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TO:	CHAIR AND MEMBERS AUDIT COMMITTEE MEETING ON FEBRUARY 1, 2012
FROM:	PwC INTERNAL AUDITORS
SUBJECT:	<p style="text-align: center;">Quarterly Report on Internal Audit Results</p> <p>a) Community Services - Housing Division internal audit project</p> <p>b) Planning, Environmental and Engineering Services - Fleet Asset Management internal audit project</p>

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.

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:

- Community Services - Housing Division internal audit project
- Planning, Environment and Engineering Services - Fleet Asset Management internal audit project

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.

Finally, attached in Appendices D and E are detailed Summaries of Findings for the internal audit projects included herein. These documents outline the details of the audit programs utilized as well as the action plans identified.

RECOMMENDED BY:	
	PwC INTERNAL AUDITORS

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APPENDIX A – Community Services - Housing Division, February 1, 2012

Summary of Risks & Scope
Community Services - Housing Division

Scope

- Review and approval of benchmark and one-time funding
- Monitoring of low income housing rates
- Long-term capital planning and maintenance of social housing

Risks

- Funding may not be appropriately allocated to and/or spent by the Housing Providers
- Rent-geared-to-income (RGI) subsidies may not be calculated correctly by the Housing Providers
- RGI targets may not be monitored
- Future capital requirements of Housing Providers may not be adequately planned
- Social Housing may not be maintained to Ministry standards

Controls Operating Effectively

- No instances were noted where Financial Analysts did not comply with internal policies (which are aligned with rules established by the provincial government) for assessing benchmark funding
- The current Annual Information Return review process is appropriate
- The Housing Division is identifying, quantifying and monitoring Housing Providers' planned capital expenditures and capital reserve funds through reference to the Building Condition Assessment (BCA) study

Value-for-Money Considerations

- There is an opportunity to reduce time and costs associated with unit turnover by requiring Housing Providers to perform and maintain a record unit inspection as a pre-condition to receiving any one-time funding beyond the Housing Providers' normal benchmark funding.
- There is an opportunity to reduce costs associated with RGI vacancies by collecting and evaluating unit occupancy information from Housing Provider targets on a more timely basis and using this information to communicate with the Housing Providers that they are not meeting their Social Housing objectives.

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Observations & Action Plans

#1: Budget submissions from Housing Providers

Observation:

Housing Providers frequently submit their budgets past the due dates stipulated by the Housing Division.

Business Impact:

Lateness contributes to delays in the review and approval process, making it more difficult for the Financial Analysts and Financial Officer to meet internal deadlines. This also creates additional work as the Financial Analysts must follow-up with Housing Providers to obtain the submissions.

Action Plan:

It is recommended that an annual communication should be made to the Board of Directors and Property Managers reminding them of important deadlines and sources of reference materials. This should reduce the potential for errors in submissions and encourage documents to be submitted in accordance with the Housing Division deadlines.

Action Plan Lead:

Housing Division Financial Officer

Timing:

February 29, 2012

#2: One-time funding requests policy

Observation:

Current practices with regards to requests and awards of one-time funding are not in line with internal policy, which was developed prior to the Building Condition Assessment study.

Business Impact:

Inconsistencies between actual business practices and written policy could lead to errors and/or inconsistent processes.

Action Plan:

It is recommended that the Housing Division update its policy on one-time funding to accurately reflect the correct practices to be followed when ascertaining eligibility of project funding. This would include making reference to the Building Condition Assessment study and individual capital reserve fund balances when determining financial capacity of the Housing Providers.

Action Plan Lead:

Manager of Social Housing Administration

Timing:

February 29, 2012

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#3: Compliance with funding policy for one-time major repairs

Observation:

A detailed business case was not submitted for the only one-time major repairs request in the past four years. The current business case template alone does not prompt sufficiently detailed explanations for Financial Analysts to make informed one-time funding decisions.

Business Impact:

Inadequate business case templates could result in inadequate responses, which could then result in delays in the processing of funding requests.

Action Plan:

The Housing Division should review their business case template to ensure that it is appropriate in order to gather sufficient and appropriate information for the Financial Analysts to make one-time funding decisions. The Housing Division should also ensure that their already established instruction guide is always provided to a Housing Provider requesting funding in order to aid them in providing the necessary information.

Action Plan Lead:

Housing Program Officer, Technical Support Officer or Financial Analyst

Timing:

Complete - No further action required.

#4: Documentation of one-time funding request analysis process

Observation:

Minimal documentation exists to detail the procedures required by the Housing Division to perform a robust analysis over one-time funding requests.

Business Impact:

Without documentation of the process, key parts of the analysis could be overlooked or the assessment process may not be followed properly. This could ultimately lead to uninformed and/or inconsistent decision-making.

Action Plan:

It is recommended that a checklist of procedures should be created in order to better document and assess one-time funding request analyses. The checklist should include such items as the Business Case to be submitted by the Housing Provider, the analysis of the Business Case by Housing Division staff, review of eligibility as per one-time funding criteria, supporting documentation received from consultants and site visits, and approval of funding by Housing Division staff and/or City Council. The checklist should include columns for checkmarks indicating receipt and review of supporting documentation.

Action Plan Lead:

Manager of Social Housing Administration

Timing:

February 29, 2012

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#5: Documentation of site visits for one-time funding requests

Observation:

Although site visits appear to be appropriately executed, no documentation exists to support the site visits performed by the Social Housing Technical Support Officer prior to approving one-time funding and after the capital repair has been performed.

Business Impact:

Inconsistencies between actual business practices and written policy could lead to errors and inconsistent processes.

Action Plan:

It is recommended that the Housing Division consider developing a system to document site visits in response to one-time funding requests. This documentation could be attached to the checklist for one-time funding requests (as described previously) to ensure completion. The Housing Division may want to update their policies to include instances in which site visits are necessary (eg: mandatory for all repairs over \$100,000 and at the discretion of Housing Division for all repairs under \$100,000), as well as documentation required.

Action Plan Lead:

Technical Support Officer

Timing:

February 29, 2012

#6: Annual unit inspections performed by Housing Providers

Observation:

Tenant turnover often results in units left in poor condition by tenants. This can result in the Housing Provider having to draw upon its capital reserve to renovate the unit to return it to a rentable condition.

Business Impact:

Renovations performed during tenant turnover extends the vacancy period, resulting in higher costs to the City of London. Also, using the capital reserve fund for unit renovations reduces Housing Providers' funds available for larger, more critical projects and repairs. This results in requests for one-time funding which depletes the City's Stabilization Reserve Fund.

Action Plan:

The Housing Division should consider requiring that records of annual unit inspections (eg. for the last three years) be maintained by Housing Providers as a pre-condition to being approved for any one-time funding from the City above and beyond the normal benchmark funding. One-time funding request templates should be updated to reflect this new requirement. Unit inspections may serve as a deterrent to tenants from mistreating the units as any damages could be treated as an arrears. Repairs can then be made prior to turnover, thus reducing turnover time and vacancy rates resulting in reduced costs for the Housing Provider and the Housing Division.

Action Plan Lead:

Technical Support Officer

Timing:

February 29, 2012



#7: Rent-Geared-to-Income (“RGI”) occupancy targets and RGI vacancies

Observation:

The Housing Division receives formal reports to support Housing Provider unit activity annually through the Annual Information Return process. All other information regarding vacancies and targets is received infrequently and informally.

Business Impact:

Annual evaluation of the Housing Division’s targets is not frequent enough to provide timely follow-up on areas for improvement. Without active monitoring, Housing Providers experience less pressure to reduce their average RGI vacancies which are funded by the Housing Division.

Action Plan:

It is recommended that the Housing Division require Housing Providers to report their unit activity data more frequently than just on the Annual Information Return (ie. monthly reporting). Collecting and evaluating this information on a more timely basis will allow the Housing Division to be proactive in identifying Housing Providers who are not meeting their RGI-to-market occupancy targets. The Housing Division should respond to long-standing vacancy trends by communicating with the Housing Provider that they are not meeting their occupancy targets.

Action Plan Lead:

Manager of Social Housing Administration

Timing:

September 30, 2012

#8: Managing the RGI wait-list process

Observation:

Current rules surrounding the wait-list process are burdensome to the Housing Providers and the management of the wait-list is time consuming for the Housing Division. The Housing Services Act allows the Housing Division greater flexibility to manage its RGI wait-list process.

Business Impact:

The Housing Division can implement improvements to the current wait-list process.

Action Plan:

The Housing Division should include investigating opportunities to revise the RGI wait-list process managed by the Housing Access Centre as allowed by the Housing Services Act. The Housing Division should participate in the pilot program for a choice-based letting system which is aligned with the Community Housing Strategy. In addition, the Housing Division should continue to develop their understanding of the Housing Services Act and identify opportunities to drive process changes, which can in turn assist the Housing Division to meet its strategic objectives.

Action Plan Lead:

Manager of Social Housing Administration

Timing:

January 31, 2014

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#9: Documentation of spot checks performed on RGI calculations

Observation:

Spot checks of RGI calculations are performed by a Program Officer in response to tenant complaints or through Operational Reviews. Documentation is not currently maintained to support all spot checks performed, therefore no evidence of this oversight exists.

Business Impact:

Without documentation of the spot checks performed, it is difficult to demonstrate a robust review of the accuracy of the calculation. Errors in RGI calculations result in erroneous subsidy payments to the Housing Providers and therefore financial exposure to the City.

Action Plan:

It is recommended that the Housing Division maintain documentation of all spot checks performed on the RGI calculations to support that this oversight process occurs.

Action Plan Lead:

Housing Program Officer

Timing:

February 29, 2012

#10: Frequency of Operational Reviews of Housing Providers

Observation:

Operational Reviews are not currently performed frequently enough to provide effective oversight by the Housing Division. As a result of staff shortages, only two of the sixteen planned Operational Reviews were performed during 2011. This is not consistent with the Housing Division's target of full coverage of all 83 properties over a 5 year cycle.

Business Impact:

Errors in RGI calculations result in erroneous subsidy payments to the Housing Providers and therefore financial exposure to the City. Furthermore, Operational Reviews are the Housing Division's key oversight process and are essential for quick identification of any Housing Provider operational issues. Where Operational Reviews are performed infrequently, the effectiveness of this oversight is reduced.

Action Plan:

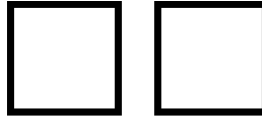
It is recommended that the Housing Division ensure sufficient resources such that Operational Reviews can be performed that provide full coverage of all properties at least once every 5 years.

Action Plan Lead:

Manager of Social Housing Administration

Timing:

May 31, 2012



#11: Building Condition Assessment (BCA) study

Observation:

The BCA performed in 2009 has been integral in assisting the Housing Division and Housing Providers with assessing their current and future capital needs. There is currently no plan to commission an update to this study.

Business Impact:

Failing to have the BCA study conducted on a regular basis could result in less effective capital expenditure planning and one-time funding decisions. This could result in higher costs if the Housing Provider cannot afford unplanned capital expenditures and has to rely on the Housing Division for the additional funding.

Action Plan:

It is recommended that the Housing Division have a BCA study conducted every 5 years in order to assist with evaluation of Housing Provider budgets and understanding the aggregate capital needs across all Housing Providers. Furthermore, it could assist the Housing Division in responding quickly to potential additional federal/provincial funding opportunities, since the projects requiring capital repairs would already be identified and documented.

Action Plan Lead:

Director of Municipal Housing

Timing:

Request funds for 2015 budget

#12: Formal policy relating to on-site visits and maintenance reviews

Observation:

No formal process or policy currently exists regarding site visits. Instead, complaints by tenants trigger the Social Housing Technical Support Officer to visit Housing Providers.

Business Impact:

Although the current approach results in addressing issues as they arise, failing to take a proactive approach could result in lost opportunities to identify issues before they become more significant and costly for the Housing Provider and/or the Housing Division.

Action Plan:

It is recommended that the Housing Division develop a policy regarding site visits in order to evaluate whether the properties are being properly maintained. Housing Providers could be pooled into one of three classes: high, medium and low risk, and the policy could involve having the Social Housing Technical Support Officer visit the Housing Providers on a rotational basis according to their risk as identified in the risk assessment matrix. The Housing Division should also investigate whether it would be beneficial to bring documents such as the BCA study as a reference tool to ensure higher-risk areas are being addressed during the visit.

Action Plan Lead:

Technical Support Officer

Timing:

February 29, 2012

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#13: Documentation of site visits/maintenance reviews

Observation:

Minimal documentation exists to detail the procedures required and performed during site visits, as well as the outcome of those visits.

Business Impact:

Without documentation of the procedures required, key steps in the process may not be followed properly or consistently. This, in addition to the lack of documentation of the outcomes of the site visits, could ultimately lead to inconsistent analysis and decision making.

Action Plan:

It is recommended that the Housing Division improve its documentation of site visits. This could include creating and requiring completion of a checklist at each site visit that requires the user to check off the areas assessed along with a space for additional comments as needed. The checklist should include such details as: 1) the Housing Provider visited; 2) the reason for/nature of the visit; 3) date and time visited; 4) the individual performing the assessment; 5) outcome/results of the visit; and 6) follow-up required with the Housing Provider. This documentation should be maintained by the Housing Division.

Action Plan Lead:

Technical Support Officer

Timing:

February 29, 2012

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APPENDIX B – Planning, Environmental and Engineering Services - Fleet Asset Management,
February 1, 2012

Summary of Risks & Scope

Planning, Environmental and Engineering Services - Fleet Asset Management

Scope

- Capital Replacement Reserve Fund: Estimating life cycles, replacement costs and salvage values
- Rental Rate Calculation: maintenance,
- fuel and allocated components of the calculation
- Fleet access and usage

Risks

- Inadequate analysis may be performed to determine capital replacement estimates. Replacement (depreciation) charges may be inequitable to users.
- Inadequate information and ineffective processes may be employed to determine the components of the rental rate calculation. Rental rate charges may be inequitable to users.
- Pool equipment may not be effectively utilized.
- City fleet equipment may not be effectively utilized.

Controls Operating Effectively

- Allocated components of the rental rate calculation and approach to allocating these costs are reasonable.
- Management reviews the budget to actual costs of the rental components on an annual basis through their budget setting and rental rate determination process.
- Warranties are appropriately considered through the maintenance process.

Value-for-Money Considerations

- Effective data tracking of the maintenance components of the rental rate calculation will result in greater ability to make outsourcing decisions for maintenance and repairs and will allow for more accurate forecasting to help produce more accurate or less conservative rental rates.
- More effective monitoring of vehicle utilization and encouragement of vehicle sharing could result in less fleet equipment being employed by the City resulting in reduced costs associated with operating this equipment. For example, passenger vehicles with an annual cost to the City of approximately \$940,000 are driven less than 10,000km each year. It is possible that further analysis of the utilization of these vehicles could result in annual savings of a portion of this cost, without impact on service delivery.
- Improvements to controls over parts will reduce the risk of inventory slippage, which will reduce costs.

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Observations & Action Plans

#1: Reserve Fund: Documentation of replacement reserve estimates

Observation:

Although researched, the Fleet Services Division (Fleet) does not maintain formal written process documents or historical documentation to support estimates in their establishment of replacement costs, lifecycles and salvage values.

Business Impact:

Without formal documentation to support estimates, the inputs into the calculation used to assess the future capital requirements are not effectively supported. Therefore, if the reserve estimate was challenged, Fleet would not have adequate documentation to fully support the required reserve estimate.

Action Plan:

Fleet should maintain formal documentation to support their analysis and estimations regarding replacement costs of a fleet class, changes in lifecycles and changes in expected salvage value. Furthermore, Fleet should more formally document a process for identifying changes in estimated replacement costs and establish a threshold which requires a change in estimated replacement cost to be updated on the capital equipment replacement reserve fund ("the reserve fund") schedule.

Action Plan Lead:

Fleet Division Manager

Timing:

June 30, 2012

#2: Reserve Fund: Estimated salvage values

Observation:

Fleet averages all salvage proceeds across all rate groups.

Business Impact:

Applying the same estimated salvage value for each piece of equipment is not effective as it does not consider the differences in residual value of different equipment and therefore contributes to inequitable charges.

Action Plan:

Actual proceeds on disposal of the same or similar equipment should be used to determine the estimated salvage value for Fleet equipment per Fleet class, rather than on a total percentage basis, to more accurately allocate the expected returns as part of the rental rate calculation. Fleet should review this process with the Purchasing and Supply Division to ensure any changes to their processes are aligned with changes in the procurement policy.

Action Plan Lead:

Fleet Division Manager

Timing:

2013 rental rate setting

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#3: Reserve Fund: Prospective treatment of reserve funds

Observation:

Depreciation charges are not reassessed prospectively upon changes to estimated replacement costs, which could leave a fleet class over or under funded. The current process does not assess funding requirements on an equipment class basis.

Business Impact:

An accurate estimate of the replacement liability for each class cannot be determined. For example, where a change occurs mid-lifecycle, a specific fleet class may become over or under funded because users may be over or under contributing to their replacement reserve as a result of depreciation rates not being updated to reflect changes in the asset characteristics.

Action Plan:

Fleet should consider the impact of changes in estimates on its future capital requirements by class of equipment (such as changes in estimated replacement cost, salvage value, or lifecycle) and investigate modifying the depreciation calculation prospectively in order to reflect the true expected replacement costs and adequate capital replacement reserve contributions.

Action Plan Lead:

Fleet Division Manager

Timing:

2013 rental rate setting

#4: Reserve Fund: Interest and the capital replacement reserve fund

Observation:

An opportunity exists to more effectively analyze and utilize interest earned within the Capital Replacement Reserve Fund.

Business Impact:

Interest from the reserve fund could be used to reduce rental rates charged to other departments, or to use it to fund operating requirements.

Action Plan:

Fleet and Financial Planning and Policy ("FP&P") should investigate how interest in the reserve fund can be factored into rental rates. A reasonable estimate can be developed for 2013 interest income, which can be incorporated into the 2013 equipment rates.

Action Plan Lead:

Fleet Division Manager

Timing:

2013 rental rate setting

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#5: Reserve Fund: Drawings from capital replacement reserve funds by Financial Planning and Policy

Observation:

FP&P has drawn funds from the reserve fund in the last few years. The logic for these draws is that per the ten year outlook schedule prepared by Fleet, the reserve fund appeared to have adequate cash to cover Fleet obligations for this period.

Business Impact:

The reserve fund contributions are calculated based on expected replacement of equipment. Removing monies from the reserve fund may result in the future capital reserve being underfunded. Furthermore, a lack of transparency exists for the Fleet users who are unknowingly funding other City projects through FP&P as opposed to contributing to a full cost recovery rental program.

Action Plan:

Fleet should reaffirm understanding of the purpose of the reserve fund with FP&P as a fund where contributions are designated for future capital replacements.

Action Plan Lead:

Fleet Division Manager

Timing:

June 30, 2012

#6: Maintenance: Operating reserve fund

Observation:

Fleet does not have an operating reserve fund and is entirely self sustaining based on rental rates charged to other users in a particular year. To mitigate the risk of running an operational deficit, Fleet tends to inflate estimates of actual costs.

Business Impact:

As operating surpluses cannot be retained by Fleet, the rental rate surpluses on a class basis collected in early years cannot be retained in order to pay for higher maintenance costs in later years. Once the early year surpluses begin to diminish, Fleet must increase the rental rates to avoid operating in a deficit.

Action Plan:

Fleet should investigate with FP&P the creation of an operating reserve fund to assist with managing budget shortfalls as well as advancing internal projects. In addition, when Fleet experiences net gains resulting from differences in actual and estimated replacement costs within the capital replacement reserve fund, Fleet should consider an annual transfer of this money to an operating reserve fund or refunds to users. Note that the capital replacement reserve fund should be assessed on an aggregate basis to ensure it is adequately funded before transferring any realized gains out of the fund.

Action Plan Lead:

Fleet Division Manager

Timing:

December 31, 2012

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#7: Maintenance: Labour controls and the rental rate calculation

Observation:

Fleet staff manually complete daily timesheets (by hand). Fleet's Payroll Clerk uses the timesheets to key the labour time into the system (Kronos). The Payroll Department then processes this data. The data does not show up in the GL until a few days before that pay date, which results in a lag between when the work was performed and when it appears in the GL.

Business Impact:

Without real-time oversight that labour data has been properly entered into the system, work orders may contain errors. Errors impact the total maintenance costs charged to a unit, which affects the quality and accuracy of data maintained to compute future rental rates.

Action Plan:

Fleet should consider moving towards a more automated system to record labour hours spent on specific work orders.

Action Plan Lead:

Fleet Division Manager

Timing:

December 31, 2012

#8: Maintenance: Labour controls and the rental rate calculation

Observation:

Each supervisor signs off on completed manual timesheets but does not review the data again. There are no controls in place to ensure that the labour time written on the timesheet agrees with the data manually entered into the system by the Payroll Clerk.

Business Impact:

There is a risk that labour time could be entered inaccurately into the system due to human error and/or charged to the wrong job. Such errors would have an impact on the total maintenance costs charged to a unit, which could affect rental rate calculations in the future.

Action Plan:

1) Short-term: Investigate requiring labour estimates for each type of project so that exception reports can be run after the GL has been updated as a check on the codes keyed in by the Payroll Clerk for a particular work order. All exceptions should be followed up and signed off by the Supervisor. This also presents the opportunity for budget-to-actual monitoring of labour efficiency.

2) Long-term: Fleet should investigate a more automated system that reduces the need for manual entry and allows for budget-to-actual monitoring of labour time on jobs.

Action Plan Lead:

Fleet Division Manager

Timing:

June 30, 2012

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#9: Maintenance: Labour and parts controls and the rental rate calculation

Observation:

Overhead is not appropriately charged to jobs. Maintenance labour includes administration and employee breaks and the mechanic can include parts for a request which will not be used exclusively for that work order.

Business Impact:

This adversely affects the accuracy and quality of the data since not all of the time or parts charged to a particular repair code necessarily relates to the actual work performed on that task. This ultimately affects future rental rate calculations and compromises the ability to compare internal and external labour efficiencies/costs.

Action Plan:

Fleet should investigate requiring their maintenance workers to track the time they spend on administrative tasks and breaks/lunches exceeding a designated threshold length of time (eg: 15 minutes). This time should be treated as an overhead cost which gets allocated to units based on an appropriate cost driver. Similarly, Fleet should investigate a process for assigning costs for general usage parts to overhead rather than to specific jobs.

Action Plan Lead:

Fleet Division Manager

Timing:

June 30, 2012

#10: Maintenance: Parts controls and the rental rate calculation

Observation:

Parts are manually charged to work orders with no validation as Stores keys in the work order when a part is sold. Inventory received is manually entered into the system but if an urgent part arrives, the mechanic could use the part before it is entered into the system.

Business Impact:

If Stores types in the wrong work order number, there is no automated check to ensure that it is being applied to the correct job. Furthermore, since transactions are not necessarily being recorded on a real-time basis, there is a risk that parts do not get charged to the correct job. Both of these issues could impact future rental rates.

Action Plan:

Stores should enter transactions into the system at the point of receipt, sale, or transfer. This will ensure inventory and non-inventory parts on hand are updated in real time and effectively tracked. Fleet should investigate whether it is possible for Stores to also enter in the unit number identifying the equipment to which the part belongs before the part is applied to a particular work order. This will serve as a validation check if the system does not allow a part to be charged to a mismatched work order and unit number.

Action Plan Lead:

Fleet Division Manager

Timing:

September 30, 2012

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#11: Maintenance: Parts controls and the rental rate calculation

Observation:

Mechanics do not require any level of authorization for the withdrawal of inventory items from Stores.

Business Impact:

The risk of theft exists since mechanics can obtain parts without oversight. There is no check that the parts obtained have been used in the correct Fleet vehicle. This could lead to part costs being inappropriately charged to work orders, resulting in inflated/inaccurate rental rates being applied to units.

Action Plan:

Fleet should consider requiring approval by a Supervisor for all inventory parts prior to these inventory items being withdrawn from Stores. Fleet should also investigate the creation of an Inventory Request Form listing all parts withdrawn from Stores inventory for a particular work order and a space for Supervisor approval. This could also serve as a reasonableness check by the Supervisor for parts used for a maintenance activity. To improve efficiency, Fleet could consider encouraging mechanics to compile a list of inventory parts required for the job rather than going back and forth between Stores (for the parts) and the Supervisor (for approval).

Action Plan Lead:

Fleet Division Manager

Timing:

September 30, 2012

#12: Maintenance: Labour and parts controls and the rental rate calculation

Observation:

Various administrative tasks are performed by mechanics throughout the completion of a work order. There are no controls in place to ensure that all critical administrative tasks are completed in a timely manner.

Business Impact:

Mechanic administrative processes are often forgotten or omitted, which results in confusion or delays as these tasks need to be completed before closing a work order. Such delays often result in time inefficiencies getting charged to work orders, inflating the total maintenance costs and ultimately affecting future rental rates.

Action Plan:

Fleet should consider creating a process control checklist and attaching it to each work order. The mechanic could mark his/her initials as acknowledgment of completion. Work orders should not be submitted until all items on the checklist are identified as complete. The inventory request form should be attached to this checklist to support the addition of all parts used in that work order.

Action Plan Lead:

Fleet Division Manager

Timing:

September 30, 2012

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#13: Maintenance: Parts controls and the rental rate calculation

Observation:

At the Adelaide location, a form is filled out by the mechanic as parts are withdrawn from inventory. The mechanics are also responsible for physically pulling the items that they require. No checks exist to ensure that this form is being filled out accurately.

Area for Improvement:

Mechanics could unintentionally forget (i.e. error) or intentionally fail (i.e. theft) to record all of the inventory items withdrawn from inventory. The result is the potential for additional inventory costs and inaccurate maintenance cost figures will be used to calculate future rental rates and inventory records are not up-to-date, which could result in delays in the repair process if inventory records are overstated relative to actual inventory on-hand.

Action Plan:

Fleet should perform inventory cycle counts at regular intervals to ensure inventory records are kept up-to date, particularly at the Adelaide Street location where mechanics have direct access to inventory. Adjustments made to inventory should be monitored to assess for indicators of unrecorded inventory movement or theft. Also, Fleet should consider whether Stores support implemented at other Fleet shops locations should be implemented at the Adelaide location.

Action Plan Lead:

Fleet Division Manager

Timing:

September 30, 2012

#14: Maintenance: In-house versus outsourced maintenance

Observation:

For most routine tasks, quantitative and qualitative analyses comparing in-house servicing versus outsourcing of service is currently not being conducted by Fleet.

Area for Improvement:

Without performing this analysis, Fleet could be ineffectively allocating its labour resources, especially when garage maintenance is operating at capacity. Maintenance rental rates may be inflated due to ineffective outsourcing decisions.

Action Plan:

Fleet should perform analysis comparing the quantitative and qualitative aspects of outsourcing maintenance services as opposed to performing these services in-house. Although the City has identified some jobs that cannot be performed efficiently in-house and has outsourced this work, Fleet should consider focusing this analysis on the most frequent/popular repairs and most costly repairs. This analysis could lead to more effective allocation of labour resources to jobs which provide the best contribution and to assist Fleet when making outsourcing decisions when City maintenance is operating at capacity.

Action Plan Lead:

Fleet Division Manager

Timing:

June 30, 2012



#15: Utilization: Fuel and the rental rate calculation

Observation:

Fleet projects fuel consumption is based on prior year data. Projected fuel costs are allocated based on rate groups, rather than individual units, and are a component of the rental rate calculation.

Area for Improvement:

The accountability for fuel costs is held by Fleet rather than the users of the fuel. Since fuel costs are allocated to rate groups and not individual units, some customers may be subsidizing the cost of fuel for others. If customers consume more fuel than projected by Fleet, Fleet must absorb these costs.

Action Plan:

Fleet should consider the advantages and disadvantages of having the users of vehicles be held accountable for their fuel consumption and investigate opportunities to phase in a program which requires the user to be accountable for fuel consumption. Benefits of moving the accountability of this cost to the user include the following: 1) reduced subjectivity on behalf of Fleet when estimating consumption for computation of rental rates, 2) customers have an incentive to monitor their fuel consumption in order to keep costs down, 3) subsidization of fuel costs by users consuming less fuel than others would no longer occur since each user would be held accountable for his/her fuel consumption.

Action Plan Lead:

Fleet Division Manager

Timing:

December 31, 2012

#16: Utilization: Use of Fleet vehicles

Observation:

Fleet sets rental rates based on historical user equipment needs.

Area for Improvement:

This could result in over/under charging of rental rates due to changes in usage requirements, which has a financial impact on the reserve fund.

Action Plan:

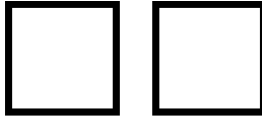
Fleet users should be required to submit an expected Fleet usage budget prior to Fleet setting rental rates. This document should include expected usage of each assigned vehicle/equipment as well as an indication as to whether more vehicles or equipment will be needed by that division. Although this budget will not be a commitment from the departments, it will assist Fleet in its fleet rate computation.

Action Plan Lead:

Fleet Division Manager

Timing:

2013 rental rate setting



#17: Utilization: Monitoring of Fleet utilization

Observation:

Fleet does not monitor vehicle utilization for the reasonableness of fleet allocations. The current method of vehicle assignments does not require users to justify their request for a vehicle. The function of rationalization, allocation, assignments, and utilization is currently assigned to program managers.

Area for Improvement:

There is a lack of accountability for efficient fleet asset allocations. Each vehicle contributes overhead costs for Fleet despite the amount that they are used in addition to costs for keeping that vehicle in the City's fleet.

Action Plan:

Fleet should consider adopting a process to formally track and monitor fleet asset utilization. Tracking could occur through maintenance of the Petrovend files or when equipment is serviced. Monitoring could occur on an annual basis. For example Fleet management could determine vehicle usage benchmarks for each Fleet class each year (ie. 7,500km – 10,000km for passenger vehicles). Actual usage of vehicles could be compared to benchmarks annually to determine if over or under utilization occurred, and variances should then be investigated by Fleet management. Furthermore, where an under utilization of a vehicle has occurred, Fleet should consider applying an under utilization penalty to that user's department (where the variable fuel charges have been pushed to the end user). Fleet should also encourage vehicle sharing amongst users.

Action Plan Lead:

Fleet Division Manager

Timing:

December 31, 2012

#18: Utilization: Fleet equipment possession monitoring

Observation:

There are situations where departments have reassigned Fleet equipment amongst themselves without notifying Fleet that this has occurred.

Area for Improvement:

At no point during the year does Fleet have an accurate listing of which users have their equipment. This creates an opportunity for abuse of vehicle and equipment.

Action Plan:

Fleet should improve tracking of vehicles allocated to users and require that any possession changes be communicated to Fleet immediately.

Action Plan Lead:

Fleet Division Manager

Timing:

December 31, 2012

Agenda Item # Page #

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#19: Succession planning

Observation:

There is a significant amount of knowledge held in performing the rental rate calculation. This job requires significant knowledge and understanding which the remainder of the current staffing complement does not possess. A background in accounting is critical for the calculation but currently not required.

Area for Improvement:

The current situation poses a potential operational risk to Fleet and the City when individuals cease employment with the City through retirement. Furthermore, the current job requirements are inadequate for ensuring that a financial accounting background is included.

Action Plan:

Fleet should develop a succession plan for the rental rate calculation function to ensure that all necessary knowledge is passed on to the relevant current and future members of the Fleet team and that requisite financial expertise is built into the team.

Action Plan Lead:

Fleet Division Manager

Timing:

April 30, 2012

Appendix C - Quarterly Report on Internal Audit Results

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The Corporation of the City of London

Quarterly Report on Internal Audit Results

-Housing Division

-Fleet Asset Management

February 1, 2012

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



Community Services - Housing Division

Summary of Risks & Scope

Community Services - Housing Division

Scope

- Review and approval of benchmark and one-time funding
- Monitoring of low income housing rates
- Long-term capital planning and maintenance of social housing

Risks

- Funding may not be appropriately allocated to and/or spent by the Housing Providers
- Rent-geared-to-income (RGI) subsidies may not be calculated correctly by the Housing Providers
- RGI targets may not be monitored
- Future capital requirements of Housing Providers may not be adequately planned
- Social Housing may not be maintained to Ministry standards

Controls Operating Effectively

- No instances were noted where Financial Analysts did not comply with internal policies (which are aligned with rules established by the provincial government) for assessing benchmark funding
- The current Annual Information Return review process is appropriate
- The Housing Division is identifying, quantifying and monitoring Housing Providers' planned capital expenditures and capital reserve funds through reference to the Building Condition Assessment (BCA) study

Value-for-Money Considerations

- There is an opportunity to reduce time and costs associated with unit turnover by requiring Housing Providers to perform and maintain a record unit inspection as a pre-condition to receiving any one-time funding beyond the Housing Providers' normal benchmark funding.
- There is an opportunity to reduce costs associated with RGI vacancies by collecting and evaluating unit occupancy information from Housing Provider targets on a more timely basis and using this information to communicate with the Housing Providers that they are not meeting their Social Housing objectives.

Observations & Action Plans -#1 ***Community Services - Housing Division***

Satisfactory



Observation

Budget submissions from Housing Providers

Housing Providers frequently submit their budgets past the due dates stipulated by the Housing Division.

Business Impact

Lateness contributes to delays in the review and approval process, making it more difficult for the Financial Analysts and Financial Officer to meet internal deadlines. This also creates additional work as the Financial Analysts must follow-up with Housing Providers to obtain the submissions.

Action Plan

It is recommended that an annual communication should be made to the Board of Directors and Property Managers reminding them of important deadlines and sources of reference materials. This should reduce the potential for errors in submissions and encourage documents to be submitted in accordance with the Housing Division deadlines.

Action Plan Lead

Housing Division Financial Officer

Timing

February 29, 2012

Observations & Action Plans -#2 ***Community Services - Housing Division***

Needs
Improvement



Observation

One-time funding requests policy

Current practices with regards to requests and awards of one-time funding are not in line with internal policy, which was developed prior to the Building Condition Assessment study.

Business Impact

Inconsistencies between actual business practices and written policy could lead to errors and/or inconsistent processes.

Action Plan

It is recommended that the Housing Division update its policy on one-time funding to accurately reflect the correct practices to be followed when ascertaining eligibility of project funding. This would include making reference to the Building Condition Assessment study and individual capital reserve fund balances when determining financial capacity of the Housing Providers.

Action Plan Lead

Manager of Social Housing
Administration

Timing

February 29, 2012

Observations & Action Plans -#3 ***Community Services - Housing Division***

Needs
Improvement



Observation

Compliance with funding policy for one-time major repairs

A detailed business case was not submitted for the only one-time major repairs request in the past four years. The current business case template alone does not prompt sufficiently detailed explanations for Financial Analysts to make informed one-time funding decisions.

Business Impact

Inadequate business case templates could result in inadequate responses, which could then result in delays in the processing of funding requests.

Action Plan

The Housing Division should review their business case template to ensure that it is appropriate in order to gather sufficient and appropriate information for the Financial Analysts to make one-time funding decisions. The Housing Division should also ensure that their already established instruction guide is always provided to a Housing Provider requesting funding in order to aid them in providing the necessary information.

Action Plan Lead

Housing Program Officer, Technical Support Officer or Financial Analyst

Timing

Complete - No further action required.

Observations & Action Plans -#4 Community Services - Housing Division

Needs
Improvement



Observation

Documentation of one-time funding request analysis process

Minimal documentation exists to detail the procedures required by the Housing Division to perform a robust analysis over one-time funding requests.

Business Impact

Without documentation of the process, key parts of the analysis could be overlooked or the assessment process may not be followed properly. This could ultimately lead to uninformed and/or inconsistent decision-making.

Action Plan

It is recommended that a checklist of procedures should be created in order to better document and assess one-time funding request analyses. The checklist should include such items as the Business Case to be submitted by the Housing Provider, the analysis of the Business Case by Housing Division staff, review of eligibility as per one-time funding criteria, supporting documentation received from consultants and site visits, and approval of funding by Housing Division staff and/or City Council. The checklist should include columns for checkmarks indicating receipt and review of supporting documentation.

Action Plan Lead

Manager of Social Housing
Administration

Timing

February 29, 2012

Observations & Action Plans -#5 Community Services - Housing Division

Needs
Improvement



Observation

Documentation of site visits for one-time funding requests

Although site visits appear to be appropriately executed, no documentation exists to support the site visits performed by the Social Housing Technical Support Officer prior to approving one-time funding and after the capital repair has been performed.

Business Impact

Inconsistencies between actual business practices and written policy could lead to errors and inconsistent processes.

Action Plan

It is recommended that the Housing Division consider developing a system to document site visits in response to one-time funding requests. This documentation could be attached to the checklist for one-time funding requests (as described previously) to ensure completion. The Housing Division may want to update their policies to include instances in which site visits are necessary (eg: mandatory for all repairs over \$100,000 and at the discretion of Housing Division for all repairs under \$100,000), as well as documentation required.

Action Plan Lead

Technical Support Officer

Timing

February 29, 2012

Observations & Action Plans -#6 ***Community Services - Housing Division***

Satisfactory



Observation

Annual unit inspections performed by Housing Providers

Tenant turnover often results in units left in poor condition by tenants. This can result in the Housing Provider having to draw upon its capital reserve to renovate the unit to return it to a rentable condition.

Business Impact

Renovations performed during tenant turnover extends the vacancy period, resulting in higher costs to the City of London. Also, using the capital reserve fund for unit renovations reduces Housing Providers' funds available for larger, more critical projects and repairs. This results in requests for one-time funding which depletes the City's Stabilization Reserve Fund.

Action Plan

The Housing Division should consider requiring that records of annual unit inspections (eg. for the last three years) be maintained by Housing Providers as a pre-condition to being approved for any one-time funding from the City above and beyond the normal benchmark funding. One-time funding request templates should be updated to reflect this new requirement. Unit inspections may serve as a deterrent to tenants from mistreating the units as any damages could be treated as an arrears. Repairs can then be made prior to turnover, thus reducing turnover time and vacancy rates resulting in reduced costs for the Housing Provider and the Housing Division.

Action Plan Lead

Technical Support Officer

Timing

February 29, 2012

Observations & Action Plans -#7

Community Services - Housing Division

Needs
Improvement



Observation

Rent-Geared-to-Income (“RGI”) occupancy targets and RGI vacancies

The Housing Division receives formal reports to support Housing Provider unit activity annually through the Annual Information Return process. All other information regarding vacancies and targets is received infrequently and informally.

Business Impact

Annual evaluation of the Housing Division’s targets is not frequent enough to provide timely follow-up on areas for improvement. Without active monitoring, Housing Providers experience less pressure to reduce their average RGI vacancies which are funded by the Housing Division.

Action Plan

It is recommended that the Housing Division require Housing Providers to report their unit activity data more frequently than just on the Annual Information Return (ie. monthly reporting). Collecting and evaluating this information on a more timely basis will allow the Housing Division to be proactive in identifying Housing Providers who are not meeting their RGI-to-market occupancy targets. The Housing Division should respond to long-standing vacancy trends by communicating with the Housing Provider that they are not meeting their occupancy targets.

Action Plan Lead

Manager of Social Housing
Administration

Timing

September 30, 2012

Observations & Action Plans -#8 ***Community Services - Housing Division***

Satisfactory



Observation

Managing the RGI wait-list process

Current rules surrounding the wait-list process are burdensome to the Housing Providers and the management of the wait-list is time consuming for the Housing Division. The Housing Services Act allows the Housing Division greater flexibility to manage its RGI wait-list process.

Business Impact

The Housing Division can implement improvements to the current wait-list process.

Action Plan

The Housing Division should include investigating opportunities to revise the RGI wait-list process managed by the Housing Access Centre as allowed by the Housing Services Act. The Housing Division should participate in the pilot program for a choice-based letting system which is aligned with the Community Housing Strategy. In addition, the Housing Division should continue to develop their understanding of the Housing Services Act and identify opportunities to drive process changes, which can in turn assist the Housing Division to meet its strategic objectives.

Action Plan Lead

Manager of Social Housing
Administration

Timing

January 31, 2014

Observations & Action Plans -#9 Community Services - Housing Division

Needs
Improvement



Observation

Documentation of spot checks performed on RGI calculations

Spot checks of RGI calculations are performed by a Program Officer in response to tenant complaints or through Operational Reviews. Documentation is not currently maintained to support all spot checks performed, therefore no evidence of this oversight exists.

Business Impact

Without documentation of the spot checks performed, it is difficult to demonstrate a robust review of the accuracy of the calculation. Errors in RGI calculations result in erroneous subsidy payments to the Housing Providers and therefore financial exposure to the City.

Action Plan

It is recommended that the Housing Division maintain documentation of all spot checks performed on the RGI calculations to support that this oversight process occurs.

Action Plan Lead

Housing Program Officer

Timing

February 29, 2012

Observations & Action Plans -#10 Community Services - Housing Division

Needs
Improvement



Observation

Frequency of Operational Reviews of Housing Providers

Operational Reviews are not currently performed frequently enough to provide effective oversight by the Housing Division. As a result of staff shortages, only two of the sixteen planned Operational Reviews were performed during 2011. This is not consistent with the Housing Division's target of full coverage of all 83 properties over a 5 year cycle.

Business Impact

Errors in RGI calculations result in erroneous subsidy payments to the Housing Providers and therefore financial exposure to the City. Furthermore, Operational Reviews are the Housing Division's key oversight process and are essential for quick identification of any Housing Provider operational issues. Where Operational Reviews are performed infrequently, the effectiveness of this oversight is reduced.

Action Plan

It is recommended that the Housing Division ensure sufficient resources such that Operational Reviews can be performed that provide full coverage of all properties at least once every 5 years.

Action Plan Lead

Manager of Social Housing
Administration

Timing

May 31, 2012

Observations & Action Plans -#11

Community Services - Housing Division

Satisfactory



Observation

Building Condition Assessment (BCA) study

The BCA performed in 2009 has been integral in assisting the Housing Division and Housing Providers with assessing their current and future capital needs. There is currently no plan to commission an update to this study.

Business Impact

Failing to have the BCA study conducted on a regular basis could result in less effective capital expenditure planning and one-time funding decisions. This could result in higher costs if the Housing Provider cannot afford unplanned capital expenditures and has to rely on the Housing Division for the additional funding.

Action Plan

It is recommended that the Housing Division have a BCA study conducted every 5 years in order to assist with evaluation of Housing Provider budgets and understanding the aggregate capital needs across all Housing Providers. Furthermore, it could assist the Housing Division in responding quickly to potential additional federal/provincial funding opportunities, since the projects requiring capital repairs would already be identified and documented.

Action Plan Lead

Director of Municipal Housing

Timing

Request funds for 2015 budget

Observations & Action Plans -#12 Community Services - Housing Division

Needs
Improvement



Observation

Formal policy relating to on-site visits and maintenance reviews

No formal process or policy currently exists regarding site visits. Instead, complaints by tenants trigger the Social Housing Technical Support Officer to visit Housing Providers.

Business Impact

Although the current approach results in addressing issues as they arise, failing to take a proactive approach could result in lost opportunities to identify issues before they become more significant and costly for the Housing Provider and/or the Housing Division.

Action Plan

It is recommended that the Housing Division develop a policy regarding site visits in order to evaluate whether the properties are being properly maintained. Housing Providers could be pooled into one of three classes: high, medium and low risk, and the policy could involve having the Social Housing Technical Support Officer visit the Housing Providers on a rotational basis according to their risk as identified in the risk assessment matrix. The Housing Division should also investigate whether it would be beneficial to bring documents such as the BCA study as a reference tool to ensure higher-risk areas are being addressed during the visit.

Action Plan Lead

Technical Support Officer

Timing

February 29, 2012

Observations & Action Plans -#13 ***Community Services - Housing Division***

Needs
Improvement



Observation

Documentation of site visits/maintenance reviews

Minimal documentation exists to detail the procedures required and performed during site visits, as well as the outcome of those visits.

Business Impact

Without documentation of the procedures required, key steps in the process may not be followed properly or consistently. This, in addition to the lack of documentation of the outcomes of the site visits, could ultimately lead to inconsistent analysis and decision making.

Action Plan

It is recommended that the Housing Division improve its documentation of site visits. This could include creating and requiring completion of a checklist at each site visit that requires the user to check off the areas assessed along with a space for additional comments as needed. The checklist should include such details as: 1) the Housing Provider visited; 2) the reason for/nature of the visit; 3) date and time visited; 4) the individual performing the assessment; 5) outcome/results of the visit; and 6) follow-up required with the Housing Provider. This documentation should be maintained by the Housing Division.

Action Plan Lead

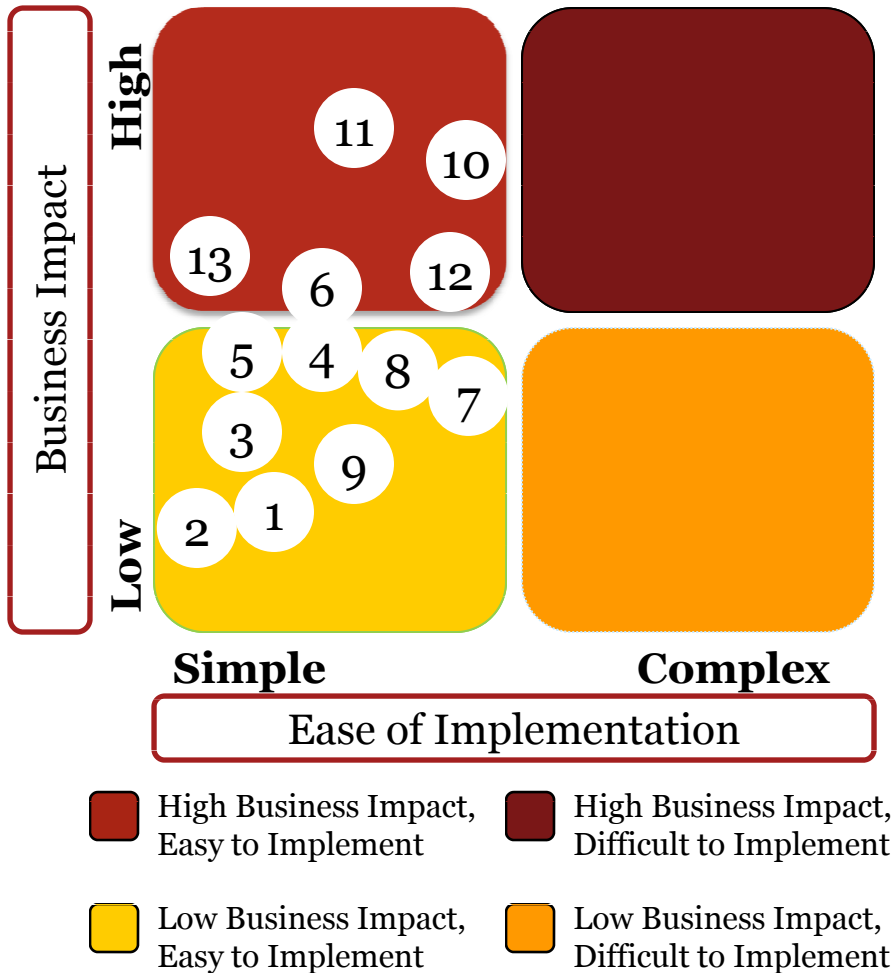
Technical Support Officer

Timing

February 29, 2012

Action Plan Summary

Community Services - Housing Division



Observations	Timing
Review and approval of funding requests	
#1: Budget submissions from Housing Providers	February 29, 2012
#2: One-time funding requests policy	February 29, 2012
#3: Compliance with funding policy for one-time major repairs	N/A
#4: Documentation of one-time funding request analysis process	February 29, 2012
#5: Documentation of site visits for one-time funding requests	February 29, 2012
#6: Annual unit inspections performed by Housing Providers	February 29, 2012
Monitoring of RGI rates and targets	
#7: RGI occupancy targets and RGI vacancies	September 30, 2012
#8: Managing the RGI wait-list process	January 31, 2014
#9: Documentation of spot checks performed on RGI calculations	February 29, 2012
#10: Frequency of operational reviews of Housing Providers	May 31, 2012
Planning of capital requirements and maintenance	
#11: BCA study	2015 Budget
#12: Formal policy relating to on-site visits and maintenance reviews	February 29, 2012
#13: Documentation of site visits/maintenance reviews	February 29, 2012
Action Plan Lead	
Various members of the Housing Division	

Planning, Environmental and Engineering Services - Fleet Asset Management

Summary of Risks & Scope

Planning, Environmental and Engineering Services - Fleet Asset Management

Scope

- Capital Replacement Reserve Fund: Estimating life cycles, replacement costs and salvage values
- Rental Rate Calculation: maintenance, fuel and allocated components of the calculation
- Fleet access and usage

Risks

- Inadequate analysis may be performed to determine capital replacement estimates. Replacement (depreciation) charges may be inequitable to users.
- Inadequate formal processes and information documentation to support the components' of the rental rate calculations. Rental rate charges may be inequitable to users.
- Some pool equipment may not be effectively utilized.
- Some city fleet equipment may not be effectively utilized.

Controls Operating Effectively

- Allocated components of the rental rate calculation and approach to allocating these costs are reasonable.
- Management reviews the budget to actual costs of the rental components on an annual basis through their budget setting and rental rate determination process.
- Warranties are appropriately considered through the maintenance process.

Value-for-Money Considerations

- Effective data tracking of the maintenance components of the rental rate calculation will result in greater ability to make outsourcing decisions for maintenance and repairs and will allow for more accurate forecasting to help produce more accurate or less conservative rental rates.
- More effective monitoring of vehicle utilization and encouragement of vehicle sharing could result in less fleet equipment being employed by the City resulting in reduced costs associated with operating this equipment. For example, passenger vehicles with an annual cost to the City of approximately \$940,000 are driven less than 10,000km each year. It is possible that further analysis of the utilization of these vehicles could result in annual savings of a portion of this cost, without impact on service delivery.
- Improvements to controls over parts will reduce the risk of inventory slippage, which will reduce costs.

Observations & Action Plans -#1

Satisfactory



Planning, Environmental and Engineering Services - Fleet Asset Management

Observation

Reserve Fund: Documentation of replacement reserve estimates

Although researched, the Fleet Services Division (Fleet) does not maintain formal written process documents or historical documentation to support estimates in their establishment of replacement costs, lifecycles and salvage values.

Business Impact

Without formal documentation to support estimates, the inputs into the calculation used to assess the future capital requirements are not effectively supported. Therefore, if the reserve estimate was challenged, Fleet would not have adequate documentation to fully support the required reserve estimate.

Action Plan

Fleet should maintain formal documentation to support their analysis and estimations regarding replacement costs of a fleet class, changes in lifecycles and changes in expected salvage value. Furthermore, Fleet should more formally document a process for identifying changes in estimated replacement costs and establish a threshold which requires a change in estimated replacement cost to be updated on the capital equipment replacement reserve fund (“the reserve fund”) schedule.

Action Plan Lead

Fleet Division Manager

Timing

June 30, 2012

Observations & Action Plans -#2

Satisfactory



Planning, Environmental and Engineering Services - Fleet Asset Management

Observation

Reserve Fund: Estimated salvage values

Fleet averages all salvage proceeds across all rate groups.

Business Impact

Applying the same estimated salvage value for each piece of equipment is not effective as it does not consider the differences in residual value of different equipment and therefore contributes to inequitable charges.

Action Plan

Actual proceeds on disposal of the same or similar equipment should be used to determine the estimated salvage value for Fleet equipment per Fleet class, rather than on a total percentage basis, to more accurately allocate the expected returns as part of the rental rate calculation. Fleet should review this process with the Purchasing and Supply Division to ensure any changes to their processes are aligned with changes in the procurement policy.

Action Plan Lead

Fleet Division Manager

Timing

2013 rental rate setting

Observations & Action Plans -#3

Satisfactory



Planning, Environmental and Engineering Services - Fleet Asset Management

Observation

Reserve Fund: Prospective treatment of reserve estimates

Depreciation charges are not reassessed prospectively upon changes to estimated replacement costs, which could leave a fleet class over or under funded. The current process does not assess funding requirements on an equipment class basis.

Business Impact

An accurate estimate of the replacement liability for each class cannot be determined. For example, where a change occurs mid-lifecycle, a specific fleet class may become over or under funded because users may be over or under contributing to their replacement reserve as a result of depreciation rates not being updated to reflect changes in the asset characteristics.

Action Plan

Fleet should consider the impact of changes in estimates on its future capital requirements by class of equipment (such as changes in estimated replacement cost, salvage value, or lifecycle) and investigate modifying the depreciation calculation prospectively in order to reflect the true expected replacement costs and adequate capital replacement reserve contributions.

Action Plan Lead

Fleet Division Manager

Timing

2013 rental rate setting

Observations & Action Plans -#4

Satisfactory



Planning, Environmental and Engineering Services - Fleet Asset Management

Observation

Reserve Fund: Interest and the capital replacement reserve fund

An opportunity exists to more effectively analyze and utilize interest earned within the Capital Replacement Reserve Fund.

Business Impact

Interest from the reserve fund could be used to reduce rental rates charged to other departments, or to use it to fund operating requirements.

Action Plan

Fleet and Financial Planning and Policy (“FP&P”) should investigate how interest in the reserve fund can be factored into rental rates. A reasonable estimate can be developed for 2013 interest income, which can be incorporated into the 2013 equipment rates.

Action Plan Lead

Fleet Division Manager

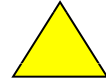
Timing

2013 rental rate setting

Observations & Action Plans -#5

Planning, Environmental and Engineering Services - Fleet Asset Management

Needs
Improvement



Observation

Reserve Fund: Drawings from capital replacement reserve funds by Financial Planning and Policy

FP&P has drawn funds from the reserve fund in the last few years. The logic for these draws is that per the ten year outlook schedule prepared by Fleet, the reserve fund appeared to have adequate cash to cover Fleet obligations for this period.

Business Impact

The reserve fund contributions are calculated based on expected replacement of equipment. Removing monies from the reserve fund may result in the future capital reserve being underfunded. Furthermore, a lack of transparency exists for the Fleet users who are unknowingly funding other City projects through FP&P as opposed to contributing to a full cost recovery rental program.

Action Plan

Fleet should reaffirm understanding of the purpose of the reserve fund with FP&P as a fund where contributions are designated for future capital replacements.

Action Plan Lead

Fleet Division Manager

Timing

June 30, 2012

Observations & Action Plans -#6

Satisfactory



Planning, Environmental and Engineering Services - Fleet Asset Management

Observation

Maintenance: Operating reserve fund

Fleet does not have an operating reserve fund and is entirely self sustaining based on rental rates charged to other users in a particular year. To mitigate the risk of running an operational deficit, Fleet tends to inflate estimates of actual costs.

Business Impact

As operating surpluses cannot be retained by Fleet, the rental rate surpluses on a class basis collected in early years cannot be retained in order to pay for higher maintenance costs in later years. Once the early year surpluses begin to diminish, Fleet must increase the rental rates to avoid operating in a deficit.

Action Plan

Fleet should investigate with FP&P the creation of an operating reserve fund to assist with managing budget shortfalls as well as advancing internal projects. In addition, when Fleet experiences net gains resulting from differences in actual and estimated replacement costs within the capital replacement reserve fund, Fleet should consider an annual transfer of this money to an operating reserve fund or refunds to users. Note that the capital replacement reserve fund should be assessed on an aggregate basis to ensure it is adequately funded before transferring any realized gains out of the fund.

Action Plan Lead

Fleet Division Manager

Timing

December 31, 2012

Observations & Action Plans -#7

Satisfactory



Planning, Environmental and Engineering Services - Fleet Asset Management

Observation

Maintenance: Labour controls and the rental rate calculation

Fleet staff manually complete daily timesheets (by hand). Fleet's Payroll Clerk uses the timesheets to key the labour time into the system (Kronos). The Payroll Department then processes this data. The data does not show up in the GL until a few days before that pay date, which results in a lag between when the work was performed and when it appears in the GL.

Business Impact

Without real-time oversight that labour data has been properly entered into the system, work orders may contain errors. Errors impact the total maintenance costs charged to a unit, which affects the quality and accuracy of data maintained to compute future rental rates.

Action Plan

Fleet should consider moving towards a more automated system to record labour hours spent on specific work orders.

Action Plan Lead

Fleet Division Manager

Timing

December 31, 2012

Observations & Action Plans - #8

Needs Improvement 
Planning, Environmental and Engineering Services - Fleet Asset Management

Observation

Maintenance: Labour controls and the rental rate calculation

Each supervisor signs off on completed manual timesheets but does not review the data again. There are no controls in place to ensure that the labour time written on the timesheet agrees with the data manually entered into the system by the Payroll Clerk.

Business Impact

There is a risk that labour time could be entered inaccurately into the system due to human error and/or charged to the wrong job. Such errors would have an impact on the total maintenance costs charged to a unit, which could affect rental rate calculations in the future.

Action Plan

- 1) Short-term:** Investigate requiring labour estimates for each type of project so that exception reports can be run after the GL has been updated as a check on the codes keyed in by the Payroll Clerk for a particular work order. All exceptions should be followed up and signed off by the Supervisor. This also presents the opportunity for budget-to-actual monitoring of labour efficiency.
- 2) Long-term:** Fleet should investigate a more automated system that reduces the need for manual entry and allows for budget-to-actual monitoring of labour time on jobs.

Action Plan Lead

Fleet Division Manager

Timing

June 30, 2012

Observations & Action Plans -#9

Satisfactory



Planning, Environmental and Engineering Services - Fleet Asset Management

Observation

Maintenance: Labour and parts controls and the rental rate calculation

Overhead is not appropriately charged to jobs. Maintenance labour includes administration and employee breaks and the mechanic can include parts for a request which will not be used exclusively for that work order.

Business Impact

This adversely affects the accuracy and quality of the data since not all of the time or parts charged to a particular repair code necessarily relates to the actual work performed on that task. This ultimately affects future rental rate calculations and compromises the ability to compare internal and external labour efficiencies/costs.

Action Plan

Fleet should investigate requiring their maintenance workers to track the time they spend on administrative tasks and breaks/lunches exceeding a designated threshold length of time (eg: 15 minutes). This time should be treated as an overhead cost which gets allocated to units based on an appropriate cost driver. Similarly, Fleet should investigate a process for assigning costs for general usage parts to overhead rather than to specific jobs.

Action Plan Lead

Fleet Division Manager

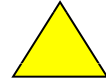
Timing

June 30, 2012

Observations & Action Plans -#10

Planning, Environmental and Engineering Services - Fleet Asset Management

Needs
Improvement



Observation

Maintenance: Parts controls and the rental rate calculation

Parts are manually charged to work orders with no validation as Stores keys in the work order when a part is sold. Inventory received is manually entered into the system but if an urgent part arrives, the mechanic could use the part before it is entered into the system.

Business Impact

If Stores types in the wrong work order number, there is no automated check to ensure that it is being applied to the correct job. Furthermore, since transactions are not necessarily being recorded on a real-time basis, there is a risk that parts do not get charged to the correct job. Both of these issues could impact future rental rates.

Action Plan

Stores should enter transactions into the system at the point of receipt, sale, or transfer. This will ensure inventory and non-inventory parts on hand are updated in real time and effectively tracked. Fleet should investigate whether it is possible for Stores to also enter in the unit number identifying the equipment to which the part belongs before the part is applied to a particular work order. This will serve as a validation check if the system does not allow a part to be charged to a mismatched work order and unit number.

Action Plan Lead

Fleet Division Manager

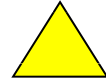
Timing

September 30, 2012

Observations & Action Plans -#11

Planning, Environmental and Engineering Services - Fleet Asset Management

Needs
Improvement



Observation

Maintenance: Parts controls and the rental rate calculation

Mechanics do not require any level of authorization for the withdrawal of inventory items from Stores.

Business Impact

The risk of theft exists since mechanics can obtain parts without oversight. There is no check that the parts obtained have been used in the correct Fleet vehicle. This could lead to part costs being inappropriately charged to work orders, resulting in inflated/inaccurate rental rates being applied to units.

Action Plan

Fleet should consider requiring approval by a Supervisor for all inventory parts prior to these inventory items being withdrawn from Stores. Fleet should also investigate the creation of an Inventory Request Form listing all parts withdrawn from Stores inventory for a particular work order and a space for Supervisor approval. This could also serve as a reasonableness check by the Supervisor for parts used for a maintenance activity. To improve efficiency, Fleet could consider encouraging mechanics to compile a list of inventory parts required for the job rather than going back and forth between Stores (for the parts) and the Supervisor (for approval).

Action Plan Lead

Fleet Division Manager

Timing

September 30, 2012

Observations & Action Plans -#12

Satisfactory



Planning, Environmental and Engineering Services - Fleet Asset Management

Observation

Maintenance: Labour and parts controls and the rental rate calculation

Various administrative tasks are performed by mechanics throughout the completion of a work order. There are no controls in place to ensure that all critical administrative tasks are completed in a timely manner.

Business Impact

Mechanic administrative processes are often forgotten or omitted, which results in confusion or delays as these tasks need to be completed before closing a work order. Such delays often result in time inefficiencies getting charged to work orders, inflating the total maintenance costs and ultimately affecting future rental rates.

Action Plan

Fleet should consider creating a process control checklist and attaching it to each work order. The mechanic could mark his/her initials as acknowledgment of completion. Work orders should not be submitted until all items on the checklist are identified as complete. The inventory request form should be attached to this checklist to support the addition of all parts used in that work order.

Action Plan Lead

Fleet Division Manager

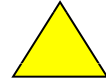
Timing

September 30, 2012

Observations & Action Plans -#13

Planning, Environmental and Engineering Services - Fleet Asset Management

Needs
Improvement



Observation

Maintenance: Parts controls and the rental rate calculation

At the Adelaide location, a form is filled out by the mechanic as parts are withdrawn from inventory. The mechanics are also responsible for physically pulling the items that they require. No checks exist to ensure that this form is being filled out accurately.

Business Impact

Mechanics could unintentionally forget (i.e. error) or intentionally fail (i.e. theft) to record all of the inventory items withdrawn from inventory. The result is the potential for additional inventory costs and inaccurate maintenance cost figures will be used to calculate future rental rates and inventory records are not up-to-date, which could result in delays in the repair process if inventory records are overstated relative to actual inventory on-hand.

Action Plan

Fleet should perform inventory cycle counts at regular intervals to ensure inventory records are kept up-to date, particularly at the Adelaide Street location where mechanics have direct access to inventory. Adjustments made to inventory should be monitored to assess for indicators of unrecorded inventory movement or theft. Also, Fleet should consider whether Stores support implemented at other Fleet shops locations should be implemented at the Adelaide location.

Action Plan Lead

Fleet Division Manager

Timing

September 30, 2012

Observations & Action Plans -#14

Satisfactory



Planning, Environmental and Engineering Services - Fleet Asset Management

Observation

Maintenance: In-house versus outsourced maintenance

For most routine tasks, quantitative and qualitative analyses comparing in-house servicing versus outsourcing of service is currently not being conducted by Fleet.

Business Impact

Without performing this analysis, Fleet could be ineffectively allocating its labour resources, especially when garage maintenance is operating at capacity. Maintenance rental rates may be inflated due to ineffective outsourcing decisions.

Action Plan

Fleet should perform analysis comparing the quantitative and qualitative aspects of outsourcing maintenance services as opposed to performing these services in-house. Although the City has identified some jobs that cannot be performed efficiently in-house and has outsourced this work, Fleet should consider focusing this analysis on the most frequent/popular repairs and most costly repairs. This analysis could lead to more effective allocation of labour resources to jobs which provide the best contribution and to assist Fleet when making outsourcing decisions when City maintenance is operating at capacity.

Action Plan Lead

Fleet Division Manager

Timing

June 30, 2012

Observations & Action Plans -#15

Satisfactory



Planning, Environmental and Engineering Services - Fleet Asset Management

Observation

Utilization: Fuel and the rental rate calculation

Fleet projects fuel consumption is based on prior year data. Projected fuel costs are allocated based on rate groups, rather than individual units, and are a component of the rental rate calculation.

Business Impact

The accountability for fuel costs is held by Fleet rather than the users of the fuel. Since fuel costs are allocated to rate groups and not individual units, some customers may be subsidizing the cost of fuel for others. If customers consume more fuel than projected by Fleet, Fleet must absorb these costs.

Action Plan

Fleet should consider the advantages and disadvantages of having the users of vehicles be held accountable for their fuel consumption and investigate opportunities to phase in a program which requires the user to be accountable for fuel consumption. Benefits of moving the accountability of this cost to the user include the following: 1) reduced subjectivity on behalf of Fleet when estimating consumption for computation of rental rates, 2) customers have an incentive to monitor their fuel consumption in order to keep costs down, 3) subsidization of fuel costs by users consuming less fuel than others would no longer occur since each user would be held accountable for his/her fuel consumption.

Action Plan Lead

Fleet Division Manager

Timing

December 31, 2012

Observations & Action Plans -#16

Satisfactory



Planning, Environmental and Engineering Services - Fleet Asset Management

Observation

Utilization: Use of Fleet vehicles

Fleet sets rental rates based on historical user equipment needs.

Business Impact

This could result in over/under charging of rental rates due to changes in usage requirements, which has a financial impact on the reserve fund.

Action Plan

Fleet users should be required to submit an expected Fleet usage budget prior to Fleet setting rental rates. This document should include expected usage of each assigned vehicle/equipment as well as an indication as to whether more vehicles or equipment will be needed by that division. Although this budget will not be a commitment from the departments, it will assist Fleet in its fleet rate computation.

Action Plan Lead

Fleet Division Manager

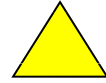
Timing

2013 rental rate setting

Observations & Action Plans -#17

Planning, Environmental and Engineering Services - Fleet Asset Management

Needs
Improvement



Observation

Utilization: Monitoring of Fleet utilization

Fleet does not monitor vehicle utilization for the reasonableness of fleet allocations. The current method of vehicle assignments does not require users to justify their request for a vehicle. The function of rationalization, allocation, assignments, and utilization is currently assigned to program managers.

Business Impact

There is a lack of accountability for efficient fleet asset allocations. Each vehicle contributes overhead costs for Fleet despite the amount that they are used in addition to costs for keeping that vehicle in the City's fleet.

Action Plan

Fleet should consider adopting a process to formally track and monitor fleet asset utilization. Tracking could occur through maintenance of the Petrovend files or when equipment is serviced. Monitoring could occur on an annual basis. For example Fleet management could determine vehicle usage benchmarks for each Fleet class each year (ie. 7,500km – 10,000km for passenger vehicles). Actual usage of vehicles could be compared to benchmarks annually to determine if over or under utilization occurred, and variances should then be investigated by Fleet management. Furthermore, where an under utilization of a vehicle has occurred, Fleet should consider applying an under utilization penalty to that user's department (where the variable fuel charges have been pushed to the end user). Fleet should also encourage vehicle sharing amongst users.

Action Plan Lead

Fleet Division Manager

Timing

December 31, 2012

Observations & Action Plans -#18

Satisfactory



Planning, Environmental and Engineering Services - Fleet Asset Management

Observation

Utilization: Fleet equipment possession monitoring

There are situations where departments have reassigned Fleet equipment amongst themselves without notifying Fleet that this has occurred.

Business Impact

At no point during the year does Fleet have an accurate listing of which users have their equipment. This creates an opportunity for abuse of vehicle and equipment.

Action Plan

Fleet should improve tracking of vehicles allocated to users and require that any possession changes be communicated to Fleet immediately.

Action Plan Lead

Fleet Division Manager

Timing

December 31, 2012

Observations & Action Plans -#19

Satisfactory



Planning, Environmental and Engineering Services - Fleet Asset Management

Observation

Succession planning

There is a significant amount of knowledge held in performing the rental rate calculation. This job requires significant knowledge and understanding which the remainder of the current staffing complement does not possess. A background in accounting is critical for the calculation but currently not required.

Business Impact

The current situation poses a potential operational risk to Fleet and the City when individuals cease employment with the City through retirement. Furthermore, the current job requirements are inadequate for ensuring that a financial accounting background is included.

Action Plan

Fleet should develop a succession plan for the rental rate calculation function to ensure that all necessary knowledge is passed on to the relevant current and future members of the Fleet team and that requisite financial expertise is built into the team.

Action Plan Lead

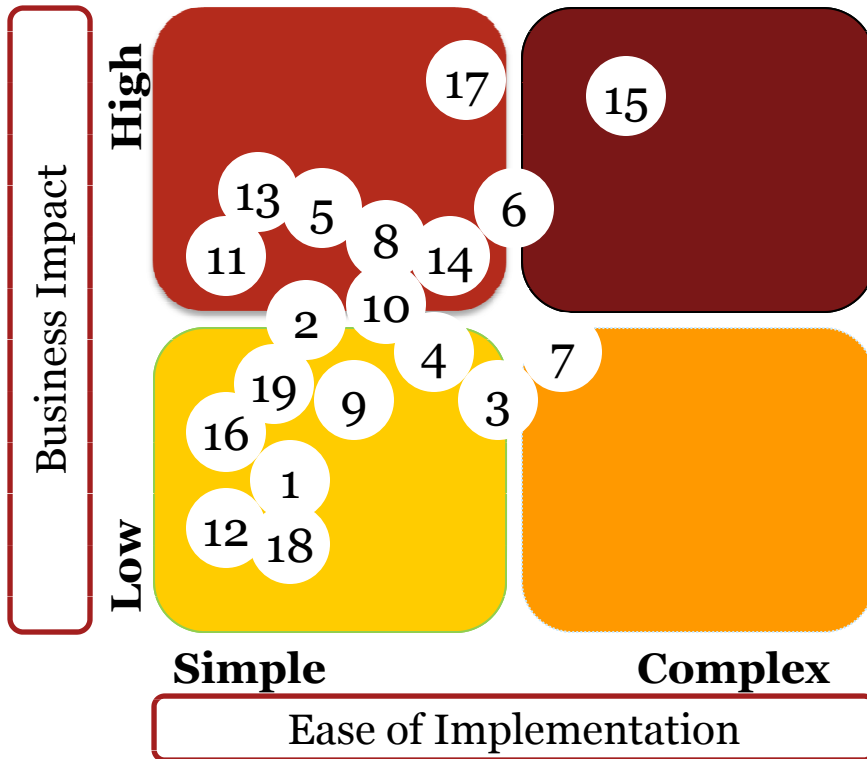
Fleet Division Manager

Timing

April 30, 2012

Action Plan Summary

Planning, Environmental and Engineering Services - Fleet Asset Management



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


Observations	Timing
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#1: Reserve Fund: Documentation of replacement reserve estimates	June 30, 2012
#2: Reserve Fund: Estimated salvage values	2013 rental rate setting
#3: Reserve Fund: Prospective treatment of reserve estimates	2013 rental rate setting
#4: Reserve Fund: Interest and the capital replacement reserve fund	2013 rental rate swing
#5: Reserve Fund: Drawings from capital replacement reserve fund by the Financial Planning and Policy Department	June 30, 2012
#6: Maintenance: Operating reserve fund	December 31, 2012
#7: Maintenance: Labour controls and the rental rate calculation	December 31, 2012
#8: Maintenance: Labour controls and the rental rate calculation	June 30, 2012
#9: Maintenance: Labour and parts controls and the rental rate calculation	June 30, 2012
#10: Maintenance: Parts controls and the rental rate calculation	September 30, 2012
#11: Maintenance: Parts controls and the rental rate calculation	September 30, 2012
#12: Maintenance: Labour and parts controls and the rental rate calculation	September 30, 2012
#13: Maintenance: Parts controls and the rental rate calculation	September 30, 2012
#14: Maintenance: In-house versus outsourced Maintenance	June 30, 2012
#15: Utilization: Fuel and the rental rate Calculation	December 31, 2012
#16: Utilization: Use of Fleet vehicles	2013 rental rate setting
#17: Utilization: Monitoring of Fleet utilization	December 31, 2012
#18: Utilization: Fleet equipment possession monitoring	December 31, 2012
#19: Succession planning	April 30, 2012

Action Plan Lead

Fleet Division Manager

2011 Internal Audit Projects in Progress

Department	Project	Stage
CAO's Department	Attendance Management	Completion 



Higher risk











Moderate Risk



Lower Risk

2012 Internal Audit Schedule Going Forward

Department	Project	Timing								
		Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov
Community Services	Financial Management									
Planning, Environmental & Engineering Services	Project tendering and contracts									
Planning, Environmental & Engineering Services	Building control compliance									
Multiple Departments	Grant and loan program administration									
Finance	Credit cards									
Finance	Payroll									
Finance	Expenditure approval and payment									
CAO's Department	Succession Planning									



Higher risk



Moderate Risk



Lower Risk

Internal Audit Scorecard – December 2011

		Key Measures	Target	J	F	Mr	Ap	My	Jn	Jy	Au	S	O	N	D	
CORPORATE STRATEGY	Audit Committee	Approval of annual risk-based audit plan	Y	N	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
		Number of reports presented to the Audit Committee	4	0	0	1	1	1	1	2	2	3	3	3	4	
		Timely reporting of recommendations	Y	N/A					Y	Y	Y	Y	Y	Y	Y	Y
		Estimated quantification of future cost savings		-	-	-	-	-	-	-	\$300 K	\$300 K	\$300 K	\$300 K	\$300 K	
	Management / Auditees	Number of closing meetings held with management	8	0	0	0	0	2	2	3	3	3	3	6	8	
		Number of concise, value-added recommendations		0	0	0	0	4	4	12	27	27	27	61	93*	
INTERNAL AUDIT STRATEGY	Innovation/ Capabilities	Number of best practices identified by internal audit		0	0	0	0	4	4	12	27	27	27	61	93*	
		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	100%	0%				6%	24%	34%	47%	60%	63%	83%	96%	98%
		Completion of annual risk assessment and updates to audit plan	Y	N	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

* Estimated at time of drafting this report

Value for Money Summary - 2011

Department	Project	Description	Identified Annual Cost Savings(*)
Planning, Environmental and Engineering Services	Water and sewage revenue	Potential revenue from fire protection water and construction water	To be quantified as part of the 2012 rate structure.
Planning, Environmental and Engineering Services	Water and sewage revenue	Late payment fees on City billing collected by London Hydro	\$300,000
Finance	Procurement Bid Process	Management of competitive bid processes by third party consultants rather than in-house	Quantification being investigated
Planning, Environmental and Engineering Services	Fleet Asset Management	Cost of City passenger vehicles utilized <10,000 km per year	Quantification being investigated (some portion of \$940,000)

* Estimated based on information provided by City staff

Appendix - Summary of Past Due Action Plans

Project	Item	Action Plan	Target Date	Status
Development Approvals	<i>UWRF – Alternative Funding Model</i>	<p>The City should develop a task force and, if necessary hire appropriate resources and/or consultants, to transform the UWRF to a method consistent with those employed by other municipalities and contemplated in the Development Charges Act. To achieve this:</p> <p>(a) Conceptual Framework outlining action items and impacts should be developed for Council approval; and</p> <p>(b) new proposed working plan should be developed in conjunction with the 2014 DC rate study.</p> <p>Most control recommendations that follow below (under the current UWRF funding model) will still be appropriate under an alternative model.</p>	<p>(a) 12/31/11 (b) 06/30/12</p>	<p>The Chief Administrative Officer, City Treasurer and Chief Financial Officer met with the Development Approvals Business Unit group in November 2011 to discuss further steps, but changes have not taken place up to this point.</p> <p>Work on planning the 2014 DC study is just underway (December, 2011). The recommendation will be addressed as part of the DC Study work plan, which is under development.</p>

Appendix - Summary of Past Due Action Plans

Project	Item	Action Plan	Target Date	Status
Development Approvals	<i>UWRF – Lack of Succession Planning</i>	The City should develop a succession plan for the development charges and approval finance, oversight and leadership functions to ensure that knowledge will be passed on to future members of the management team.	12/31/2011	<p>The Chief Administrative Officer, City Treasurer and Chief Financial Officer met with the Development Approvals Business Unit group in November 2011 to discuss further steps, but changes have not taken place up to this point.</p> <p>Work on passing knowledge on to Manager of Development Finance is ongoing. However, the knowledge transfer is currently from a Finance discipline to an Engineering discipline. There is also an ongoing, informal transfer of knowledge from Finance to Finance staff.</p>

Appendix - Summary of Past Due Action Plans

Project	Item	Action Plan	Target Date	Status
Development Approvals	<i>Autonomy of the Director of Development Finance</i>	<p>It is recommended that The Director of Development Finance have autonomy from, and be separate from, the Managing Director of DABU, though the two positions should consult frequently (for example, on matters related to growth management).</p> <p>The reporting relationship of the Director of Development Finance position should be reviewed to ensure that the freedom to express financial advice on development finance matters without direct influence of the management responsible for facilitating approvals is preserved.</p> <p>For example, it may be appropriate for the position to report to the City Treasurer.</p>	12/31/2011	<p>The Chief Administrative Officer, City Treasurer and Chief Financial Officer met with the Development Approvals Business Unit group in November 2011 to discuss further steps, but changes have not taken place up to this point.</p> <p>No change in reporting relationship at this time.</p>

Appendix - Summary of Past Due Action Plans

Project	Item	Action Plan	Target Date	Status
Development Approvals	UWRF – Developer Claims Cost Overruns	It is recommended that the City ensure the submission of written explanation of the expected cost overrun and a revised claims summary is received from developers, as well as the proportion of claimable versus non-claimable works. The City should ensure developers delay awarding work prior to the City’s written notice of satisfaction with the support provided and the revised claims summary.	12/31/2011	This is a sub-element of the new procedures described in 5 above. The 2014 DC by-law update will need to incorporate explicit direction with respect to the new procedures.
Development Approvals	UWRF – Lack of Claim Audit Process	It is recommended that the City implement a claims audit program requiring developers to periodically provide documentation of all job logs and invoices for claimable works.	12/31/11	Increased efforts for claim audit and review have been undertaken. The 2014 DC by-law update will need to incorporate explicit provision to allow for detailed spot audit of claims. New initiative involving prior approval of Storm Water Management Claims addressed in separate report to Council in late 2011. Consultation with stakeholders now underway.

Appendix - 2012 Project Descriptions

The work performed in each project will be focused on controls relating to the following:

Project	Key Focus
<i>Community Services:</i> Financial management	- accuracy of financial reporting for those entities which are maintained on separate accounting systems
<i>Planning, Environmental & Engineering:</i> Project tendering and contracts	- consistent execution and documentation of the project tendering/bid process - consistency in the development of business cases supporting the use of City funds - monitoring of the utilization of warranty clauses for re-work claims
<i>Building Control:</i> Compliance	- review of building code approvals with respect to applicable regulations - compliance with document retention policies
Grant and loan program administration (multiple department project)	- internal consistency of grant and loan programs and the administration of the programs
<i>Financial Systems Control:</i> Credit cards	- review and approval of expenditures processed through corporate credits cards for validity and compliance with the purchasing policy
<i>Financial Systems Control:</i> Payroll	- controls surrounding the accuracy and validity of payroll hours, rate changes, new hires, terminations and relocations - controls surrounding proper segregation of duties and maintenance of documentation
<i>Financial Systems Control:</i> Expenditure approval and payment	- approval of fund disbursements, whether through cheque payment, electronic funds transfer or cash, in line with the purchasing policy and in accordance with terms of original contracts
<i>Human Resources:</i> Succession planning	- planning for future staffing needs and changes - review plans for training, reorganizing and redefining roles

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Appendix D - Summary of Findings - Community Services - Housing Division

Summary of Findings

Auditable Areas: Community Services - Housing Division

Rating Scale:

<i>Satisfactory</i>	Controls are present to mitigate process/business risk, however an opportunity exists for improvement.
<i>Needs Improvement</i>	Existing controls may not mitigate process/business risk and management should consider implementing a stronger control structure.
<i>Unsatisfactory</i>	Control weaknesses are significant. Overall exposure is unacceptable. Requires management’s immediate attention and oversight.

Budget submissions from Housing Providers

Rating: Satisfactory

Situation: Housing Providers frequently submit their budgets past the due dates stipulated by the Housing Division. Financial staff currently provide reminder letters prior to Housing Providers to submit budgets; however, budgets are often submitted late.

Business Impact: Lateness contributes to delays in the review and approval process, making it more difficult for the Financial Analysts and Financial Officer to meet internal deadlines. This also creates additional work as the Financial Analysts must follow-up with Housing Providers to obtain submissions.

Recommendation:

It is recommended that an annual communication should be made to the Board of Directors and Property Managers reminding them of important deadlines and sources of reference materials. This should reduce the potential for errors in submissions and encourage documents to be submitted in accordance with the Housing Division deadlines.

Action Plan Lead: Housing Division Financial Officer
Expected Target Date: February 29, 2012
Status: Open

One-time funding requests policy

Rating: Needs Improvement

Situation: Current practices with regards to requests and awards of one-time funding are not in line with internal policy, which was developed prior to the Building Condition Assessment (BCA) study.

Business Impact: Inconsistencies between actual business practices and written policy could lead to errors and/or inconsistent processes.

Recommendation: It is recommended that the Housing Division update its policy on one-time funding to accurately reflect the correct practices to be followed when ascertaining eligibility of project funding. This would include making reference to the Building Condition Assessment study and individual capital reserve fund balances when determining financial capacity of the Housing Providers.

Action Plan Lead: Housing Division Financial Officer
Expected Target Date: February 29, 2012
Status: Open

Compliance with funding policy for one-time major repairs

Rating: Needs Improvement

Situation: A business case was not submitted for the only one-time major repairs request in the past four years, as the business case template was not completed properly by the Housing Provider. This indicates that the current business case template alone does not prompt sufficiently detailed explanations for Financial Analysts to make informed one-time funding decisions. It was subsequently determined by the Housing Division that the instruction guide for completion of the business case was not provided to the Housing Manager, and when that guide was provided to the Executive Director of the property the business case was properly completed.

Business Impact: Inadequate business case templates could result in inadequate responses, which could then result in delays in the processing of funding requests.

Recommendation: The Housing Division should review their business case template to ensure that it is appropriate in order to gather sufficient and appropriate information for the Financial Analysts to make one-time funding decisions. The Housing Division should also ensure that their already established instruction guide is always provided to a Housing Provider requesting funding in order to aid them in providing the necessary information.

Action Plan Lead: Housing Program Officer, Technical Support Officer or Financial Analyst as required
Expected Target Date: No further action required.
Status: <i>Closed</i>

Documentation of one-time funding request analysis process

Rating: Needs Improvement

Situation: Minimal documentation exists to detail the procedures required by the Housing Division to perform a robust analysis over one-time funding requests.

Business Impact: Without documentation of the process, key parts of the analysis could be overlooked or the assessment process may not be followed properly. This could ultimately lead to uninformed and/or inconsistent decision-making.

Recommendation: It is recommended that a checklist of procedures should be created in order to better document and assess one-time funding request analyses. The checklist should include such items as the Business Case to be submitted by the Housing Provider, the analysis of the Business Case by Housing Division staff, review of eligibility as per one-time funding criteria, supporting documentation received from consultants and site visits, and approval of funding by Housing Division staff and/or City Council. The checklist should include columns for checkmarks indicating receipt and review of supporting documentation.

Action Plan Lead: Manager of Social Housing Administration
Expected Target Date: February 29, 2012
Status: <i>Open</i>

Documentation of site visits for one-time funding requests

Rating: Needs Improvement

Situation: No documentation exists to support the site visits performed by the Social Housing Technical Support Officer prior to approving one-time funding and after the capital repair has been performed. Although this oversight policy appears to have been followed appropriately, the documentation to support it does not exist.

Business Impact: Inconsistencies between actual business practices and written policy could lead to errors and inconsistent processes.

Recommendation: It is recommended that the Housing Division develop a system to document site visits in response to one-time funding requests, including such important details as the Housing Provider location, date, the reason for site visit and outcome of the visit. This documentation could be attached to the checklist for one-time funding requests (as described previously) to ensure the step is followed and the documentation is included in the file. The Housing Division may want to update their policies to include instances in which site visits are necessary (eg: mandatory for all repairs over \$100,000 and at the discretion of Housing Division for all repairs under \$100,000), as well as documentation required.

Action Plan Lead: Technical Support Officer
Expected Target Date: February 29, 2012
Status: Open

Annual unit inspections performed by Housing Providers

Rating: Satisfactory

Situation: Tenant turnover often results in units left in poor condition by tenants. This often results in the Housing Provider having to draw upon its capital reserve to renovate the unit to return it to a rentable condition.

Business Impact: Renovations performed during tenant turnover extends the vacancy period, which results in higher costs to the City of London (“the City”) where a Rent-Geared-to-Income vacancy is subsidized by the City. In addition, the more the Housing Provider depletes its capital reserve fund for unit renovations between tenants, fewer funds are available for larger and more critical projects and repairs. This results in the Housing Provider having to request one-time funding from the City, which depletes the Stabilization Reserve Fund more rapidly.

Recommendation: The Housing Division should consider requiring that records of annual unit inspections (eg. for the last three years) be maintained by Housing Providers as a pre-condition to being approved for any one-time funding from the City above and beyond the normal benchmark funding. One-time funding request templates should be updated to reflect this new requirement.

By providing this incentive for Housing Providers to perform annual unit inspections, tenant-caused damage should be identified sooner and fines administered to tenants earlier in the process. Repairs can then be made prior to turnover, thus reducing costs to the Housing Provider as well as turnover time and vacancy rates. In addition, unit inspections may serve as a deterrent to tenants from mistreating the units as they could be pursued by the Housing Provider for damages against the unit. If these damages are not paid, this could be reported to the Housing Access Centre and treated as an arrear, thereby preventing the tenant from having access to subsidized housing in the future.

Action Plan Lead: Technical Support Officer
Expected Target Date: February 29, 2012
Status: <i>Open</i>

Rent-Geared-to-Income (“RGI”) occupancy targets and RGI vacancies

Rating: Needs Improvement

Situation: The Housing Division receives formal reports to support Housing Provider unit activity annually through the Annual Information Return process. All other information regarding vacancies and targets is received infrequently and informally.

Business Impact: Annual reporting is not sufficient as it does not provide the Housing Division with timely information of unit activity. As a result, measurement and evaluation of the Housing Division’s targets and strategic objectives is only performed on an annual basis, which is not frequent enough to provide timely follow-up on areas for improvement. Furthermore, without active monitoring by the Housing Division of RGI vacancies, the Housing Providers experience less incentive/pressure to reduce their average RGI vacancies by seeking out tenants, which in turn results in the Housing Division funding vacancy costs on the RGI-designated units.

Recommendation: It is recommended that the Housing Division require Housing Providers to report their unit activity data more frequently than just on the Annual Information Return (ie. monthly reporting). Collecting and evaluating this information on a more timely basis will allow the Housing Division to be proactive in identifying Housing Providers who are not meeting their RGI-to-market occupancy targets. The Housing Division should respond to long-standing vacancy trends by communicating with the Housing Provider that they are not meeting their occupancy targets. It is also recommended that the Housing Division maintain this information using the Housing Division’s managed data collection system, and that they periodically validate the monthly information reported by reconciling it to that Housing Provider’s Annual Information Returns.

Action Plan Lead: Manager of Social Housing Administration
Expected Target Date: September 30, 2012
Status: <i>Open</i>

Managing the RGI wait-list process

Rating: Satisfactory

Situation: Current rules surrounding the waitlist process are burdensome to the Housing Providers and the management of the wait-list is time consuming for the Housing Division. The Housing Services Act allows the Housing Division greater flexibility than they are currently employing to manage its RGI wait-list process.

Business Impact: The Housing Division can implement improvements to the current wait-list process.

Recommendation: The Housing Division should include investigating opportunities to revise the RGI wait-list process managed by the Housing Access Centre as allowed by the Housing Services Act. The Housing Division should participate in the pilot program for a choice-based letting system which is aligned with the Community Housing Strategy. In addition, the Housing Division should continue to develop their understanding of the Housing Services Act and identify opportunities to drive process changes, which can in turn assist the Housing Division to meet its strategic objectives.

Action Plan Lead: <i>Manager of Social Housing Administration</i>
Expected Target Date: <i>January 31, 2014</i>
Status: <i>Open</i>

Documentation of spot checks performed on RGI calculations

Rating: Needs Improvement

Situation: Spot checks of RGI calculations are performed by a Program Officer in response to tenant complaints or through Operational Reviews. Spot checks involve a Program Office visiting the Housing Provider and recalculating the RGI rent subsidy for that Housing Provider using a sample of tenant files. Documentation is not currently maintained to support all spot checks performed by the Program Officer, therefore no evidence of this oversight exists.

Business Impact: Without documentation of the spot checks performed, it is difficult to demonstrate a robust review of the accuracy of the calculation. Errors in RGI calculations result in erroneous subsidy payments to the Housing Providers and therefore financial exposure to the City.

Recommendation: It is recommended that the Housing Division maintain documentation of all spot checks performed on the RGI calculations to support that this oversight process occurs.

Action Plan Lead: Housing Program Officer
Expected Target Date: February 29, 2012
Status: Open

Frequency of Operational Reviews of Housing Providers

Rating: Needs Improvement

Situation: Operational Reviews are performed by a staff member of the Housing Division. Housing Providers are selected for Operational Review based on the Housing Division’s risk matrix which considers the technical, program and financial qualities of a Housing Provider. Operational Reviews involve Housing Division staff visiting the Housing Provider and reviewing governance, maintenance, capital and financial documents as well as recalculating the RGI rent subsidy using a sample of tenant files. These Operational Reviews are not currently performed frequently enough to provide effective oversight by the Housing Division. As a result of staff shortages, only two Operational Reviews were performed during 2011. This is not consistent with the Housing Division’s target of full coverage of all Housing Providers over a 5 year cycle.

Business Impact: Errors in RGI calculations result in erroneous subsidy payments to the Housing Providers and therefore financial exposure to the City. Furthermore, Operational Reviews are the Housing Division’s key oversight process and are essential for quick identification of any Housing Provider operational issues. Where Operational Reviews are performed infrequently, the effectiveness of this oversight is reduced.

Recommendation: It is recommended that the Housing Division ensure sufficient resources such Operational Review can be performed that provide full coverage of all properties at least once every 5 years.

Action Plan Lead: Manager of Social Housing Administration
Expected Target Date: May 31, 2012
Status: Open

Building Condition Assessment (BCA) study

Rating: Satisfactory

Situation: The BCA study was commissioned by the Housing Division in 2009. This study has been integral in assisting the Housing Division and Housing Providers with assessing their capital needs for current and future years, which has improved the capital budgeting process. There is currently no plan to commission an update to this study.

Business Impact: Failing to have the BCA study conducted on a sufficiently regular basis could result in poorer capital expenditure planning decisions being made by Housing Providers in the future, as well as one-time funding decisions made by the Housing Division. This could ultimately result in higher costs to the Housing Division if the Housing Provider cannot afford unplanned capital expenditures and has to rely on the Housing Division for the additional funding.

Recommendation: It is recommended that the Housing Division have a BCA study conducted every 5 years in order to assist with evaluation of Housing Provider budgets and understanding the aggregate capital needs across all Housing Providers. Furthermore, it could assist the Housing Division in responding quickly to potential additional federal/provincial funding opportunities, since the projects requiring capital repairs would already be identified and documented.

Action Plan Lead: Director of Municipal Housing
Expected Target Date: Request funds for 2015 budget
Status: Open

Formal policy relating to on-site visits and maintenance reviews

Rating: Needs Improvement

Situation: Current policy states that site visits by the Technical Support Officer are triggered by complains by tenants or one-time funding requests.

Business Impact: Although the current approach results in addressing issues as they arise, failing to take a proactive approach could result in lost opportunities to identify issues before they become more significant and costly for the Housing Provider and/or the Housing Division.

Recommendation: It is recommended that the Housing Division update the policy regarding site visits in order to evaluate whether the properties are being properly maintained. This policy could involve having the Social Housing Technical Support Officer visit the Housing Providers on a rotational basis according to their risk as identified in the risk assessment matrix. Housing Providers could be pooled into one of three classes: Pool A = high risk, Pool B = medium risk, and Pool C = low risk. The high risk Housing Providers could be visited on an annual basis, the medium risk Housing Providers every 2-3 years, and the low risk Housing Providers only visited as part of the

Operational Review which should occur once every 5 years. At the conclusion of each site visit/maintenance review, the maintenance component of the Housing Provider's risk matrix should be updated to reflect whether the Housing Provider should remain in the high/medium/low risk pool or whether a change is justified. The Housing Division should also investigate whether it would be beneficial to bring documents such as the BCA study as a reference tool to ensure higher-risk areas are being addressed during the visit. The policy should also include a component relating to emergency procedures.

Action Plan Lead: Technical Support Officer
Expected Target Date: February 29, 2012
Status: Open

Documentation of site visits/maintenance reviews

Rating: Needs Improvement

Situation: Minimal documentation exists to detail the procedures required and performed during site visits, as well as the outcome of those visits.

Business Impact: Without documentation of the procedures required, key steps in the process may not be followed properly or consistently. This, in addition to the lack of documentation of the outcomes of the site visits, could ultimately lead to inconsistent analysis and decision making.

Recommendation: It is recommended that the Housing Division improve its documentation of site visits. This could include creating and requiring completion of a checklist at each site visit that requires the user to check off the areas assessed along with a space for additional comments as needed. The checklist should include such details as: 1) the Housing Provider visited; 2) the reason for/nature of the visit; 3) date and time visited; 4) the individual performing the assessment; 5) outcome/results of the visit; and 6) follow-up required with the Housing Provider. This documentation should be maintained by the Housing Division.

Action Plan Lead: Technical Support Officer
Expected Target Date: February 29, 2012
Status: Open

Community Services - Municipal Housing

Maintain current practices in the following areas:			
Potential Risk	Control Intended to Mitigate Risk	Test	Conclusion
Funding received from the province may not be appropriately allocated	Spending appropriateness rules have been established by the City of London (in alignment with provincial legislation) and used to assess all funding requests.	Inquire regarding City of London's subsidy estimation process for granting annual budget requests. Assess City of London's compliance with the provincial government rules for funding allocation. Inquire with management regarding the implications of the new Housing Services Act (2012) and expected process changes as a result.	PwC is comfortable that the City is complying with the benchmarks, indices and funding formulas established by the provincial government.
Funding received from the province may not be appropriately spent	All housing providers are required to submit an Annual Information Return ("AIR") to the City of London for assessment by Housing Division staff.	Inquire and document process of reviewing AIRs. Review and assess adequacy of evidence of AIR review and challenge. Inquire with management regarding the implications of the new Housing Services Act (2012) and expected process changes as a result.	No deficiencies noted with the current AIR process or proposed increase in documentation which will result from implementing the full-blown comprehensive AIR.
The City of London is erroneously charged for vacancies by erroneous RGI designations	The City uses a risk-based approach to select properties for operational review which involves reviewing the tenant mix. Furthermore, the City makes spot checks on properties as necessary.	Inquire for process of designating a vacancy as RGI. Inquire about the process of designating a vacancy as RGI once the new Housing Services Act (2012) is in place.	No changes to designating vacancies as RGI are expected as a result of the new legislation.
Adequate capital reserve does not exist for expected capital liabilities	Future capital requirements are monitored by the City.	Inquire with management for analysis of future requirements by property compared to total repair fund reserve.	The City appears to be effectively monitoring Housing Providers' planned capital expenditures and Capital Reserve Funds as well as assisting them with identifying and quantifying their future capital needs through the BCA study.

Appendix E - Summary of Findings - Planning, Environmental and Engineering Services - Fleet Asset Management

Summary of Findings

Auditable Areas: Planning, Environmental and Engineering Services - Fleet Asset Management

Rating Scale:

<i>Satisfactory</i>	Controls are present to mitigate process/business, however an opportunity exists for improvement.
<i>Needs Improvement</i>	Existing controls may not mitigate process/business risk and management should consider implementing a stronger control structure.
<i>Unsatisfactory</i>	Control weaknesses are significant. Overall exposure is unacceptable. Requires management’s immediate attention and oversight.

Reserve Fund: Documentation of replacement reserve estimates

Rating: Satisfactory

Situation: The Fleet Services Division (Fleet) does not maintain formal written process documents or historical documentation to support estimates in their annual establishment of replacement costs, lifecycles and salvage values. Although researched, these estimates are derived from an informal process.

Business Impact: Without documentation to support estimates, the inputs into the calculation used to assess the future capital requirements are not supported. Therefore, if the reserve estimate was challenged, Fleet would not have adequate documentation to fully support the required reserve estimate.

Recommendation: Fleet should maintain formal documentation to support their analysis and estimations regarding replacement costs of a fleet class, changes in lifecycles and changes in expected salvage value. Furthermore, Fleet should more formally document a process for identifying changes in estimated replacement costs and establish a threshold which requires a change in estimated replacement cost to be updated on the capital equipment replacement reserve fund (“the reserve fund”) schedule.

Action Plan Lead: Fleet Division Manager
Expected Target Date: June 30, 2012
Status: Open

Reserve Fund: Estimated salvage values

Rating: Satisfactory

Situation: Fleet averages all salvage proceeds across all rate groups.

Business Impact: Applying the same estimated salvage value for each piece of equipment is not effective as it does not consider the differences in residual value of different equipment and therefore contributes to inequitable charges.

Recommendation: Actual proceeds on disposal of the same or similar equipment should be used to determine the estimated salvage value for Fleet equipment per Fleet class, rather than on a total percentage basis, to more accurately allocate the expected returns as part of the rental rate calculation. Fleet should review this process with Purchasing and Supply to ensure any changes to their processes are aligned with changes in the procurement policy.

Action Plan Lead: Fleet Division Manager
Expected Target Date: 2013 rental rate setting
Status: Open

Reserve Fund: Prospective treatment of reserve estimates

Rating: Satisfactory

Situation: Depreciation charges are not reassessed prospectively upon changes to estimated replacement cost for a specific asset, which could leave a fleet class over or under funded if the current depreciation rate continues to be applied. The current process does not assess funding requirements on an equipment class basis.

Business Impact: An accurate estimate of the replacement liability for each class cannot be determined. For example, where a change occurs mid-lifecycle, a specific fleet class may become over or under funded because users may be over or under contributing to their replacement reserve as a result of depreciation rates not being updated to reflect changes in the asset characteristics.

Recommendation: Fleet should consider the impact of changes in estimates on its future capital requirements by class of equipment (such as changes in estimated replacement cost, salvage value, or lifecycle) and investigate modifying the depreciation calculation prospectively in order to reflect the true expected replacement costs and adequate capital replacement reserve contributions.

Action Plan Lead: Fleet Division Manager
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Expected Target Date: 2013 rental rate setting
Status: Open

Reserve Fund: Interest and the capital replacement reserve fund

Rating: Satisfactory

Situation: An opportunity exists to more effectively analyze and utilize interest earned within the Capital Replacement Reserve Fund.

Business Impact: Interest from the reserve fund could be used to reduce rental rates charged to other departments, or to use it to fund operating requirements.

Recommendation: Fleet and Financial Planning and Policy (“FP&P”) should investigate how interest in the reserve fund can be factored into rental rates or if interest should be utilized for operations instead of remaining in the reserve fund.

Action Plan Lead: Fleet Division Manager
Expected Target Date: 2013 rental rate setting
Status: Open

Reserve Fund: Drawings from capital replacement reserve fund by FP&P

Rating: Needs Improvement

Situation: FP&P has drawn funds from the reserve fund in the last few years. The logic for these draws is that per the ten year outlook schedule prepared by Fleet, the reserve fund appeared to have adequate cash to cover Fleet obligations for this period.

Business Impact: This treatment of the fund by FP&P is not consistent with the nature of the fund. The reserve fund is calculated based on expected replacement of equipment. Each annual contribution to the fund relates to specific equipment which is expected to be repurchased at a future date. Therefore, assuming all estimates in the capital requirements schedules are correct (replacement cost, salvage value, lifecycle), removing monies from the reserve fund will result in the future capital reserve being underfunded. Removing monies from the reserve fund also exposes Fleet to the risk of not being able to fund new equipment or replace equipment in an emergency situation. Furthermore, a lack of transparency exists for the Fleet users who are unknowingly

funding other City projects through FP&P as opposed to contributing to a full cost recovery rental program.

Recommendation: Fleet should reaffirm understanding of the purpose of the reserve fund with FP&P as a fund where contributions are designated for future capital replacements.

Action Plan Lead: Fleet Division Manager
Expected Target Date: June 30, 2012
Status: Open

Maintenance: Operating reserve fund

Rating: Satisfactory

Situation: Fleet does not have an operating reserve fund and is entirely self sustaining based on rental rates charged to other users in a particular year. To mitigate the risk of running an operational deficit, Fleet has an inherent bias to inflate rental rates. For example, Fleet estimates the total maintenance costs to be spent on a unit over its useful life (based on prior years' actual costs) and divides this by the unit's useful life (in years) in order to determine the average maintenance costs incurred by the unit per year. Theoretically, this should result in surpluses of cash received in the early years and deficits in later years since the amount of maintenance required for a vehicle typically grows with age. According to the Fleet department, an average figure is used in order to create stability in the rental rate calculation for users year over year. A fuel reserve fund currently exists.

Business Impact: As there is currently no method for allowing operating surpluses to be retained by Fleet, the surpluses collected in early years cannot be retained in order to pay for higher maintenance costs in later years. As a result, once the early year surpluses begin to diminish, Fleet must increase the rental rates to avoid operating in a deficit. Consequently, users pay higher rates in later years, failing to benefit from the additional amounts they had paid in earlier years to hedge against future increases in maintenance costs. Furthermore, a zero-based single-year operational budget is not conducive to supporting long-term internal projects.

Recommendation: Fleet should investigate the creation of an operating reserve fund to assist with managing budget surpluses and deficits as well as internal department improvement projects. Furthermore, as the net gains from variances of actual vs. estimated costs and interest earned within the capital replacement reserve fund is not directly attributable to the funds required to replace equipment, Fleet should consider an annual transfer of this money to an operating reserve fund or refunds to users via cash payment or through a reductions in rental rates in future years. Note that any gains should first be applied against losses relating to underestimated net replacement costs before transferring this money out of the capital equipment reserve fund to ensure that the capital

reserve requirements are always adequately funded. This operating fund should be used by Fleet to advance projects within its department and respond to operating shortfalls if necessary.

Action Plan Lead: Fleet Division Manager
Expected Target Date: December 31, 2012
Status: Open

Maintenance: Labour controls and the rental rate calculation

Rating: Satisfactory

Situation: Fleet staff complete daily timesheets manually by hand. Fleet’s Payroll Clerk uses the timesheets to key the labour time into the system (Kronos). The Payroll Department then processes this data. The data does not show up in the GL until a few days before that pay date, which results in a lag between when the work was performed and when it appears in the GL.

Business Impact: Without real-time oversight that labour data has been properly entered into the system, work orders may contain errors. Errors impact the total maintenance costs charged to a unit, which affects the quality and accuracy of data maintained to compute future rental rates.

Recommendation: Fleet should consider moving towards a more automated system to record labour hours spent on specific work orders.

Action Plan Lead: Fleet Division Manager
Expected Target Date: December 31, 2012
Status: Open

Maintenance: Labour controls and the rental rate calculation

Rating: Needs Improvement

Situation: A supervisor signs off on the completed manual timesheet but doesn't review the data after it has been entered into the system. There are no controls in place to ensure that the labour time written on the timesheet agrees with the data manually entered into the system by the Payroll Clerk.

Business Impact: There is a risk that labour time could be entered inaccurately into the system due to human error and/or charged to the wrong job. Such errors would have an impact on the total maintenance costs charged to a unit, which could affect rental rate calculations in the future.

Recommendation: 1) Short-term: Fleet should investigate requiring labour estimates for each type of project to be entered into the system so that exception reporting can be run after the GL has been updated with the data as a check on the accuracy/classification of actual labour time/codes keyed in by the Payroll Clerk for a particular work order. A reasonableness threshold will need to be created to identify 'exceptions'. All exceptions should be followed up and signed off by the Supervisor. This also presents the opportunity for budget-to-actual monitoring of labour efficiency.

2) Short-term (alternative): Actual labour worked per the work order could be keyed in under the "Estimated" column in JD Edwards. The Payroll Clerk could then enter the labour time worked per the timesheet which would populate under the "Actual" column. An exception report would identify discrepancies between what was entered as an estimate vs. actual, requiring errors to be investigated by the Supervisor before data is recorded in the GL. Note this alternative recommendation primarily serves as a data entry check, rather than as a check on budget vs. actual.

3) Long-term: Fleet should investigate moving towards a more automated system that eliminates or reduces the need for manual entry of data and allows for budget-to-actual monitoring of labour time on jobs.

Action Plan Lead: Fleet Division Manager
Expected Target Date: June 30, 2012
Status: Open

Maintenance: Labour and parts controls and the rental rate calculation

Rating: Satisfactory

Situation: When maintenance workers complete their timesheets, they do not directly record the total amount of time it took to complete a particular task (repair), rather they indicate the time that each task is finished. As such, the difference between the finish times of different tasks is assumed to be the total amount of time it took to complete a particular task. While all time in the day is accounted for using this process, additional administrative items are being included in the time it takes to complete a job task. For instance, included within the 5 hours booked to the first task of the day could also be the worker's first break and lunch or other similar overhead charges.

In addition, when a mechanic requires a part from Stores for a particular work order, they either verbally request the inventory (which then gets entered onto a form by Stores) or fills out a Non-Inventory Parts Request form. The mechanic can include parts for a request which will not be used exclusively for that work order (i.e. general overhead supplies can be charged against particular work orders). For example, the mechanic can include common shop supplies like brake clean on the request form which will be applied to the total cost for the work order when in fact they will be used on several different jobs in the future.

Business Impact: This adversely affects the accuracy and quality of the data since not all of the time or parts charged to a particular repair code necessarily relates to the actual work performed on that task. The inclusion of non-repair labour costs and inclusion of general overhead supplies costs impacts the total maintenance costs charged to a unit, which ultimately affects rental rate calculations in the future. Furthermore, comparisons between internal and external labour efficiencies/costs may be difficult if labour time and parts costs are not being accurately tracked. This also adversely affects the accuracy and quality of the maintenance data since general overhead supplies costs are being allocated ad hoc rather than on a systematic basis.

Recommendation: Fleet should investigate requiring their maintenance workers to track the time they spend on administrative tasks and breaks/lunches exceeding a designated threshold length of time (eg: 15 minutes). This time should be treated as an overhead cost which gets allocated to units based on an appropriate cost driver.

Similarly, Fleet should investigate a process for assigning costs for general usage parts to overhead rather than to specific jobs.

Action Plan Lead: Fleet Division Manager
Expected Target Date: June 30, 2012
Status: Open

Maintenance: Parts controls and the rental rate calculation

Rating: Needs Improvement

Situation: Parts are manually charged to work orders with no validation since Stores manually keys in the work order when a part is sold (i.e. they don't also have to type in the unit number identifying the equipment to which the part belongs). Inventory received is manually entered into the system when Stores has time to do so. If a part comes in that a mechanic needs right away, the mechanic could take the part before Stores enters it into the system.

Business Impact: Future rental rates could be affected in two ways:

- i) If Stores types in the wrong work order number (human error), there is no automated check to ensure that it is being applied to the correct job.
- ii) Since transactions are not necessarily being recorded on a real-time basis (i.e. when the part is received/sold), there is a chance that the parts used in that job will not appear on the work order screen at any given point in time. Since part estimates/budgets are not entered into the system, the Supervisor may not realize that parts are missing when he/she closes the work order. As such, there is a risk that parts do not get charged to the correct job, which could impact future rental rates.

Recommendation: Stores should enter transactions into the system at the point of receipt, sale or transfer. This will ensure inventory on hand is updated in real time, effectively tracked and posted to the appropriate work order. Fleet should investigate whether it is possible for Stores to also enter in the unit number identifying the equipment to which the part belongs before the part is applied to a particular work order. This will serve as a validation check if the system does not allow a part to be charged to a mismatched work order and unit number. Fleet should investigate whether it is possible for Stores to enter non-inventory parts (ie. parts for immediate use) into the system as soon as the part is received (i.e. move away from a batch processing to more of a real-time process).

As a long-term recommendation, Fleet should investigate opportunities for increased automation within its "Parts" processes. Opportunities exists for a more automated process to allow for real-time recording of parts related transactions for better inventory monitoring, oversight and tracking of non-inventory movement whereby all inventory requested by mechanics is recorded and monitored against benchmarks for reasonableness.

Action Plan Lead: Fleet Division Manager
Expected Target Date: September 30, 2012
Status: Open

Maintenance: Parts controls and the rental rate calculation

Rating: Needs Improvement

Situation: Mechanics do not require any level of authorization for the withdrawal of inventory items from Stores.

Business Impact: The risk of theft exists since mechanics can obtain parts without authorization/oversight. Furthermore, there is no check that the parts obtained have been used in the correct Fleet vehicle. This could lead to part costs being inappropriately charged to work orders, resulting in inflated/inaccurate rental rates being applied to units, which could affect rental rate calculations in the future.

Recommendation: Fleet should consider requiring approval by a Supervisor for all inventory parts prior to those inventory items being withdrawn from Stores. Fleet should also investigate the creation of an Inventory Request Form listing all parts withdrawn from Stores inventory for a particular work order. To improve efficiency, Fleet could consider encouraging mechanics to compile a list of inventory parts required for the job rather than going back and forth between Stores (for the parts) and the Supervisor (for approval).

Fleet should also consider setting a policy whereby all general overhead supplies costs over a certain dollar threshold require their own purchase request (to avoid them from being added to the total cost

of a work order). Alternatively, Fleet could set up repair codes which automatically get charged to a general overhead cost account to prevent the need for multiple request forms.

Action Plan Lead: Fleet Division Manager
Expected Target Date: September 30, 2012
Status: Open

Maintenance: Labour and parts controls and the rental rate calculation

Rating: Satisfactory

Situation: Various administrative tasks are performed by mechanics throughout the completion of a work order. There are no controls in place to ensure that all critical administrative tasks are completed in a timely manner.

Business Impact: Steps in the mechanic administrative process are often forgotten or omitted, which results in confusion and delays as these tasks ultimately need to be completed in order to close a work order. Such delays often result in labour time inefficiencies getting charged to work orders, inflating the total maintenance costs assigned to units, which could ultimately affect future rental rates.

Recommendation: Fleet should consider creating a process control checklist which gets attached to each work order. Beside each task on the checklist, the mechanic could mark his/her initials as acknowledgment of completion. Work orders should not be submitted until all items on the checklist were identified as complete to ensure all necessary administrative tasks have been completed for all work orders. The inventory request form should be attached to this checklist to support the addition of all parts used in that work order.

Action Plan Lead: Fleet Division Manager
Expected Target Date: September 30, 2012
Status: Open

Maintenance: Parts controls and the rental rate calculation

Rating: Needs Improvement

Situation: At the Adelaide location, a “Parts Drawn From Stores Inventory” form is filled out by the mechanic as parts are withdrawn from inventory. As there are no dedicated Stores workers, the mechanics are also responsible for physically pulling the inventory items that they require. No checks exist to ensure that this form is being filled out accurately every time inventory is withdrawn from the stockroom.

Business Impact: Two primary risks exist: 1) Mechanics could unintentionally forget to record all of the inventory items withdrawn from inventory; and 2) Mechanics could intentionally fail to record items withdrawn from inventory (i.e. theft). There are two implications resulting from either of the above scenarios: 1) unrecorded withdrawn inventory is not charged against work orders, resulting in inaccurate maintenance cost figures required to calculate future rental rates; and /or 2) inventory records are not up-to-date, which could result in delays in the repair process if inventory records are overstated relative to actual physical inventory on-hand..

Recommendation: Fleet should perform inventory cycle counts at regular intervals to ensure inventory records are kept up-to date, particularly at the Adelaide Street location where mechanics have direct access to inventory. Adjustments made to inventory should be monitored to assess for indicators of unrecorded inventory movement or theft. Fleet should also consider whether Stores personnel and processes implemented at other Fleet shops should be implemented at this location.

Action Plan Lead: Fleet Division Manager
Expected Target Date: September 30, 2012
Status: Open

Maintenance: In-house versus outsourced maintenance

Rating: Satisfactory

Situation: For most routine tasks, quantitative and qualitative analyses comparing in-house servicing versus outsourcing of service is currently not being conducted by Fleet.

Business Impact: Without performing this analysis, Fleet could be ineffectively allocating its labour resources, especially when garage maintenance is operating at capacity. Maintenance rental rates may be inflated due to ineffective outsourcing decisions.

Recommendation: Fleet should perform analysis comparing the quantitative and qualitative aspects of outsourcing maintenance services as opposed to performing these services in-house. Although the City has identified some jobs that cannot be performed efficiently in-house and has outsourced this work, Fleet should consider focusing this analysis on the most frequent/popular repairs and most

costly repairs. This analysis could lead to more effective allocation of labour resources to jobs which provide the best contribution and to assist Fleet when making outsourcing decisions when City maintenance is operating at capacity.

Action Plan Lead: Fleet Division Manager
Expected Target Date: June 30, 2012
Status: Open

Utilization: Fuel and the rental rate calculation

Rating: Satisfactory

Situation: Fleet currently projects fuel costs based on prior year's actual fuel consumption data, adjusted for various assumptions surrounding expected future use and fuel prices. Projected fuel costs are allocated based on rate groups, rather than individual units, and are a component of the rental rate calculation. Fleet is not provided with projected litres of fuel to be consumed by the users of vehicles.

Business Impact: The projection involves significant estimates on Fleet's behalf in determining future fuel consumption and fuel prices. As a result, the accountability for fuel costs is held by Fleet rather than the users of the fuel. In addition, since fuel costs are allocated to rate groups and not individual units, some customers may essentially be subsidizing the cost of fuel for others. Since Fleet ultimately bears the actual fuel costs incurred by users, it is responsible for a variable cost over which it has no direct control. If customers consume more fuel than projected by Fleet, then Fleet must absorb these costs, which could ultimately leave Fleet in a deficit position.

Recommendation: Fleet should consider the advantages of having the users of vehicles be held accountable for their fuel consumption and investigate opportunities to phase in a program which requires the user to be accountable for fuel consumption. Benefits of moving the accountability of this cost to the user include the following: 1) reduced subjectivity on behalf of Fleet when estimating consumption for computation of rental rates, 2) customers would have an incentive to monitor their fuel consumption in order to keep costs down, 3) subsidization of fuel costs by users consuming less fuel than others would no longer occur since each user would be held accountable for his/her fuel consumption.

Action Plan Lead: Fleet Division Manager
Expected Target Date: December 31, 2012
Status: Open

Utilization of Fleet vehicles

Rating: Satisfactory

Situation: Fleet sets rental rates based on historical user equipment needs.

Business Impact: This could result in over/under charging of rental rates due to changes in usage requirements, which has a financial impact on the reserve fund.

Recommendation: Fleet users should be required to submit an expected Fleet usage budget prior to Fleet setting rental rates. This document should include expected usage of each assigned vehicle/equipment as well as an indication as to whether more vehicles or equipment will be needed by that department. Although this budget will not be a commitment from the departments, it will assist Fleet in its fleet rate computation.

Action Plan Lead: Fleet Division Manager
Expected Target Date: 2013 rental rate setting
Status: Open

Utilization: Monitoring of Fleet utilization

Rating: Needs Improvement

Situation: Fleet does not monitor vehicle utilization for the purpose of assessing the reasonableness of fleet allocations. The current method of vehicle assignments does not require users to justify their request for a vehicle. The function of rationalization, allocation, assignments, and utilization is currently assigned to program managers.

Business Impact: There is a lack of accountability for efficient fleet asset allocations. Each vehicle contributes overhead costs for Fleet despite the amount that they are used, in addition to costs for keeping that vehicle in the City's fleet.

Recommendation: Fleet should consider adopting a process to formally track and monitor fleet asset utilization. Tracking could occur through maintenance of the Petrovend files or when equipment is serviced. Monitoring could occur on an annual basis. For example Fleet management could determine vehicle usage benchmarks for each Fleet class each year (ie. 7,500km - 10,000km for passenger vehicles). Actual usage of vehicles could be compared to benchmarks annually to determine if over or under utilization occurred, and variances should then be investigated by Fleet management. Furthermore, where an under utilization of a vehicle has occurred, Fleet should consider applying an under utilization penalty to that user's department (where the variable fuel charges have been pushed to the end user). Fleet should also encourage vehicle sharing amongst users, which will also be supported by usage benchmarks.

Action Plan Lead: Fleet Division Manager
Expected Target Date: December 31, 2012
Status: Open

Utilization: Fleet equipment possession monitoring

Rating: Satisfactory

Situation: There are situations where departments have reassigned Fleet equipment amongst themselves without notifying Fleet that this has occurred.

Business Impact: At no point during the year does Fleet have an accurate listing of which users have their equipment. This creates an opportunity for abuse of vehicle and equipment.

Recommendation: Fleet should improve tracking of vehicles allocated to users and require that any possession changes be communicated to Fleet immediately.

Action Plan Lead: Fleet Division Manager
Expected Target Date: December 31, 2012
Status: Open

Succession planning

Rating: Satisfactory

Situation: There is a significant amount of knowledge held by the individual currently performing the rental rate calculation, and the remainder of the current staffing complement does not possess the knowledge and understanding necessary to perform this calculation. The individual currently performing the calculation is eligible for retirement in May 2013 and could potentially retire six months before this date. The job requirements of the individual currently performing the calculation do not call for a background in financial accounting, even though such a background is critical in understanding the computations involved in the calculation.

Business Impact: The current situation poses a potential operational risk to Fleet and the City when this individual ceases employment with the City. Furthermore, the current job requirements are

inadequate for ensuring that an individual with a financial accounting background would be hired for this position.

Recommendation: Fleet should develop a succession plan for the rental rate calculation function to ensure that all necessary knowledge is passed on to the relevant current and future members of the Fleet team and that requisite financial expertise is built into the team.

Action Plan Lead: Fleet Division Manager
Expected Target Date: April 30, 2012
Status: Open

Environmental and Engineering Services - Fleet Asset Management

Maintain current practices in the following areas:			
Potential Risk	Control Intended to Mitigate Risk	Test	Conclusion
Warranties are not considered	Warranties are considered before maintenance is performed.	Inquire of process for determining when repairs covered under warranties are performed by dealerships.	Any maintenance required that is under warranty is sent out to the dealership accordingly.
Inadequate information or ineffective processes are used to compute rental rates - “Unallocated on capital” component	New rental rates are reviewed for reasonableness and excessive changes.	(a) Inquire what components are included in the “unallocated on capital” component of the rental rate calculation. (b) Inquire of process of allocating the “unallocated on capital” component to the Fleet classes. (c) Assess adequacy of approach, data considered and expertise applied upon determining allocation.	Components of the “unallocated on capital component” and the approach to allocating these costs are reasonable.
Inadequate information or ineffective processes are used to compute rental rates - “Unallocated on maintenance” component	New rental rates are reviewed for reasonableness and excessive changes.	(a) Inquire what components are included in the “unallocated on maintenance” component of the rental rate calculation. (b) Inquire of process of allocating the “unallocated on maintenance component” to the Fleet classes. (c) Assess adequacy of approach, data considered and expertise applied upon determining allocation.	Components of the “unallocated on maintenance” component and the approach to allocating these costs are reasonable.

<p>Inadequate information or ineffective processes are used to compute rental rates - “Unallocated on fuel” component</p>	<p>New rental rates are reviewed for reasonableness and excessive changes.</p>	<p>(a) Inquire what components are included in the “unallocated on fuel” component of the rental rate calculation. (b) Inquire of process of allocating the “unallocated on fuel” to the Fleet classes. (c) Assess adequacy of approach, data considered and expertise applied upon determining allocation.</p>	<p>Components of the “unallocated on fuel” component and the approach to allocating these costs are reasonable.</p>
<p>Rental Rate calculation is not continuously improved</p>	<p>Rental rate calculation changes each year and is assessed annually.</p>	<p>(a) Inquire with management the budgeting process adopted. (b) Inquire with management how the accuracy of prior year rates are assessed in determining future budgets. (c) Inquire with management the risk associated with an operating deficit.</p>	<p>Management reviews the budget to actual costs of the rental components on an annual basis through their budget setting and rental rate determination process.</p>