



REPORT TO FINANCE AND CORPORATE SERVICES COMMITTEE

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Pending #:

TO: FINANCE AND CORPORATE SERVICES COMMITTEE

PREPARED BY AND KEY CONTACT: S. MACGREGOR, DIRECTOR OF INTERNAL AUDIT EXT# 5452

SUBMITTED BY: S. MACGREGOR, DIRECTOR OF INTERNAL AUDIT

GENERAL MANAGER APPROVAL: N/A

CHIEF ADMINISTRATIVE OFFICER APPROVAL: M. PROWSE, CHIEF ADMINISTRATIVE OFFICER

DATE: APRIL 26, 2022

SUBJECT: 2022 FIRST QUARTER INTERNAL AUDIT STATUS REPORT

WARD: ALL

RECOMMENDED MOTION

1. That the 2022 First Quarter Internal Audit Status Report be received as information.

PURPOSE & BACKGROUND

2. The purpose of this staff report is to provide the 2022 1st Quarter Internal Audit Status Report.
3. The following table summarizes the Internal Audit activities performed from January to March 2022:

#	Project	Focus	Status
1	Securities for Development Agreements	Process Review	Complete
2	IPD Billable Rates - Phase 1, Project Parties	Compliance	Complete
3	Fraud Prevention Month	Entity Level Controls	Complete
4	Fraud & Wrongdoing Program Oversight	Consulting	Ongoing

ANALYSIS

SECURITIES FOR DEVELOPMENT AGREEMENTS

Background

4. The City of Barrie (the “City”) requires securities from Developers to ensure all servicing, grading, and landscaping works (the “Works”) within Site Plan or Subdivision Agreements are completed. The collection of securities ensures the City has sufficient funds to complete any outstanding Works



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if the Developer does not, or cannot, complete the Works required under the Developer agreement. In many cases, the Developer completes the project to the City's satisfaction and securities are released. In some cases, the Developer becomes insolvent or does not complete the works to the City's satisfaction and the City must complete the work, which is why the appropriate calculation and release of securities is an important process. The City is responsible to its residents and businesses to ensure that projects are not incomplete or left in an unsafe state.

Objective

- 5. To review the processes and controls related to the City's collection and administration of Developer securities for subdivision and site plan agreements.

Methodology

- 6. Our scope of review included Development Applications for Site Plans and Subdivisions received by the City between 2017 and 2021 (the "Period of Review").
- 7. The following activities were performed:
 - a) Meetings with staff in Development Services;
 - b) Reviewed available City policies and procedures for development related to Developer securities including the Development Manual, draft Securities Policy, and Development Agreements;
 - c) Judgmentally selected a sample of 10 development files during the Period of Review considering the dollar value of the initial security collected and reduction or release of the security; and
 - d) Tested the security reductions and releases to assess compliance with City policies and procedures.

Conclusion

- 8. Development Services has implemented protocols to ensure Developer securities are collected and administered effectively to address the City's risk that commitments related to Site Plans and Subdivision Agreements are not fulfilled.
- 9. Based on the work performed, Development Services can strengthen its policies and procedures related to the administration (including the collection and release) of Developer securities. The implementation of Internal Audit's recommendations will further improve the City's controls over Developer securities.

Findings

Collection and Calculation of Developer Securities

- 10. Securities are collected from Developers by the City for Site Plan and Subdivision Agreements in the form of either cash or letters of credit. The quantity and dollar value of Developer securities held by the City as at December 17, 2021, is set out in the table below:

Security Format	Site Plans		Subdivisions		Total	
	\$	#	\$	#	\$	#
Letters of Credit	21,182,568	104	101,774,273	27	122,956,841	131
Cash / Cheques	8,621,715	240	2,592,583	73	11,214,298	313
	\$29,804,283	344	\$104,366,856	100	\$134,171,139	444

11. The dollar value of Developer securities is based on approved cost estimates or tendered amount of the Works prepared by professional consultants, which is reviewed and accepted by City Staff. The value of a subdivision security is 100% of the estimated costs or sufficient to cover costs of completing/rectifying works. The value of site plan securities is collected at a rate of 50% of the estimated cost with a maximum threshold of \$500,000 for internal works to Site Plan property boundary and 100% of external works to the Site Plan property boundary. Additional fees, such as engineering contingencies, are added to the total value of the securities collected. Securities are not adjusted for inflation.
12. Securities are provided by way of cash, cheque, or a letter of credit. Cash, cheques and original letters of credit received by Development Services are forwarded to the Finance Department. The Finance Department is responsible for safeguarding the security, as well as processing reductions, draws and releases.
13. Once a development project is underway, the City's Development Services Field Coordinators supervise the construction of Subdivisions and Site Plans, ensuring infrastructure (both above and below ground) meets City and provincial standards. Development Services Field Coordinators consider and approve Developer requests for reductions and releases of Civil Works securities. The City's Landscape Architectural Planners consider and approve Landscape related elements to the security. In 2020, a protocol was implemented by Development Services that approval from both the Landscape Architectural Planner and the Supervisor of Development Coordination is obtained by Finance before the reduction or release of security related to a development. This was intended as a cross reference to ensure that it was appropriate to reduce or release the security.
14. As the Works are completed, the Developer can request security reductions from the City as stipulated in both subdivision and site plan agreements. If the Developer does not complete a contractual obligation, the City can draw on the associated security to complete any Work required under the provisions of the agreement.

Developer Securities Requirements

15. The City's Development Manual was created in 2017, to reflect the Subdivision and Site Plan application and development processes. The manual is posted on the City's external website and is intended to guide Developers, Consultants, and the general public through the City of Barrie's development approval process.
16. Each development has a site-specific Development Agreement. The Agreement outlines the terms and conditions of the development, approved plans and reports, as well as the required documentation the Developer must submit to the City in order to request a reduction or release of their securities.
17. Generally for a Site Plan, required documentation to reduce or release a security includes:
 - Letter of application for reduction;
 - Consultant's certificate confirming all internal and external services, drainage works and/or landscaping have been completed in accordance with the approved plans, which includes documented testing, inspections, itemized deficiencies and any outstanding works;
 - As-constructed drawings as well as record drawings once all construction completed;
 - Satisfactory evidence that no construction liens have been filed or registered;
 - Workplace safety certificate;
 - Statutory declaration that accounts for Works have been paid; and
 - Surveyor's certificate, where required.



18. Generally for a Subdivision, required documentation to reduce or release a security includes:
- Letter of application for reduction;
 - The Developer’s Engineer and Landscape Architect’s certification (sealed) confirming that:
 - i. The Works have been completed and list any remaining deficiencies;
 - ii. The estimated cost of remedying those deficiencies/outstanding works;
 - iii. Indicating that all Works are in place and properly functioning; and
 - iv. That the works are structurally sound and constructed to approved specifications.
 - Workplace safety certificate/worker’s compensation clearance;
 - Statutory declaration as to Works completed and accounts paid in full for Works for which a reduction is being requested;
 - Proof of expiration of the sixty day construction lien period and satisfactory evidence of no construction liens filed;
 - A certificate by a registered Ontario Land Surveyor verifying the establishment of horizontal control monuments and vertical benchmarks on the Land (final release of securities only); and
 - As built drawings certified by the Developer’s engineer (as a printed set and digital format).
19. Observations identifying areas for improvement, recommendations and management’s response are summarized in Appendix “A”. The recommendations relate to the following areas:

Area	# Recommendations
Approvals	2
Valuation	1
Monitoring	2
Policies and procedures	2
Total	7

IPD BILLABLE RATES – PHASE 1

Background

20. In September 2021, an Integrated Project Delivery (“IPD”) Agreement (the “Agreement”) was signed between the City of Barrie (the “Owner”), the Process Lead, the Design Lead and the General Contractor, (collectively the “Parties”) for the design and construction of the City of Barrie’s Operations Centre Redevelopment (the “Project”).
21. In the Agreement, the Parties provided billable hourly rates to be charged for key individuals on the Project (the “Billable Rates”). Billable Rates are calculated by adding the following: Direct Salary Expense (“DSE”), Payroll Burden Rate (“PBR”) and Overhead Burden Rate (“OBR”) to determine an individual’s total Billable Rate = DSE + PBR + OBR.
22. Our review of the Project’s Billable Rates will be conducted in two phases:
- Phase One – review of the Parties’ Billable Rates; and
 - Phase Two – review of Project vendors’ Billable Rates.
23. This report contains findings from the review of the Parties’ Billable Rates and the Phase Two review of Project vendors’ Billable Rates will follow in a subsequent report.

Objective

24. To review the Billable Rates for the General Contractor, Process Lead and Design Lead for the Project to ensure they are supported and include only approved expenses.



Procedures Performed

25. The following procedures were performed:
- a) Reviewed the Terms and Definitions for Billable Rates in the Agreement;
 - b) Reviewed documentation provided by the Parties to support the Billable Rates;
 - c) Performed an assessment of the Billable Rate components (DSE, PBR, OBR) to determine whether the rate is supported by verifiable information provided by the Parties;
 - d) Reviewed publicly available information for employer payroll remittance rates; and
 - e) Discussions with employees of the Owner, General Contractor, Process Lead, and Design Lead.

Limitations

26. This review assessed whether Billable Rates for individuals identified in the Agreement were supported by verifiable documentation. We did not assess Billable Rates for individuals if they were not identified in the Agreement.
27. Given the confidential and sensitive nature of supporting documentation provided by the Parties for this review, detailed financial information and calculations are not included in this report.

Conclusion

28. Based on the procedures performed, Billable Rates for the Parties were assessed to be partially, if not fully, supported based on the Agreement's Terms and Definitions. In cases where the Billable Rates were greater than supporting documentation reviewed, the rates were assessed as partially supported. In cases where the Billable Rates were less than or equal to the supporting documentation reviewed, the rates were assessed as fully supported.
29. Fully supported Billable Rates for the estimated hours to complete the Validation Phase will result in total costs to the Project that are \$26,509 less than the total costs estimated in the Agreement.

Findings

Defined Terms

30. The Defined Terms in the Agreement contain details about Billable Rates and examples of the types of costs that can be included by the Parties in Billable Rates.
31. While numerous examples are included in the Defined Terms, in discussion with the Owner, we were advised the examples are not intended to be an exhaustive list of allowable costs. The costs identified provide examples of allowable and approved costs for inclusion in the Billable Rates. Definitions relevant to this review include:
- Billable Rates;
 - Direct Salary Expense;
 - Payroll Burden Rate; and
 - Overhead Burden Rate.
32. Examples of costs included by the Parties in the calculation of Billable Rates that are not specified in the Agreement have been listed later in this report.

Calculation of Billable Rates

33. The calculation of DSE is described in the Defined Terms but the method of calculating the PBR and the OBR is not specified in the Agreement. We note that each of the Parties used different methods to calculate PBR and OBR. Since the method of calculation is not specified in the Agreement, methods utilized by the Parties are all considered acceptable for the purposes of this review.



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34. Examples of differences in methods of calculation include:
- The year of costs used as the basis for Billable Rates (2020, adjusted 2020, or a three year average of 2018-2020);
 - Types of costs included in the calculation of burden rates; and
 - Calculating a consistent hourly burden amount for all named individuals compared to differing burden amounts based on DSE and PBR.

Summary of Billable Rates

35. In the review of supporting documentation for Billable Rates, assessments were made to categorize Billable Rate components for each of the Parties as follows:
- Fully supported – documentation provided supports the total dollar value of the Billable Rate component or a greater amount;
 - Partially supported – documentation provided does not support the total dollar value of the Billable Rate component; and
 - Unsupported – documentation provided does not support any portion of the dollar value for the Billable Rate component. Note: None of the Parties’ Billable Rates were categorized as Unsupported.

36. A summary of Billable Rates for the **Process Lead** is set out in the table below:

Individual	DSE	PBR	OBR	Total Billable Rate
Team Lead	Fully supported	Partially supported	Fully Supported	Partially Supported
IPD Advisor	Partially supported	Fully supported	Fully Supported	Partially Supported
IPD Coach	Fully supported	Partially supported	Fully Supported	Fully Supported
IPD Facilitator	Partially supported	Fully supported	Fully Supported	Partially Supported

37. A summary of Billable Rates for the **Design Lead** is set out in the table below:

Individual	DSE	PBR	OBR	Total Billable Rate
Key Individual	Fully supported	Fully Supported	Partially Supported	Partially Supported
Design Lead	Fully supported	Fully Supported	Partially Supported	Partially Supported
Senior Project Manager	Fully supported	Fully Supported	Partially Supported	Partially Supported
BIM Manager	Note 1	Note 1	Note 1	Note 1
Intern Architect	Fully supported	Fully Supported	Partially Supported	Fully Supported
Architectural Technologist	Fully supported	Fully Supported	Partially Supported	Fully Supported

Note 1: The Design Lead advised the named BIM Manager has been replaced with a new individual who has a higher DSE. We note the new individual’s DSE is fully supported with documentation provided. Since the new individual’s Billable Rate is not included in the Agreement, the supporting documentation could not be assessed and accordingly is not included in the schedule above.



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38. A summary of Billable Rates for the General Contractor is set out in the table below:

Table with 5 columns: Individual, DSE, PBR, OBR, Total Billable Rate. Rows include PMT Senior Project Manager, IPD & Continuous Improvement Coach, Project Coordinator, Mechanical & Electrical Manager, Chief Estimator, Preconstruction Manager, IPD Estimator, and BIM Coordinator.

Note 2: The General Contractor advised an individual not named in the Agreement was added to the project in the role of Preconstruction Manager. We note the new individual's DSE is fully supported with documentation provided. Since this individual's Billable Rate is not included in the Agreement, the supporting documentation could not be assessed and accordingly is not included in the schedule above.

OBR Costs not Specified in the Agreement

39. Examples of additional costs included by the Parties in the calculation of the OBR, which are not specifically identified in the Agreement, are set out below. For the purposes of this review, these costs have been included in calculations of OBR which resulted in either partially or fully supported OBR hourly rates.

- Advertising and promotion;
Bad debts;
Books and subscriptions;
Donations;
Dues and memberships;
Insurance;
Legal fees;
Photography;
Printing;
Recruiting and relocation; and
Travel.

FRAUD PREVENTION MONTH

Background

40. The Canadian Fraud Prevention Forum designates March as Fraud Prevention Month in an annual campaign to help Canadians recognize, reject and report fraud. Fraud is an evolving business risk, and it is important organizations increase awareness of fraud.

41. To communicate methods of fraud prevention to City staff, with the support of the City's Communications team, Internal Audit launched a campaign during the month of March to raise awareness of fraud and communicate practical methods of addressing fraud risks.



Objective

42. To provide education to City staff about fraud prevention.

Methodology

43. The following activities were performed:
- a) Prepared fraud prevention materials for use during the month of March;
 - b) Communicated fraud facts and prevention tips each week to City staff; and
 - c) Delivered fraud awareness sessions to City departments.

Outcome

44. Ongoing discussion about fraud prevention allows the City to raise awareness of fraud risks and empower staff to fight fraud. Fraud is a risk continuously monitored by businesses across the City and is incorporated into planning for each of Internal Audit's projects.

ENVIRONMENTAL MATTERS

45. There are no environmental matters related to this Staff Report.

ALTERNATIVES

46. As this Staff Report is being presented for information purposes only, no alternatives are presented.

FINANCIAL

47. There are no immediate financial implications for the Corporation related to this Staff Report.

LINKAGE TO 2018-2022 STRATEGIC PLAN

48. The information included in this Staff Report supports the following goal identified in the 2018-2022 Strategic Plan:
- Offering innovative and citizen driven services
49. Implementation of the recommendations identified will achieve enhanced processes and controls to protect the City's assets as well as increase efficiency in the delivery of services to make tax dollars go further.



**Appendix “A” – Securities for Development Agreements
Observations, Recommendations and Management Response**

Observation	Recommendation	Management Response
<p>1. Evidence of approval for reduction and releases of securities</p> <p>Review of required documentation and approval to accept a Developer’s request for a reduction and release of civil securities is not documented in a consistent manner by Development Services Field Coordinators. Development Services Senior Technologists rely on the Field Coordinator’s recommendation to proceed with the requested reduction/release, and the receipt of required documentation, to send a recommendation to Finance to administer the reduction/release of civil securities.</p> <p>Currently there is no method to verify required landscape documentation is received and reviewed prior to approving the requested reduction or release of landscape securities. The Landscape Architectural Planner oversees the field work and reduction/release of securities from start to finish.</p> <p>In the fall of 2020, Development Services requested Finance obtain confirmation from the Supervisor of Development Coordination to coordinate the release of both civil and landscaping securities. Development Services currently sends separate internal memos for civil and landscape securities, requiring Finance to follow-up with Development Services to confirm release of the securities.</p> <p>There is a risk that securities may be prematurely reduced or released if evidence of approval by all staff involved in the review and approval of the Works is not retained.</p>	<p>Establish a formalized template for the approval of civil works and landscape security reductions and release prior to the submission of Development Services direction to Finance.</p> <p>A Development Services consolidated approval format containing both the civil and landscape branches prior to submission to Finance staff will result in more efficient processing of the reductions and release.</p> <p>The template can specify the amount of the reduction as well as the current Developer security balance after the reduction is made to ensure consistent record maintenance.</p>	<p>Rather than a template, Development Services is working to establish a workflow in APLI (the City’s online application tool for Applications, Permits, Licenses, and Inspections) for security release requests. This will ensure that required documentation is uploaded into a permanent file system and will be designed for appropriate steps to be taken before the release can be fully signed off and released. APLI workflows are set up so that you cannot move to the next step without a previous step being completed. This work is underway and is intended to be completed by Q1 2023.</p>



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Observation	Recommendation	Management Response
<p>2. Formal authorization thresholds Cash/cheque security reductions and releases require a cheque requisition to process the return of Developer funds which is governed by the City's signing authority procedure. The dollar value of the security reduction/release must be approved by a staff with the designated authority.</p> <p>In contrast, there is no formalized authorization framework for the reduction/release of Letter of Credit securities.</p> <p>In our review we noted letter of credit reductions/releases that ranged from \$7,000 to \$7 million sent to Finance by Development Services staff.</p> <p>The risk of not having formalized authorization designated for the reduction and release of Developer Securities is that Letters of Credit may be released prematurely resulting in an insufficient security to fund the required Works.</p>	<p>Consider implementing approval authority governance and thresholds for Letter of Credit security reductions and releases.</p>	<p>Development Services, along with Finance, is preparing a new Security Policy that will include "sign off" thresholds for letters of credit and required authorizations, similar to the sign offs required for cheque reductions. It is anticipated that this report will be brought to Council by Q3 2022.</p>
<p>3. Valuation of security The dollar value of the Developer security is established at the development approval phase and is not adjusted for inflation.</p> <p>For Site Plans, the Developer security is 50% of the Works to a maximum of \$500,000 which, for certain developments may not cover the entire cost of the required Works if the security had to be utilized by the City.</p> <p>Development Agreements include provisions for the City to collect additional security if revised</p>	<p>Consider a review of current Developer security calculation practices to assess whether the financial value of a security can be adjusted throughout the life of a development and whether maximum thresholds for Site Plan securities can be increased.</p>	<p>The 50% maximum of securities for private site plans, is due to the fact that the City would not necessarily complete the works on a private site. At most it would ensure the site is brought to a safe condition. The calculation was also based on significant input from the development community.</p> <p>An increased amount of security for private site plans that are residential will be considered in the future. Residential site plans are where many of the deficiencies are found and it</p>



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Observation	Recommendation	Management Response
<p>estimates of the costs of Works are greater than securities held but evidence of an assessment of the adequacy of securities was not noted in our review.</p> <p>There is a risk to the City that incomplete Works may require funding and the Developer security may not be sufficient to cover the necessary costs.</p>		<p>results in unhappy residents, which is something staff always try to remedy as soon as possible.</p> <p>An amendment to the security release documentation to include an increase to the cost estimates to reflect annual inflation will be explored by Development Services and can be captured by the APLI workflow.</p>
<p>4. Unclaimed Letters of Credit and cash securities</p> <p>Finance maintains record of securities received from Developers but there is no formal process for Development Services to monitor the aging and status of securities held by the City on a regular basis.</p> <p>A draft Securities Policy for Development Agreements has been prepared which includes a proposed process to address unclaimed Letters of Credit and cash securities.</p> <p>It takes time for staff in Finance and Development Services to maintain Developer securities. The longer securities are held by the City, the more difficult it becomes to maintain the history of the security as employees retire and documentation management practices are not formalized.</p>	<p>Implement regular (i.e. annual) review of securities by Development Services to determine if the securities should:</p> <ol style="list-style-type: none"> 1. Continue to be held to secure obligations; 2. Drawn against to fund deficiencies; or 3. Release the securities in whole or part. <p>Consider whether a KPI to monitor securities would be beneficial for Development Services.</p> <p>Formalize the proposed draft process to resolve unclaimed Developer securities.</p>	<p>Development Services is preparing a new Security Policy that will include a reference to aging letters of credit. It is anticipated that this report will be brought to Council by Q3 2022.</p>



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Observation	Recommendation	Management Response
<p>5. Documentation to request a reduction or release Our testing found required documents for the reduction and release of Developer securities as set out in Development Agreements are not consistently received by the City.</p> <p>If the required Developer documentation is not received by the City prior to reducing or releasing a security, it increases the risk funds will be released prematurely and sufficient funds may not be available to the City to complete the Works if required.</p>	<p>Ensure the required documentation specified in each Development Agreement is received from the Developer.</p>	<p>Development Services is working to establish a workflow in APLI for security release requests. This will ensure that required documentation is uploaded into a permanent file system and will be designed for appropriate steps to be taken before the release can be fully signed off and released. APLI workflows are set up so that you cannot move to the next step without a previous step being completed. This work is underway and is intended to be completed by Q1 2023.</p>
<p>6. Document management Development Services is currently making improvements to their document management practices with assistance from other City departments.</p> <p>Documentation to support security reductions and release is not consistently retained.</p> <p>Documentation is saved on different network drives with different user access controls, in multiple department and personal folders, and in electronic and hard copy formats.</p> <p>There is a risk that Development Services may not be able to access records if necessary, in the future.</p>	<p>Formalize record keeping protocols for both electronic and hard copy records across the Development Services branch to facilitate efficient access to documentation for Developer securities.</p>	<p>Development Services is working to establish a workflow in APLI for security release requests. This will ensure that required documentation is uploaded into a permanent file system and will be designed for appropriate steps to be taken before the release can be fully signed off and released. APLI workflows are set up so that you cannot move to the next step without a previous step being completed.</p> <p>The use of APLI will enable all APLI users, with the correct access permissions, to be able to have access to the documentation and file history.</p> <p>This work is underway and is intended to be completed by Q1 2023.</p>
<p>7. Procedures Detailed policies and procedures related to Developer securities are not currently formalized in Development Services.</p> <p>The Development Manual is dated 2017 reflecting practices in place at that time.</p>	<p>Detailed policies and procedures should be prepared to ensure institutional knowledge is captured and formalized.</p> <p>The Development Manual should be updated on a regular basis to ensure current practices are documented.</p>	<p>Knowledge transfer and institutional knowledge is a priority for the team and a plan can be prepared to prioritize the processes that need to be documented. This will be led by the administration team within Development Services and is</p>



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Observation	Recommendation	Management Response
<p>Staff have significant institutional knowledge, but a vulnerability exists if these individuals were to leave the City to maintain current practices. Without updated and formalized procedures, there is a risk securities requirement that may be inconsistently communicated to Developers and required documentation supporting securities may not be readily accessible to the City.</p>		<p>planned to commence in spring/summer of 2022.</p> <p>The use of APLI lessens the institutional knowledge risk as all staff members with appropriate permissions will be able to review the materials within APLI.</p> <p>The Development Manual is not a Development Services document, but we are able to provide input and insight as required and could potentially take more of a leadership role in its update.</p>