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**TO:** FINANCE AND RESPONSIBLE GOVERNANCE COMMITTEE

**SUBJECT:** 2023 YEAR TO DATE INTERNAL AUDIT STATUS REPORT

**WARD:** ALL

**PREPARED BY AND KEY CONTACT:** S. MACGREGOR, DIRECTOR OF INTERNAL AUDIT, X5452

**SUBMITTED BY:** S. MACGREGOR, DIRECTOR OF INTERNAL AUDIT

**GENERAL MANAGER APPROVAL:** N/A

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

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**RECOMMENDED MOTION**

1. That the 2023 Year to Date Internal Audit Status Report be received as information.

**PURPOSE & BACKGROUND**

2. The purpose of this staff report is to provide the 2023 Year To Date Internal Audit Status Report.
3. The following table summarizes Internal Audit activities performed from January to August 2023:

#	Project	Focus	Status
1	Invitational Procurement	Compliance	Complete
2	Sadlon Arena Third Party Agreements	Compliance	Complete
3	Fraud Prevention Month	Entity Level Controls	Complete
4	MTO Driver Certification Program	Compliance	Complete
5	IPD Billable Rates (AMTH additional)	Compliance	In progress
6	IPD Billable Rates (Waste Water Treatment Facility Upgrade)	Compliance	In progress
7	Fraud & Wrongdoing Program Oversight	Consulting	Ongoing

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## **ANALYSIS**

### **INVITATIONAL PROCUREMENT**

#### Background

4. The Purchasing Branch (“Purchasing”) is responsible for working with City of Barrie (the “City”) departments as a strategic partner, facilitating value-added procurement for all goods and services. Purchasing assists with procurement project management and collaborates as business partners and advisors.
5. The Procurement By-Law (the “By-Law”) establishes and maintains a policy concerning the procurement of goods and services. The By-Law was last updated and approved by Council in 2019.
6. The By-Law requires Invitational Competition to be used for the procurement of goods, non-consulting services, or construction valued between \$10,000 to \$50,000, and/or consulting services valued between \$10,000 – \$100,000 (unless specific exceptions apply). The Invitational Competition process requires a minimum of three qualified suppliers to be solicited.

#### Objective

7. As projects awarded through the Invitational Competition process are managed by City departments (i.e. decentralized), a review was performed to assess compliance with the By-Law, Procurement Manual, and other applicable policies/procedures.

#### Methodology

8. Our scope of review included projects awarded through the Invitational Competition process, as well as projects that should have followed the invitational process based on the requirements outlined in the By-Law and/or the Procurement Manual.
9. The “Period of Review” was January 1, 2021 to March 31, 2023. The following activities were performed:
  - a) Discussions with City departments;
  - b) Review of applicable By-Laws, policies, and procedures (Procurement By-Law, Procurement Manual, Retention Schedule, Signing Authority Listing & Procedure);
  - c) Data analysis of projects awarded through Invitational Competition from the SAP system during the Period of Review;
  - d) Judgmental sampling of 23 invitational projects (as identified in SAP) based on the value of goods, services or construction being procured;
  - e) Judgmental sampling of 10 City vendors that did not participate in a competitive process, but have provided similar goods/services, that in combination, are greater than the Low Cost Purchases threshold of \$10,000.
10. Our review only included Invitational Competition processes and procedures. Our review did not include:
  - Purchases made through existing Supply Agreements,
  - Low Cost Purchases (LCP),
  - Non-Standard Procurement,
  - Open Competition,
  - Contract Maintenance, and
  - Vendor Performance.



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Please note that as part of the approved 2023 Internal Audit Plan, Non-Standard Procurement will be reviewed separately later in 2023.

#### Conclusion

11. Based on the work performed, invitational procurement projects executed by departments are generally compliant with the By-Law.
12. Our review noted various steps were performed well by departments, such as soliciting the required number of suppliers and ensuring the evaluation of bids was consistent with the established criteria.
13. However, our review identified areas of improvement to ensure full compliance with the By-Law across City departments. Our review also noted additional opportunities to improve and increase the effectiveness of certain Purchasing policies and procedures. Implementation of Internal Audit's recommendations will assist with Procurement By-Law compliance at the City.

#### Findings

14. Goods, services, or construction can be procured through Standard or Non-Standard Procurement. Standard Procurement consists of:
  - Placing an order under an existing Supply Agreement,
  - Conducting a Qualified Supplier Roster (QSR) Competition to solicit bids from suppliers on an existing QSR,
  - Low Cost Purchases (purchases less than \$10,000) using petty cash, a Corporate Purchasing Card, or a Purchase Order (PO),
  - Conducting an Invitational Competition by soliciting bids from a minimum of three suppliers, or
  - Conducting an Open Competition by publicly advertising and posting the Solicitation Document (document issued by the City to solicit bids from suppliers).
15. Non-Standard Procurement is the procurement of goods, services or construction through a process or method other than the process or method normally required for the type and value of the required goods, services, or construction.
16. Standard Procurement projects exceeding the Low Cost Purchase (LCP) threshold of \$10,000 can follow one of the below competitive processes:
  - Invitational Competition;
    - Procurement of goods, services, or construction not exceeding \$50,000, or
    - Procurement of consulting services not exceeding \$100,000.
  - Open Competition;
    - Procurement of goods, services, or construction exceeding \$50,000,
    - Procurement of consulting services exceeding \$100,000, or
    - Establishment of a QSR for any goods, services, or construction.
17. Procurement projects that follow the Invitational Competition process are managed by the department (i.e. decentralized), with assistance provided by Purchasing where requested.



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18. There are two commonly used Solicitation Document formats for invitational projects:
- Request for Quotations (RFQ), where selection of the successful bidder is based on the lowest price, and
  - Request for Proposal (RFP), where the evaluation includes criteria in addition to price, and the selection of the successful bidder is based on highest score.
19. When creating a PO for a procurement project in SAP, departments must select a “Processing Type,” which identifies the procurement method followed (such as Invitational, Non-competitive, etc.).
20. Significant dollars are awarded through the City’s Invitational Competition process. The total value of POs identified as “Invitational” by departments in SAP as of March 31, 2023, is **\$22,388,036**.

Note: The total PO value is based on the PO data stored in SAP, which went live in 2019. Open PO balances from the City’s legacy system were transferred into SAP, however, the associated procurement process followed was not included.

*Low Cost Purchase Threshold*

21. Our review noted that although the By-Law is reviewed every five years (with earlier reviews taking place as deemed appropriate by the Chief Procurement Officer or Council), the LCP threshold of \$10,000 has not been increased since 2013. Thus, this threshold may no longer accurately reflect the intended criteria for invitational procurement.

*Invitational Procurement Projects*

22. The total value of POs identified as “Invitational” by departments in SAP during the Period of Review is summarized below:

<b>Year</b>	<b>Total Value (\$) of POs (Note 1)</b>
January – December 2021	\$ 7,084,127
January – December 2022	\$ 3,937,151
January – March 2023	\$ 1,039,361
<b>Total</b>	<b>\$12,060,638</b>

**Note 1.** The “Processing Type” selected in SAP was not verified by Internal Audit to confirm the identified procurement method is accurate.

23. Our sample included 23 projects with a total value of \$1,283,446, which were identified by departments as “Invitational” in SAP within the Period of Review. A detailed review was performed to assess compliance with the By-Law, Procurement Manual, and/or other applicable Purchasing policies and procedures.

24. Our testing covered multiple stages of the procurement lifecycle, such as:
- a) Bid Solicitation,
  - b) Bid Evaluation,
  - c) Contract Award, and
  - d) Contract Finalization.
25. Our review identified inconsistencies in execution of the invitational process by departments throughout various stages of the procurement lifecycle. The following table summarizes the observations noted for the invitational projects sampled:

Observation	Implication
<b>Bid Solicitation</b>	
For 3 of 23 (13%) projects reviewed, solicitation emails inviting suppliers to bid could not be located or were not retained by departments, as required by the By-Law and the City's <i>Retention Schedule (Note 1)</i> .	If solicitation emails sent to suppliers are not retained, the City may have difficulty producing communications/ documentation to support procurement activities, if required.
<b>Bid Evaluation</b>	
<ul style="list-style-type: none"> <li>• For 1 of 23 (4%) projects reviewed, a bid received past the submission deadline was considered during the evaluation process. However, the bid was not selected.</li> <li>• For 1 of 5 (20%) projects reviewed with an RFP format (<b>Note 2</b>), one of the individual evaluations completed, which supports the consensus score, was not retained.</li> <li>• 1 of 5 (20%) projects reviewed with an RFP format (<b>Note 2</b>) contained an error in the consensus score, as the prices for the two bids received were switched. However, this error would not have changed which bidder had the highest score.</li> </ul>	<ul style="list-style-type: none"> <li>• If bids submitted past the deadline are considered during the evaluation process, the fairness and transparency of the procurement process may be impacted.</li> <li>• If individual evaluations are not retained, it may be difficult for the City to support the consensus score.</li> <li>• If errors are made when calculating the consensus score, there is a risk that the City will not achieve the best value (optimal balance of performance and cost) for the purchase.</li> </ul>
<b>Supplier Selection &amp; Contract Award</b>	
For 8 of 15 (53%) projects reviewed, the pre-conditions for award ( <b>Note 3</b> ) listed in the Solicitation Document were either not obtained from the selected bidder, only partially obtained, or could not be located by the department.	If pre-conditions for award are not obtained by departments, a contract may be awarded to a supplier who does not meet the City's minimum requirements.
<b>Contract Finalization</b>	
<ul style="list-style-type: none"> <li>• 16 of 23 (70%) projects reviewed did not have an executed agreement, as currently required by the By-Law (<b>Note 4</b>).</li> <li>• 3 of 7 (43%) projects with executed agreements did not have a signature from the Chief Procurement Officer (CPO), as currently required in the By-Law (<b>Note 4</b>).</li> </ul>	<ul style="list-style-type: none"> <li>• Without an executed agreement, it may be difficult for the City to provide evidence of the goods and services owed by the supplier, as well as expected performance standards.</li> <li>• If the CPO does not sign invitational procurement agreements, there is a risk that unfavorable terms within the agreement will go undetected, particularly where the City's agreement template is not used.</li> </ul>

**Note 1:** The By-Law requires that "all procurement activities must be supported by appropriate documentation and all records relating to a procurement process must be retained." The City's *Retention Schedule* requires records related to tenders & quotations to be retained for seven years past the expiry date of the contract.

**Note 2.** RFP formats are used to procure goods, services, or construction when criteria in addition to price will be considered, and the bidder with the highest score is awarded the contract. Where an RFP format is used, bids must be evaluated by two representatives of the department, which must be retained.

**Note 3.** Pre-conditions are requirements that the bidder must satisfy prior to being awarded the contract, such as a Certificate of Insurance, WSIB Certificate, etc. Our scope of review did not evaluate whether specific pre-conditions could or should have been incorporated in the invitational projects reviewed, or how each department incorporated the pre-conditions listed in the Solicitation Document.

**Note 4.** Depending on the value and/or nature of work associated with each project, the risk associated with not executing a signed agreement may vary. However, the By-Law currently requires a signed agreement (including the CPO's signature) for all invitational projects.

26. Reasons for the observations noted above include:
- a) Lack of retention of communications/documents supporting procurement activities in a central location, such as a Shared Drive,
  - b) Lack of retention of communications/documents supporting procurement activities for the required retention period, as outlined in the City's *Retention Schedule*, and/or
  - c) Misinterpretation or lack of awareness of the requirements outlined in the By-Law and/or Procurement Manual. Clearer language in the By-Law may be required to better reflect Purchasing's expectations, such as when executed agreements (including the CPO's signature) are required.
27. The following inconsistencies were also noted during our review but are considered low risk:
- a) Instances noted in which an external party issued solicitation communications to suppliers on behalf of the City. However, subsequent communications were received and managed by a City employee.
  - b) Inconsistent use of a Solicitation Document by departments. Depending on the value and/or nature of work associated with each project, the risk associated with not using a Solicitation Document may vary. However, the By-Law and/or existing Purchasing policies and procedures do not specifically outline when this is not required.
  - c) Inconsistent use of Purchasing's Addendum template by departments to communicate project scope changes. However, for instances where the template was not used, the project changes were communicated via email to all suppliers at the same time.
  - d) Inconsistent issuance of selection notice to successful bidders by departments. However, the successful bidder would have been notified through the issuance of a PO.
  - e) Inconsistent issuance of notice to unsuccessful bidders.

*Incorporation of Pre-conditions for Award*

28. Our review identified that certain pre-conditions for award (requirements that must be satisfied by the bidder prior to awarding the contract) are not consistently incorporated into procurement activities by departments. The following table summarizes the inconsistencies noted:

Pre-Condition Type	Observation
Compliance with Accessibility for Ontarians with Disabilities Act (AODA)	11 of 23 (48%) invitational projects reviewed did not require the selected bidder to be AODA compliant.  Furthermore, of the 12 projects that did require AODA compliance, only 10 required the selected bidder to provide proof of registration and/or confirmation of completion of AODA training.
WSIB/WCB Clearance	2 of 23 (9%) invitational projects reviewed did not require the selected bidder to provide a WSIB or WCB Clearance Certificate. However, these projects were for consulting services, which may not require WSIB/WCB Clearance.
No pre-conditions specified	7 of 23 (30%) invitational projects reviewed did not specify any pre-conditions for award (i.e. Certificate of Insurance, WSIB Clearance, etc.).

29. The By-Law currently states that whenever possible, the City will incorporate AODA requirements into procurement activities. However, our review identified that there is limited formal guidance or training available to departments regarding how and when the requirements for AODA should be incorporated into procurement projects, which resulted in inconsistent incorporation by departments.
30. Our review did not evaluate whether specific pre-conditions (Certificate of Insurance, WSIB Clearance, proof of AODA compliance, etc.) could or should have been incorporated in the invitational projects sampled, or how the pre-conditions were incorporated by departments.

*Assessment of Invitational Competition Procurement Method*

31. In addition to an identified sample of invitational projects, our review included a sample of 10 vendors across City departments, for which multiple POs were created within the Period of Review and were self-identified in SAP as “Non-Competitive” (i.e. purchase was considered a LCP) by departments.
32. In combination, the total value of POs created within the Period of Review for each vendor sampled exceeded the LCP threshold of \$10,000 and appeared to be for the same project or goods/services category.
33. The objective of this sample was to evaluate whether the population of projects that should have followed the Invitational Competition process was complete.
34. The total PO value reviewed for these 10 vendors was **\$376,466**.
35. Based on interviews conducted with the appropriate department or project leads, our review noted that approximately **\$306,277 of \$376,466 (81%)** reviewed was either for recurring/frequent purchases that were expected by the department, or fell within the same scope of work (i.e. same project).

36. Based on the work performed and the current LCP threshold, departments should have followed a competitive process (i.e. invitational or open competition) for the POs identified or consulted with Purchasing to discuss the possibility of setting up a QSR or Supply Agreement.
37. Reasons for failure to identify invitational procurement requirements noted above include:
- a) Lack of consideration from departments as to whether the goods, services, or construction being procured are singular in nature or if they will be required on a frequent/regular basis, and
  - b) Inconsistent calculation of the total “Procurement Value” of a purchasing initiative. The By-Law defines “Procurement Value” as “the total value of the goods, services or construction being procured, including all costs.” However, it does not define the length of time departments need to consider (such as spend over a 3-year period, 5 year-period of the contract, etc.).
38. Observations identifying areas for improvement, recommendations and management’s response are summarized in Appendix “A” to Report to Finance and Responsible Governance dated September 27, 2023. The recommendations relate to the following areas:

Area	# of Recommendations
Low Cost Purchase (LCP) Threshold	1
Invitational Procurement Process Inconsistencies	1
Pre-conditions for Award Inconsistencies	1
Assessment of Invitational Competition Procurement Method	1
<b>Total</b>	<b>4</b>

**SADLON ARENA – EXAMINATION OF RECORDS (CONCESSION & ADVERTISING REVENUE)**

Background

39. The City of Barrie (the “City”) maintains a portfolio of 11 recreation/community facilities.
40. The Recreation & Culture Services Department is responsible for the maintenance and operation of these facilities. One of the recreation facilities owned by the City is the Sadlon Arena (the “Facility”).
41. There are two agreements pertaining to the Facility for advertising (the “User Agreement”) and concession (the “License Agreement”), under which the City receives a portion of advertising and concession revenues.

Objective

42. A review was performed to assess third-party compliance with the User and License Agreements and assess whether advertising and concession revenues reported to the City are adequately supported by exercising the City’s contractual right to examine records.



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## Methodology

43. The following procedures were performed for the period of January 1, 2018 – February 28, 2023 (“Period of Review”):
- a) Discussions with City departments (Recreation & Culture Services, Finance) and the tenant of Sadlon Arena (the “Sadlon Tenant”);
  - b) Review of applicable agreements pertaining to the Facility (User & License Agreements);
  - c) Data/trend analysis of concession and advertising revenue during the Period of Review;
  - d) Advertising:
    - Judgmental sampling of 25 advertisers based on contract value and/or physical observation of the signage inside the Facility to test for completeness and accuracy in comparison with amounts reported to the City;
  - e) Concession:
    - Identified months during the Period of Review where concession revenue was not reported or paid to the City and obtained documentation for these periods; and
    - Judgmental sampling of 6 months, based on gross concession revenue reported, to test for accuracy in comparison with amounts reported to the City.
44. Our review only included concession and advertising revenue. Other fees/charges covered under the User and License Agreements were not reviewed.
45. Underlying cash handling controls and procedures performed by the Sadlon Tenant were not tested for operating effectiveness, as that is outside the scope of the City’s contractual rights.

## Conclusion

46. Advertising Revenue  
Based on the procedures performed, advertising revenue reported to the City by the Sadlon Tenant is not accurate and/or complete.
47. Advertising revenue reports issued to the City by the Sadlon Tenant are based on internal records (such as handwritten notes on advertiser agreements rather than third-party documentation), and discrepancies were identified between the internal records and the advertising revenue reported to the City. In addition, advertising revenue reporting and payments for past seasons are outstanding and have not yet been received from the Sadlon Tenant.
48. Concession Revenue  
Concession revenue reporting and payments from September 2021 to June 2022 have not yet been received by the City from the Sadlon Tenant. However, based on the procedures performed, there is sufficient documentation prepared, filed, and retained by the Sadlon Tenant to support the concession revenue reports received by the City.
49. Implementation of Internal Audit’s recommendations will assist with the monitoring and validation of advertising and concession revenue reported and paid to the City.

## Findings

### *City’s Contractual Rights*

50. A review assessing third-party compliance with the advertising and concession revenues reported to the City under the User and License Agreements was requested by the General Manager of Community and Corporate Services in 2018. However, due to Internal Audit resource limitations as well as restrictions due to COVID-19, the review was postponed to 2023.

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51. As a result, this review was the first time the City exercised its contractual right to examine records to support advertising and concession revenues reported since the inception of both the current User and License Agreements.
  52. More frequent reviews performed through the City's contractual rights may be beneficial to assess whether the advertising and concessions revenues reported and paid to the City are in compliance with the User and License Agreements.

*Relief Measures due to COVID-19*

53. As a result of COVID-19, in 2020, the City implemented relief measures to City-owned facilities/spaces where commercial or other organizations/entities have operations and were unable to conduct business or generate revenues to offset their costs (Staff Report CCS002-20 dated September 14, 2020). The relief measures remained in place until July 1, 2021.

*Advertising Revenue*

54. Through the User Agreement, the City leases out certain portions of the Facility. Under the agreement, a portion of advertising revenue earned at the Facility by the Sadlon Tenant is paid to the City.

55. Limitations on Assessment of Accuracy & Completeness of Advertising Revenue

- a) **Advertising revenue reports & supporting records both prepared by the Sadlon Tenant:** Individual components of advertising revenue between the Sadlon Tenant and the advertiser (i.e. signage, sign production cost, ticket prices, etc.) were handwritten on the agreement by the Sadlon Tenant to identify the eligible portion for the City ("Eligible Advertising Revenue"). The amount of Eligible Advertising Revenue was not specified in the advertiser agreements.

The notes written on the agreement, as well as discussions with the Sadlon Tenant, were used to assess revenue that should have been reported and paid to the City. Our review compared the Eligible Advertising Revenue written on the agreement to the amount reported on the Corporate Sales Summary (a monthly report provided to the City summarizing the Eligible Advertising Revenue received by the Sadlon Tenant for the season).

However, as both the notes on the agreement and the Corporate Sales Summary reports are internal records prepared by the Sadlon Tenant, our review was unable to fully assess whether the total advertising revenue reported to the City was accurate and complete.

- b) **Advertiser agreements and/or further information requested but not received:** Certain advertiser agreements and/or further information on advertiser agreements provided were requested from the Sadlon Tenant but not received.

Although Eligible Advertising Revenue was reported to the City for agreements requested but not received, the Sadlon Tenant advised agreements did not exist for these advertisers during the Period of Review. For one advertiser agreement provided, further information was requested from the Sadlon Tenant to confirm whether an optional extension was exercised by the advertiser. However, confirmation was not received.

As a result, we were unable to assess **\$51,570** in Eligible Advertising Revenue either reported to the City or written on the advertiser agreement.

- c) **Relief measures due to COVID-19:** As of the date of this report, the most recent Corporate Sales Summary prepared by the Sadlon Tenant was for the 2019 – 2020 season.

As various credits and contract extensions to advertisers had to be applied due to COVID-19, Corporate Sales Summary reports for the 2020 to 2021, 2021 to 2022, and 2022 to 2023 seasons had not been prepared as of the review date. Thus, we were unable to perform testing on the advertising revenue reported to the City for these seasons.

56. Types of Consideration Received for Eligible Advertising Revenue

Based on the procedures performed, our review identified that in addition to cash consideration, the Sadlon Tenant also receives non-cash consideration (such as services or gift cards) for Eligible Advertising Revenue, which is not reported to the City. Only cash consideration received has been reported to the City.

57. Excluding non-cash consideration is inconsistent with the City's interpretation of the User Agreement, which is that all consideration received (including non-cash consideration) for Eligible Advertising Revenue should be included in the Sadlon Tenant's calculation of the City's portion.

58. Outstanding Advertising Revenue Reporting/Payments Owed to the City

Although the Corporate Sales Summary for the 2019 to 2020 season was prepared by the Sadlon Tenant summarizing the Eligible Advertising Revenue earned, the City's portion of Eligible Advertising Revenue has not been paid to the City as of the date of this report.

Further, Corporate Sales Summary reports for the last two seasons (2021 to 2022, 2022 to 2023) have not yet been reported or paid to the City as of the date of this report. During the 2020 to 2021 season, the City was not entitled to a portion of the Eligible Advertising Revenue due to the relief measures implemented in Staff Report CCS002-20 (dated September 14, 2020).

Thus, the City's portion of Eligible Advertising Revenue for **three** seasons (2019 to 2020, 2021 to 2022, and 2022 to 2023) has not been paid to the City.

59. Advertising Agreements Reviewed

Based on the agreements we were able to assess, our review identified discrepancies between the Eligible Advertising Revenue written on the advertiser agreement by the Sadlon Tenant and the amount reported to the City.

60. A net total of **\$19,296** (not including HST) in Eligible Advertising Revenue (for which the City is entitled to a portion) was determined to be underreported to the City for the 2017 to 2018, 2018 to 2019, and 2019 to 2020 seasons, based on the sample of advertiser agreements assessed. However, given the various limitations of our assessment (i.e. advertiser agreements requested but not received, Corporate Sales Summary reports not yet issued by the Sadlon Tenant), this total is likely greater.

61. Of 25 advertisers reviewed, 17 (68%) had discrepancies.

- For 13 of 25 (52%) advertisers, the Eligible Advertising Revenue reported did not match the notes written on the advertiser agreement;
- For 2 of 25 (8%) advertisers, Eligible Advertising Revenue was received by the Sadlon Tenant based on the notes on the agreement, but no revenue was reported or paid to the City; and
- For 2 of 25 (8%) advertisers, advertising revenue was reported and paid to the City, for which the City was not eligible.

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62. Reasons for the above discrepancies include the following:
- a) The sign production cost was incorrectly deducted from the Eligible Advertising Revenue amount, as the sign production cost had already been removed from the Eligible Advertising Revenue amount; and/or
  - b) Clerical/data entry error.

*Concession Revenue*

63. Through the License Agreement, the City allows the Sadlon Tenant to manage and operate the food and beverage facilities within Sadlon Arena. Under the agreement, a portion of gross concession revenue earned at the Facility by the Sadlon Tenant is paid to the City.
64. Concession Revenue Earned but not Reported  
Our review identified that concession revenue was earned by the Sadlon Tenant from September 2021 to June 2022 at the Facility, but was not reported or paid to the City.
65. The City was aware the Facility was operational during these months but was unable to determine whether customers consumed food and beverage at the Facility due to evolving COVID-19 restrictions (i.e. capacity limits, masking protocols, etc.). However, no Rent Reconciliation Reports (reports prepared by the Sadlon Tenant summarizing monthly gross concession revenue earned, including the events that occurred) or concession revenue payments were received by the City.
66. The Sadlon Tenant advised that the City's portion of concession revenue was not owed due to the COVID-19 relief measures implemented in Staff Report CCS002-20 dated September 14, 2020, which is inconsistent with the City's interpretation. However, we note the Sadlon Tenant accrued an outstanding payable to the City in their accounting system for the City's portion of concession revenue from September 2021 to June 2022 but did not issue any payments to the City as of the date of this report.
67. Our review calculated that the City's portion of concession revenue earned by the Sadlon Tenant from September 2021 to June 2022 totaling **\$50,717** (not including HST) is owed to the City.
68. Rent Reconciliation Reports Reviewed  
For months within the Period of Review where the City received Rent Reconciliation Reports from the Sadlon Tenant, 6 months were judgmentally sampled based on the amount of gross sales reported.
69. For all months reviewed, gross sales reported to the City were supported by Daily Profit/Loss Statements from the Sadlon Tenant's accounting system, Daily Cash Reports, and/or Point of Sale (POS) records/receipts.
70. Summary of Observations  
Observations identifying areas for improvement, recommendations and management's response are summarized in Appendix "B" to Report to Finance and Responsible Governance Committee dated September 27, 2023. The recommendations relate to the following areas:

Area	# of Recommendations
City's Contractual Rights	1
Advertising Revenue	3
Concession Revenue	1
<b>Total</b>	<b>5</b>

## **FRAUD PREVENTION MONTH**

### Background

71. 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 that organizations increase awareness of fraud.
72. 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

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

### Methodology

74. 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

75. 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.

## **ONTARIO MINISTRY OF TRANSPORTATION - DRIVER CERTIFICATION PROGRAM**

### Background

76. The purpose of the Ontario Ministry of Transportation (MTO) Driver Certification Program (DCP) is to allow participating organizations to conduct their own driver training and testing on behalf of the MTO.
77. As a participant in the DCP, the City of Barrie is authorized to administer MTO testing for employees who require a licence renewal to operate City vehicles as part of their regular duties. This ensures City vehicles are operated by competent drivers who have been properly trained and possess the appropriate licence in compliance with Ministry legislations, as well as City of Barrie policies and procedures. It also eliminates the travel and wait times that would otherwise be incurred by employees to attend an MTO Drive Test Centre to complete their renewal.

78. In August 2023, MTO requested updates to the 2022 Specified Procedures Inspection completed by the City of Barrie.

Objective

79. To complete updates to the previously submitted inspection required by the MTO in connection with licensing requirements for the City of Barrie.

Methodology

80. The following activities were performed:
- a) Completion of requested procedures in the MTO DCP Inspection Program;
  - b) Review of relevant DCP policies and documents;
  - c) Meetings with management and staff in Fleet Services; and
  - d) Submission of updated inspection results to the MTO.
81. The next required inspection for the City of Barrie's DCP activities is due to the MTO in 2024.

Conclusion

82. No new infractions were noted in the additional procedures performed and the updated inspection results were submitted to the MTO on August 29, 2023. One Minor Infraction and One Major Infraction noted during the 2022 inspection have now been addressed by the City.

**ENVIRONMENTAL AND CLIMATE CHANGE IMPACT MATTERS**

83. There are no environmental and/or climate change matters related to the recommendation.

**ALTERNATIVES**

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

**FINANCIAL**

85. There are no immediate financial implications for The Corporation related to this Staff Report.

**LINKAGE TO 2022-2026 STRATEGIC PLAN**

86. The information and recommendation included in this Staff Report supports the following goal identified in the 2022-2026 Strategic Plan:
- Responsible Governance
87. Implementation of the recommendations identified in the Internal Audit projects will achieve enhanced processes and controls to protect the City's assets as well as find efficiencies in the delivery of services to improve financial stewardship.

**Appendix “A” – Invitational Procurement  
Observations, Recommendations and Management Response**

Observation	Recommendation	Management Response
<p><b>1. Low Cost Purchase (LCP) Threshold</b> Although the By-Law is reviewed every five years, or earlier as deemed appropriate by the Chief Procurement Officer (CPO) or Council, the LCP threshold of \$10,000 has not been increased since 2013.</p>	<p>Purchasing should evaluate whether the LCP threshold needs to be increased to reflect the increase in costs since 2013.  Any changes should be reflected in the Procurement By-Law and/or Procurement Manual.</p>	<p>Agreed, Finance and Purchasing staff will be bringing forward a report to Council in the Fall of 2023 with some recommended updates to the Procurement By-law, which will balance risk and efficiencies to ensure the City’s taxpayers receive best value in LCP purchases.</p>
<p><b>2. Invitational Procurement Process Inconsistencies</b> Inconsistencies were identified in the execution of the invitational process throughout various stages of the procurement lifecycle, including bid solicitation, bid evaluation, contract award, and contract finalization.  Inconsistencies were caused by: a) Lack of central record retention of communications/documents supporting procurement activities, b) Lack of retention of communications/documents supporting procurement activities for the required retention period, as outlined in the City’s <i>Retention Schedule</i>, and/or, c) Misinterpretation or lack of awareness of the requirements outlined in the By-Law and/or Procurement Manual.</p>	<p>Purchasing should develop supplemental training/guidance to communicate the Invitational Competition process requirements to departments, including record retention.  Purchasing should also consider adding clearer language to the By-Law to better reflect Purchasing’s expectations as to when executed agreements (including the CPO’s signature) are required.  Where applicable, this guidance should be referenced in the Procurement By-Law, Procurement Manual or in other simplified and user-friendly formats.</p>	<p>As part of the current By-Law review, Finance and Purchasing staff will update both the Procurement Manual and the By-law to ensure departments can easily and efficiently understand the invitational competition process, related record retention timelines, and expectations. The CFO and CPO will work with EMT to gain a commitment of departments to be proactive in reviewing and understanding the LCP processes. We will work with HR and departments to develop an onboarding process to educate new staff.</p>
<p><b>3. Pre-conditions for Award Inconsistencies</b> Inconsistencies were identified regarding the incorporation of pre-conditions for award (Certificate of Insurance, WSIB Clearance, etc.) into procurement projects by departments.  Furthermore, our review identified that there is limited guidance/documentation for departments as to how and when Accessibilities for Ontarians with Disabilities Act (AODA) requirements should be incorporated into procurement activities.</p>	<p>Purchasing should develop supplemental training for departments to communicate how and when certain pre-conditions should be incorporated into procurement projects.  Purchasing should also work with HR (Abilities &amp; Accessibilities Management) to develop training/guidance detailing how and when departments should incorporate AODA requirements into procurement activities.  Where applicable, this guidance should be referenced in the Procurement By-Law, Procurement Manual or in other simplified and user-friendly formats.</p>	<p>Finance and Purchasing will review and edit the Procurement Manual so departments can easily and efficiently understand when pre-conditions should be incorporated into procurement projects.  We will consult with HR, but with limited resources within Purchasing and HR, this initiative will most likely have to be deferred to next year.  We will consult with HR, but with limited resources within purchasing and HR, any updates to the By-law or Procurement Manual for AODA requirements will be deferred to next year.</p>



Observation	Recommendation	Management Response
<p><b>4. Assessment of Invitational Competition Procurement Method</b></p> <p>Instances were noted where departments failed to identify invitational competition requirements for certain procurement projects, which were caused by:</p> <ul style="list-style-type: none"><li>a) Lack of consideration from departments as to whether the purchase was recurring/frequent in nature (i.e. repetitive procurement), and/or,</li><li>b) Inconsistent calculation of the total "Procurement Value" of a purchasing initiative.</li></ul> <p>Although the By-Law defines Procurement Value as "the total value of goods, services or construction being procured, including all costs," it does not define the length of time departments need to consider (such as spend over a 3-year period, 5 year-period of the contract, etc.).</p> <p>As a result, purchases that should have followed a competitive process or involved consultation with Purchasing utilized a non-competitive process.</p>	<p>Purchasing should develop supplemental training or documentation for departments detailing the factors to consider when determining which procurement method (i.e. non-competitive, invitational, etc.) is best suited for a procurement project.</p> <p>Where applicable, this guidance should be referenced in the Procurement By-Law, Procurement Manual or in other simplified and user-friendly formats.</p>	<p>As part of the current By-law review, Finance and Purchasing staff will update both the Procurement Manual and the By-law to ensure departments can easily and efficiently understand which procurement method to use. The CFO and CPO will work with EMT to gain a commitment of departments to be proactive in reviewing and understanding the various procurement methods. As well, we will work with HR and departments to develop an onboarding process to educate new staff.</p>



**Appendix “B” – Sadlon Arena – Examination of Records  
 Observations, Recommendations and Management Response**

Observation	Recommendation	Management Response
<p><b>CITY’S CONTRACTUAL RIGHTS</b></p> <p><b>1. This review was the first time the City exercised its contractual right to examine records.</b></p> <p>In 2018, the General Manager of Community and Corporate Services requested a review of the Sadlon Tenant’s records to support the advertising and concession revenues reported. Due to Internal Audit resource limitations as well as restrictions due to COVID-19, this review was postponed until 2023.</p> <p>Prior to this review, the City had not exercised its contractual right to examine records to support the advertising and concession revenues reported since the inception of both the current User and License Agreements.</p>	<p>The City should exercise its contractual right to examine records on a regular basis to assess whether advertising and concession revenues reported and paid to the City are in compliance with the User and License Agreements.</p>	<p>This recommendation is supported by Management.</p>
<p><b>ADVERTISING REVENUE</b></p> <p><b>2. Non-cash consideration received by the Sadlon Tenant for Eligible Advertising Revenue.</b></p> <p>Our review identified that in addition to cash consideration, the Sadlon Tenant also receives non-cash consideration (i.e. services, gift cards) for Eligible Advertising Revenue, which has not been reported to the City.</p> <p>Excluding non-cash consideration is inconsistent with the City’s interpretation of the User Agreement, which is that all consideration received for Eligible Advertising Revenue should be included in the Sadlon Tenant’s calculation of the City’s portion.</p>	<p>The City should work with the Sadlon Tenant to identify and collect the City’s portion of non-cash consideration received (i.e. services, gift cards) for Eligible Advertising Revenue.</p>	<p>This recommendation is supported by Management.</p>



Observation	Recommendation	Management Response
<p><b>3. Outstanding advertising revenue reporting/payments owed to the City.</b></p> <p>Although the Corporate Sales Summary for the 2019 – 2020 season was prepared by the Sadlon Tenant summarizing the Eligible Advertising Revenue earned, the City's portion of Eligible Advertising Revenue has not yet been paid to the City as of the date of this report.</p> <p>Further, Corporate Sales Summary reports for the last two seasons (2021 – 2022 and 2022 – 2023) have not been provided to the City. During the 2020 – 2021 season, the City was not entitled to a portion of the Eligible Advertising Revenue due to the relief measures implemented in Staff Report CCS002-20 (dated September 14, 2020).</p> <p>Thus, the City's portion of Eligible Advertising Revenue earned during three seasons (2019 – 2020, 2021 – 2022, and 2022 – 2023) has not been paid to the City.</p>	<p>The City should work with the Sadlon Tenant to collect the City's portion of Eligible Advertising Revenue for the three seasons owed (2019 – 2020, 2021 – 2022, and 2022 – 2023).</p>	<p>This recommendation is supported by Management.</p>
<p><b>4. Advertising revenue reported to the City is not accurate and/or complete.</b></p> <p>Our review identified discrepancies between the Eligible Advertising Revenue written on the agreement by the Sadlon Tenant and the amount reported to the City.</p> <p>Reasons for discrepancies included:</p> <ul style="list-style-type: none"> <li>• The sign production cost being incorrectly deducted from the Eligible Advertising Revenue amount, as sign production cost had already been removed from the Eligible Advertising Revenue amount, and/or</li> <li>• Clerical/data entry error.</li> </ul>	<p>The City should continue to perform periodic physical observations of the signage inside the Facility, by comparing the signage observed at the Facility to the advertisers reported on the Corporate Sales Summary.</p> <p>If significant discrepancies are noted, the City should exercise its contractual right to examine records to support the advertising revenue reported.</p> <p>The City could also consider whether alternative advertising revenue sharing arrangements with the Facility (such as a flat fee rather than a portion of advertising revenue) may be beneficial.</p>	<p>Management will continue to perform periodic physical observations that have occurred since the inception of the current agreement.</p> <p>The recommendation to exercise the City's contractual right to examine records if there are significant discrepancies, is supported.</p> <p>As the current agreement (as extended) is expiring in the near future, the new agreement may provide opportunities for alternative arrangements related to advertising revenues. Management is willing to consider alternative arrangements to reduce the risk to the taxpayers associated with the variable natures of advertising revenues. It is important to note that this may limit the City's ability to</p>



Observation	Recommendation	Management Response
		negotiate with event promoters as concession revenues, temporary advertising and other revenue streams are often part of performance-sharing to host events.
<p><b>CONCESSION REVENUE</b></p> <p><b>5. Concession revenue earned not reported to the City</b></p> <p>Concession revenue earned by the Sadlon Tenant from September 2021 to June 2022 was not reported or paid to the City.</p> <p>The City was aware the Facility was operational during these months but was unable to determine whether customers consumed food and beverage at the Facility due to evolving COVID-19 restrictions. However, no revenue reporting or payments for concession revenue were received.</p> <p>The City's portion of gross sales from September 2021 to June 2022 was determined to be owed to the City.</p>	<p>The City should continue to work with the Sadlon Tenant to ensure that the City's portion of concession revenue earned is reported and collected each month.</p> <p>If no concession revenue is reported or received by the City for a particular month, the City should verify with the Sadlon Tenant that no concession revenue was earned.</p> <p>The City could also consider whether alternative concession revenue sharing arrangements with the Facility (such as a flat fee rather than a portion of concession revenue) may be beneficial.</p>	<p>This recommendation is supported by Management.</p> <p>This recommendation is supported by Management.</p> <p>As the current agreement (as extended) is expiring in the near future, the new agreement may provide opportunities for alternative arrangements related to concession revenues. Management is willing to consider alternative arrangements to reduce the risk to the taxpayers associated with the variable natures of concession revenues. It is important to note that this may limit the City's ability to negotiate with event promoters as concession revenues, temporary advertising and other revenue streams are often part of performance-sharing to host events.</p>