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The Corporation of the City of London

Quarterly Report on Internal Audit Results

October 5, 2016

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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



***Facilities Design & Construction: Construction
and procurement of higher risk assets, including
Normal School***

Summary of Risks & Scope

Facilities Design & Construction: Construction and procurement of higher risk assets, including Normal School

Scope of project

- Review of the process surrounding the procurement, construction, and signing of the lease agreement for the London Normal School
- Within the Facilities Design & Construction group, a review of controls surrounding communication among stakeholders, monitoring of budgets vs. costs, project management, and the preparation and retention of contract documents

Summary of Risks & Scope

Facilities Design & Construction: Construction and procurement of higher risk assets, including Normal School

Identified risks

Area of controls	Description of potential risks in this process identified by PwC
Communication among stakeholders	<ul style="list-style-type: none">• There may be ineffective lines of communication among various key stakeholders involved the construction of higher risk assets
Budgeting and cost monitoring	<ul style="list-style-type: none">• Cost overruns are not identified/ communicated in a timely manner to governance• Higher risk construction projects may not be evaluated for an appropriate return on investment• For “construction management” projects, individual tenders could exceed original estimates• There may be a lack of integration between information used to monitor costs by FD&C and the financial reporting/ accounting software used by Finance• Unusual circumstances surrounding the construction of Normal School could expose the City to unfamiliar risks
Project management	<ul style="list-style-type: none">• Unusual circumstances surrounding the construction of Normal School could expose the City to unfamiliar risks• Manual purchase requisitions could lead to time delays, duplicate payments, or uncertainty around remaining budget dollars on construction projects
Preparation and retention of contract documents	<ul style="list-style-type: none">• Informal quotes may not be based on appropriate templates• Construction delays could be caused by inadequate forms in place for insurance and bonding• Key documents may not be appropriately retained and organized, leading to incremental costs toward completion of projects

Summary of Risks & Scope

Facilities Design & Construction: Construction and procurement of higher risk assets, including Normal School

Controls operating effectively

Area of controls	Description of controls in place in response to the identified risks
Communication among stakeholders	<ul style="list-style-type: none">• Evidence of ad-hoc communication between the FD&C and Realty Services during each phase of the Normal School construction, including planning
Budgeting and cost monitoring	<ul style="list-style-type: none">• Cost over runs have been communicated in a timely manner to governance, where necessary• Evidence of forecasted cash flows and pay-back analysis on the Normal School construction project• Protocols in place to ensure project managers are monitoring costs appropriately• Manual reconciliation is in place to compare budgeted amounts to actual costs incurred• Use of “value engineering” gives management the ability to offset cost over runs
Project management	<ul style="list-style-type: none">• Staff has the appropriate knowledge to understand the required checkpoints and milestones of construction projects of larger scale• LiveLink sends notifications to the project managers on assignment and completions of tasks
Preparation and retention of contract documents	<ul style="list-style-type: none">• Management uses a template consistently in circumstances for informal quotes• Requirement for bonding and insurance forms to be in place prior to construction• Appropriate software is used to retain relevant and appropriate documents for construction projects

Summary of Risks & Scope

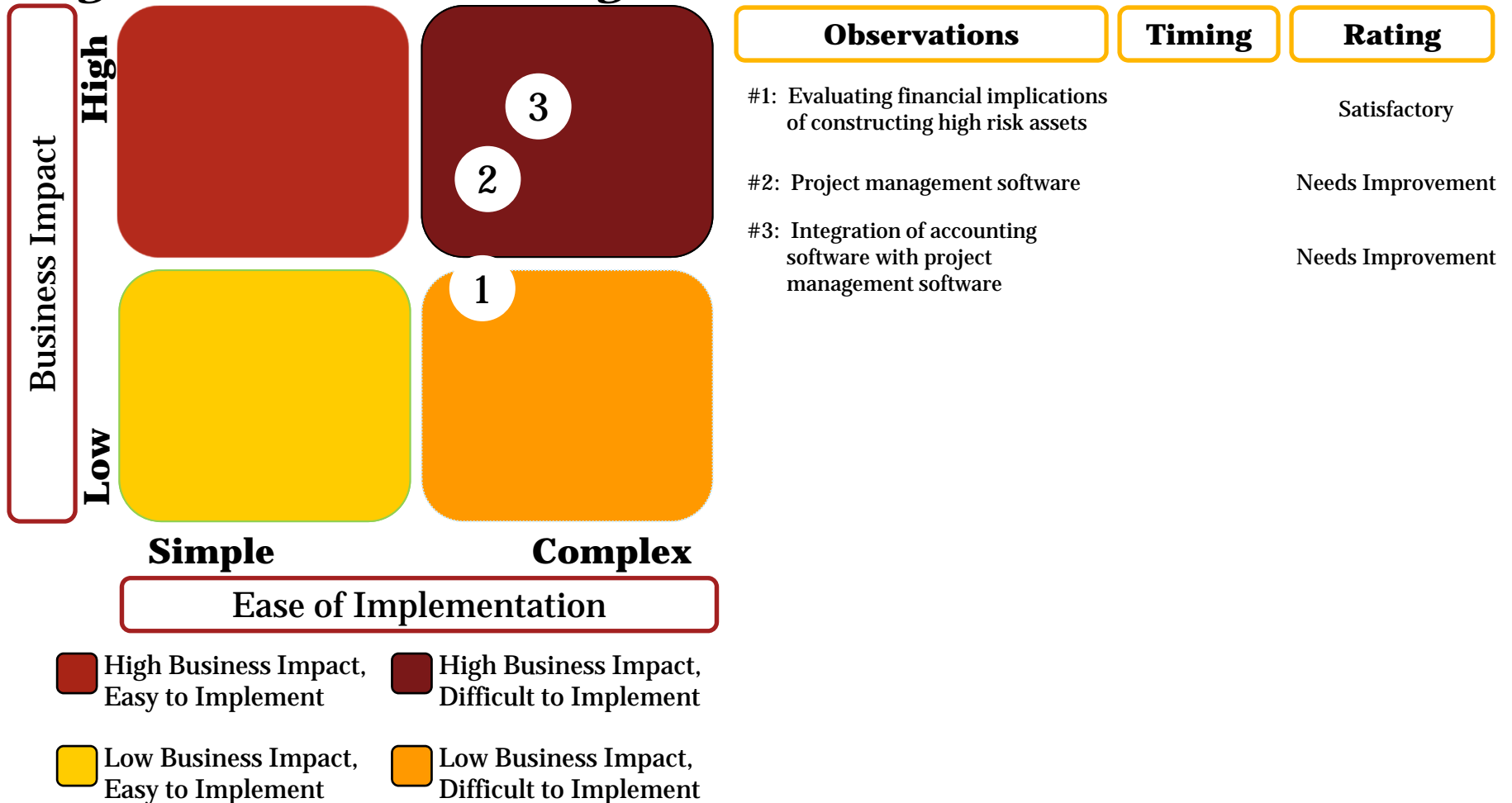
Facilities Design & Construction: Construction and procurement of higher risk assets, including Normal School

Summary of findings and other considerations

- Although there are 3 action plan items identified in this report for consideration by management, these recommendations, on a retrospective basis, would not have any preventive impact on the construction of the Normal School and the resulting overages that occurred with respect to the costs vs. initial budget amounts
- This report, and the underlying work related to this report, takes an approach of reviewing the processes and controls in place within the FD&C division, however through the review of the process there were no specific irregularities or unusual items identified that would warrant attention from the Audit Committee

Action Plan Summary

Facilities Design & Construction: Construction and procurement of higher risk assets, including Normal School



Observations & Action Plans -#1

Satisfactory 

Facilities Design & Construction: Construction and procurement of higher risk assets, including Normal School

Observation

Evaluating financial implications of constructing high risk assets

A template should be created to assist in creating uniform financial evaluations of high risk construction projects, with defined metrics such as net present value, pay-back period, rate of return on investment, etc. These can then be considered with the non-financial variables in determining the viability of high risk projects.

Business Impact

This will help provide management with consistent information for high risk construction projects.

Action Plan

It is recommended that the City create a standard template for analyzing the financial implications of future investments. This will ensure future financial analysis is sufficient and will allow for comparability if deciding between potential investments.

Action Plan Lead

Division Manager, Facilities

Timing

December 2016

Observations & Action Plans -#2

Facilities Design & Construction: Construction and procurement of higher risk assets, including Normal School

Needs
Improvement 

Observation

Project management software

There is an opportunity to automate and improve the effectiveness of project management through the use of available software. Currently, staff are required to manage the various tasks/ projects on a manual basis. The current document retention software, LiveLink, does allow for an assignment of tasks but for the large, higher risk construction projects there is no functionality to review the status of projects with respect to key milestones or checkpoints.

Business Impact

There is an opportunity for improved efficiency with respect to project management.

Action Plan

We understand management is currently in the process of implementation Entry, a software that will replace LiveLink and has specific “project” capabilities which will enhance the City’s ability to monitor milestones for large and more complex projects.

Action Plan Lead

Division Manager, Facilities

Timing

March 2017

Observations & Action Plans -#3

Facilities Design & Construction: Construction and procurement of higher risk assets, including Normal School

Needs
Improvement 

Observation

Integration of accounting software with project management software

Currently, project costs are monitored on a manual basis by the project manager who sorts through relevant documents within LiveLink, totaling the balance of payment certificates, and comparing amounts to the initial budget. There is no integration between the accounting software, JD Edwards, and project management functions.

Business Impact

There is an opportunity for improved cost monitoring through integration of the accounting software with the project management software to ensure costs are captured in real time as the payment certificates come in.

Action Plan

It is recommended that the City of London explore options for integrating accounting software and project management software to ensure costs are captured in real time.

Action Plan Lead

Division Manager, Facilities

Timing

June 2017

Development & Compliance Services – Building Cash Controls

Summary of Risks & Scope

Development & Compliance Services – Building Cash

Controls

Scope

- Understanding and evaluation of cash control design for building and licensing division
- Testing of operating effectiveness of cash controls for building division.
- Licensing division not in scope given transition to new system coming in Summer 2017

Potential Risks

- Building cash controls may not include proper safeguarding of assets, segregation of duties, authorization, reconciliations, and monitoring
- Misappropriation of assets by building & licensing division personnel
- Incorrect amounts reported in revenue and cash for daily permit and licensing transactions

Controls Operating Effectively

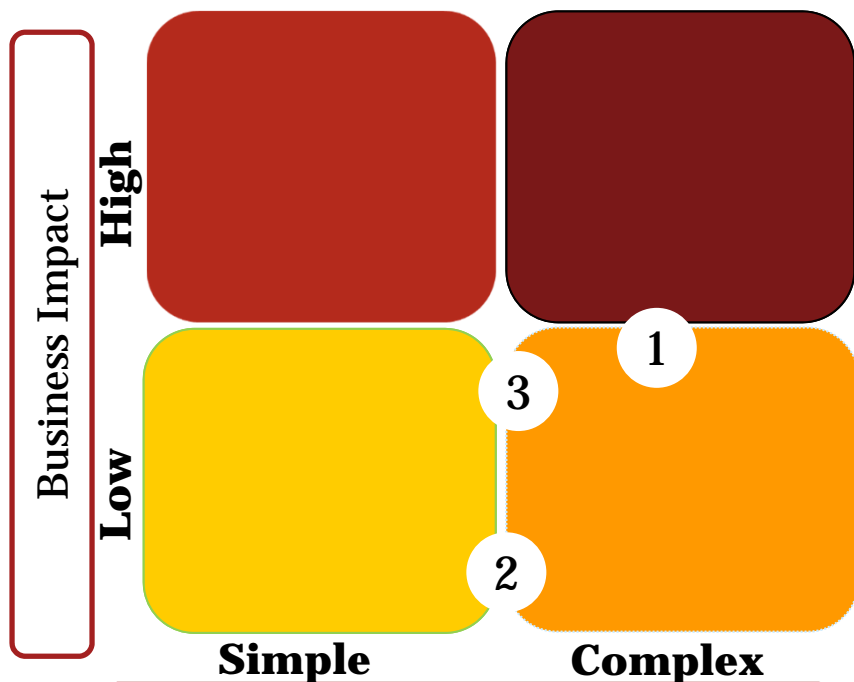
- Interface between AMANDA and CLASS is properly in place to ensure systems are complete and accurate
- Daily reconciliations and supervisor review are properly being performed for building division. Cash deposited into bank is properly tied to monthly reconciliations performed by finance
- CSRs unable to issue permit/receipt prior to payment being received
- System limitations for refunds are appropriately in place and proper authorization and segregation of duties exists

Areas for control improvements

- Opportunity for same individual to prepare and review residential permits and have the ability to change rates without approval
- No formal review of transfers is performed and transfers can be processed without authorization

Action Plan Summary

Development & Compliance Services – Building Cash Controls



Ease of Implementation

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

Action Plan Lead

Various Management of By-law Enforcement and Licensing

Observations	Timing	Rating
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#1: APEs prepare and review residential permits	December 2016	Needs Improvement
#2: CSR is not able to process a transfer without management authorization or approval	December 2016	Needs Improvement
#3: Licensing, reconciliation of CLASS to Amanda	June 2017	Needs Improvement

Observations & Action Plans -#1

Needs Improvement 

Development & Compliance Services – Building Cash Controls

Observation

Architectural Plan Examiners (APEs) prepare and review residential permits

APEs have the ability to overwrite individual permit rates on a permit by permit basis without management authorization. For residential permits, APEs are responsible for performing review of these permits which could result in an APE preparing and reviewing a single application.

Business Impact

For residential permits, the rates are susceptible to manual override of the amounts. Compensating controls currently exist on a detective basis where a portion of rates are reviewed by secondary personnel for reasonableness.

Action Plan

It is recommended that the Building Division consider an enhanced secondary review on the final permit rates or explore functionality within the point-of-sale system (CLASS) where predefined rates could be determined based on the service offering.

Action Plan Lead

Manager, Plans Examination Development and Compliance, Building Division

Timing

December 2016

Observations & Action Plans -#2

Needs
Improvement 

Development & Compliance Services – Building Cash Controls

Observation

CSR is not able to process transfer, though there is no review process in place for transfers

A CSR cannot process a transfer for a permit. The entire transfer process is performed at the APE/management level. However, there is no formal approval or review process for the transfers processed by this select group of management personnel.

Business Impact

There is a susceptibility to improper transfers without compensating controls of review. As a result, paid amounts could be misapplied to the incorrect permit and could create an opportunity for misappropriated funds.

Action Plan

Given the number of transfers is small in the organization, PwC recommends that a joint review of all transfers at the end of the month for reasonableness and accuracy be completed.

Action Plan Lead

Manager, Plans Examination Development and Compliance, Building Division

Timing

December 2016

Observations & Action Plans -#3

Needs Improvement 

Development & Compliance Services – Building Cash Controls

Observation

Licensing – reconciliation from CLASS to source licensing records

Currently, there is no reconciliation performed between the cash deposit, point-of-sale system (CLASS), and the information which drives the financial reporting being the source licensing records. This is, in part, caused by a lack of integration between the licensing documents and CLASS.

Business Impact

There is a potential that the license revenue recorded by the City could be misstated given the lack of reconciliation with both the cash deposit and the underlying permit documents. A 3-way match between the cash deposit, CLASS, and license documentation would assist in detecting misstatements.

Action Plan

The licensing group is currently in the process of implementing the use of Amanda software in June 2017, and therefore they will have the ability at this time to automatically perform this reconciliation.

Action Plan Lead

Manager, Plans Examination Development and Compliance, Building Division

Timing

June 2017

Human Resources: Succession planning

Summary of Risks & Scope

Human Resources: Succession planning

Scope

- Understand and evaluate City of London processes maintained and/or implemented to address risks identified during 2012 engagement.
- Test identified controls related to HR Succession planning.

Potential Risks

- Ineffective human capital planning
- Operational risk
- Loss of critical information

Controls Operating Effectively

- Critical Positions are identified and documented
- Talent Pool for each position is identified and documented
- Management considers forecasted retirements in HR Succession Planning
- Talent Pool Members receive individualized training and development related to target position
- Learning and development opportunities are evaluated for effectiveness in preparing Talent Pool Members for target positions

Overall conclusion from follow up review

- We have reviewed the design and operating effectiveness of the above controls and are satisfied that all relevant findings from the 2012 report have been addressed and remediated, and each of the controls listed above are operating effectively.

Review of allocation of administrative costs to Lake Huron & Elgin Areas Water Supply Boards

Summary of Risks & Scope

Corporate Services: Review of allocation of administrative costs to Lake Huron & Elgin Areas Water Supply Boards

Scope

- Determination of the cost allocation or recovery to/from the Lake Huron and Elgin Area Water Supply Boards.
- Ensuring the process in determining the allocation considers a complete list of activities provided by the City
- Reviewing the process for assigning an allocation based on the services provided by the City

Potential Risks

- Improper allocation may lead to improper decision making at both levels of the City and the Water Supply Boards
- Allocated costs may not be determined on an appropriate basis in terms of representing the recovered costs of all activities performed by the City for the Water Supply Boards
- Lack of accountability over the allocated costs if the budgeted amounts from the City's perspectives only contemplate corporate charges to the Water Supply Boards on a net basis

Value-for-Money Considerations

No value-for-money considerations were identified.

Summary of Risks & Scope

Corporate Services: Review of allocation of administrative costs to Lake Huron & Elgin Areas Water Supply Boards

Advantages of Current Cost Allocation

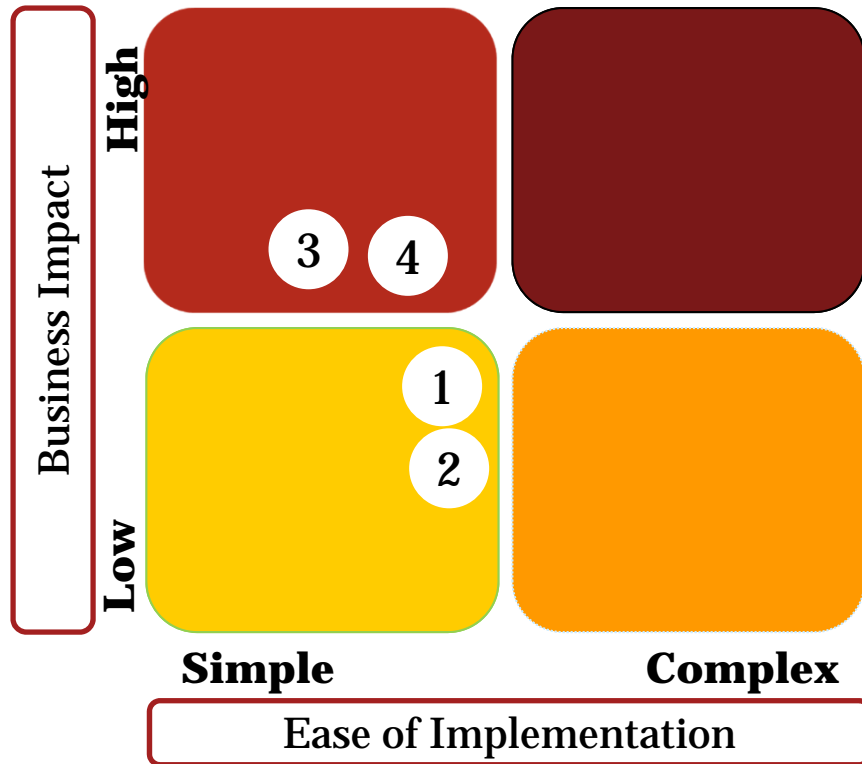
- Currently, the cost allocation process has been set for a period of time that is consistent with the City's four year budgeting process
- In aggregate, the total costs allocated to the Water Supply Boards is considered to be reasonable
- The current method of allocating costs takes a simple approach of historical amounts with some inflation factors, which yields a reasonable cost allocation and requires minimal effort from both sides

Disadvantages of Current Cost Allocation

- Management of the Water Supply Boards are not involved in the cost allocation exercise
- Over time, the level of services provided by the City to the Water Supply Boards may change and the current arrangement does not contemplate changes to the cost allocation

Action Plan Summary

Corporate Services: Review of allocation of administrative costs to Lake Huron & Elgin Areas Water Supply Boards



- 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	Rating
#1: Information used to determine cost allocation amounts may be outdated	January 2017	Satisfactory
#2: Unable to reconcile the estimated costs to actual results	January 2017	Needs improvement
#3: Agreement on services provided	January 2017	Needs Improvement
#4: Involvement of management of the Water Supply Boards	January 2017	Needs Improvement

Observations & Action Plans -#1

Satisfactory 

Corporate Services: Review of allocation of administrative costs to Lake Huron & Elgin Areas Water Supply Boards

Observation

Information used to determine cost allocation amounts may be outdated

The allocation of costs (or corporate charges) from the City of London to the Water Supply Boards should reflect a relatively accurate estimate of the costs of providing the relevant services to the Water Supply Board. The information used to determine the cost allocation amount from 2016 to 2019 was based on potentially outdated information in terms of both costs and the specific services provided by the City.

Business Impact

The use of more current information will help ensure the cost allocation reflects the best estimate of the cost of providing services to the Water Supply Boards.

Action Plan

The cost allocation amounts should be determined based on the most recent available information with respect to costs and activities performed.

Action Plan Lead

Finance Manager

Timing

January 2017

Observations & Action Plans -#2

Corporate Services: Review of allocation of administrative costs to Lake Huron & Elgin Areas Water Supply Boards

Needs
improvement



Observation

Unable to reconcile the estimated costs to actual results

We were not able to reconcile the estimated costs of each services used in the determination of the cost allocation amounts to underlying “actual” financial results, and as a result could not determine whether some of the inputs used in the cost allocation exercise were good estimates of the actual costs incurred by the City.

Business Impact

A reconciliation of the cost allocation worksheet to actual financial results helps ensure the cost allocation is representative of actual costs incurred by the City for the respective services.

Action Plan

On a retrospective basis, an analysis should be performed to ensure the cost allocation inputs represented actual results to assist in future budgeting.

Action Plan Lead

Finance Manager

Timing

January 2017

Observations & Action Plans -#3

Corporate Services: Review of allocation of administrative costs to Lake Huron & Elgin Areas Water Supply Boards

Needs
improvement



Observation

Agreement on services provided

The current process in determining the amount of cost allocation from the City does not consider a reconciliation of the list of services provided by the City. This is important information in determining an appropriate cost to recover from the Water Supply Boards.

Business Impact

A comprehensive list of services provided by the City, with a cost associated with those services, helps ensure an appropriate cost allocation is agreed upon.

Action Plan

The City and the Water Supply Boards should jointly maintain a comprehensive list of services provided by the City (or vice versa if applicable) to ensure the cost allocation is based on that list of services.

Action Plan Lead

Finance Manager/ Division Manager – Regional Water Supply

Timing

January 2017

Observations & Action Plans -#4

Corporate Services: Review of allocation of administrative costs to Lake Huron & Elgin Areas Water Supply Boards

Needs
improvement



Observation

Involvement of management of the Water Supply Boards

Management of the Water Supply Boards were not involved in the determination of the cost allocation amount from the City, although they would be able to help provide the City with important information to assist in this exercise.

Business Impact

Involvement of management helps ensure the cost allocation is based on a complete and accurate listing of services provided by the City to the Water Supply Boards.

Action Plan

Management of the Water Supply Boards should be involved in the determination of the cost allocation from the City to the Water Supply Boards.

Action Plan Lead

Finance Manager/ Division Manager – Regional Water Supply

Timing

January 2017

Rating Scale – Status of Past Project Action Plans

Closed

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

On Track

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

Some Delays

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

Not Addressed

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

Status of Past Project Action Plans

Project

Status

Housing Access Centre Process Review - *Housing, Social Services & Dearness Home (2014)*

Some delays

By-law Enforcement & Licensing - *Development & Compliance Services (2014)*

Some delays

Delayed Action Plans: Housing Access Centre Process Review - Housing, Social Services and Dearness Home (2014)

#	Action Plan	Original Expected Target Date	Revised Expected Target Date	Reason(s) for Delay(s) and Management Action Plans for Completion
3	It is recommended that the City continue to support HCI. Furthermore, it is recommended that the Housing Division consider including the following features and functionalities in the new web-based system: (1) Staff access controls; (2) Ability for users to submit their applications and supporting documents online; (3) Blank field and character logic to mitigate against submission of incomplete/inaccurate forms; (4) Unit vacancy tracking capabilities; and (5) Flexibility to eventually support integration of choice-based letting programs.	June 30, 2016	December 2017	Management is well underway with this initiative and the project is in the middle of development with a projected full system implementation date by the end of 2017. In addition, 8 new service managers have agreed to license the system once fully developed through early adoption funding provided by the Province.

Delayed Action Plans: By-law Enforcement & Licensing - Development & Compliance Services (2014)

#	Action Plan	Original Expected Target Date	Revised Expected Target Date	Reason(s) for Delay(s) and Management Action Plans for Completion
1	It is recommended that the City consider replacing the spreadsheet with another reporting and tracking mechanism that is more automated.	December 2015	December 2016	The project is in progress – software purchased and implementation/ testing has begun.
3	The City is planning to use an automated conversion approach in dealing with data for business licensing and taxi records to reduce the risk of errors and system failure. Development & Compliance Services and ITS should continue to work together to finalize an approach to converting the business licensing and taxi licensing from Oracle to a more capable system such as Amanda.	December 2015	February 2017	This IT project is approved and expected to be implemented by February 2017.
8	Recommended that the City review and update the current Animal Control By-law and consider updating the associated fees to align with like municipalities. It is recommended that management consider reviewing the Business Licence By-law to include additional establishments that are common amongst peer municipalities that London does not currently enforce. It is also recommended that management consider updating the residential licensing and renewal fees to align with comparable municipalities, and consider changing the fee to be on a per unit, rather than per property, basis.	June 2015 for Business by-law December 2015 for fees	December 2016 December 2016	A report on this initiative will be presented to CPSC in June 2016. A report on rental license fees is expected in August 2016.

Delayed Action Plans: By-law Enforcement & Licensing - Development & Compliance Services (2014) ...continued

#	Action Plan	Original Expected Target Date	Revised Expected Target Date	Reason(s) for Delay(s) and Management Action Plans for Completion
10	It is recommended that the City investigate implementing the Administrative Monetary Penalties system for both parking and animal enforcement.	December 2015	May 2017	AMP software has been purchased and AMPs for parking is expected to be implemented in early 2017.
11	It is recommended that the City consider, similar to the private parking enforcement contracts, negotiating with other private lot owners to secure lot management or enforcement contracts in which the City enforces the lots.	December 2015	May 2017	This project is ongoing, but additional time needed to consider and implement this action plan.
14	It is recommended that management consider removing fees and fines amount from individual by-laws and include them in the Various Fees and Charges By-law A-47 as this document is updated annually. Consideration should also be given to updating the Various Fees By-law to index the fees in line with the provincial CPI.	December 2015	December 2016	Expected to be implemented in the fall of 2016 during the annual Fees and Charges by-law amendment

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