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TO:	CHAIR AND MEMBERS AUDIT COMMITTEE MEETING ON SEPTEMBER 29, 2011
FROM:	PwC INTERNAL AUDITORS
SUBJECT:	Quarterly Report on Internal Audit Results

RECOMMENDATION

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

Quarterly Report on Internal Audit Results from PricewaterhouseCoopers – Audit Committee July 14, 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:

- CAO's Department - Development Approvals
- Environmental & Engineering Services – Water & Sewage Revenue

PwC requests Audit Committee approval of the action plans developed in collaboration between PwC and City management. This report also provides a status update for the remaining internal audit projects scheduled for the 2011 year. Details are included within Appendix A – Quarterly Report on Internal Audit Results, September 29, 2011. Please also refer to the formal presentation document attached in Appendix B.

Finally, attached in Appendix C and D are detailed Summaries of Findings for the Development Approvals and Water & Sewage Revenue projects. 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 – Quarterly Report on Internal Audit Results, September 29, 2011

Summary of Risks & Scope
CAO's Department – Development Approvals

Scope

- Sustainability of Urban Works Reserve Fund (UWRF) Model
- Review & Approval of UWRF Development Applications
- Management & Resolution of UWRF Development Issues
- Review & Approval of UWRF Development Claims

Risks

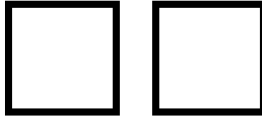
- UWRF deficit continues to grow, resulting in a risk of litigation and potential adverse impact to the City Services Reserve Fund (CSRF) and property tax capital projects.
- Insufficient analysis of applications may result in inappropriate agreements entered into.
- Lack of communication regarding development issues may result in unexpected cost overruns claimed against the UWRF.
- Claims may not be reviewed and approved for appropriateness with respect to the Development Charge (DC) funding policies and the original agreements.

Controls Operating Effectively

- Review and analysis of development applications, as well as documentation of investigation performed
- Appropriate approval of development agreements in line with City policies
- Appropriate approval of development claims prior to payment
- Timeliness of application and claim submission approvals
- The DABU management team has identified a number of the action plans proposed in this report, and have been proactive in seeking solutions with internal audit.

Value-for-Money Considerations

- The recommendations made will minimize further strain to the UWRF deficit. The 'Urban works payable' was \$48.3m per the December 31, 2010 audited financial statements. This liability; however, does not reflect the true economic liability which would include additional developer claims not yet submitted to the City, offset by future development charges on existing developments.
- Reducing the UWRF deficit will minimize the potential cost of litigation and reduce the impact on the City's other capital projects.



Observations & Action Plans

#1: UWRF – Alternative Funding Model

Observation:

The liquidation of the claims in the UWRF is significantly backlogged. This situation was partially addressed through a narrowing of the scope of UWRF claims in the 2009 Development Charge (DC) Rate Study. However, the deficits of prior years linger.

Business Impact:

This notional deficit is, and will continue to cause developers to wait a significant length of time to receive payment from a claim, which could also lead to a potential risk of litigation for the City. Furthermore, a potential risk exists that the notional deficit in the UWRF will have adverse impacts on the City's CSRF and property tax capital projects.

Action Plan:

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:

- (a) A Conceptual Framework outlining action items and impacts should be developed for Council approval; and
- (b) A new proposed working plan should be developed in conjunction with the 2014 DC rate study.

Most control recommendations that follow below (under the current UWRF funding model) will still be appropriate under an alternative model.

Action Plan Lead:

Chief Administrative Officer

Timing:

- (a) December 31, 2011
- (b) June 30, 2012

#2: UWRF – Lack of Succession Planning

Observation:

There is a significant amount of expert knowledge held with the current members of the Development Approvals Business Unit (DABU) management team.

The current staffing compliment is insufficient to handle the necessary oversight of the department.

Business Impact:

This poses a potential operational risk to DABU and the City if one of the members of DABU's management team were to cease employment with the City.

Action Plan:

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.

Action Plan Lead:

Chief Administrative Officer and
City Treasurer and Chief Financial Officer

Timing:

December 31, 2011

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#3: Autonomy of the Director of Development Finance

Observation:

Currently, the Director of Development Finance reports to the Managing Director of Development Approvals Business Unit. This reporting relationship should be reconsidered.

Business Impact:

A conflict between the objectives of the DABU and those of the financial health of the City may lead to recommendations for approvals for development or development claims at the expense or suppression of important financial considerations or internal controls related to development finances.

Action Plan:

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).

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.

For example, it may be appropriate for the position to report to the City Treasurer.

Action Plan Lead:

Chief Administrative Officer and
City Treasurer and Chief Financial Officer

Timing:

December 31, 2011

#4: Development Charge Monitoring

Observation:

Although DC rates are continuously monitored, they are not updated on an annual basis, only every five years when a full DC Rate Study is developed. Wide variations between cost estimates used to calculate DC rates and actual cost experience is evidence that DC rates may be slightly inaccurate.

Business Impact:

No significant change in the DC rate calculation would occur if rates were calculated on accurate claim estimates. However, where the variations in the cost are one sided, a potential financial risk exists if DC rates are not updated in a timely manner.

Insufficient DC rates collected may contribute to a growing notional deficit in the UWRF and may contribute to intergenerational inequity in DC rates collected.

Action Plan:

It is recommended that the City continue to perform a continuous analysis of DC rates through the Development Charge Monitoring report of DCs based on 'estimates' and 'actuals' to determine the accuracy of the DC rates within the bounds of the governing legislation.

Where the review produces information that suggests that DC cost estimates were significantly under or over estimated, the City should consider the trade-offs between the costs of conducting the DC rate study, and the potential for intergenerational inequities in the DC rate.

Action Plan Lead:

Director of Development Finance

Timing:

December 31, 2011

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#5: UWRF – Improved Use of Developer Tender Process

Observation:

The tender process for UWRF claimable items could be used more effectively.

Business Impact:

A potential financial risk exists if the tender process is not effectively utilized by developers. Developers may incur additional costs and make claims above expectations, thereby leading to a growing notional deficit in the UWRF.

Action Plan:

It is recommended that the City create and ensure the implementation of a bid summary by developers, for assessment on a line by line basis, as well as the proportion of claimable versus non-claimable works.

The City should ensure developers' consulting engineers provide a projected claims summary.

The City should ensure developers delay awarding work prior to the City's written notice of satisfaction with both the bid summary and the claims summary.

Action Plan Lead:

Director of Development Finance

Timing:

December 31, 2011

#6: UWRF – Developer Claims Cost Overruns

Observation:

Cost overruns are incurred by developers due to unforeseen circumstances, which are claimed against the UWRF in excess of the cost assumptions included in the DC rate study.

Business Impact:

Unexpected cost overruns cause an imbalance between the cost assumptions included in the DC rate study and those being claimed, thereby leading to a growing notional deficit in the UWRF.

There is also a lack of purchasing control in advance of incurring costs that are expected to be claimed from the UWRF.

Action Plan:

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.

Action Plan Lead:

Director of Development Finance

Timing:

December 31, 2011

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#7: UWRP – Inconsistency of Claims Submissions

Observation:

Claim submissions provided by developers are not documented in a consistent manner.

Business Impact:

Inconsistency in claim submissions can result in inefficiencies within the DABU as staff must perform follow-up procedures to clarify incomplete submissions.

Action Plan:

It is recommended that the City create and ensure developers use a claim submission template.

City engineers should utilize a checklist when reviewing claim submissions to ensure sufficient detailed information is provided to the City.

If sufficient information is not provided, claims should be placed in a “Pending – Outstanding Information” waiting list until sufficient information is provided.

Action Plan Lead:

Director of Development Finance

Timing:

December 31, 2011

#8: UWRP – Lack of Claim Audit Process

Observation:

A formal audit process does not exist to periodically review claims submitted by developers.

Business Impact:

A potential financial risk exists that ineligible claims may be approved due to a lack of information, thereby contributing to a growing notional deficit in the UWRP.

Action Plan:

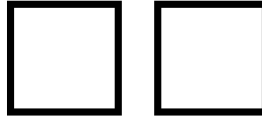
It is recommended that the City implement a claims audit program requiring developers to periodically provide documentation of all job logs and invoices for claimable works.

Action Plan Lead:

Director of Development Finance

Timing:

December 31, 2011



Summary of Risks & Scope

Environment & Engineering Services Department – Water & Sewage Revenue

Scope

- Installation of New Meters
- Monitoring of Meter Reading
- Monitoring of Billing
- Monitoring of Collections
- Monitoring of Non-Revenue Water (NRW)
- Management of London Hydro (LH) Agreement
- Transfer of Revenue
- Meter Repairs and Replacements

Risks

- New water meter installations not occurring in a timely manner
- Insufficient monitoring of meter reading, billing and collection procedures performed by LH
- Insufficient monitoring of NRW
- Non-compliance or insufficient monitoring of London Hydro Service Level Agreement (SLA)
- Insufficient monitoring and analysis of water revenue transferred from LH
- Water meter repairs and replacements not occurring in a timely manner

Controls Operating Effectively

- Timely installation of new water meters
- Management and monitoring of NRW
- Compliance with and sufficient review of LH SLA
- Timely response and complete documentation of water meter repairs and replacements

Value-for-Money Considerations

Quantification of Controls Operating Effectively:

- Sufficient NRW monitoring processes are in place as the City of London operated with an estimated NRW rate of 9% in 2009, which is 10% lower than the average of the surrounding municipalities. This 10% results in considerable cost savings for the City relative to others.
- The City of London's 'Water Meter Replacement Program' has reduced NRW by an estimated \$110,000 from 2009 to 2010.

Quantification of Opportunities for Improvement:

- The recommendations to reduce NRW from customers with dedicated fire protection systems and from new building construction is estimated to recover a portion of NRW on an annual basis.
- If through these recommendations, the City was able to bill an additional 1% of water purchased (i.e. NRW was reduced from 10.2% to 9.2%), approximately \$1,200,000 of additional revenue would be recovered each year.
- The recommendation to recover late payment fees currently collected by LH is estimated to recover \$300,000 of revenue per year, if implemented.

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Observations & Action Plans

#1: Recovery of Fire Protection Water

Observation:

An opportunity to recover water supplied to ICI customers (institutional, commercial and industrial customers, including high-density residential) with dedicated fire protection systems exists. These water lines are not metered and therefore remain unbilled.

Business Impact:

Dedicated fire protection system lines are utilized by customers for the purpose of monthly testing procedures, which represent a significant volume of unbilled consumption.

Action Plan:

It is recommended that the City consider and investigate opportunities for capturing lost revenues on fire protection system water used by ICI customers. This could be accomplished through charging a flat or other fee based on square footage.

Action Plan Lead:

Director of Water and City Engineer

Timing:

December 31, 2013

#2: Recovery of Building Construction Water

Observation:

An opportunity to recover water supplied to builders and developers during the new home construction phase exists. These water lines are not metered and therefore remain unbilled until the point that the residential water account is set up.

Business Impact:

City water is commonly utilized by builders and developers during the construction of new residential properties, which represents a significant volume of unbilled consumption.

Only nominal connection charges for construction water are billed to the residents as per the 'Water Rates & Charges By-Law.'

Action Plan:

It is recommended that the City consider and investigate the opportunity to capture lost revenues relating to building construction water consumed.

This could be accomplished by installing meter pits at individual homes being built and billing the home builders. Alternatively, subdivisions could be metered with developers billed using deduct metering or a flat or other fee could be charged to builders to estimate water consumption during the construction phase.

Action Plan Lead:

Director of Water and City Engineer

Timing:

December 31, 2013



#3: Timeliness of New Water Meter Installations

Observation:

A risk exists that the City is not notified in a timely manner regarding the necessity to install a new water meter, leading to a delay in the commencement of billings.

Business Impact:

A potential financial risk exists if a time lag is present from the point that residential water lines are accessible to the installation of a new water meter. A time lag could result in missed water billings by the City.

This item becomes more significant in the case that efforts are not made to bill for construction water directly (as discussed in the previous finding).

Action Plan:

It is recommended that the City obtain, on a quarterly basis, a listing of 'pending' water revenue accounts from LH. Investigation should be performed to ensure that new water meters are installed where applicable and billing is started.

The 'New water account verification report' currently included in the LH SLA should be received regularly and used to reconcile to account information provided to LH.

Action Plan Lead:

Director of Water and City Engineer

Timing:

December 31, 2011

#4: Monitoring of London Hydro Processes

Observation:

An opportunity exists to improve the monitoring controls performed by the City over LH meter reading, billing and collection processes.

Business Impact:

A risk exists that the City is not aware of issues or inefficiencies in the performance of meter reading, billing or collection procedures performed by LH.

Action Plan:

It is recommended that the LH SLA be amended to require additional information to be provided to the City on a regular basis, resulting in improved oversight of meter reading, billings and collections processes. These additional pieces of information could include:

Meter Reading: the proportion of total meter reads validated by estimate

Billing: Aging report of unbilled accounts

Collections: Listing of write-offs, including reason for write-off and corresponding account number

Action Plan Lead:

Director of Water and City Engineer

Timing:

December 31, 2011

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#5: London Hydro Service Level Agreement Terms

Observation:

An opportunity exists to improve the terms of the SLA as there are activities performed and information received that are currently not reflected in this agreement.

Business Impact:

A potential operational risk exists in the case that there are staffing changes at LH that impact the working relationship between the two parties. Monitoring and oversight controls could be impacted if the SLA does not accurately reflect the current working relationship.

Action Plan:

It is recommended that the following be considered in the upcoming review of the SLA:

- The City should try to ensure that LH is responsible for communicating to the City any events that could potentially delay meter reading, billing, collections procedures performed on behalf of the City.
- It should be clarified which operational reports must be available on a real-time basis versus on demand from LH.
- The City should negotiate that LH assign one IT coordinator that will prioritize City of London reporting requests.

Action Plan Lead:

Director of Water and City Engineer

Timing:

December 31, 2011

#6: Oversight of London Hydro's Billing System (SAP)

Observation:

The City of London currently does not perform procedures to confirm the operating effectiveness of London Hydro's SAP system.

Business Impact:

A risk exist that if system errors occur within LH's meter reading, billing or collections systems, inaccuracies could result in the revenue transferred to the City of London.

Action Plan:

It is recommended that the City perform tests of controls over the SAP system on an annual basis.

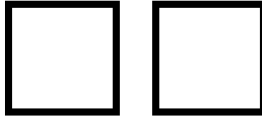
For example, for a new account, the City could confirm that the meter reading is accurately reflected in the billing module and collections module and that this revenue billed is included in the weekly transfer amount remitted to the City of London.

Action Plan Lead:

Director of Water and City Engineer

Timing:

December 31, 2011



#7: Reasonableness Check on Revenue Transferred from London Hydro

Observation:

An opportunity exists to perform additional analysis over the reasonability of revenue received from LH.

Business Impact:

A potential operational risk exists in the case that there are staffing changes at LH that impact the working relationship between the two parties. Monitoring and oversight controls could be impacted if the SLA does not accurately reflect the current working relationship.

Action Plan:

It is recommended that the City request LH to provide the following additional information as a part of the weekly revenue reporting process and that this is built into the next SLA:

- Breakout of revenue transferred by customer type
- Breakout of number of meter reads included in revenue transferred by customer type
- Calculation of revenue per meter read by category

Action Plan Lead:

Director of Water and City Engineer

Timing:

December 31, 2011

#8: Administration of Late Payment Fees

Observation:

An opportunity exists to recover additional revenue in the form of late payment fees currently collected by LH. LH remits payment of water revenue to the City based upon billings, however late payment fees received subsequently are retained by LH.

Business Impact:

A financial risk exists that the City is not collecting all possible revenue sources from LH.

In fiscal 2010, late payment fees totaled approximately \$300,000.

Action Plan:

It is recommended that the City incorporate the receipt of late payment fees collected by LH into upcoming SLA negotiations.

Action Plan Lead:

Director of Water and City Engineer

Timing:

December 31, 2011

Agenda Item # Page #

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Internal Audit Projects In Progress

Department	Project	Stage
Finance	Bid Process & Approved Consultants	Completion
CAO's Department	IT Governance Assessment	Completion

Internal Audit Schedule Going Forward

Department	Project	Timing
Community Services	Municipal Housing	October/November 2011
Environmental & Engineering Services	Fleet Asset Management	October/November 2011
CAO's Department	Attendance Management	November 2011

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The Corporation of the City of London

Quarterly Report on Internal Audit Results

September 29, 2011

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Agenda

	Page
Rating Scale – Opportunities for Improvement	3
Development Approvals Project	4
Water & Sewage Revenue Project	16
Internal Audit Projects in Progress	28
Internal Audit Schedule Going Forward	29
Internal Audit Scorecard	30
Appendix - Summary of Past Due Action Plans	31

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



Development Approvals

CAO's Department

Summary of Risks & Scope

CAO's Department – Development Approvals

Scope

- Sustainability of Urban Works Reserve Fund (UWRF) Model
- Review & Approval of UWRF Development Applications
- Management & Resolution of UWRF Development Issues
- Review & Approval of UWRF Development Claims

Risks

- UWRF deficit continues to grow, resulting in a risk of litigation and potential adverse impact to the City Services Reserve Fund (CSRF) and property tax capital projects.
- Insufficient analysis of applications may result in inappropriate agreements entered into.
- Lack of communication regarding development issues may result in unexpected cost overruns claimed against the UWRF.
- Claims may not be reviewed and approved for appropriateness with respect to the Development Charge (DC) funding policies and the original agreements.

Summary of Risks & Scope, Continued ***CAO's Department – Development Approvals***

Controls Operating Effectively

- Review and analysis of development applications, as well as documentation of investigation performed
 - Appropriate approval of development agreements in line with City policies
 - Appropriate approval of development claims prior to payment
 - Timeliness of application and claim submission approvals
- The DABU management team has identified a number of the action plans proposed in this report, and have been proactive in seeking solutions with internal audit.

Value-for-Money Considerations

- The recommendations made will minimize further strain to the UWRF deficit. The 'Urban works payable' was \$48.3m per the December 31, 2010 audited financial statements. This liability; however, does not reflect the true economic liability which would include additional developer claims not yet submitted to the City, offset by future development charges on existing developments.
- Reducing the UWRF deficit will minimize the potential cost of litigation and reduce the impact on the City's other capital projects.

Observations & Action Plans -#1

CAO's Department – Development Approvals

Unsatisfactory



Observation

UWRF – Alternative Funding Model

The liquidation of the claims in the UWRF is significantly backlogged. This situation was partially addressed through a narrowing of the scope of UWRF claims in the 2009 Development Charge (DC) Rate Study. However, the deficits of prior years linger.

Business Impact

This notional deficit is, and will continue to cause developers to wait a significant length of time to receive payment from a claim, which could also lead to a potential risk of litigation for the City. Furthermore, a potential risk exists that the notional deficit in the UWRF will have adverse impacts on the City's CSRF and property tax capital projects.

Action Plan

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:

- (a) A Conceptual Framework outlining action items and impacts should be developed for Council approval; and
- (b) A new proposed working plan should be developed in conjunction with the 2014 DC rate study.

Most control recommendations that follow below (under the current UWRF funding model) will still be appropriate under an alternative model.

Action Plan Lead

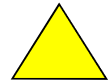
Chief Administrative Officer

Timing

- (a) December 31, 2011
- (b) June 30, 2012

Observations & Action Plans -#2 ***CAO's Department – Development Approvals***

**Needs
Improvement**



Observation

UWRF – Lack of Succession Planning

There is a significant amount of expert knowledge held with the current members of the Development Approvals Business Unit (DABU) management team.

The current staffing compliment is insufficient to handle the necessary oversight of the department.

Business Impact

This poses a potential operational risk to DABU and the City if one of the members of DABU's management team were to cease employment with the City.

Action Plan

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.

Action Plan Lead

Chief Administrative Officer and
City Treasurer & Chief Financial
Officer

Timing

December 31, 2011

Observations & Action Plans -#3

CAO's Department – Development Approvals

Needs Improvement 

Observation

Autonomy of the Director of Development Finance

Currently, the Director of Development Finance reports to the Managing Director of Development Approvals Business Unit. This reporting relationship should be reconsidered.

Business Impact

A conflict between the objectives of the DABU and those of the financial health of the City may lead to recommendations for approvals for development or development claims at the expense or suppression of important financial considerations or internal controls related to development finances.

Action Plan

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).

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.

For example, it may be appropriate for the position to report to the City Treasurer.

Action Plan Lead

Chief Administrative Officer and
City Treasurer & Chief Financial Officer

Timing

December 31, 2011

Observations & Action Plans -#4 ***CAO's Department – Development Approvals***

Satisfactory



Observation

Development Charge Monitoring

Although DC rates are continuously monitored, they are not updated on an annual basis, only every five years when a full DC Rate Study is developed. Wide variations between cost estimates used to calculate DC rates and actual cost experience is evidence that DC rates may be slightly inaccurate.

Business Impact

No significant change in the DC rate calculation would occur if rates were calculated on accurate claim estimates. However, where the variations in the cost are one sided, a potential financial risk exists if DC rates are not updated in a timely manner.

Insufficient DC rates collected may contribute to a growing notional deficit in the UWRF and may contribute to intergenerational inequity in DC rates collected.

Action Plan

It is recommended that the City continue to perform a continuous analysis of DC rates through the Development Charge Monitoring report of DCs based on 'estimates' and 'actuals' to determine the accuracy of the DC rates within the bounds of the governing legislation.

Where the review produces information that suggests that DC cost estimates were significantly under or over estimated, the City should consider the trade-offs between the costs of conducting the DC rate study, and the potential for intergenerational inequities in the DC rate.

Action Plan Lead

Director of Development Finance

Timing

December 31, 2011

Observations & Action Plans -#5 ***CAO's Department – Development Approvals***

Needs Improvement 

Observation

UWRF – Improved Use of Developer Tender Process

The tender process for UWRF claimable items could be used more effectively.

Business Impact

A potential financial risk exists if the tender process is not effectively utilized by developers. Developers may incur additional costs and make claims above expectations, thereby leading to a growing notional deficit in the UWRF.

Action Plan

It is recommended that the City create and ensure the implementation of a bid summary by developers, for assessment on a line by line basis, as well as the proportion of claimable versus non-claimable works.

The City should ensure developers' consulting engineers provide a projected claims summary.

The City should ensure developers delay awarding work prior to the City's written notice of satisfaction with both the bid summary and the claims summary.

Action Plan Lead

Director of Development Finance

Timing

December 31, 2011

Observations & Action Plans -#6 ***CAO's Department – Development Approvals***

Needs Improvement 

Observation

UWRF – Developer Claims Cost Overruns

Cost overruns are incurred by developers due to unforeseen circumstances, which are claimed against the UWRF in excess of the cost assumptions included in the DC rate study.

Business Impact

Unexpected cost overruns cause an imbalance between the cost assumptions included in the DC rate study and those being claimed, thereby leading to a growing notional deficit in the UWRF.

There is also a lack of purchasing control in advance of incurring costs that are expected to be claimed from the UWRF.

Action Plan

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.

Action Plan Lead

Director of Development Finance

Timing

December 31, 2011

Observations & Action Plans -#7 ***CAO's Department – Development Approvals***

Needs Improvement 

Observation

UWRF – Inconsistency of Claim Submissions

Claim submissions provided by developers are not documented in a consistent manner.

Business Impact

Inconsistency in claim submissions can result in inefficiencies within the DABU as staff must perform follow-up procedures to clarify incomplete submissions.

Action Plan

It is recommended that the City create and ensure developers use a claim submission template.

City engineers should utilize a checklist when reviewing claim submissions to ensure sufficient detailed information is provided to the City.

If sufficient information is not provided, claims should be placed in a “Pending – Outstanding Information” waiting list until sufficient information is provided.

Action Plan Lead

Director of Development Finance

Timing

December 31, 2011

Observations & Action Plans -#8 ***CAO's Department – Development Approvals***

Satisfactory



Observation

UWRF – Lack of Claim Audit Process

A formal audit process does not exist to periodically review claims submitted by developers.

Business Impact

A potential financial risk exists that ineligible claims may be approved due to a lack of information, thereby contributing to a growing notional deficit in the UWRF.

Action Plan

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.

Action Plan Lead

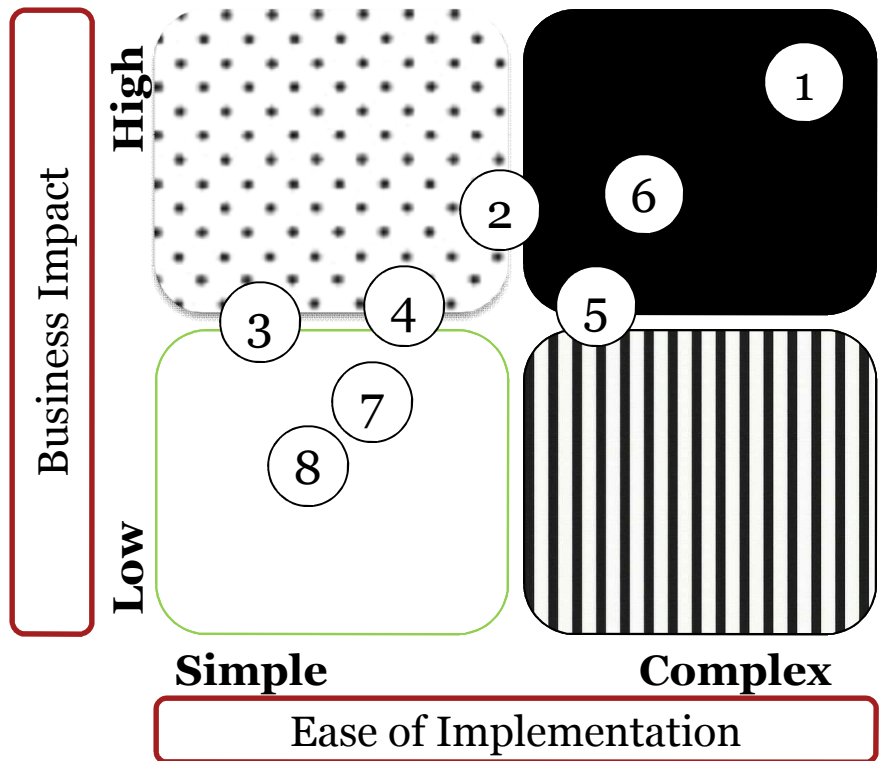
Director of Development Finance





Timing

December 31, 2011

Action Plan Summary

CAO's Department – Development Approvals



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

Observation	Action Plan Lead
#1: Alternative Funding Model	CAO
#2: Lack of Succession Planning	CAO & CFO
#3: Autonomy of Director of Development Finance	CAO & CFO
#4: Development Charge Monitoring	DDF
#5: Improved Use of Developer Tender Process	DDF
#6: Developer Claims Cost Overruns	DDF
#7: Inconsistency of Claim Submissions	DDF
#8: Lack of Claim Audit Process	DDF

Timing

December 31, 2011/June 30, 2012

DDF – Director of Development Finance
 CAO – Chief Administrative Officer
 CFO – City Treasurer & Chief Financial Officer

Water & Sewage Revenue

Environmental & Engineering Services Department

Summary of Risks & Scope

EESD – Water & Sewage Revenue

Scope

- Installation of New Meters
- Monitoring of Meter Reading
- Monitoring of Billing
- Monitoring of Collections
- Monitoring of Non-Revenue Water (NRW)
- Management of London Hydro (LH) Agreement
- Transfer of Revenue
- Meter Repairs and Replacements

Risks

- New water meter installations not occurring in a timely manner
- Insufficient monitoring of meter reading, billing and collection procedures performed by LH
- Insufficient monitoring of NRW
- Non-compliance or insufficient monitoring of London Hydro Service Level Agreement (SLA)
- Insufficient monitoring and analysis of water revenue transferred from LH
- Water meter repairs and replacements not occurring in a timely manner

Controls Operating Effectively

- Timely installation of new water meters
- Management and monitoring of NRW
- Compliance with and sufficient review of LH SLA
- Timely response and complete documentation of water meter repairs and replacements

Summary of Risks & Scope, Continued

EESD – Water & Sewage Revenue

Value-for-Money Considerations

Quantification of Controls Operating Effectively:

- Sufficient NRW monitoring processes are in place as the City of London operated with an estimated NRW rate of 9% in 2009, which is 10% lower than the average of the surrounding municipalities. This 10% results in considerable cost savings for the City relative to others.
- The City of London's 'Water Meter Replacement Program' has reduced NRW by an estimated \$110,000 from 2009 to 2010.

Quantification of Opportunities for Improvement:

- The recommendations to reduce NRW from customers with dedicated fire protection systems and from new building construction is estimated to recover a portion of NRW on an annual basis.
- If through these recommendations, the City was able to bill an additional 1% of water purchased (i.e. NRW was reduced from 10.2% to 9.2%), approximately \$1,200,000 of additional revenue would be recovered each year.
- The recommendation to recover late payment fees currently collected by LH is estimated to recover \$300,000 of revenue per year, if implemented.

Observations & Action Plans -#1

EESD – Water & Sewage Revenue

**Needs
Improvement**



Observation

Recovery of Fire Protection System Water

An opportunity to recover water supplied to ICI customers (institutional, commercial and industrial customers, including high-density residential) with dedicated fire protection systems exists. These water lines are not metered and therefore remain unbilled.

Business Impact

Dedicated fire protection system lines are utilized by customers for the purpose of monthly testing procedures, which represent a significant volume of unbilled consumption.

Action Plan

It is recommended that the City consider and investigate opportunities for capturing lost revenues on fire protection system water used by ICI customers. This could be accomplished through charging a flat or other fee based on square footage.

Action Plan Lead

Director of Water and City Engineer

Timing

December 31, 2013

Observations & Action Plans -#2 ***EESD – Water & Sewage Revenue***

**Needs
Improvement**



Observation

Recovery of Building Construction Water

An opportunity to recover water supplied to builders and developers during the new home construction phase exists. These water lines are not metered and therefore remain unbilled until the point that the residential water account is set up.

Business Impact

City water is commonly utilized by builders and developers during the construction of new residential properties, which represents a significant volume of unbilled consumption.

Only nominal connection charges for construction water are billed to the residents as per the 'Water Rates & Charges By-Law.'

Action Plan

It is recommended that the City consider and investigate the opportunity to capture lost revenues relating to building construction water consumed.

This could be accomplished by installing meter pits at individual homes being built and billing the home builders. Alternatively, subdivisions could be metered with developers billed using deduct metering or a flat or other fee could be charged to builders to estimate water consumption during the construction phase.

Action Plan Lead

Director of Water and City Engineer

Timing

December 31, 2013

Observations & Action Plans -#3

EESD – Water & Sewage Revenue

Needs Improvement 

Observation

Timeliness of New Water Meter Installations

A risk exists that the City is not notified in a timely manner regarding the necessity to install a new water meter, leading to a delay in the commencement of billings.

Business Impact

A potential financial risk exists if a time lag is present from the point that residential water lines are accessible to the installation of a new water meter. A time lag could result in missed water billings by the City.

This item becomes more significant in the case that efforts are not made to bill for construction water directly (as discussed in the previous finding).

Action Plan

It is recommended that the City obtain, on a quarterly basis, a listing of 'pending' water revenue accounts from LH. Investigation should be performed to ensure that new water meters are installed where applicable and billing is started.

The 'New water account verification report' currently included in the LH SLA should be received regularly and used to reconcile to account information provided to LH.

Action Plan Lead

Director of Water and City Engineer

Timing

December 31, 2011

Observations & Action Plans -#4

EESD – Water & Sewage Revenue

Satisfactory



Observation

Monitoring of London Hydro Processes

An opportunity exists to improve the monitoring controls performed by the City over LH meter reading, billing and collection processes.

Business Impact

A risk exists that the City is not aware of issues or inefficiencies in the performance of meter reading, billing or collection procedures performed by LH.

Action Plan

It is recommended that the LH SLA be amended to require additional information to be provided to the City on a regular basis, resulting in improved oversight of meter reading, billings and collections processes. These additional pieces of information could include:

Meter Reading: the proportion of total meter reads validated by estimate

Billing : Aging report of unbilled accounts

Collections : Listing of write-offs, including reason for write-off and corresponding account number

Action Plan Lead

Director of Water and City Engineer

Timing

December 31, 2011

Observations & Action Plans -#5

EESD – Water & Sewage Revenue

Satisfactory



Observation

London Hydro Service Level Agreement Terms

An opportunity exists to improve the terms of the SLA as there are activities performed and information received that are currently not reflected in this agreement.

Business Impact

A potential operational risk exists in the case that there are staffing changes at LH that impact the working relationship between the two parties. Monitoring and oversight controls could be impacted if the SLA does not accurately reflect the current working relationship.

Action Plan

It is recommended that the following be considered in the upcoming review of the SLA:

- The City should try to ensure that LH is responsible for communicating to the City any events that could potentially delay meter reading, billing, collections procedures performed on behalf of the City.
- It should be clarified which operational reports must be available on a real-time basis versus on demand from LH.
- The City should negotiate that LH assign one IT coordinator that will prioritize City of London reporting requests.

Action Plan Lead

Director of Water and City Engineer

Timing

December 31, 2011

Observations & Action Plans -#6 ***EESD – Water & Sewage Revenue***

Satisfactory



Observation

Oversight of London Hydro's Billing System (SAP)

The City of London currently does not perform procedures to confirm the operating effectiveness of London Hydro's SAP system.

Business Impact

A risk exist that if system errors occur within LH's meter reading, billing or collections systems, inaccuracies could result in the revenue transferred to the City of London.

Action Plan

It is recommended that the City perform tests of controls over the SAP system on an annual basis. For example, for a new account, the City could confirm that the meter reading is accurately reflected in the billing module and collections module and that this revenue billed is included in the weekly transfer amount remitted to the City of London.

Action Plan Lead

Director of Water and City Engineer

Timing

December 31, 2011

Observations & Action Plans -#7

EESD – Water & Sewage Revenue

Satisfactory



Observation

Reasonableness Check on Revenue Transferred from London Hydro

An opportunity exists to perform additional analysis over the reasonability of revenue received from LH.

Business Impact

A potential operational risk exists in the case that there are staffing changes at LH that impact the working relationship between the two parties. Monitoring and oversight controls could be impacted if the SLA does not accurately reflect the current working relationship.

Action Plan

It is recommended that the City request LH to provide the following additional information as a part of the weekly revenue reporting process and that this is built into the next SLA:

- Breakout of revenue transferred by customer type
- Breakout of number of meter reads included in revenue transferred by customer type
- Calculation of revenue per meter read by category

Action Plan Lead

Director of Water and City Engineer

Timing

December 31, 2011

Observations & Action Plans -#8 ***EESD – Water & Sewage Revenue***

Satisfactory



Observation

Administration of Late Payment Fees

An opportunity exists to recover additional revenue in the form of late payment fees currently collected by LH. LH remits payment of water revenue to the City based upon billings, however late payment fees received subsequently are retained by LH.

Business Impact

A financial risk exists that the City is not collecting all possible revenue sources from LH.

In fiscal 2010, late payment fees totaled approximately \$300,000.

Action Plan

It is recommended that the City incorporate the receipt of late payment fees collected by LH into upcoming SLA negotiations.

Action Plan Lead

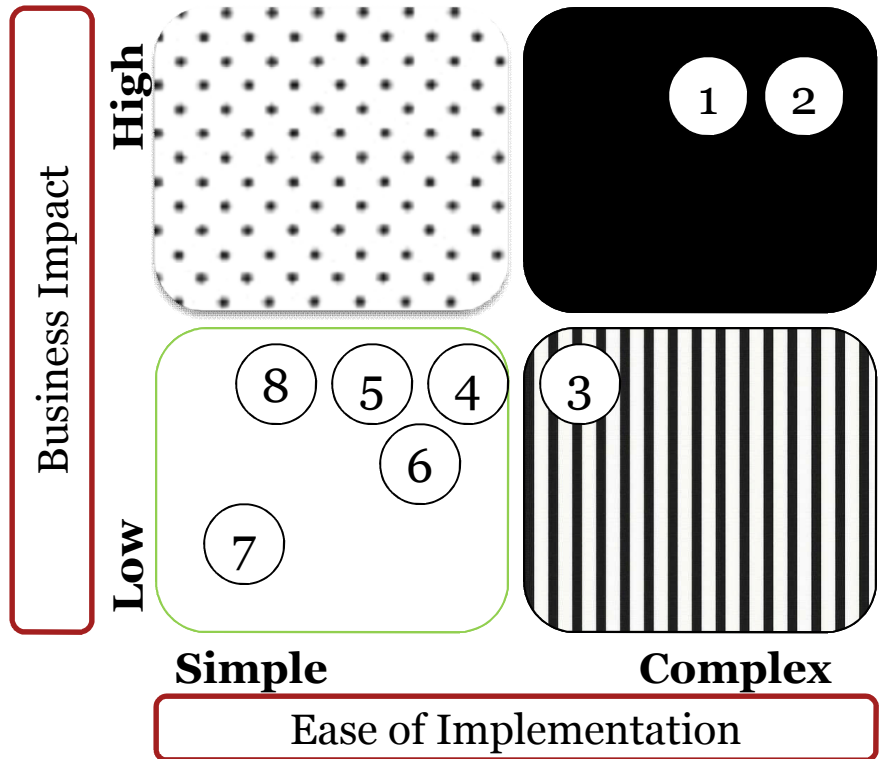
Director of Water and City Engineer





Timing

December 31, 2011

Action Plan Summary

EESD – Water & Sewage Revenue



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

Observations

- #1: Recovery of Fire Protection System Water
- #2: Recovery of Building Construction Water
- #3: Timeliness of New Water Meter Installations
- #4: Monitoring of LH Meter Reading, Billing and Collections Procedures
- #5: Amendment of LH SLA Terms
- #6: Oversight of LH’s Billing System (SAP)
- #7: Reasonableness Check on Revenue Transferred
- #8: Administration of Late Payment Fees

Action Plan Lead



Director of Water & City Engineer

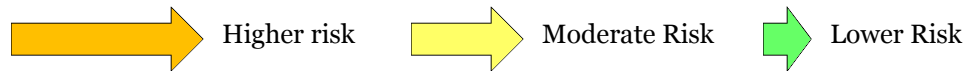
Timing

December 31, 2011/December 31, 2013





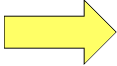
LH – London Hydro
SLA – Service Level Agreement


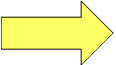

Internal Audit Projects in Progress

Department	Project	Stage
Finance	Bid Process & Approved Consultants	Completion 
CAO's Department	IT Governance Assessment	Completion 



Internal Audit Schedule Going Forward

Department	Project	Timing		
		Oct	Nov	Dec
Community Services	Municipal Housing			
Environmental & Engineering Services	Fleet Asset Management			
CAO's Department	Attendance Management			

 Higher risk
  Moderate Risk
  Lower Risk

Internal Audit Scorecard – August 2011

		Key Measures	Target	J	F	Mr	A	My	Jn	Jy	A
CORPORATE STRATEGY	Audit Committee	Approval of annual risk-based audit plan	Y	N	N	Y	Y	Y	Y	Y	Y
		Number of reports presented to the Audit Committee	4	0	0	1	1	1	1	2	2
		Timely reporting of recommendations	Y	NA	NA	NA	NA	Y	Y	Y	Y
		Estimated quantification of annual future cost savings		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$300k
	Management/ Auditees	Number of closing meetings held with management	8	0	0	0	0	2	2	3	3
		Number of concise, value-added recommendations		0	0	0	0	4	4	12	27
INTERNAL AUDIT STRATEGY	Innovation/ Capabilities	Number of best practices identified by internal audit		0	0	0	0	4	4	12	27
		Use of internal audit resources and processes	Y	Y	Y	Y	Y	Y	Y	Y	Y
	Internal Audit Processes	Percentage of projects completed	60%	0%	0%	0%	6%	24%	34%	47%	60%
		Completion of annual risk assessment and updates to audit plan	Y	N	N	Y	Y	Y	Y	Y	Y
		Number of past-due action plans	0	0	0	0	0	0	0	0	1

Appendix - Summary of Past Due Action Plans

Project	Item	Action Plan	Target Date	Status
Long-term Care Compliance	<i>Business Office Resident Admissions Checklist:</i> An admissions checklist is not utilized to ensure completeness of business office related admissions documentation.	A business office admissions checklist will be developed. The Power-of-Attorney admission form will be amended to incorporate a statement of guarantee for outstanding bills. This admissions checklist will be used consistently, maintained at the front of the resident's business office file and reviewed for completeness by the business office staff.	June 30, 2011	The checklist has been approved and implemented. Management is in process of working with legal to update the POA form regarding guarantee of outstanding bills.

Appendix C - Summary of Findings

Auditable Areas: CAO’s Department – Development Approvals

Rating Scale:

<i>Satisfactory</i>	Controls are present to mitigate process/business risk and are operating effectively and efficiently.
<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.

CAO’s Department – Development Approvals

Urban Works Reserve Fund (UWRF) – Alternative Funding Model

Rating: Unsatisfactory

Situation: The liquidation of the claims in the UWRF is significantly backlogged. This situation was partially addressed through a narrowing of the scope of UWRF claims in the 2009 Development Charge (DC) Rate Study. However, the deficits of prior years linger.

Business Impact: This notional deficit is, and will continue to cause developers to wait a significant length of time to receive payment from a claim, which could also lead to a potential risk of litigation for the City. Furthermore, a potential risk exists that the notional deficit in the UWRF will have adverse impacts on the City’s City Services Reserve Fund (CSRF) and property tax capital projects.

Recommendation: 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:

- (a) A Conceptual Framework outlining action items and impacts should be developed for Council approval; and
- (b) A new proposed working plan should be developed in conjunction with the 2014 DC rate study.

Most control recommendations that follow below (under the current UWRF funding model) will still be appropriate under an alternative model.

Action Plan Lead: Chief Administrative Officer
Expected Target Date: (a) December 31, 2011 (b) June 30, 2012
Status: Open

UWRF – Lack of Succession Planning

Rating: Needs Improvement

Situation: There is a significant amount of expert knowledge held with the current members of the Development Approvals Business Unit (DABU) management team.

The current staffing compliment is insufficient to handle the necessary oversight of the department.

Business Impact: This poses a potential operational risk to DABU and the City if one of the members of DABU’s management team were to cease employment with the City.

Recommendation: 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.

Action Plan Lead: Chief Administrative Officer Chief Financial Officer & City Treasurer
Expected Target Date: December 31, 2011
Status: Open

Autonomy of Director of Development Finance

Rating: Needs Improvement

Situation: Currently, the Director of Development Finance reports to the Managing Director of Development Approvals Business Unit. This reporting relationship should be reconsidered.

Business Impact: The primary purpose of the DABU unit is to facilitate development approvals. This purpose at times conflicts with the goal of protecting the financial health of the City and its finances related to development approvals. The reporting relationship may lead to recommendations for approvals of development or developer claims at the expense or suppression of important financial considerations or internal controls related to development finances.

The use of DC funds under the DC Act is also necessarily certified annually by the City Treasurer, but depends in part on the knowledge of the Director of Development Finance as to the use of the DC funds.

Recommendation: 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 will need to consult frequently (for example, on matters related to growth management).

The reporting relationship of the Director of Development Finance position should be reviewed. For example, it may be appropriate for the position to report to the City Treasurer. A reporting relationship that preserves the freedom to express financial advice on development finance matters without direct influence of the management responsible for facilitating approvals would be desirable.

Responsibility:
Chief Administrative Officer Chief Financial Officer & City Treasurer
Expected Target Date:
December 31, 2011
Status:
Open

Development Charge Monitoring

Rating: Satisfactory

Situation: Although DC rates are continuously monitored, they are not updated on an annual basis, only every five years when a full DC Rate Study is developed. Wide variations between cost estimates used to calculate DC rates and actual cost experience is evidence that DC rates may be slightly inaccurate.

Business Impact: No significant change in the DC rate calculation would occur if rates were calculated on accurate claim estimates. However, where the variations in the cost are one sided, a potential financial risk exists if DC rates are not updated in a timely manner.

Insufficient DC rates collected may contribute to a growing notional deficit in the UWRF and may contribute to intergenerational inequity in DC rates collected.

Recommendation: It is recommended that the City continue to perform a continuous analysis of DC rates through the Development Charge Monitoring report of DCs based on 'estimates' and 'actuals' to determine the accuracy of the DC rates within the bounds of the governing legislation.

Where the review produces information that suggests that DC cost estimates were significantly under or over estimated, the City should consider the trade-offs between the costs of conducting the DC rate study, and the potential for intergenerational inequities in the DC rate.

Action Plan Lead:
Director of Development Finance
Expected Target Date:
December 31, 2011
Status:
Open

UWRF – Improved Use of Developer Tender Process

Rating: Needs Improvement

Situation: The tender process for UWRF claimable items could be used more effectively.

Business Impact: A potential financial risk exists if the tender process is not effectively utilized by developers. Developers may incur additional costs and make claims above expectations, thereby leading to a growing notional deficit in the UWRF.

Recommendation: It is recommended that where a developer is required under agreement to complete the construction of claimable infrastructure, upon receipt of the competitive tenders/quotes, the developer's consulting engineer should complete both a bid analysis, which compares the line-by-line costs for the works for each tender/quote received by: (i) works that are the financial responsibility of the developer; (ii) works that will be claimed from the UWRF; and (iii) works that will be claimed from some other capital budget source. The City should review the bid analysis with a view to confirming the unit costs in the bid are reasonable and the bid is balanced between claimable and non-claimable works. Where an unbalanced bid is identified, further discussions will be necessary prior to proceeding with any of the tenders. If the claimable amounts vary unreasonably from one tender to another, the City may insist on a limit of the claimable amount equivalent to the lowest tendered/quoted amount.

The developer's consulting engineer should also provide a projected total claim summary, which summarizes the entire projected claim (UWRF or other capital works budget claimable item), through completion of the project with all costs included, based on the favoured tender/quote. This information should be used in future DC rate setting exercises to ensure the most recent claim estimate is used to set DC rates.

The City should confirm in writing to the developer's consulting engineer whether it is satisfied with the bid analysis and projected claim summary and the tender for the works should not be awarded without the City's written confirmation.

Action Plan Lead:
Director of Development Finance
Expected Target Date:
December 31, 2011
Status:
Open

UWRF – Developer Claims Cost Overruns

Rating: Needs Improvement

Situation: Cost overruns are incurred by developers due to unforeseen circumstances, which are claimed against the UWRF in excess of the cost assumptions included in the DC rate study.

Business Impact: Unexpected cost overruns can cause an imbalance between the cost assumptions included in the DC rate study and those being claimed, thereby leading to a growing notional deficit in the UWRF. There is also a lack of purchasing control in advance of incurring costs that are expected to be claimed from the UWRF.

Recommendation: It is recommended that any subsequent “extra” costs or cost overruns to the contract that will affect the projected total claim previously provided to DABU should be described in writing and submitted to the Technologist in DABU Finance responsible for claims review, prior to incurring these “extra” costs (emergency circumstances excepted). The submissions by the developer’s consulting engineer should explain the following: (i) reason for “extra” costs; (ii) allocation of “extra” costs between claimable items and non-claimable items; (iii) revised projected total claim summary as a result of the “extra” costs; and (iv) any other information the City deems desirable to substantiate the escalation in costs.

Upon review of the above, the City will document its approval of the “extra” costs and acceptance of the revised projected total claim summary. The City will not unreasonably, or without justification, withhold approval of the moderate escalation of the cost, but only when the escalation is reasonable, documented and approved at the time it is incurred (i.e. approval will not be provided where the “extra” costs were incurred, but not approved at the time of its completion).

Action Plan Lead: Director of Development Finance
Expected Target Date: December 31, 2011
Status: Open

UWRF – Inconsistency of Claim Submissions

Rating: Needs Improvement

Situation: Claim submissions provided by developers are not documented in a consistent manner.

Business Impact: Inconsistency in claim submissions can result in inefficiencies within the DABU as staff must perform follow-up procedures to clarify incomplete submissions.

Recommendation: It is recommended that the City create and ensure developers use a claim submission template.

City engineers should utilize a checklist when reviewing claim submissions to ensure sufficient detailed information is provided to the City.

If sufficient information is not provided, claims should be placed in a “Pending – Outstanding Information” waiting list until sufficient information is provided.

Action Plan Lead: Director of Development Finance
Expected Target Date: December 31, 2011
Status: Open

UWRF – Lack of Claims Audit Process

Rating: Satisfactory

Situation: A formal audit process does not exist to periodically review claims submitted by developers.

Business Impact: A potential financial risk exists that ineligible claims may be approved due to a lack of information, thereby contributing to a growing notional deficit in the UWRF.

Recommendation: 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.

Action Plan Lead: Director of Development Finance
Expected Target Date: December 31, 2011
Status: Open

CAO's Department – Development Approvals
Controls Operating Effectively

Maintain current practices in the following areas:			
Potential Risk	Control Intended to Mitigate Risk	Test	Conclusion
Insufficient analysis of applications may result in inappropriate agreements entered into, thereby resulting in financial impact to the City.	A robust amount of communication is performed between City departments prior to the initial approval of the development project.	Select a sample of approved agreements and test to determine the robustness of documentation and analysis.	Other departments of the City and other organizations appear to be appropriately contacted in the agreement process.
Final agreements may not incorporate appropriate clauses regarding financial obligations and claimable works.	Sufficient involvement of City departments, including both Legal and Finance, is required for the completion of a final agreement.	Select a sample of approved agreements and compare the agreements amongst one another for consistency of content, noting key areas. Also, test for consistency of the agreement with the initial application.	Final agreements incorporate appropriate clauses regarding financial obligations and claimable works.
Approval may not occur in line with City policies. Final Legal and Finance review may not occur to ensure accuracy of agreements.	A circulation sheet is completed to ensure that all appropriate City departments have reviewed the agreement and have provided any comments. Site plans are approved by the Manager of Development Planning and the Chief Building Officer. Subdivision agreements are approved by the Mayor and City Clerk.	Select a sample of approved agreements and test to determine that there is evidence of approval (i.e. sign-offs, Legal, Finance, etc.), including final approval.	Approval appears to occur in-line with City policies, and final Legal and Finance review occurs to ensure accuracy of agreements.
Other departments of the City and other organizations may not be contacted (ex. Environmental Department, Conservation Authority, etc.). This could result in violation of regulations.	A consistent process is utilized to ensure that other City departments and other organizations are communicated with, as required.	Inquire to determine what steps are taken to determine which parties are required to be contacted in a given project situation.	Other departments of the City and other organizations appear to be appropriately contacted in the agreement process.

<p>An unreasonable amount of time may elapse from the time the initial application is submitted to the time the agreement is finalized.</p>	<p>A communication process is in place to ensure timely communication occurs between City departments to help expedite the review process as much as possible. A significant amount of time investment is required to convert a project from an initial application to a final agreement. Additionally, this time investment can vary from project to project depending upon the size and complexity of the project. The time investment required does not directly relate to the cost of the project.</p>	<p>Select a sample of approved agreements and test to determine the time expired from the date the application was submitted to the date of final approval. Confirm whether the amount of time appears reasonable based upon the details of the project.</p>	<p>A reasonable amount of time appears to elapse from the time the initial application is submitted to the time the agreement is finalized.</p>
<p>Sufficient communication may not occur among Senior Technologist and developers.</p>	<p>The Senior Technologist assesses claims for reasonableness and, when questions arise, communication is made with the developers. Obtaining reasonable and supportable explanations for cost overruns continues to be a concern and a difficulty.</p>	<p>Inquire to determine what level of communication occurs between the Senior Technologist and developers during the development claims process when information is required.</p>	<p>Sufficient communication appears to occur among Senior Technologist and developers.</p>
<p>Sufficient communication may not occur among Senior Technologist and Director of the Development Finance.</p>	<p>Communication between the Senior Technologist and Director occurs once the Senior Technologist has completed the review of the claim and amounts have been supported. The Senior Technologist is seeking final approval from the Director. There is less communication during the initial review process.</p>	<p>Inquire to determine what level of communication occurs between the Senior Technologist and Director of the Development Finance during the development claims process.</p>	<p>Sufficient communication appears to occur among Senior Technologist and Director of the Development Finance.</p>
<p>Appropriate approvals may not be obtained prior to the payment of claims, causing ineligible claims to be paid.</p>	<p>All claims are required to be approved by the Director of the Development Finance.</p>	<p>Select a sample of claims approved/paid in the year and review claims for appropriate approval.</p>	<p>Appropriate approvals are obtained prior to the payment of claims, allowing only eligible claims to be paid.</p>

<p>Development claims may be processed through the incorrect fund, thereby limiting the available cash of that fund.</p>	<p>Through the approval process, it is ensured that claims are removed from the correct fund, depending upon the category of project.</p>	<p>Select a sample of claims approved/paid in the year and review paid claims to determine if claims are being paid out of the correct fund (i.e. in line with the DC Funding Policy) and that fund maximums have not been exceeded.</p>	<p>Development claims are processed through the correct fund.</p>
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Appendix D - Summary of Findings

Auditable Areas: Environmental & Engineering Services Department – Water & Sewage Revenue

Rating Scale:

<i>Satisfactory</i>	Controls are present to mitigate process/business risk and are operating effectively and efficiently.
<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.

Environmental & Engineering Services Department – Water & Sewage Revenue

Non-Revenue Water (NRW) – Recovery of Fire Protection System Water

Rating: Needs Improvement

Situation: An opportunity to recover water supplied to ICI customers (institutional, commercial and industrial customers, including high-density residential) with dedicated fire protection systems exists. These water lines are not metered and therefore remain unbilled. Dedicated fire protection system lines are utilized by customers for the purpose of monthly testing procedures, which represent a significant volume of unbilled consumption.

Business Impact: Dedicated fire protection system lines are utilized by customers for the purpose of monthly testing procedures, which represent a significant volume of unbilled consumption.

Recommendation: It is recommended that the City consider and investigate opportunities for capturing lost revenues on fire protection system water used by ICI customers. This could be accomplished through charging a flat or other fee based on square footage.

Action Plan Lead: Director of Water and City Engineer
Expected Target Date: December 31, 2013
Status: Open

Non-Revenue Water (NRW) – Recovery of Building Construction Water

Rating: Needs Improvement

Situation: An opportunity to recover water supplied to builders and developers during the new home construction phase exists. These water lines are not metered and therefore remain unbilled until the point that the residential water account is set up. Development charges enforced on these parties do not recover the cost of water consumption.

Business Impact: City water is commonly utilized by builders and developers during the construction of new residential properties, which represents a significant volume of unbilled consumption.

Only nominal connection charges for construction water are billed to the residents as per the ‘Water Rates & Charges By-Law.’

Recommendation: It is recommended that the City consider and investigate the opportunity to capture lost revenues relating to building construction water consumed prior to the transfer of account ownership to residents.

This could be accomplished by installing meter pits at each individual home being built and billing the home builders. Additional options to recover this revenue exist including metering subdivisions and billing the developers using deduct metering or charging a flat or other fee to builders to estimate water consumption during the construction phase.

Action Plan Lead: Director of Water and City Engineer
Expected Target Date: December 31, 2013
Status: Open

New Water Meters – Timeliness of New Water Meter Installations

Rating: Needs Improvement

Situation: A risk exists that the City is not notified in a timely manner regarding the necessity to install a new water meter, leading to a delay in the commencement of billings.

Business Impact: A potential financial risk exists if a time lag is present from the point that residential water lines are accessible to the installation of a new water meter. A time lag could result in missed water billings by the City.

This item becomes more significant in the case that efforts are not made to bill for construction water directly (as discussed in the previous finding).

Recommendation: It is recommended that the City obtain, on a quarterly basis, a listing of 'pending' water revenue accounts from London Hydro (LH). Investigation should be performed to ensure that new water meters are installed where applicable and billing is started.

The 'New water account verification report' currently included in the LH Service Level Agreement (SLA) be received regularly and used to reconcile to account information provided to LH.

Action Plan Lead: Director of Water and City Engineer
Expected Target Date: December 31, 2011
Status: Open

Meter Reading, Billings, Collections – Monitoring of London Hydro Processes

Rating: Satisfactory

Situation: An opportunity exists to improve the monitoring controls performed by the City over LH meter reading, billing and collection processes. Performance of these processes is the responsibility of LH per terms of the SLA; however, it is in the best interest of the City to perform additional monitoring control activities.

Business Impact: A risk exists that the City is not aware of issues or inefficiencies in the performance of meter reading, billing or collection procedures performed by LH.

Recommendation: It is recommended that the LH SLA be amended to require additional information to be provided to the City on a regular basis, resulting in improved oversight of meter reading, billings and collections processes. These additional pieces of information could include:

Meter Reading

- The proportion of total meter reads validated by estimate
- The proportion of total meter reads validated by customer call-ins
- Meters not read in the past 90 days
- Found meters (not previously on a meter reading route)
- The meter reads for the top billing customers
- Monthly meter reading exceptions (non-registered reads)
- The number of meter reads not meeting threshold
- The number of meter reads exceeding threshold

Billing

- Aging report of unbilled accounts
- Number of accounts with forced billings
- Number of suspended accounts
- Billing exception reports

Collections

- Aging of accounts receivable
- Detailed allowance listing
- Listing of write-offs, including reason for write-off and corresponding account number

Action Plan Lead:
Director of Water and City Engineer
Expected Target Date:
December 31, 2011
Status:
Open

Management of Agreement with London Hydro – Service Level Agreement Terms

Rating: Satisfactory

Situation: An opportunity exists to improve the terms of the SLA as there may be activities performed and information received that are currently not reflected in this agreement.

Business Impact: A potential operational risk exists in the case that there are staffing changes at LH that impact the working relationship between the two parties. Monitoring and oversight controls could be impacted if the SLA does not accurately reflect the current working relationship.

Recommendation: It is recommended that the following be considered in the upcoming review of the SLA:

Appendix A1 – London Hydro Services Provided

The City should try to ensure that LH is responsible for communicating to the City any events that could potentially delay meter reading, billing, collections procedures performed on behalf of the City.

Appendix C – London Hydro Reporting to the City of London

It should be clarified which operational reports must be available on a real-time basis versus on demand from LH.

Appendix D - Contacts

The City should negotiate that LH assign one IT coordinator that will prioritize City of London reporting requests.

Action Plan Lead: Director of Water and City Engineer
Expected Target Date: December 31, 2011
Status: Open

Management of Agreement with London Hydro – Oversight of London Hydro’s Billing System (SAP)

Rating: Satisfactory

Situation: The City of London currently does not perform procedures to confirm the operating effectiveness of LH’s SAP system.

Business Impact: A risk exist that if system errors occur within LH’s meter reading, billing or collections systems, inaccuracies could result in the revenue transferred to the City of London.

Recommendation: It is recommended that the City perform tests of controls over LH’s SAP system on an annual basis.

For example, for a new account, the City could confirm that the meter reading is accurately reflected in the billing module and collections module and that this revenue billed is included in the weekly transfer amount remitted to the City of London.

Action Plan Lead: Director of Water and City Engineer
Expected Target Date: December 31, 2011
Status: Open

Transfer of Revenue to the City of London – Reasonableness Check on Revenue Transferred

Rating: Satisfactory

Situation: An opportunity exists to perform additional analysis over the reasonability of revenue received from LH.

Business Impact: A potential operational risk exists in the case that there are staffing changes at LH that impact the working relationship between the two parties. Monitoring and oversight controls could be impacted if the SLA does not accurately reflect the current working relationship.

Recommendation: It is recommended that the City request LH to provide the following additional information as a part of the weekly revenue reporting process and that this is built into the next SLA:

- Breakout of revenue transferred by customer type
- Breakout of number of meter reads included in revenue transferred by customer type
- Calculation of revenue per meter read by category

Action Plan Lead: Director of Water and City Engineer
Expected Target Date: December 31, 2011
Status: Open

Transfer of Revenue to the City of London – Administration of Late Payment Fees

Rating: Satisfactory

Situation: An opportunity exists to recover additional revenue in the form of late payment fees currently collected by LH. LH remits payment of water revenue to the City based upon billings, however late payment fees received subsequently are retained by LH.

Business Impact: A financial risk exists that the City is not collecting all possible revenue sources from LH.

In fiscal 2010, late payment fees totaled approximately \$300,000.

Recommendation: It is recommended that the City incorporate the receipt of late payment fees collected by LH into upcoming SLA negotiations.

Action Plan Lead: Director of Water and City Engineer
Expected Target Date: December 31, 2011
Status: Open

Environmental & Engineering Services Department – Water & Sewage Revenue
Controls Operating Effectively

Maintain current practices in the following areas:			
Potential Risk	Control Intended to Mitigate Risk	Test	Conclusion
Water meter readings may be impacted by difficulties in obtaining readings, risk of meters being tampered with.	Management is in process of implementing a drive-by meter reading system which would allow all water meters to be read without having to enter each individual home. This would reduce the need to make estimates. These new meters would also have meter tampering detection controls.	Inquire with management regarding the status of the Water Meter Replacement Program.	Management has implemented sufficient processes to minimize water meter reading difficulties and meter tampering.
Water billings may be understated if sources of NRW are not detected and monitored.	The main causes of NRW include: - theft - fire department usage - fire protection system usage - construction (both building and road) - time delays in new accounts installations - leakage through malfunctioning equipment, meters or pipes Management, as well as LH has a number of controls in place to detect and track NRW. For example, any unusual activity such as theft or malfunctioning meters can be detected by the meter readers.	i) Inquire with management regarding the causes of NRW. ii) Inquire with management regarding the current controls in place to detect and monitor causes of NRW iii) Analyze the most recent NRW assessment for occurrence and adequacy. Utilize industry statistics and studies as applicable to benchmark the City's performance to other municipalities iv) Discuss with management opportunities to reduce NRW, which results in lost revenue.	City of London staff appropriately monitors and minimizes NRW. The City of London's NRW rate is well below the average of surrounding regions.
There may be instances of non-compliance with the SLA. Insufficient communication among City of London and LH staff may occur.	The Water Demand Manager of the City of London and LH's Supervisor of Meter Database Management Services act as the liaisons for the SLA and deal with day to day issues. They meet and discuss issues regularly. This regular communication would allow both	i) Inquire with both City and on LH management to confirm that regular communication occurs regarding day to day issues. ii) Review the SLA to ensure that roles are clearly defined. iii) Inquire with	Processes are in place to prevent and detect instances of non-compliance with the SLA between LH and the City of London. There is sufficient communication among City of London and LH staff members.

	individuals to detect and resolve any instances of non-compliance with the SLA.	management of both the City and LH whether any significant instances of non-compliance with the SLA have occurred. iv) Inquire with management how non-compliance with the SLA is prevented and detected.	
Amendments to the SLA may not occur as needed.	The SLA incorporates a clause which requires an annual review of the SLA by both parties.	i) Inquire with management regarding the frequency of reviews of the SLA to ensure that it remains up to date. ii) Inquire with management whether the SLA is complete with respect to current expectation of LH.	The SLA is reviewed within an appropriate timeline.
LH may transfer an incorrect revenue amount or volume data which would result in lost revenue.	LH forwards a 'City of London Revenue Transfer' report on a weekly basis. This report outlines the amount of the bank transfer, the date of the bank transfer and a breakdown of the revenue amount. This information is entered into a tracking spreadsheet maintained by the Manager of Administrative Services in the EESD department. The required journal entry is forwarded to the Finance Department.	Select a sample of weekly periods: i) Confirm that a City of London Revenue Transfer report is received from LH ii) Ensure that cash received agrees to the data provided by LH iii) Ensure that the cash received agrees to the journal entry recorded iv) Confirm that the LH Tracking Spreadsheet has been appropriately updated v) Confirm that all documentation is appropriately retained.	Revenue amounts transferred agreed to cash received without exception and the appropriate journal entry is recorded.
Sufficient analysis of revenue received may not be performed.	There are a number of financial reports detailed in the SLA between LH and the City. These reports are prepared in line with the agreed upon frequency rate and forwarded to City staff for their analysis. Management utilizes the weekly 'City of London Revenue Transfer' report to	i) For a sample of monthly and annual periods, ensure that the City receives and reviews LH reporting. ii) Inquire with management regarding the sufficiency of financial reporting received from LH and the financial analysis performed by City staff.	Management performs analysis of revenue transferred from London Hydro.

	compare with the monthly data received. This provides some comfort over the reasonableness of the weekly cash transfers received.	<p>iii) Confirm that the individuals reviewing these reports have sufficient knowledge and expertise to detect any irregularities.</p> <p>iv) Confirm that documents are received in a timely manner.</p> <p>v) Inquire with management regarding follow-up or investigation processes in the case that the review process detects an irregularity.</p>	
Sufficient analysis of operational metrics may not be performed.	There are a number of operational and engineering/consumption reports detailed in the SLA between LH and the City. These reports are documented as being available on demand, and not on a set schedule.	<p>i) Inquire with management regarding the frequency of operational and engineering/consumption reporting received from LH.</p> <p>ii) Inquire with management regarding the sufficiency of operational and engineering/consumption reporting received from LH and the operational analysis performed by City staff.</p> <p>Also see inquiry performed in item above.</p>	Management performs analysis of revenue transferred from London Hydro.
Sufficient analysis of revenue billed to customers (and received by the City) versus water consumed may not be performed, resulting in lost revenue and undetected water loss.	City staff has access to customer by customer data from LH.	<p>i) Inquire with management regarding reasonableness checks that are performed to obtain comfort over the completeness and accuracy of revenue transferred.</p> <p>ii) Investigate other analytical procedures which could be performed to obtain comfort over the reasonableness of revenue transferred.</p>	Management performs analysis of revenue transferred from London Hydro.
Water revenue may not be complete if meter repairs are not handled appropriately or in a timely manner.	<p>The City receives notification of water meter repairs through a documented process.</p> <p>Notification of a required repair could arise as a result</p>	<p>i) Select a sample of service orders created:</p> <ul style="list-style-type: none"> - Ensure the repair was handled by vouching to the service order - Confirm the repair was completed in a timely 	Meter repairs are handled appropriately and in a timely manner.

	<p>of an 'implausible' reading noted by LH staff. If a reading cannot be verified, a service order may be created to inspect the water meter.</p> <p>Notification may also come directly from the customer who notes a damaged water meter, burst meter etc.</p> <p>Service orders are closed once a resolution is found.</p>	<p>manner by comparing the service Basic Start date to the service order completion date</p> <ul style="list-style-type: none"> - Determine if a time lag exists between the request for repair and the date of completion <p>ii) Inquire with management regarding any NRW not recovered throughout the repairs process</p>	
<p>Water revenue may not be complete if proactive maintenance procedures are not performed.</p>	<p>Management is aware of the fact that water meters slowly lose accuracy over time after the point of installation. For this reason, the City is in process of replacing all water meters with more advanced meters.</p>	<p>Inquire with management regarding the Water Meter Replacement program and the process performed to ensure that the optimal number of meters is replaced each year.</p>	<p>The Water Meter Replacement program ensures that meters are changed over and thus ensuring that proactive maintenance procedures are in place to ensure that meters are operating effectively</p>