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The Corporation of the City of London

Quarterly Report on Internal Audit Results

- Parks & Recreation: Cost structure and
delivery model

October 14, 2015

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Agenda

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Rating Scale – Opportunities for Improvement

- **Satisfactory**

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

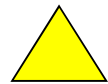
Satisfactory



- **Needs Improvement**

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

Needs
Improvement



- **Unsatisfactory**

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

Unsatisfactory



Parks & Recreation – Cost structure and delivery model

Summary of Risks & Scope

Parks & Recreation – Cost structure and delivery model

Scope

- Focus on parks operations cost structures
- Examination of how Parks & Recreation programs and activities are delivered with a focus on operational or financial efficiencies from a cost perspective and benchmarking with other municipalities
- Consideration of park maintenance costs and benchmarking with other municipalities
- Review of the process for calculating the cost of providing various services, including the allocation of overhead and administrative costs, to ensure full cost of services is considered
- Management and procurement of fleet, including capital and operating budgets

Potential Risks

- Current service levels may be provided at a higher than necessary cost, or at a higher cost relative to comparable municipalities
- Management may have an incomplete or inaccurate accounting of the full cost of providing various programs
- Fleet utilization levels may not be appropriate, resulting in either insufficient service levels or, in contrast, a higher than necessary capital budget

Controls Operating Effectively

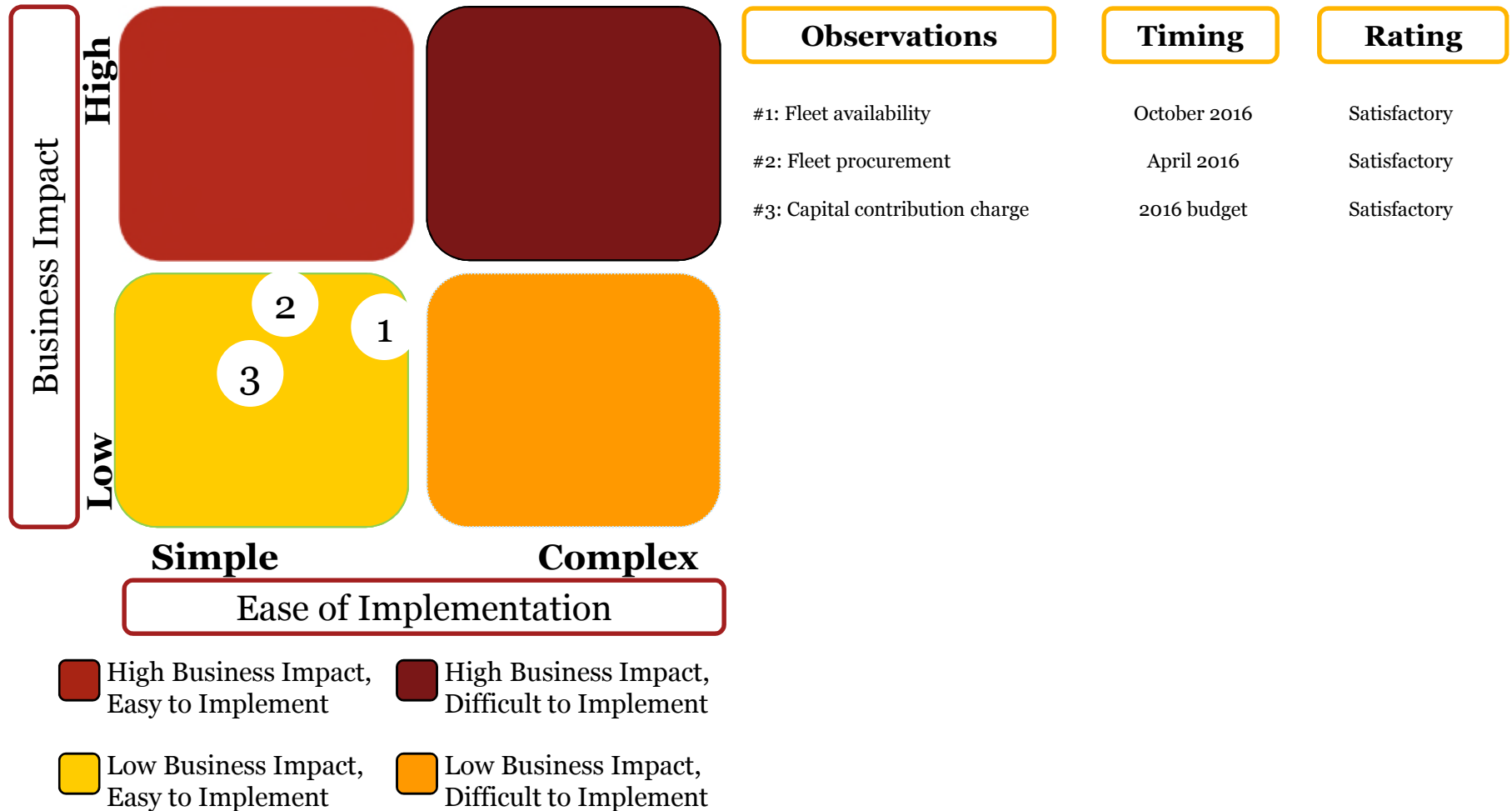
- The City's park maintenance costs are consistently one of the lowest cost per hectare in the province and Parks & Recreation performs well in OMBI metrics
- Detailed budget and actual information is tracked by business unit to allow for appropriate classification of costs for analysis purposes
- Parks & Recreation management work with the City's fleet management for maintenance and fueling of the vehicles to help achieve economies of scale
- Appropriate information is obtained and considered when determining whether assets should be purchased or leased

Value-for-Money Considerations

- On time delivery of new Parks & Recreation fleet at the beginning of each season will lead to better staff utilization and service delivery to London residents

Action Plan Summary

Parks & Recreation – Cost structure and delivery model



Observations & Action Plans -#1

Satisfactory 

Parks & Recreation – Cost structure and delivery model

Observation

Fleet availability

Fleet and Parks & Recreation have been working on communications over the past number of years and there has been improvement in preparedness of the fleet. In limited circumstances, some fleet may not be ready for use by staff at the start of the season due to maintenance still being completed. Some equipment incurs additional wear and tear from being stored outside in the offseason.

Business Impact

At the start of the season staff and equipment costs may be incurred if the necessary equipment is not available for use or has incurred additional wear and tear.

Action Plan

Parks & Recreation management and Fleet management should continue to meet at least annually in the winter to discuss the maintenance needs of the Parks & Recreation fleet and to mutually agree on a maintenance schedule to be followed, including a prioritization of which equipment should be completed first. This will allow Parks management to appropriately manage their staffing needs and scheduling in advance and provide Fleet management with specific targets for maintenance completion and fleet delivery to end users. Fleet and Parks & Recreation should investigate investment in off season storage to help minimize prep times, unnecessary wear and repairs needed for seasonal readiness.

Action Plan Lead

Division Manager, Fleet & Operations Services
Division Manager, Parks & Community Sports

PricewaterhouseCoopers LLP

Timing

October 2016

Observations & Action Plans -#2

Satisfactory 

Parks & Recreation – Cost structure and delivery model

Observation

Fleet procurement

Currently due to the necessary steps in the procurement process, such as obtaining multiple vendor quotes, new equipment (rather than replacement equipment) that is needed for the summer maintenance season may arrive in the fall after the demand for that equipment has passed. The equipment cannot necessarily be purchased in advance as the capital budget approval is not provided until the spring. This only impacts new pieces of equipment for growth or new services, rather than replacement equipment.

Business Impact

Capital budget funds are being set aside for assets that will not be utilized until the following season. Service levels may decline and maintenance costs on existing equipment may increase without the necessary new equipment. Warranties commence at arrival of the asset and additional wear and tear can occur due to an extra winter season of storage, leading to further potential cost.

Action Plan

It is recommended that Parks management identify equipment needs so that fleet can start the procurement process, in the fall for summer maintenance equipment for the next season, which will require advance planning to ensure budget approval is obtained in the preceding spring. At that time an inventory and assessment of fleet on hand should be performed to identify the necessary equipment to be purchased. Alternatively, it is recommended that if the procurement process does not begin until the spring, that the asset be procured through a short-term rental in order to expedite the availability of the equipment. In addition, for vital new pieces of equipment the procurement process could be started earlier and be subject to budget approval.

Action Plan Lead

Division Manager, Parks & Community Sports

Timing

April 2016

Observations & Action Plans -#3

Satisfactory 

Parks & Recreation – Cost structure and delivery model

Observation

Capital contribution charge

The capital contribution is currently established as an internal charge to Parks & Recreation from Fleet on an annual basis to accumulate funds to procure replacement equipment. Contributions to the vehicle and equipment reserve fund are based on recovering 85% of the replacement value of the asset over its life, but the reserve fund is not reconciled on an individual asset basis and is also used for asset management consultant costs, infrastructure maintenance and upgrades for refuelling, and other uses to ensure continuity and stability for the entire fleet. It was noted in some instances that the capital contribution charged for an asset over its life was greater than the actual purchase price of the asset.

Business Impact

Parks & Recreation is potentially being charged an annual rental fee that is higher than necessary in order to reflect the replacement cost of the asset. While on a City-wide basis this does not have a significant impact, from a business evaluation standpoint it impacts the operational results of golf courses and other Parks operations.

Action Plan

As part of the upcoming third party review of fleet charges, there should be a focus on capital charges for equipment, particularly golf equipment, to determine if there are opportunities to tweak calculations and give golf opportunities to defer replacement equipment and save on charges to have more control over their fleet costs.

Action Plan Lead

Division Manager, Fleet & Operations Services
Division Manager, Parks & Community Sports

Timing

2016 budget

2015 Internal Audit Scorecard - October 2015

		Key Measures	TARGET	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	
CORPORATE STRATEGY	Audit Committee	Approval of annual risk-based audit plan	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
		Number of reports presented to the Audit Committee	4	0	0	0	0	0	1	0	0	0	1	
		Timely reporting of recommendations	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
		Estimated quantification of Value-for-Money for current year projects		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	Unknown
	Management/Auditees	Number of closing meetings held with management	7	0	0	0	0	0	0	0	0	0	0	3
		Number of concise, value-added recommendations		0	0	0	0	0	0	0	0	0	0	4
INTERNAL AUDIT STRATEGY	Innovation/Capabilities	Number of best practices identified by internal audit		0	0	0	0	0	0	0	0	0	4	
		Use of internal audit resources and processes	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
	Internal Audit Processes	Percentage of projects completed	100%	0%	0%	5%	10%	15%	15%	15%	15%	15%	30%	
		Completion of annual risk assessment and updates to audit plan	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	

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