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TO:	CHAIR AND MEMBERS AUDIT COMMITTEE MEETING ON DECEMBER 5, 2013
FROM:	PwC INTERNAL AUDITORS
SUBJECT:	Quarterly Report on Internal Audit Results a) Parks & Recreation - Revenue Strategies

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
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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 DECEMBER 5, 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:

- Parks & Recreation - Revenue Strategies

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 B.

RECOMMENDED BY:	
	PwC INTERNAL AUDITORS

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APPENDIX A – Parks & Recreation - Revenue Strategies

Summary of Risks & Scope

Parks & Recreation - Revenue Strategies

Scope

- Benchmarking of the existing fees with other municipalities and local organizations
- Current fee structure for various associations/ organizations
- Utilization rates of facilities
- Appropriate controls and processes regarding cash collection
- Recovery of operating costs based on current fees

Potential Risks

- Fees/rates for usage and rental may not be competitive in the local or municipal market
- Fees/rates might not reasonably recover operating costs for the continued use of a facility
- Fees/rates may not be appropriately optimizing utilization of a facility
- There may be weaknesses with the internal processes around cash collection that allow for revenue slippage
- Other opportunities may exist to generate additional revenue

Controls Operating Effectively

- The department obtain feedbacks from their users on proposed price changes to confirm agreement prior to their implementation
- Initiatives are implemented to encourage use of facilities amongst key groups and neighbourhoods throughout London
- Stated policies outline the cash collection procedures to be followed at various locations
- Aquatics has recently completed a study to determine if their prices are competitive compared with other municipalities
- Golf is working with other municipal golf courses in the province to share best practices and set rates in comparison to similar offerings.

Value-for-Money Considerations

- The base rental rate for arenas with the new internal pricing framework is set to cover all operational costs. Fees could be increased over time to achieve additional revenues up to \$300k.
- Aligning the grass soccer field rental rate with the high quality of the fields could increase revenue by approximately \$225k.
- Changing field rental rates for baseball diamonds to be competitive with the local marketplace (as well as with other municipalities) could provide approximately \$26k in additional revenues.
- Other minor controls recommendations could decrease the risk of revenue slippage between \$5k-\$20k.
- Note that for any increase in fees, consideration must be given to any potential impact on utilization. These recommendations assume no decrease in utilization as rates would still be competitive.
- This assessment does not recognize the community benefits of sport and recreation and the level of subsidy applied to achieve those benefits.

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Observations & Action Plans

#1: User group policy

Observation:

The new internal pricing framework is being developed for stratifying user groups such as by age/affiliation/corporate status. This needs to be clearly defined as the subsidy will be applied at a specific percentage for each user depending on which category they are considered to be a part of.

Business Impact:

Revenue generation from arenas has a significant impact on the overall performance of the Parks & Recreation service area. If the user groups are not defined clearly by policy or policies is not enforced, inappropriate rates could be applied. This could cause unoptimized revenues.

Action Plan:

With consideration for the recommendations raised for the other action plans, we recommend that management clearly define their user groups and their associated rates. This should include continuing to gather use by groups and projecting results using this information.

Action Plan Lead:

Division Managers - Parks and Recreation

Timing:

November 2014

#2: Arena base rate

Observation:

Parks & Recreation currently plans to increase the base arena fees by 2%. This increase still forecasts an operational subsidy of \$300k, inclusive of a \$3.3m subsidy from the City against the costs.

The internal pricing framework which determines the rates is not yet complete. A premium rate for non-affiliates could recover more of this loss.

Business Impact:

Arena rates are not structured to recover operational costs. This is not a sustainable long-term strategy without continued subsidy beyond user fees.

Action Plan:

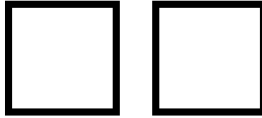
- 1) It is recommended that the City investigate gradually increasing base arena fees on a stratified rate structure to eliminate the current operating subsidy through consultation with key user groups including impact on participation rates.
- 2) In performing their annual pricing review, management could consider operational cost recovery for the arenas.
- 3) Consider developing a target price and phase in over a 5 year period to allow user groups to adjust to cost increases per year.
- 4) Management should consider having a third party review of the internal pricing framework upon its completion.

Action Plan Lead:

Division Managers - Parks and Recreation

Timing:

5 years



#3: Soccer field rates

Observation:

The City owns both natural grass and artificial turf fields. Previously the City undertook a project to upgrade the quality of the grass soccer fields. They are utilized daily with higher use in spring and fall.

Business Impact:

Soccer field rates are structured to reflect the premium nature of the grass fields. There are distinct different rates for “premier fields’ versus regular fields not being recovered.

Action Plan:

It is recommended that the City investigate gradually increasing the rates charged for grass fields. A current average rate per hour for grass fields in the City is approximately \$40, while other representative municipalities (including Windsor and Kitchener) range from \$28-\$60. If the City were to increase to the high-range of the scale to reflect the premium nature of the upgraded fields, revenue would increase by \$228,000 based on 2013 budgeted rental revenue. This will be part of the internal pricing policy framework.

Action Plan Lead:

Division Manager - Parks and Community Sports

Timing:

November 2014

#4: Pool utilization

Observation:

Through the business plan conducted by management, a few outdoor City pools were identified as having the lowest utilization as well as greatest operational loss (\$58k). This low utilization was noted through the course of normal business operations as well as for special events where pool use was prepaid and free to the customer but not accrued.

Business Impact:

Maintaining pools whose revenues do not recover the operating costs requires subsidization from other areas. If this trend continues the impact could become a significant issue for the Parks & Recreation service area.

Capital life cycle renewal costs could be avoided if low utilization outdoor pools were closed, decommissioned or repurposed.

Action Plan:

It is recommended that management continue their business plan process in order to choose one of the following actions regarding these specific pools:

- 1) Reinvest in the facility, with a payback model based on increased utilization;
- 2) Cost avoidance and reduction in service level for outdoor facilities; or
- 3) Closure of the facilities to eliminate the continuing operational loss and avoid future additional maintenance cost.

Action Plan Lead:

Division Manager - Aquatics, Arenas and Attractions

Timing:

1 - 5 years

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#5: Baseball diamond rates

Observation:

Based on our comparison with other municipalities as well as other local business with a similar offering, the City's rates are much less for baseball diamond fields.

Business Impact:

Not charging competitive rates for baseball diamonds could result in a loss of potential revenues.

Action Plan:

It is recommended that the City investigate gradually increasing their rates to provide subsidy fairness relative to operational cost recoveries from other sports and better reflect comparator rates. The current average hourly rate for the City is \$34, while other representative municipalities (e.g. Kitchener and Windsor) range from \$10-\$81.

If the City were to raise its rates to match the average of other municipalities, revenue would increase by approximately \$26k.

Action Plan Lead:

Division Manager - Parks and Community Sports

Timing:

November 2014

#6: Parkside Nine at Fanshawe Golf Club

Observation:

Currently, there is no charge for use of the Parkside Nine course.

Business Impact:

Not charging for Parkside causes the course to incur the related operational costs without any recovery of these. However, it is possible a nominal amount would discourage its use.

Action Plan:

It is recommended that the City consider:

- 1) In addition, the City should track usage of the Parkside Nine to understand what the utilization is, and what potential revenues could be gained from a nominal fee or donation.
- 2) Implement a user fee or percentage of fee and donation plan.
- 3) Promote/market the availability and benefits of the Parkside Nine.

Action Plan Lead:

Division Manager - Parks and Community Sports

Timing:

2 seasons

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#7: Golf use reconciliation

Observation:

Reconciliation between tee-times booked and revenue recorded could be improved. Currently the reconciliation is performed between the revenue collected and the bookings tracked by the pro shop attendants and when a starter is in place. A starter is not in place at all courses at all times due to volumes of play and associated staffing costs.

Business Impact:

This would serve as a detective control by identifying individuals who are using the courses without having paid or being a member to avoid slippage of revenue.

Action Plan:

Management should reallocate responsibilities for a staff or manager at the courses to reconcile tee off sheets with revenues received and memberships usages each week. The tee sheet used in the reconciliation should be the one maintained by the starter to achieve proper segregation of duties. This would allow for appropriate tracking of compensated rounds to ensure compliance with the current policy.

Action Plan Lead:

Division Manager - Parks and Community Sports

Timing:

1 season

#8: Monitoring golf cash transactions

Observation:

During the day at high utilization times adequate staff is employed. However, during twilight times the cashier at the pro-shop is the cashier and the starter, which represents a deficiency in segregation of duties. There are no process controls at this time of day to mitigate potential cash losses, unrecovered revenues or gifting of services.

Business Impact:

The lack of segregation of duties could allow for golfers to play the course without paying the appropriate green fee, or for employees to retain any cash received for themselves.

Action Plan:

It is recommended that the golf courses investigate implementing video surveillance at the clubhouse and tee as a deterrent to protect corporate assets. It is also recommended that trend analysis and benchmarking of various statistics by employee or by course be used to identify potential slippages. A cost/benefit analysis of this recommendation should be undertaken to determine feasibility of implementation of video equipment.

Action Plan Lead:

Division Manager - Parks and Community Sports

Timing:

TBD

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#9: Photo ID memberships

Observation:

Upon registering for a membership, a photo is taken and stored on the CLASS system. Some facilities were then providing a key fob to customers which brought their photo on the screen for validation of patron identification by staff. However, golf was not doing providing these key fobs.

Business Impact:

Inconsistent application of policies can lead itself to revenue slippage or unauthorized use of City facilities.

Action Plan:

It is recommended that the City provide a key fob to all members to swipe upon entering the facilities. This would provide validation of member identification.

Action Plan Lead:

Division Managers - Parks and Recreation

Timing:

Spring 2014

Appendix B - Quarterly Results on Internal Audit Results

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The Corporation of the City of London

Quarterly Report on Internal Audit Results

- Parks & Recreation - Revenue Strategies

December 5, 2013

pwc

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



Parks & Recreation – Revenue Strategies

Summary of Risks & Scope

Parks & Recreation – Revenue Strategies

Scope

- Benchmarking of the existing fees with other municipalities and local organizations
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- Recovery of operating costs based on current fees

Potential Risks

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Controls Operating Effectively

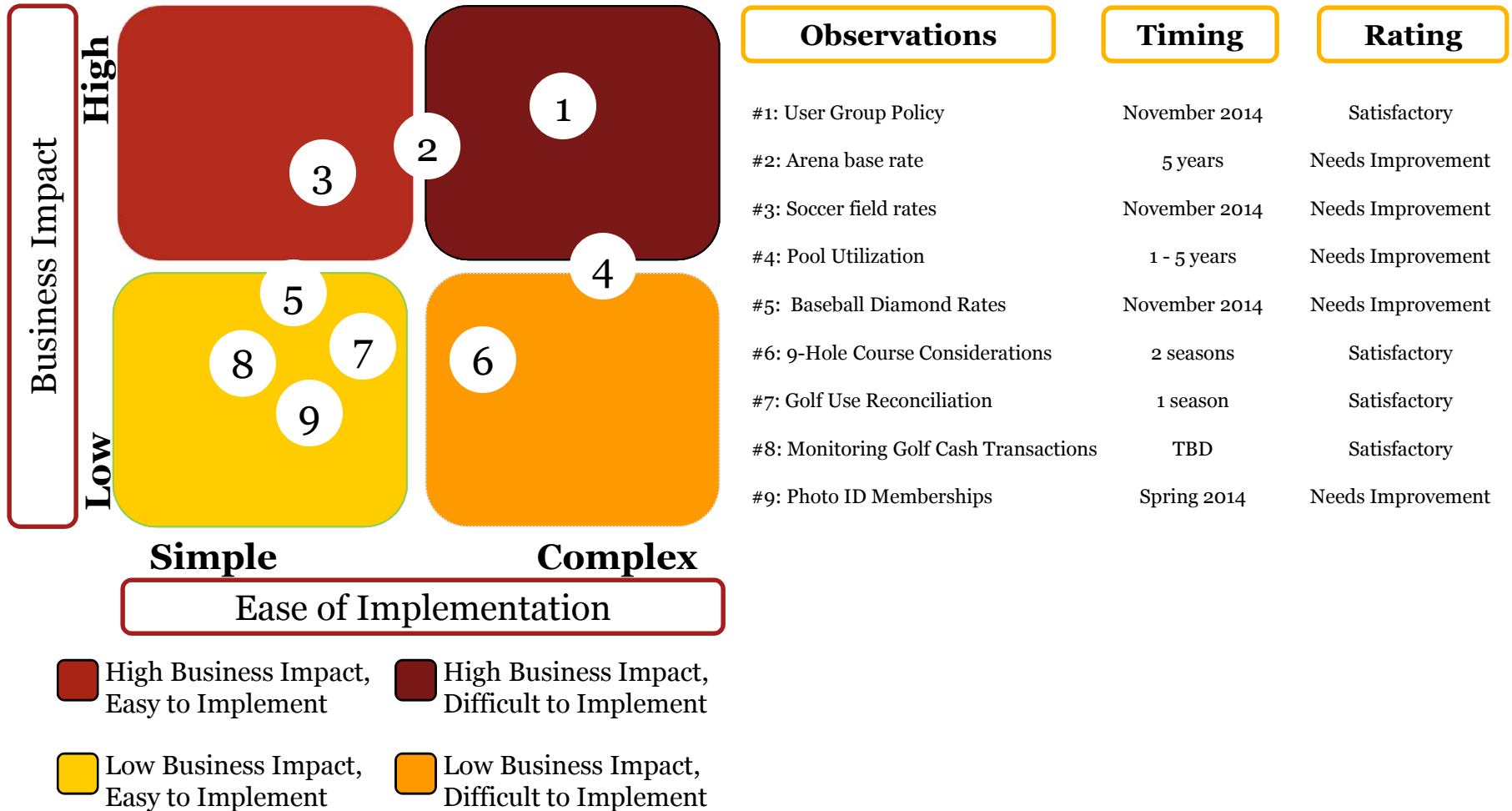
- The department obtain feedbacks from their users on proposed price changes to confirm agreement prior to their implementation
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Value-for-Money Considerations

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- Other minor controls recommendations could decrease the risk of revenue slippage between \$5k-\$20k.
- Note that for any increase in fees, consideration must be given to any potential impact on utilization. These recommendations assume no decrease in utilization as rates would still be competitive.
- This assessment does not recognize the community benefits of sport and recreation and the level of subsidy applied to achieve those benefits.

Action Plan Summary

Parks & Recreation – Revenue Strategies



Observations & Action Plans -#1

Parks & Recreation – Revenue Strategies

Satisfactory



Observation

User group policy

The new internal pricing framework is being developed for stratifying user groups such as by age/affiliation/corporate status. This needs to be clearly defined as the subsidy will be applied at a specific percentage for each user depending on which category they are considered to be a part of.

Business Impact

Revenue generation from arenas has a significant impact on the overall performance of the Parks & Recreation service area. If the user groups are not defined clearly by policy or policies is not enforced, inappropriate rates could be applied. This could cause unoptimized revenues.

Action Plan

With consideration for the recommendations raised for the other action plans, we recommend that management clearly define their user groups and their associated rates. This should include continuing to gather use by groups and projecting results using this information.

Action Plan Lead

Division Managers - Parks and Recreation

Timing

November 2014

Observations & Action Plans -#2

Parks & Recreation – Revenue Strategies

Needs Improvement 

Observation

Arena base rate

Parks & Recreation currently plans to increase the base arena fees by 2%. This increase still forecasts an operational subsidy of \$300k, inclusive of a \$3.3m subsidy from the City against the costs.

The internal pricing framework which determines the rates is not yet complete. A premium rate for non-affiliates could recover more of this loss.

Business Impact

Arena rates are not structured to recover operational costs. This is not a sustainable long-term strategy without continued subsidy beyond user fees.

Action Plan

- 1) It is recommended that the City investigate gradually increasing base arena fees on a stratified rate structure to eliminate the current operating subsidy through consultation with key user groups including impact on participation rates.
- 2) In performing their annual pricing review, management could consider operational cost recovery for the arenas.
- 3) Consider developing a target price and phase in over a 5 year period to allow user groups to adjust to cost increases per year.
- 4) Management should consider having a third party review of the internal pricing framework upon its completion.

Action Plan Lead

Division Managers - Parks and Recreation

Timing

5 years

Observations & Action Plans -#3

Parks & Recreation – Revenue Strategies

Needs Improvement 

Observation

Soccer field rates

The City owns both natural grass and artificial turf fields. Previously the City undertook a project to upgrade the quality of the grass soccer fields. They are utilized daily with higher use in spring and fall.

Business Impact

Soccer field rates are structured to reflect the premium nature of the grass fields. There are distinct different rates for “premier fields’ versus regular fields not being recovered.

Action Plan

It is recommended that the City investigate gradually increasing the rates charged for grass fields. A current average rate per hour for grass fields in the City is approximately \$40, while other representative municipalities (including Windsor and Kitchener) range from \$28-\$60. If the City were to increase to the high-range of the scale to reflect the premium nature of the upgraded fields, revenue would increase by \$228,000 based on 2013 budgeted rental revenue. This will be part of the internal pricing policy framework.

Action Plan Lead

Division Manager - Parks and Community Sports

Timing

November 2014

Observations & Action Plans -#4

Parks & Recreation – Revenue Strategies

Needs Improvement 

Observation

Pool utilization

Through the business plan conducted by management, a few outdoor City pools were identified as having the lowest utilization as well as greatest operational loss (\$58k). This low utilization was noted through the course of normal business operations as well as for special events where pool use was prepaid and free to the customer but not accused.

Business Impact

Maintaining pools whose revenues do not recover the operating costs requires subsidization from other areas. If this trend continues the impact could become a significant issue for the Parks & Recreation service area.

Capital life cycle renewal costs could be avoided if low utilization outdoor pools were closed, decommissioned or repurposed.

Action Plan

It is recommended that management continue their business plan process in order to choose one of the following actions regarding these specific pools:

- 1) Reinvest in the facility, with a payback model based on increased utilization;
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- 3) Closure of the facilities to eliminate the continuing operational loss and avoid future additional maintenance cost.

Action Plan Lead

Division Manager - Aquatics, Arenas and Attractions

Timing

1 - 5 years

Observations & Action Plans -#5

Parks & Recreation – Revenue Strategies

Needs Improvement 

Observation

Baseball diamond rates

Based on our comparison with other municipalities as well as other local business with a similar offering, the City's rates are much less for baseball diamond fields.

Business Impact

Not charging competitive rates for baseball diamonds could result in a loss of potential revenues.

Action Plan

It is recommended that the City investigate gradually increasing their rates to provide subsidy fairness relative to operational cost recoveries from other sports and better reflect comparator rates.

The current average hourly rate for the City is \$34, while other representative municipalities (e.g. Kitchener and Windsor) range from \$10-\$81.

If the City were to raise its rates to match the average of other municipalities, revenue would increase by approximately \$26k.

Action Plan Lead

Division Manager - Parks and Community Sports

Timing

November 2014

Observations & Action Plans -#6

Parks & Recreation – Revenue Strategies

Satisfactory



Observation

Parkside Nine at Fanshawe Golf Club

Currently, there is no charge for use of the Parkside Nine course.

Business Impact

Not charging for Parkside causes the course to incur the related operational costs without any recovery of these. However, it is possible a nominal amount would discourage its use.

Action Plan

It is recommended that the City consider:

- 1) In addition, the City should track usage of the Parkside Nine to understand what the utilization is, and what potential revenues could be gained from a nominal fee or donation.
- 2) Implement a user fee or percentage of fee and donation plan.
- 3) Promote/market the availability and benefits of the Parkside Nine.

Action Plan Lead

Division Manager - Parks and Community Sports

Timing

2 seasons

Observations & Action Plans -#7

Parks & Recreation – Revenue Strategies

Satisfactory 

Observation

Golf use reconciliation

Reconciliation between tee-times booked and revenue recorded could be improved. Currently the reconciliation is performed between the revenue collected and the bookings tracked by the pro shop attendants and when a starter is in place. A starter is not in place at all courses at all times due to volumes of play and associated staffing costs.

Business Impact

This would serve as a detective control by identifying individuals who are using the courses without having paid or being a member to avoid slippage of revenue.

Action Plan

Management should reallocate responsibilities for a staff or manager at the courses to reconcile tee off sheets with revenues received and memberships usages each week. The tee sheet used in the reconciliation should be the one maintained by the starter to achieve proper segregation of duties. This would allow for appropriate tracking of compensated rounds to ensure compliance with the current policy.

Action Plan Lead

Division Manager - Parks and Community Sports

Timing

1 season

Observations & Action Plans -#8

Parks & Recreation – Revenue Strategies

Satisfactory 

Observation

Monitoring golf cash transactions

During the day at high utilization times adequate staff is employed. However, during twilight times the cashier at the pro-shop is the cashier and the starter, which represents a deficiency in segregation of duties. There are no process controls at this time of day to mitigate potential cash losses, unrecovered revenues or gifting of services.

Business Impact

The lack of segregation of duties could allow for golfers to play the course without paying the appropriate green fee, or for employees to retain any cash received for themselves.

Action Plan

It is recommended that the golf courses investigate implementing video surveillance at the clubhouse and tee as a deterrent to protect corporate assets. It is also recommended that trend analysis and benchmarking of various statistics by employee or by course be used to identify potential slippages. A cost/benefit analysis of this recommendation should be undertaken to determine feasibility of implementation of video equipment.

Action Plan Lead

Division Manager - Parks and Community Sports

Timing

TBD

Observations & Action Plans -#9

Parks & Recreation – Revenue Strategies

Needs Improvement 

Observation

Photo ID memberships

Upon registering for a membership, a photo is taken and stored on the CLASS system. Some facilities were then providing a key fob to customers which brought their photo on the screen for validation of patron identification by staff. However, golf was not doing providing these key fobs.

Business Impact

Inconsistent application of policies can lead itself to revenue slippage or unauthorized use of City facilities.

Action Plan

It is recommended that the City provide a key fob to all members to swipe upon entering the facilities. This would provide validation of member identification.

Action Plan Lead

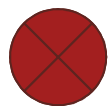
Division Managers - Parks and Recreation

Timing

Spring 2014

2013 Internal Audit Projects in Progress

Service Area	Project	Stage
Corporate Services/Information Technology	Project Management	Fieldwork 



Higher risk



Moderate Risk



Lower Risk

Internal Audit Scorecard – December 2013

		Key Measures	TARGET	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
CORPORATE STRATEGY	Audit Committee	Approval of annual risk-based audit plan	Y	Y	Y	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	3	3	4	
		Timely reporting of recommendations	Y	Y	Y	Y	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	\$319K	\$875k	\$875k	
	Management/ Auditees	Number of closing meetings held with management	5	0	0	0	0	2	2	3	5	5	6	6	6	
		Number of concise, value-added recommendations		0	0	0	0	0	26	33	52	52	52	51	60	
INTERNAL AUDIT STRATEGY	Innovation/ Capabilities	Number of best practices identified by internal audit		0	0	0	0	0	26	33	52	52	52	51	60	
		Use of internal audit resources and processes	Y	Y	Y	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%	63%	83%	83%	
		Completion of annual risk assessment and updates to audit plan	Y	Y	Y	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 (2011)</i>	Some Delays
Time Off Provisions - <i>Corporate Services /Human Resources (2011)</i>	Some Delays
Municipal Housing Finance and Monitoring – <i>Housing and Social Services (2011)</i>	On Track
Bid Process and Approved Consultants – <i>Corporate Services/Finance (2011)</i>	Some Delays
Financial Management – <i>Housing and Social Services (2012)</i>	Some Delays
Building Control Compliance – <i>Development and Compliance Services (2012)</i>	Closed
Expenditure Approval & Payment – <i>Corporate Services/Finance (2012)</i>	On Track
Payroll Administration – <i>Corporate Services/Finance (2012)</i>	On Track
Succession Planning – <i>Corporate Services/Human Resources (2012)</i>	Some Delays
Urban Forestry and Planning Application Processes – <i>Planning (2013)</i>	On Track
Budgeting Process – <i>Corporate Services/Finance (2013)</i>	On Track
Property Tax Assessment and Collection - <i>Corporate Services / Finance (2013)</i>	On Track
Facilities and Property Utilization - <i>Corporate Services / Finance (2013)</i>	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	Management of ITS will be providing a separate update to the Audit Committee relating to the status of action plans for IT governance and strategy. Action plans relating to IT General Controls in JD Edwards have been fully 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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