a specific class to the residential class.

Equalization of the industrial and commercial tax ratios has occurred at both the City of Kitchener and the City of Waterloo.

Business Impact:

A potential risk exists that this element of the City's tax policy is not competitive and is impacting the development of both commercial and industrial businesses. This may also have an impact on the level of employment in the City. A potential risk exists that the type of development being encouraged or discouraged by this tax ratio is not in line with the City's objectives.

Action Plan:

It is recommended that management continue to investigate and assess the feasibility and impact of equalizing the industrial and commercial tax ratios.

Action Plan Lead:

Division Manager, Taxation & Revenue

Timing:

March 31, 2014

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#3: Updating of City tax policies

Observation:
The current property tax policies are not up to date and do not reflect current practices.

Business Impact:
A potential risk exists that inaccurate guidance is available to staff and the public.

Action Plan:
It is recommended that the property taxes policy is reviewed and updated.

Action Plan Lead:
Division Manager, Taxation & Revenue

Timing:
March 31, 2014

Appendix C - Quarterly Results on Internal Audit Results

The Corporation of the City of London

Quarterly Report on Internal Audit Results

- Corporate Services - Finance: Facilities and property utilization
- Corporate Services - Finance: Property tax assessments and collections

September 26, 2013

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.

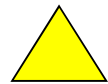
Satisfactory



- **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



Corporate Services/Finance - Facilities & Property Utilization

Summary of Risks & Scope

Corporate Services/Finance - Facilities & Property Utilization

Scope

- Corporate energy management processes
- Facility project management
- Facility monitoring and maintenance (note that maintenance and leasehold improvement processes were not reviewed in detail as a third-party consultant has been engaged to review processes in these areas)
- Facility planning, design and construction
- Space utilization

Potential Risks

- Energy may not be effectively monitored and used efficiently by all divisions
- The current software systems employed by Facilities may not be utilized to their full extent
- Facility condition may not be tracked in accordance with the lifecycle renewal process
- Communications between Facilities and other divisions may be insufficient, resulting in poor facility design/maintenance and creating additional cost
- Space utilization may not be monitored or maximized, resulting in additional cost

Controls Operating Effectively

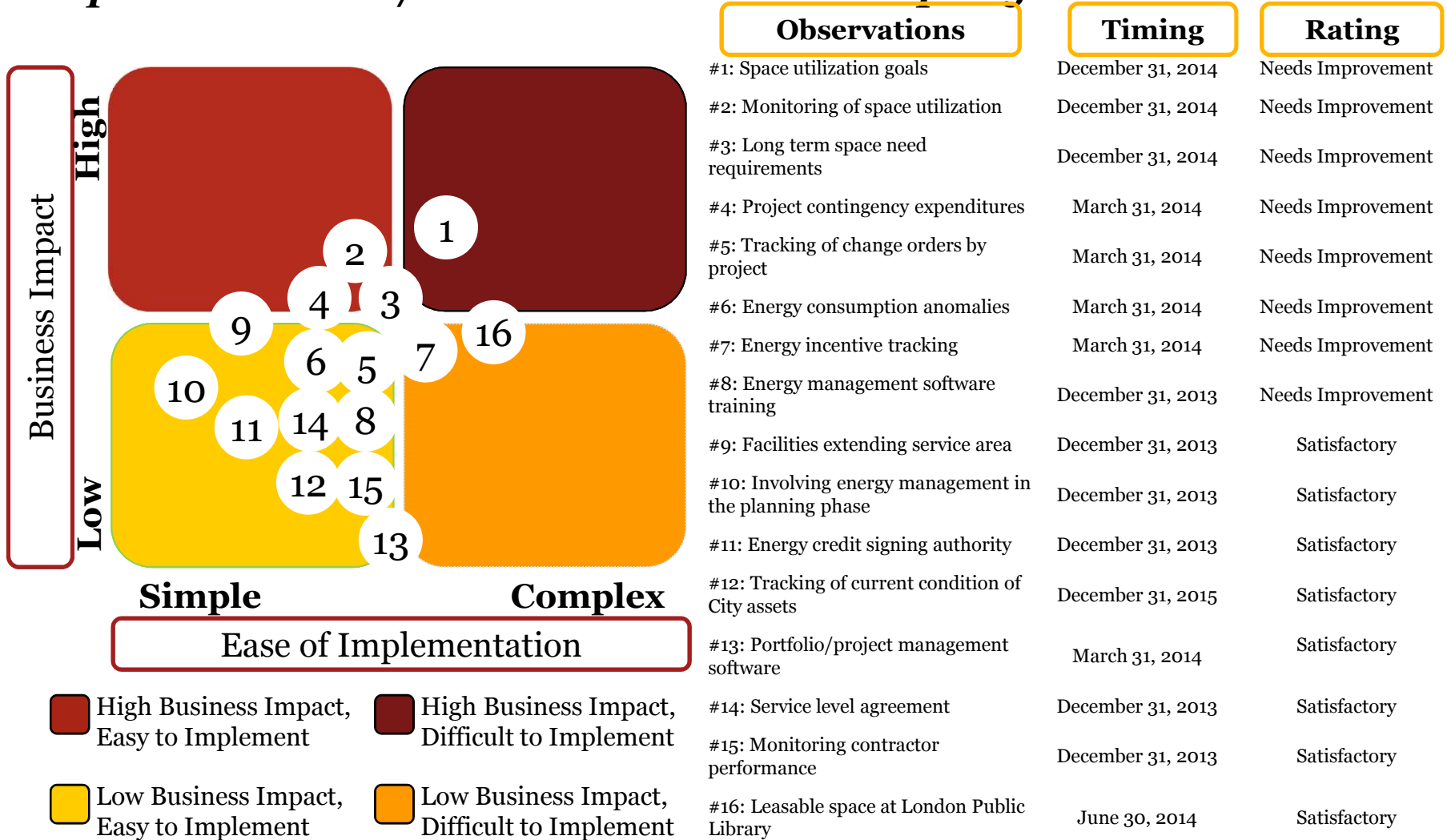
- Facilities oversees the majority of design and construction projects, as well as facility maintenance projects, which creates efficiencies through centralization of these processes.
- Staff in the Facilities design and construction group demonstrate flexibility to accommodate unplanned projects.
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- The Project Issues Database contains a matrix of criteria which is used by staff to guide the prioritization of projects.

Value-for-Money Considerations

- Establishing a long-term corporate space planning strategy and growth projections to make informed decisions on future space planning needs could result in cost savings of \$130k - \$270k.
- If the City is able to utilize London Public Library (LPL) space for civic administrative space, this could save \$85k - \$260k annually.
- Additional analysis of contingency funds and change orders for construction projects may lead to additional savings.
- More effective energy monitoring and application for and tracking of energy incentives could result in cost savings.
- Automating the processing of energy invoices through EnergyCAP will reduce inefficiencies.

Action Plan Summary

Corporate Services/Finance - Facilities & Property Utilization



Action Plan Lead

Various Facilities management

Observations & Action Plans -#1

Needs
Improvement



Corporate Services/Finance - Facilities & Property Utilization

Observation

Space utilization goals

There are currently no strategic objectives regarding space utilization or lease costs set at the corporate level that are regularly communicated and tracked to guide civic administrative space-planning decisions, reduce lease costs, and minimize the City's leased property footprint.

It is estimated that the City is paying approximately 3 - 4% more per square foot than current average market rates for its leased space in the London downtown core.

Business Impact

A potential risk exists that, in lacking corporate objectives for space utilization and lease costs over its civic administrative space, the City may be making sub-optimal space planning decisions and incurring additional costs.

Action Plan

It is recommended that the City develop corporate objectives regarding space utilization and lease costs over its civic administrative space, the City may be making sub-optimal space planning decisions and incurring additional costs. It is estimated that if the City set an objective to reduce its civic administrative leased space or its civic administrative lease costs by 5% - 10% it could achieve annual savings of approximately \$130k - \$270k.

Action Plan Lead

Manager, Facilities Design & Construction
& Managing Director, Corporate Services and City
Treasurer, Chief Financial Officer

Timing

December 31, 2014

Observations & Action Plans -#2

**Needs
Improvement** 

Corporate Services/Finance - Facilities & Property Utilization

Observation

Space utilization - data collection and monitoring

Data describing space utilization is currently not being collected or monitored by the City.

Business Impact

There is a potential risk that failure to perform ongoing monitoring of space utilization could inhibit the City's ability to detect inefficient use of administrative space and/or identify trends such as a growing demand for additional space. This could lead to uninformed space planning decisions and additional costs.

Action Plan

Individual service areas should collect space utilization data and provide it to Facilities on a consistent basis. Ongoing monitoring of space utilization should be performed in order to assess the sufficiency of civic administrative space and efficiency in which it is used. Facilities should lead monitoring efforts by setting key performance indicators (such as % of occupancy of workstations/offices, FTE/square foot) and providing guidance to assist service areas in their ongoing collection and communication of space utilization data. Facilities should analyze the data collected by service areas to identify space utilization trends and ensure future space planning decisions are informed.

Action Plan Lead

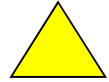
Manager, Facilities Design & Construction

Timing

December 31, 2014

Observations & Action Plans -#3

**Needs
Improvement**



Corporate Services/Finance - Facilities & Property Utilization

Observation

Long term space need requirements

There are currently minimal communications between the respective City divisions and Facilities regarding long-term growth/attrition projections of the various service areas.

Business Impact

A potential risk exists that the City could make short-sighted space planning decisions as a result of a lack of anticipated growth/attrition. This could lead to excess costs associated with acquiring additional space that may not be required or in having to acquire space with limited planning time.

Action Plan

It is recommended that Facilities collect space requirement information and long-term growth/attrition projections covering the next 5-10 years from the various service areas within the City. This information should be used to guide long-term space planning and space acquisition activities by the City.

Action Plan Lead

Manager, Facilities Design & Construction

Timing

December 31, 2014

Observations & Action Plans -#4

Corporate Services/Finance - Facilities & Property Utilization

Needs
Improvement 

Observation

Project contingency expenditures

A retroactive review of three typical construction projects found that the average contingency allowance was 5% - 10% of the total tendered project cost. Of this amount, approximately 20% - 30% was spent on avoidable items which did not meet the criteria for contingency drawn-downs. Additionally, draw-downs of the contingency allowance are not being categorized to determine the source of the cost overrun (eg: unforeseen site conditions).

Business Impact

A potential risk exists that the contingency allowance is being used inappropriately on items that are avoidable in nature, rather than the intent of the contingency funds, which is to cover unavoidable costs associated with construction. This results in additional costs being incurred by the City.

Action Plan

It is recommended that the project managers categorize and track contingency funds spent through the change order process and confirm that only appropriate costs are being drawn-down from the contingency allowance. The process for approving contingency spends should be reviewed to ensure contingency fund change orders meet the definition of "contingency" before proceeding.

Action Plan Lead

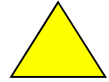
Division Manager, Facilities

Timing

March 31, 2014

Observations & Action Plans -#5

**Needs
Improvement**



Corporate Services/Finance - Facilities & Property Utilization

Observation

Tracking of change orders by project

Facilities does not set and monitor target rates for change orders during projects.

Business Impact

A potential risk exists that the lack of a formal target and subsequent monitoring could result in the City spending more funds on costs that are avoidable in nature.

Action Plan

It is recommended that Facilities set formal change order targets. It is also recommended that Facilities monitor results against the targets to ensure spending on change orders is appropriate and contractors who create unusually high levels of change orders are monitored for future projects.

Action Plan Lead

Division Manager, Facilities

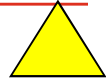
Timing

March 31, 2014

Observations & Action Plans -#6

Corporate Services/Finance - Facilities & Property Utilization

**Needs
Improvement**



Observation

Energy consumption anomalies

Regular monitoring of real-time energy consumption reports does not occur in facilities having interval-type electrical meters which read and store such data. There are currently no formalized procedures defining the investigation and resolution process for energy consumption anomalies that are detected.

Business Impact

There is a potential risk that failure to monitor real-time energy consumption reports may result in excess consumption going unnoticed year-over-year (eg: consistently leaving lights on overnight when it is not required). The lack of a formalized process for the investigation and resolution of energy consumption anomalies may delay the resolution of potential issues, thereby increasing avoidable energy costs to the City.

Action Plan

It is recommended that the energy analyst monitor real-time energy consumption reports associated with facilities having interval-type electrical meters. The energy analyst should also be responsible for identifying consumption anomalies and ensuring that they are investigated by the designated accountable individuals within the City no later than the month following the one in which the anomaly was identified. A live actions and issues log should be maintained and circulated to track status of anomalies.

Action Plan Lead

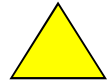
Corporate Energy Management Engineer

Timing

March 31, 2014

Observations & Action Plans -#7

**Needs
Improvement**



Corporate Services/Finance - Facilities & Property Utilization

Observation

Energy incentive tracking

The energy management group may not be consistently setting savings targets for its energy management initiatives or monitoring the resulting savings associated with the initiatives undertaken.

Business Impact

A potential risk exists that the funding budgeted for energy management initiatives may be resulting in a lower return on investment and higher future energy costs than expected. Additionally, in neglecting to track the energy savings and communicate the success of energy initiatives to Council, there is a potential risk that there will be a further reduction in Facilities' energy management budget.

Action Plan

It is recommended that management establish goals related to energy savings, and monitor the success of performance against those goals to ensure the sustainability of the Facilities budget moving forward. It is also recommended that energy savings initiatives are tracked to ensure the City capitalizes on the most advantageous projects.

Action Plan Lead

Corporate Energy Management Engineer

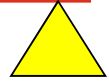
Timing

March 31, 2014

Observations & Action Plans -#8

Corporate Services/Finance - Facilities & Property Utilization

**Needs
Improvement**



Observation

Energy management software training

The current energy management software (EnergyCAP) utilized by Facilities is not being implemented to its full potential. Additionally, the current process for manually inputting energy invoices can be automated through the use of EnergyCAP.

Business Impact

A potential risk exists that the under-utilization of the EnergyCAP system may lead to inefficient use of staff time on manual processes that could be automated. Additionally, there is a potential risk that the reporting capability of the system may not be fully utilized resulting in less effective tracking and monitoring of the City's energy costs.

Action Plan

It is recommended that the opportunity to automate utility bill processing be further explored. It is also recommended that all Facilities staff that work with the EnergyCAP system be given training on the various reports and full capabilities of the system.

Action Plan Lead

Corporate Energy Management Engineer

Timing

December 31, 2013

Observations & Action Plans -#9 **Satisfactory**

Corporate Services/Finance - Facilities & Property Utilization

Observation

Facilities extending service area

Facilities is not providing services to all service areas within the City of London, including water, wastewater and pollution control.

Although these divisions have specific equipment and regulations, many aspects of their facilities are consistent with other City buildings.

Business Impact

A potential risk exists that the maintenance and monitoring of facilities not under the control of the Facilities division may be inadequate resulting in additional costs to maintain the service level required of the facility. There could also be economies of scale through centralizing building management.

Action Plan

It is recommended that Facilities work with the water, wastewater and pollution control divisions to determine what services Facilities may be able to provide to them.

Action Plan Lead

Division Manager, Facilities

Timing

December 31, 2013

Observations & Action Plans -#10

Satisfactory



Corporate Services/Finance - Facilities & Property Utilization

Observation

Involving energy management in the planning phase

The energy management group may not be consulted during the planning stage for projects with an energy incentive opportunity undertaken by divisions other than Facilities.

Business Impact

There is a potential risk that failure to include the energy management group during the planning stage of project construction could result in missed opportunities to secure energy grants/initiatives and/or other energy consumption-related savings.

Action Plan

It is recommended that the energy management group investigate methods to ensure it is notified when a planned project meets the specified criteria for energy management.

Action Plan Lead

Corporate Energy Management Engineer

Timing

December 31, 2013

Observations & Action Plans -#11

Satisfactory



Corporate Services/Finance - Facilities & Property Utilization

Observation

Energy credit signing authority

Currently the applications for incentives through the Ontario Power Authority's (OPA) saveONenergy program must be approved by the Mayor or City Clerk as the signature line on the program's applications includes the following declaration: "I have authority to bind the company".

Business Impact

There is a potential risk that the extended time required to obtain the necessary approval results in the failure to meet the deadline to obtain the energy grant/incentive. This results in lost savings by the City.

Action Plan

It is recommended that it be investigated whether signing authority for the saveONenergy program applications can be delegated to the Facilities Division Manager. Signing authority is required as the OPA becomes entitled to any 'Environmental Attributes' associated with the subsidized project upon completion of the project.

Action Plan Lead

Corporate Energy Management Engineer

Timing

December 31, 2013

Observations & Action Plans -#12

Satisfactory



Corporate Services/Finance - Facilities & Property Utilization

Observation

Tracking of current condition of City assets

The current software system (ReCAPP) used by the City to track details regarding the condition of City facilities may contain outdated information.

Business Impact

A potential risk exists that the ReCAPP system may reflect outdated facility conditions. As a result, deteriorating facility conditions may be identified in a less timely manner, which may lead to higher lifecycle renewal costs.

Action Plan

It is recommended that the ReCAPP system be updated to reflect the current conditions of the City facilities. Additionally, it is recommended that the ReCAPP system be updated on a regular basis to reflect the continued maintenance and inspection of City facilities and to reflect an accurate facility condition index.

Action Plan Lead

Division Manager, Facilities

Timing

December 31, 2015

Observations & Action Plans -#13

Satisfactory



Corporate Services/Finance - Facilities & Property Utilization

Observation

Portfolio/project management software

Facilities is presently in the process of investigating the suitability of Eclipse Enterprise software (which is currently used by the ITS group) as a solution for its portfolio/project management. Currently, individual documents and spreadsheets are maintained externally from JD Edwards for each project and uploaded to the LiveLink database.

Business Impact

There is a potential risk that the manual and decentralized process of managing portfolios of projects may be an inefficient use of staff time, result in duplication of efforts, and increase the likelihood for lost information and version control issues.

Action Plan

It is recommended that the City continue investigating the opportunity to purchase and implement portfolio/project management software to improve the ability to manage ongoing portfolios of projects.

Action Plan Lead

Division Manager, Facilities

Timing

March 31, 2014

Observations & Action Plans - #14

Satisfactory



Corporate Services/Finance - Facilities & Property Utilization

Observation

Service level agreement

Facilities does not have an updated service level agreement with the corporate security division. This agreement does not include the most current practices of the respective divisions.

Business Impact

A potential risk exists that the outdated agreements could lead to a duplication of work being performed. Additionally, the lack of communication may lead to delays in projects being completed, as corporate security must sign off on project plans before a project can be undertaken.

Action Plan

It is recommended that Facilities update their service level agreement with corporate security. Additionally, it is recommended that there is a single point of contact established within corporate security for individual projects.

Action Plan Lead

Division Manager, Facilities

Timing

December 31, 2013

Observations & Action Plans -#15

Satisfactory



Corporate Services/Finance - Facilities & Property Utilization

Observation

Monitoring contractor performance

Contractor performance on City projects is not consistently being monitored and communicated to the purchasing division in a timely manner.

Business Impact

A potential risk exists that poor contractor performance is not being documented and communicated to purchasing, resulting in the contractor being able to obtain further City contracts.

Action Plan

It is recommended that the project managers be educated on Section 20.5 of the City Procurement Policy, which requires the service area manager to institute a vendor performance evaluation process in contracts where the manager and/or purchasing and supply determine that a performance evaluation would be appropriate. In addition, the process for consultant performance monitoring should be reviewed for consistency with City Procurement Policy. It is further recommended that the project managers communicate details of poor performing contractors and consultants to purchasing in a timely manner.

Action Plan Lead

Division Manager, Facilities

Timing

December 31, 2013

Observations & Action Plans -#16

Satisfactory



Corporate Services/Finance - Facilities & Property Utilization

Observation

Leasable space at London Public Library

It has been recommended to the London Public Library (“LPL”) that they request the City’s Facilities division to perform a space assessment of the Central library to determine whether there is capacity for creating additional leasable office space.

Business Impact

There is a potential opportunity for the City and LPL to work together to utilize LPL-owned space with civic administration office space to save dollars currently paid to third-party landlords.

Action Plan

It is recommended that the Senior Leadership Team review the information gathered from the Central Library space assessment to evaluate the potential for leasing space from LPL in the future.

It is estimated that if the City transferred 4,000 - 12,000 square feet of its leased space to the LPL’s Central library, annual savings of approximately \$85k - \$260k could be achieved. An assumption has been made that any transfer of lease costs from a third party to LPL will result in a direct cost savings as the City partially subsidizes LPL’s budget. Additionally, these cost savings do not reflect one-time costs associated with relocating civic administration to LPL.

Action Plan Lead

Division Manager, Facilities & Managing Director,
Corporate Services and City Treasurer, Chief Financial
Officer

Timing

June 30, 2014

Corporate Services/Finance – Property tax assessments and collections

Summary of Risks & Scope

Corporate Services/Finance – Property tax assessments and collections

Scope

- Property value assessments
- Property tax categorization and rates
- Property tax calculations
- Completeness of property taxes
- Billings
- Collections
- Property tax information systems
- Performance monitoring

Potential Risks

- Property value assessments and categorizations may not be accurate compared with the records of the Municipal Property Assessment Corporation (MPAC)
- Property tax rates charged may not be in line with approved rates
- Property taxes charged may not be complete
- Uncollected accounts may accumulate and remain outstanding
- Sufficient and appropriate performance monitoring may not exist

Controls Operating Effectively

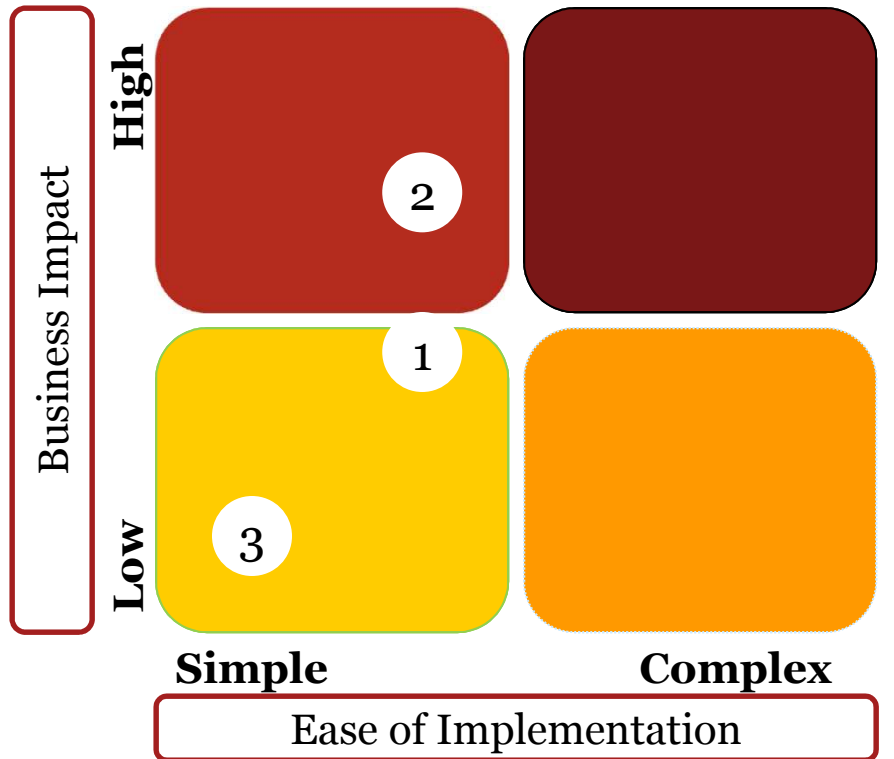
- MPAC information is accurately captured in the City's systems, including property value assessments and property categorizations
- Property tax calculations and billings are accurately performed
- An appropriate level of effort is put towards collections procedures, as the rate of uncollected accounts averages 2.37% per year across 2010-2012, which is below the average of surrounding municipalities at 2.97%.

Value-for-Money Considerations

- The recommendation to consider the feasibility of implementing electronic property tax billing may result in savings of \$3,100 to \$7,700 if the acceptance rate for this option is between 2% and 5%.

Action Plan Summary

Corporate Services/Finance – Property tax assessments and collections



- 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

- #1: Electronic property tax billing
- #2: Review of tax policy regarding industrial and commercial property rates
- #3: Updating of City tax policies

Timing

- March 31, 2014
- March 31, 2014
- March 31, 2014

Action Plan Lead

Division Manager, Taxation & Revenue

Observations & Action Plans -#1

Satisfactory



Corporate Services/Finance – Property tax assessments and collections

Observation

Electronic property tax billing

An opportunity to save costs exists by considering a transition to electronic billing from the current paper billing of all property tax invoices and reminders.

The following municipalities have implemented electronic billing with acceptance rates of:

- City of Hamilton - 2%
- City of Ottawa - 4.8% (water bills 8.8%)

Business Impact

A potential risk exists that funds are being spent on paper and postage when there is an opportunity to offer electronic billing. This may result in savings of \$3,100 to \$7,700 if the acceptance rate for this option is between 2% and 5%.

Action Plan

It is recommended that the City assess the feasibility of implementing electronic billing for property tax accounts, which would include assessing the potential acceptance rate by account holders, compliance with assessment legislation, a cost-benefit analysis and impacts on other areas of the division.

Action Plan Lead

Division Manager, Taxation & Revenue

Timing

March 31, 2014

Observations & Action Plans -#2

Satisfactory



Corporate Services/Finance – Property tax assessments and collections

Observation

Review of tax policy regarding industrial and commercial tax rates

In the 2013 tax policy report, City management identified the fact that the City's industrial class ratio is the highest in the city, and much higher than the commercial class ratio.

Tax ratios compare the municipal rate for a specific class to the residential class.

Equalization of the industrial and commercial tax ratios has occurred at both the City of Kitchener and the City of Waterloo.

Business Impact

A potential risk exists that this element of the City's tax policy is not competitive and is impacting the development of both commercial and industrial businesses. This may also have an impact on the level of employment in the City. A potential risk exists that the type of development being encouraged or discouraged by this tax ratio is not in line with the City's objectives.

Action Plan

It is recommended that management continue to investigate and assess the feasibility and impact of equalizing the industrial and commercial tax ratios.

Action Plan Lead

Division Manager, Taxation & Revenue

Timing

March 31, 2014

Observations & Action Plans -#3

Satisfactory



Corporate Services/Finance – Property tax assessments and collections

Observation

Updating of City tax policies

The current property tax policies are not up to date and do not reflect current practices.

Business Impact

A potential risk exists that inaccurate guidance is available to staff and the public.

Action Plan

It is recommended that the property taxes policy is reviewed and updated.



Action Plan Lead

Division Manager, Taxation & Revenue

Timing

March 31, 2014

2013 Internal Audit Projects in Progress

Service Area	Project	Stage
Parks & Recreation	Revenue Strategies	Completion 
Corporate Services/Information Technology	Project Management	Planning 



Higher risk



Moderate Risk



Lower Risk

Internal Audit Scorecard – September 2013

		Key Measures	TARGET	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
CORPORATE STRATEGY	Audit Committee	Approval of annual risk-based audit plan	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
		Number of reports presented to the Audit Committee	3	1	1	1	1	1	2	2	2	3
		Timely reporting of recommendations	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
		Estimated quantification of Value-for-Money for current year projects (2013)		\$0	\$0	\$0	\$0	\$0	\$95K	\$186K	\$319K	\$319K
	Management/ Auditees	Number of closing meetings held with management	5	0	0	0	0	2	2	3	5	5
		Number of concise, value-added recommendations		0	0	0	0	0	26	33	52	52
INTERNAL AUDIT STRATEGY	Innovation/ Capabilities	Number of best practices identified by internal audit		0	0	0	0	0	26	33	52	52
		Use of internal audit resources and processes	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
	Internal Audit Processes	Percentage of projects completed	63%	0%	0%	0%	0%	19%	25%	38%	63%	63%
		Completion of annual risk assessment and updates to audit plan	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

Rating Scale – Status of Past Project Action Plans

Closed

All action plans have been addressed by the appointed Action Plan Lead.

On Track

All action plans targeted for completion have been addressed. Action Plan Leads are progressing well towards future action plan targets.

Some Delays

Some action plans targeted for completion have not been addressed. Action Plan Leads have revised some targets.

Not Addressed

Action plans targeted for completion have not been addressed by the appointed Action Plan Lead.

Status of Past Project Action Plans

Project	Status
Technology Services - Information Security Governance Assessment – <i>Corporate Services/Information Technology</i> (2011)	Some Delays
Time Off Provisions - <i>Corporate Services /Human Resources</i> (2011)	Some Delays
Municipal Housing Finance and Monitoring – <i>Housing and Social Services</i> (2011)	On Track
Bid Process and Approved Consultants – <i>Corporate Services/Finance</i> (2011)	Some Delays
Financial Management – <i>Housing and Social Services</i> (2012)	Some Delays
Health and Safety – <i>Parks and Recreation</i> (2012)	Closed
Building Control Compliance – <i>Development and Compliance Services</i> (2012)	On Track
Expenditure Approval & Payment – <i>Corporate Services/Finance</i> (2012)	On Track
Payroll Administration – <i>Corporate Services/Finance</i> (2012)	On Track
Succession Planning – <i>Corporate Services/Human Resources</i> (2012)	Some Delays
Urban Forestry and Planning Application Processes – <i>Planning</i> (2013)	On Track
Budgeting Process – <i>Corporate Services/Finance</i> (2013)	On Track

** All recommendations have been considered and reported back on by management. All remaining recommendations will be addressed through the 2014 DC Study and By-law review, which will be reported separately to Council. As such, from an Internal Audit perspective, we consider this project closed unless further investigation is requested by the Audit Committee

Summary of Past Due Action Plans

Project	Status
Technology Services	Significant progress has been made on action plans relating to IT governance and strategy, including successful implementation of the Corporate IT Steering Committee which has been in place throughout 2013. The remaining outstanding action plans relate primarily to documentation and communication of policies and procedures, and program/project management and prioritization, some of which has seen significant progress, and some of which will be addressed as part of our upcoming 2013 internal audit project in this area. Recommendations relating to IT General Controls in JD Edwards have been addressed.
Time-Off Provisions	Some of the Time-off Provisions action plans have been delayed as successful completion is dependent upon upcoming labour negotiations scheduled for 2014 as well as the Kronos system upgrade expected to be completed in the fall of 2013. All other recommendations have been addressed.
Bid Process and Approved Consultants	All action plans have been addressed and closed except for one action plan regarding the use and maintenance of the third party consultant list. Due to the reorganization in 2012, the scope of the project has been revised so that the Manager of Purchasing and Supply will be working towards completion of this action plan with the Managing Directors instead of the City Engineer. The revised expected date of completion has been moved out one year to December 31, 2013.
Financial Management	All action plans have been addressed and closed except for one action plan regarding the implementation of a Business Recovery Plan (BRP) for the Ontario Works payment process. Management has worked with Information Technology Services (ITS) to complete a full vision and scope document outlining the requirements needed in the event of an emergency. ITS has initiated a project which includes the BRP and the security cheque printers. ITS is currently contacting vendors to implement new set of printers with contingency and security requirements.

Summary of Past Due Action Plans (Cont'd)

Project	Status
Succession Planning	Meetings have been held with Managing Directors in order to identify and document critical positions within the organization along with members of the talent pool. However, given the large number of critical positions identified, further refinement of the selections and re-examinations of the definition of 'critical position' was conducted by HR. Consequently, implementation of action plans relating to members of the talent pool has been delayed approximately three to nine months.

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