

The Corporation of the City of London Assumptions and Securities Review

Audit Performed: October 2020 – December 2020

Report Issued: January 28, 2021

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Executive summary

Background

Through a process of applications, inspections, and approvals, the City of London assumes responsibility for the maintenance, repair and liability of works and services installed as part of subdivisions and site plans.

This process includes financial securities, including holdbacks, which are provided prior to the execution of the subdivision agreement and are to be released by the City once the work is completed. Should the developer or owner fail to complete the agreed upon work and services or address identified maintenance deficiencies in a timely manner, the City may draw down from securities in order to complete works.

This process is currently managed by a set of professionals across Development Services, Development Finance as well as the City of London Finance team. Cross-functionally, they work to communicate and coordinate internally and externally to serve and support the growth the City of London community.

Objectives and scope

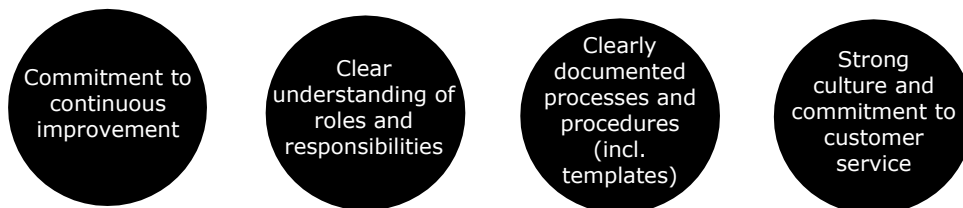
As part of the 2020 Internal Audit plan, Internal Audit conducted a review of the Assumptions and Securities Process. Specifically, this internal audit sought to assess the processes related to communications, release of securities and reducing securities. The audit scope focused on the effectiveness and efficiency of the governance and processes for assumptions and securities. This included evaluating the processes and tools for tracking and improving performance.

The scope of this audit did not include testing or evaluating the calculation of securities or testing the accuracy of reductions or releases. The scope was also limited to the internal stakeholders involved in the assumptions and securities process, and no developers, owners, or City representatives were engaged in the audit for information, documentation, or perspectives.

The detailed internal audit scope can be found in [Appendix 1: Internal audit detailed scope](#) of this report.

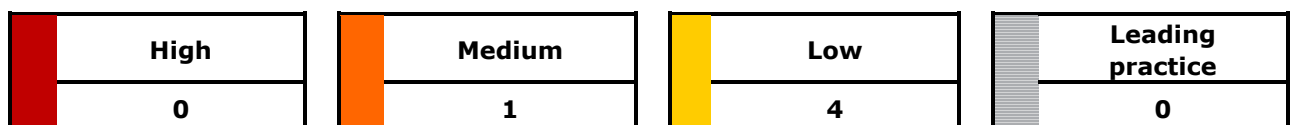
Strengths

In completion of this assessment, we identified the following areas of strength.



Areas for continued enhancement

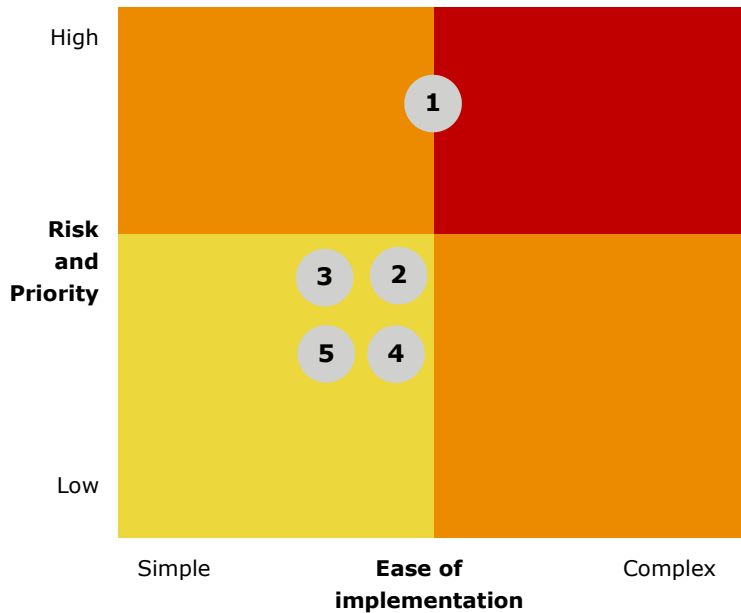
Based on our review of the reconciliation processes, we identified 1 medium risk observation and 4 low risk observations that management should consider going forward. Please refer to [Appendix 2: Internal Audit rating scale](#) for definitions of the four-point risk rating scale below.



Risk	Observation item	Observation description
Medium	ASR 1	Governance: While roles, reporting lines, and responsibilities are adequately understood by staff, the governance structure creates inefficiencies to complete tasks and communicate to developers or owners regarding status, next steps, and timelines.
Low	ASR 2	Key Performance Indicators: There are currently no KPIs in place to review and assess activities in the assumptions and securities process.
Low	ASR 3	Inspection Coordination: The current process for coordinating and completing site inspections is reactive and is not managed through a tracking tool.
Low	ASR 4	Timeliness: The timeline for releasing securities is not documented through a policy or procedure, and current processes are not designed for a two-week turnaround (internal target).
Low	ASR 5	Customer Service Communication: While the current processes in place for external communication and coordination are well understood, no formal process tracking or monitoring mechanism exists to enable timely and consistent communications to developers or owners regarding status, next steps, and timelines.

Risk and Priority heat map

Based on our review of the assumptions and securities process, the following image maps the areas of continued enhancement based on risk and anticipated ease of implementation.



Conclusion

Based on our review of the Reconciliation process, we have identified 5 weaknesses that should be addressed to improve process efficiency and effectiveness. The identified considerations and observations noted in this report should be addressed in a timely manner to enhance current controls and mitigate relevant risks.

Strengths

In the completion of this assessment, internal audit noted the following areas of strength based on our review and interviews with the stakeholders listed in [Appendix 3: Stakeholder involvement:](#)



Commitment to continuous improvement: Management and stakeholders demonstrate and communicate a clear commitment to improving operating processes, tools and systems to better serve members of the public.



Clear understanding of roles and responsibilities: Management and stakeholders demonstrate a clear understanding of their respective roles as well as the roles of their team members and parties with which they interact with daily.



Clearly documented processes and procedures (incl. templates): Management has ensured that up-to-date policies and procedures are documented that align with processes in practice. These policies and procedures are well socialized and understood by all required employees.



Strong culture and commitment to customer service: Stakeholders consistently expressed commitment to improving the process in order to better serve the community and provide excellent customer service.

Areas for continued enhancement

In completing the procedures noted in [Appendix 4: Audit procedures performed](#), internal audit identified the following areas for continued enhancement:

ASR1	
Medium Risk	1. Governance
Observation	<p>While roles, reporting lines, and responsibilities are adequately understood by staff, the governance structure creates inefficiencies to complete tasks and communicate to developers or owners regarding status, next steps, and timelines. This is evidenced by:</p> <ul style="list-style-type: none"> • The roles, reporting lines, and responsibilities are clearly outlined within the Security Policy. Process flow charts are included for the Subdivision Security Process and Development Security Process. The process flows and responsibilities align to those outlined by key stakeholders during the interviews. • Procedures for security development, calculation, issuance, and reduction are sufficiently documented within the Security Policy in accordance with the current processes in practice. • The role of Development Finance as well as Financial Planning & Policy (FP&P) in financial transactions requires communications with the Development Services team that creates inefficiencies within the process and, at time, duplicates efforts across both teams. Apart from facilitating the financial transaction, the current responsibilities of the financial professionals are understood to be of a nature that they could be absorbed by Development Services. • The administrative responsibilities are spread across various members of the Development Service team, and stakeholders expressed interest in focusing on their specific job responsibilities, skills, and contributions.
Why it matters	<p>Failure to improve efficiencies within the Securities creation and release process may further delay timelines and could lead to late or missed payments. In turn, this can result in increased time required to manage customer service communications, or reduce the satisfaction of vendors, developers, and owners.</p>
Recommendation	<p>Management should consider the following in order to enable efficiencies within the assumptions and securities process:</p> <ol style="list-style-type: none"> 1. Reconsider the role of Financial professionals within the Securities process and data tracking. It is recommended that this process be embedded within the Development Service team to increase efficiencies and decrease communications across teams. It has been confirmed that a role in Finance is not required for segregation of duties. 2. If restructuring the governance for the assumptions and securities process, management should consider: <ol style="list-style-type: none"> a) Adding a coordinator role to manage information and data tracking, reporting, and communication amongst internal stakeholders; and b) Formalizing roles and responsibilities in the job descriptions of Development Services team members.
Management comments	<ul style="list-style-type: none"> • We agree with recommendation #1 above and will develop a work plan to incorporate duties currently within other Service Areas into Development Services to provide a "One Window" approach to security reductions for all development applications. • We generally agree with recommendation #2 above and will review opportunities to incorporate these

	<p>additional tasks within our existing staffing structure prior to initiating budget requests for new positions.</p> <ul style="list-style-type: none"> • If new staff are to be hired, these will have to be considered within the context of the Multi-Year Budget (MYB). Some workflow can be created to address the tracking of securities, but further consideration of the roles and responsibilities within the Development Services umbrella is required. • Identify resources required to support the proposed change and if suitable, submit as part of the MYB update process in summer of 2021 for approval by Council in Spring 2022 	
<p>Responsible party and timing</p>	<p>Matt Feldberg, Manager, Development Services (Subdivisions) Jason Davies, Manager III, Financial Planning and Policy</p>	<p>Workplan will be prepared in Fall 2021. Implementation will depend on MYB – based on cycle for approval, earliest is Summer 2022. Transition to DS may occur ahead of MYB but must be weighed against other work.</p>

ASR2	
Low Risk	2. Key Performance Indicators (KPIs)
Observation	<p>There are currently no KPIs in place to review and assess activities in the assumptions and securities process. While there are tracking sheets to monitor the securities status with details of developers, financial values, key dates and comments, there are no metrics listed to provide a view into the efficiency or customer service of the process.</p> <p>This is evidenced by:</p> <ul style="list-style-type: none"> • The Security Policy, Development Guidelines, and other relevant documentation does not contain formally documented KPIs to review and assess the timeliness, accuracy, and efficiency of the assumptions and securities process. • Key stakeholders expressed interest in being able to identify areas of strength or continuous improvement through data and performance tracking.
Why it matters	<p>A failure to monitor and review KPIs within the securities process may expose the City of London to reputational risk and undermine the overall customer experience. Without KPIs there is limited ability of management and team members to measure performance and identify areas of improvement or risk.</p>
Recommendation	<p>Management should consider the following in order to enable effective assessments of, and improvement to, the release of a security:</p> <ol style="list-style-type: none"> 1. Document Key Performance Indicators (KPIs) and communicate to employees to better assess the success of the current assumptions and securities process. This will enable performance management and continuous improvement opportunities both within the process and for the employees involved. Management may consider the following KPIs: <ol style="list-style-type: none"> a) # of Lots Conditionally Approved (made available for building permits) b) Value of securities on hand and details of timelines, stakeholders, and risks or issues c) Complaints or concerns from developers, contractors, and consulting engineers d) Efficiency in inspections conducted, applying a fee for additional inspections required 2. Incorporate or embed KPIs into the process flows of the assumptions and securities process to ensure that the set objectives align with the current processes in place.
Management comments	<ul style="list-style-type: none"> • We agree that documented KPI's would be a useful management and reporting tool and moving forward will initiate discussions internally to develop KPI's applicable to our processes. • While useful informative measures, the proposed KPI's are more like benchmarks than key performance indicators. Management will explore additional metrics to assess service delivery and opportunities for targets to benchmark. The proposed KPIs above will inform the final versions and may be inputs to the ultimate tracking data. • We agree with recommendation #2 and will review opportunities to align KPI's as appropriate into our current processes.
Responsible party and timing	<p>Matt Feldberg, Manager, Development Services (Subdivisions) Fall 2021</p>

ASR3		
Low Risk	3. Inspection Coordination	
Observation	<p>The current process for coordinating and completing site inspections is reactive and is not managed through a tracking tool.</p> <p>This is evidenced by:</p> <ul style="list-style-type: none"> • Key stakeholders expressed concern with the efficiency of the inspection process. Often, inspections are booked prior to establishing required areas for inspection. Therefore, follow-up inspections are required, thus delaying the issuance of a building permit. • There is no centralized tracking of inspections to identify when the developer or owner should incur a cost of \$250 for the third site inspection. 	
Why it matters	<p>A failure to monitor and track inspections can result in delays in inspections, incomplete inspections, and ultimately a delay in the release of a security. Without a tracking tool there is no mechanism to measure KPIs and assess performance. Moreover, by not documenting the inspection activities and communications in a centralized manner, the City may also fail to identify cases where a \$250 fee is owed by the developer or owner¹.</p>	
Recommendation	<p>Management should consider the following in order to enable performance tracking and increased efficiency for site inspections:</p> <ol style="list-style-type: none"> 1. Develop an inspection tracker or utilize current inspection booking tool in order to reduce uncertainty around inspection areas and better identify areas of improvement or areas missed in the original inspection. This would assist in expediting the development process, identifying instances where multiple inspections are required and conducted, and collecting amounts owed for additional inspection required after two initial inspections (i.e. \$250 charge). Management may consider the following KPIs: <ol style="list-style-type: none"> a) Number of inspections completed b) Types of deficiencies noted c) Number of inspections completed before conditional approval 	
Management comments	<ul style="list-style-type: none"> • We agree with the recommendation to utilize an inspection tracking tool as noted. We will review opportunities based on existing tracking sheets/databases and/or new software anticipated to be utilized throughout our Service Area. 	
Responsible party and timing	<p>Matt Feldberg, Manager, Development Services (Subdivisions)</p>	<p>Fall 2021 for establishing a preliminary tracking tool. Long term, tracking will be per Strategic Business Case in MYB.</p>

¹ As inspections are not currently tracked, this audit cannot provide estimated revenue leakage resulting from not charging for additional inspections.

ASR4		
Low Risk	4. Timeliness	
Observation	<p>The timeline for releasing securities is not documented through a policy or procedure, and current processes are not designed for a two-week turnaround (internal target)². Note, our scope did not include testing the release of securities to identify timelines or inconsistencies in the timelines for releasing securities.</p> <p>This is evidenced by:</p> <ul style="list-style-type: none"> • Through review of the Security Policy and Development Compliance Guideline, there is no timeline documented with regards to the release of a security. • Through interviews with key stakeholders, the current processes and procedures are not designed for a two-week turnaround to account for the common barriers and risks (e.g., communications with inspectors and developers is not tracked or monitored). 	
Why it matters	<p>Without a clear timeline for each process step, the process relies on the informal expectations from within the Development Services team. A failure to monitor and track the securities process can result in delays in inspections, incomplete inspections; ultimately a delay in the release of a security and cause may have an impact to the business plans of the developer, or owner.</p>	
Recommendation	<p>Management should consider the following in order to enable timely release of a security:</p> <ol style="list-style-type: none"> 1. Update existing policy and guidelines to outline the securities procedure within a set time frame, or timelines that align with seasonal demand as there is currently no timeline associated. 2. Develop a process for monitoring and tracking communications in the securities process to track and manage timeliness in establishing and releasing securities. For example, a call log to track calls and appointments with inspectors as well as an inspection checklist would help in ensuring readiness for inspections and reduce the amount of follow-up inspections required in order to release securities. This could be a role assigned to the new Coordinator or Administrative position. 	
Management comments	<ul style="list-style-type: none"> • We agree with recommendation #1 above and will review existing policies and guidelines to develop appropriate timelines associated with key tasks that fit our typical workflow and processes which may include provisions for seasonal or market related increases in workload. • We agree with recommendation 2 above and moving forward we will review necessary steps to develop a monitoring and tracking process. • A point of clarification - at every milestone we currently provide applicants with a "checklist" in the form of a requirements letter (Conditional Approval, Assumption...etc.) prior to any inspection occurring. This checklist will identify high-level requirements based on the subdivision agreement. The City's role in development is not to undertake the design, construction, or implementation of the agreement conditions. Developers hire consultants and have staff that are tasked with delivering on the agreement and it is their obligation to complete these and deliver on those commitments. 	
Responsible party and timing	Matt Feldberg, Manager, Development Services (Subdivisions)	Fall 2021

² The audit scope did not include testing the release of securities to identify timelines or inconsistencies in the timelines for releasing securities.

ASR5	
Low Risk	5. Customer Service Communications
Observation	<p>While the current processes in place for external communication and coordination are well understood, no formal process tracking or monitoring mechanism exists to enable timely and consistent communications to developers or owners regarding status, next steps, and timelines.</p> <p>This is evidenced by:</p> <ul style="list-style-type: none"> • Communication is enabled through email or phone calls between Compliance, Finance, and other relevant stakeholders to developers and owners. • Communication with developers or owners is not tracked within a call log or any form of monitoring mechanism.
Why it matters	<p>Without a mechanism to track customer service-related communications, it is difficult to determine progression within the securities process or identify inefficiencies. Failure to monitor and track the securities process can also result in delays in inspections, incomplete inspections, and ultimately a delay in the release of a security and development. Instead, a communication tracker would enable the team to provide consistent and relevant communication to the developer or owner and create a positive experience with the City.</p>
Recommendation	<p>Management should consider the following in order to enable improved and more effective communication:</p> <ol style="list-style-type: none"> 1. (Same as 4.2): Develop a process for monitoring and tracking communications in the securities process to track and manage timeliness in establishing and releasing securities. For example, a call log to track calls and appointments with inspectors as well as an inspection checklist would help in ensuring readiness for inspections and reduce the amount of follow-up inspections required in order to release securities. 2. Develop a process flow for team members to follow that outlines the necessary steps to address prior to contacting the development team.
Management comments	<ul style="list-style-type: none"> • We agree with recommendation #1 above and will review necessary steps to develop a monitoring and tracking process related to communications. • As per comments in #4 above - developers should continue to rely on their consulting engineers for advice and direction in completing their projects. • We agree with recommendation #2 and will take necessary steps to develop a related process flow.
Responsible party and timing	<p>Matt Feldberg, Manager, Development Services (Subdivisions) Fall 2021</p>

Appendix 1: Internal Audit detailed scope

Specifically, the internal audit addressed the following areas:

Review and assess the Assumptions and Securities business processes and relevant key controls

- Assess whether roles, reporting lines, and responsibilities are adequately understood by staff to ensure staff are enabled to fulfill their responsibilities (incl. those in Finance)
- Assess governing guidelines and procedures in place to assure the assumptions and securities process is adhering to legislation, aligning with other securities policies and procedures (e.g., procurement), and meeting established timelines
- Review the speed to release the securities:
 - Identify the key controls and requirements of the current process
 - Validate the process' alignment to the current policy
 - Identify areas for improvement and identify areas for efficiency to improve the 14-day turnaround time
- Review and assess monitoring activities established to assure the process is achieving established metrics or key performance indicators
- Review the process in place to decline the release of a security

Review and assess existing procedures to communicate with other stakeholders (e.g., Finance) involved in the process prior to releasing the securities:

- Identify the key roles and responsibilities for required coordination and communications
- Evaluate the efficiency and effectiveness of current communication and collaboration
- Assess the availability of data, reporting, and information required for outstanding requirements

Review and identify overall process improvement opportunities within the Assumptions and Securities Process:

- Review and assess existing building permit issuance processes to identify opportunities for efficiency or standardization
-

Appendix 2: Internal Audit risk rating scale

Individual observation prioritization

Internal Audit has prioritized each observation and recommendation within this report using a four-point risk rating scale. The four-point risk rating scale is as follows:

Description	Definition
High	Observation is high priority and should be given immediate attention due to the existence of either significant internal control risk or a potential significant operational improvement opportunity.
Medium	Observation is a moderate priority risk or operational improvement opportunity and should be addressed in the near term.
Low	Observation does not present a significant or medium control risk but should be addressed to improve either internal controls or process efficiency.
Leading Practice	Consideration should be given to implementing recommendations in order to improve the maturity of the process and align with leading practices.

Appendix 3: Stakeholder involvement

In conducting this assessment, the following management and staff were interviewed to gain an understanding of the processes and practices employed by the relevant departments and teams.

Stakeholder	Position
1. Matt Feldberg	Manager, Development Services (Subdivisions)
2. Jason Davies	Manager III, Financial Planning & Policy
3. David Bordin	Manager, Accounting & Reporting
4. Ted Koza	Manager, Development Engineering (Subdivisions)
5. Mike Harrison	Senior Technologist, Development Services
6. Jason Senese	Manager, Development Finance

Appendix 4: Audit procedures performed

As part of our review of the Assumptions and Securities process, the following procedures were performed:

- ✓ Conducted a planning meeting with Manager, Development Services;
 - ✓ Updated and issued a finalized Project Charter and request for information;
 - ✓ Conducted meetings and interviews with City management and staff to obtain an understanding of staff duties, processes, data management tracking and controls within the assumptions and securities process;
 - ✓ Obtained documentation regarding relevant procedures and controls to perform an inspection of:
 - Policies, guidelines, and procedures, and relevant forms and templates
 - Tracking sheets and reconciliation spreadsheets
 - Organization charts;
 - ✓ Drafted preliminary observations and verified observations with management;
 - ✓ Conducted a closing meeting with key management stakeholders to validate and communicate our findings; and
 - ✓ Issued this internal audit report with our detailed observations.
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