

File No.: 04-1000-20-2019-236

May 14, 2019

s.22(1)

Dear s.22(1)

Re: **Request for Access to Records under the Freedom of Information and Protection of Privacy Act (the "Act")**

I am responding to your request of April 8, 2019 for:

**Full texts of all audits from internal audit branch from May 18, 2018 to April 8, 2019 with a list of plan of all areas and topics due to be audited.**

All responsive records are attached. Some information in the records has been severed, (blacked out), under s.13(1), s.14 and 17(1) of the Act. You can read or download this section here: [http://www.bclaws.ca/EPLibraries/bclaws\\_new/document/ID/freeside/96165\\_00](http://www.bclaws.ca/EPLibraries/bclaws_new/document/ID/freeside/96165_00)

For part two of your request, the list of all areas and topics due to be audited by the internal audit branch is as follows:

2019 Audit Plan

1. VPL 2018 YE Financial Audit
2. VPD 2018 YE Financial Audit
3. Parks 2018 YE Financial Audit
4. Major Fund Audit - Sewer Utility Fund
5. Surprise Audit of Cash Handling and Management Oversight
6. Web-enabled Infrastructure Audit (Smart Devices)
7. Cyber Security Audit
8. Density Bonus Zoning
9. Civic Theatres Operational Review
10. Grants Programs
11. Freedom of Information Follow-up Audit
12. Physical Security Processes

Under section 52 of the Act, and within 30 business days of receipt of this letter, you may ask the Information & Privacy Commissioner to review any matter related to the City's response to your FOI request by writing to: Office of the Information & Privacy Commissioner, [info@oipc.bc.ca](mailto:info@oipc.bc.ca) or by phoning 250-387-5629.

If you request a review, please provide the Commissioner's office with: 1) the request number (#04-1000-20-2019-236); 2) a copy of this letter; 3) a copy of your original request; and 4) detailed reasons why you are seeking the review.

Yours truly,



**Barbara J. Van Fraassen, BA**  
**Director, Access to Information & Privacy**

[Barbara.vanfraassen@vancouver.ca](mailto:Barbara.vanfraassen@vancouver.ca)  
453 W. 12th Avenue Vancouver BC V5Y 1V4

\*If you have any questions, please email us at [foi@vancouver.ca](mailto:foi@vancouver.ca) and we will respond to you as soon as possible. Or you can call the FOI Case Manager at 604.871.6584.

Encl.

:ma



**CITY OF VANCOUVER**  
**INTERNAL AUDIT REPORT**  
***Beechwood Well Containment Cost Review***

**Distribution:**

Audit Committee  
KPMG

*Sadhu Johnston – City Manager*  
*Paul Mochrie – Deputy City Manager*  
*Francie Connell – Director of Legal Services*  
*Jerry Dobrovolsky – General Manager, Engineering Services*  
*Patrice Impey – General Manager, Finance, Risk Management*  
*and Supply Chain Management/CFO*

**EXECUTIVE SUMMARY**

April 23, 2018

In March 2016, the City contracted BC Groundwater Consulting Services Ltd. (Consultant) and Fyfe Well and Water Services (Contractor) to contain the uncontrolled aquifer flow at 7084 Beechwood Street. The City's project team adopted the following approaches:

- Contain the aquifer flow ensuring public safety as the top priority; and
- Perform a subsequent audit to verify work completed and payments made were in accordance with the Mutual Cooperation Agreements (contracts).

This audit was conducted to ensure all related expenses, rates and charges paid by the City were correctly calculated and applied in accordance with the contract terms. The audit also assessed whether the containment work was managed effectively.

The contractor's invoices were mostly compliant with the contract terms. However, the contractor incorrectly charged the City \$ 316,810 for additional daily labour and living allowances and a number of administration staff's hours. To effectively manage this type of project, staff responsible for invoice review and approval should ensure that they are fully conversant with contract terms.

Findings and recommendations have been discussed with appropriate management and responses incorporated in this report. The more significant findings and recommendations are:

**E.1 Recovery of Overcharged Amounts for Contracting Work**

Fyfe did not follow the agreed MCA contract terms and charged the City daily labour and living out allowances that were already included in the composite daily charge in the contract with the owner. This would result in recovery of overpayment by \$ 313,350.

**E.2 Recovery of Amounts for Consulting Work Performed Using Incorrect Hours**

The City should recover overcharges due to an incorrect rate used by the consultant. This would result in a repayment of \$3,460 to the City.

**E.3 Improve Invoice Review Process**

The Project governance model is considered satisfactory for any future similar emergencies. For future project, all City staff responsible for invoice review and approval should ensure that they are fully conversant with signed agreements and that all contract terms are understood.

Tony Hui, CPA, CA, CRMA  
Chief of Internal Audit

King Wan, MBA, CPA, CMA, CIA, CRMA  
Manager, Internal Audit Projects



## A. BACKGROUND

### ***September, 2015 - Uncontrolled Water Flow***

In the course of installing a geothermal well at 7084 Beechwood Street the owner employed an unqualified well driller and encountered uncontrolled aquifer<sup>1</sup> flow. The City treated this incident as an emergency and activated the Emergency Operation Centre (EOC) to monitor the water flow. The City was concerned that the water breach could damage other properties and become a risk to neighborhood safety. To obtain better situation awareness the City also liaised with the consultants and contractors hired by the property owner to stop the water flow. As this incident falls under the Forest, Lands and Natural Resource Operations (FLNRO) Ministry in B.C., the city maintained close contact with the FLNRO staff.

### ***March, 2016 - Shared Cost and Mutual Cooperation Agreements***

When the owner did not pay the work performed by the consultant and contractor, the latter threatened to stop working. The City acted immediately to prevent further risk of damage to infrastructure and neighboring properties by entering into a shared cost agreement with the provincial government.

Under the shared cost agreement with the Province of B.C., the province agreed to provide the City with a maximum amount of \$1 Million as its contribution toward 50% of estimate reasonable cost the City incurs in carrying out this project.

The City also signed Mutual Cooperation Agreements (MCAs) with BC Groundwater Consulting Services Ltd. (consultant) and Fyfe Well and Water Services (contractor), original consultant and contractor, to continue working on that site. The key messages in sections 2.5 and 2.6 of the MCA were:

*2.5 Vancouver now agrees that, despite any term to the contrary in each new Contract, Vancouver will make payment to each Contractor in accordance with the Original MCA as though the Design Contract and Work Contract had not been terminated by the Contractor and as though such Contracts remained in effect and the Owner was simply continuing to be in default of payment under same and accept the Contractor's performance of same.*

*2.6 For certainty, Vancouver and each Contractor agree that all references in each New Contract to it being "the entire agreement" and replacing all prior agreements and similar clauses will not have such effect on this MCA and this MCA continues to supersede and govern to the extent of any and all inconsistencies between the New Contract and this MCA.*

## ***Containment Management***

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<sup>1</sup> An **aquifer** is a geological formation or underground layer of rock, gravel, sand or silt that contains groundwater that can be brought to the surface through water well.



Management of the containment work relied mainly on the consultant's supervision over the contractor, as the specialized hydrological expertise is not available at the City.

The City assigned staff from Legal Services, BPPS, Engineering and Finance to monitor the work completed and review submitted expenses from the consultant and contractor. The responsibilities of the departments involved were as follows:

**Legal Services:**

- provided legal advice.

**Business Planning and Project Support (BPPS):**

- coordinated City departments' work with the contractors to keep the containment work going;
- proposed any contingency plans if the owners stopped paying for the remediation; and
- reviewed, coordinated and forwarded the invoices to Engineering for final check, authorization and payment.

**Engineering Liaison:**

- ensured that work performed by the consultant and contractor were essential to contain the well flow and to close the borehole;
- attended the worksite regularly to monitor work progress;
- conferred with the consultant and contractor on work issues;
- reconciled their invoices to daily work and equipment usage records for any discrepancies; and
- approved their invoices for payment.

**Budget Office from City Finance, Risk and Supply Chain Management:**

- tracked all the expenses; and
- provided updates on the expenditures incurred periodically.

### ***Containment Costs***

Containment costs rose from an initial estimate of \$ 2.5 Million in early 2016 to \$ 11.8 Million by February 2018. To ensure work performed was necessary from an engineering perspective, an external peer review was completed to provide quality assurance. Engineering also conducted regular site inspections and approved the work performed.

A revised cost estimate was developed by BPPS working with the consultant and contractor in late 2016 when the feasibility of a permanent closure could be accurately determined. The project is entering its final phase as the water flow has stopped. The closure will be monitored for a minimum required period ensuring it does not breach its seal. A further estimated \$ 940,000 will be incurred by the end of 2019 for leakage monitoring and decommissioning costs. Total cost to the City is projected to be \$ 12.7 Million less a financial contribution of \$ 1M from the Province of B.C.

### ***Supplemental Supporting Information***

Appendix A – Chronological Order of Events

Appendix B – Chronological Timeline of Containment Work Performed

Appendix C – Beechwood Invoice Approval and Payment Process

## **B. SCOPE**

Section 5.8 of the Professional Services Agreement between the City and BC Groundwater Consulting Services Ltd., and section 6.5 in the Construction Services Agreement between

the City and Fyfe Holdings Ltd. (contractor), provide the City the right to verify the accuracy and validity of all billings and payments made and to take extracts from the records of the consultant and contractor.

The audit reviewed the consulting and contracting services rendered and determined whether:

- Expenditures relating to consultant and contractor's agreements were accurately reported;
- Payments were made in accordance with the terms of the contract; and
- Consulting contracts were effectively managed to ensure the contract deliverables were achieved.

The audit is not designed to detect fraud. Accordingly, there should be no such reliance.

## **C. CONCLUSION**

The contractor's invoices were mostly compliant with the contract terms. However, the contractor incorrectly charged the City \$ 316,810 additional daily labour and living allowances and a number of administration staff's hours. To effectively manage this type of project, staff responsible for invoice review and approval should ensure that they are fully conversant with contract terms.

Findings and recommendations have been discussed with appropriate management and responses incorporated in this report.

## **D. RISK ANALYSIS**

The potential significant risks considered if controls were not in place are:

- Loss of public funds;
- Reduction of City service;
- Decrease in quality of City service that can be detrimental to citizens, infrastructure and/or the environment;
- Charges by vendors are not in accordance with contract terms;
- Inability to achieve City objectives and mission; and
- Erosion of public confidence.

## **E. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

### **E.1 Recovery of Overcharged Amounts for Contracting Work**

The MCA specified that the City would pay Fyfe as though the original contract between the owner and Fyfe had not been terminated and such original contract remained in effect. Fyfe did not follow the agreed MCA contract terms and charged the City daily labour and living out allowances that were already included in the composite daily charge in the contract with the owner.

Appendix to the contract dated October 15, 2015 between the property owner and Fyfe included a rate of \$9,500 per day that covers hourly work charges for equipment and crew as well as a living out allowance (LOA).

However, invoices submitted by Fyfe to the City included charges for LOA amounts, over and above the \$9,500 daily rate. s.17(1)

s.14

s.13(1)

s.13(1)

**E.1.1 Recommendation:** That the Director, Legal Services, work with Engineering and Finance to communicate the finding of the overpayment to Fyfe and use all reasonable means to recover the overcharged amount from Fyfe. This should be completed by December 31, 2018.

**Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendation

☐ Disagree with the recommendation

**E.2 Recovery of Amounts for Consulting Work Performed Using Incorrect Hours**

The contract with BC Ground Water Services Ltd. ("BCGWS") included two administration fees of 15% and 5%. The 15% administration fee is in lieu of minor itemized charges such as telecommunications, printing courier, bookkeeping, and other overhead. The 5% administration fee is for Contract Administration.

Review of invoices submitted revealed the following discrepancies:

1. Administration hours were charged in addition to the 15% administration fee

As the administration fee covers bookkeeping and other overhead, invoices # 2017-88 and 2017-112 below included 23.5 hours of clerical staff time that should not have been charged. Clerical staff hours were not charged in all prior invoices.



Invoice #	Hours Charged as Technician (T)	Hours Should be	Clerical Hours incorrectly Charged	Rate used	Overcharge
2017-088	50(T)	27.5(T)	22.5(T)	s.17(1)	
2017-112	1(T)	0	1		

2. Incorrect rates and hours were charged for some technical staff.

Invoice #	Hours Charged as Technician (T) or Hydrologist (H)	Hours Should be	Difference in hours	Rate used	Overcharge / (Undercharge)
2017-100	41(H)	23(H)	18(H)	s.17(1)	
	13(T)	18(T)	-5(T)		

s.14

**E.2.1 Recommendation:** That the Director, Legal Services, work with Engineering and Finance to communicate the finding of the incorrect charges to BCGWS and use all reasonable means to recover the overcharged amount from BCGWS. This should be completed by December 31, 2018.

**Management Response:**

Please check one:

☒ Agree with the findings

☐ Disagree with the findings

Please check one:

☒ Agree with the recommendation

☐ Disagree with the recommendation

**E.3 Improve Invoice Review Process**

Project Governance Established

Governance of the project was established at the outset. The City activated the Emergency Operating Centre to manage the Beechwood aquifer emergency and assigned staff from Engineering, BPPS, Finance and Legal Services to monitor the consultant and contractor work.

Public Safety as a Priority

At the time of the water breach the safety of residents and speedy resolution of the flowing borehole was of paramount concern. City staff deferred to the expertise of the Consultant to

do the work and a peer review by another hydrologist to provide quality assurance. Engineering monitored and conducted reviews throughout the project to ensure that the work was necessary for the drilling and containment of the borehole.

#### Contract Provision, Invoice Review and Payment Approval Process

The Mutual Cooperation Agreement provided a right to audit clause. Responsibility for invoice verification and payment was assigned to BPPS and Engineering staff. BPPS staff reviewed, coordinated and submitted the invoices to Engineering for final check, authorization and payment. While it is generally preferable to fully review all invoices prior to payment, BPPS and Engineering staff indicated that while there was concern with the invoice accuracy, they reviewed and approved invoices with the knowledge that any payments would be subject to a later audit. According to Legal Services, the questioning of invoices would have created records adverse to the City's legal interests in placing the costs as a tax lien against the property. Thus, the project team agreed jointly to review and approve all invoices that appeared to be substantially correct.

#### Audit Findings

- a) The Beechwood Well Containment Project governance model should be considered as satisfactory for any future similar types of emergencies.
- b) Review of contractor and consultant invoices indicated that there were incorrect charges. To effectively manage this type of project, staff responsible for invoice review and approval should ensure that they are fully conversant with contract terms.
- c) This incident, although unique, would serve as a lesson learned for future similar occurrences.

**E.3.1 Recommendation: The Deputy City Manager should ensure for future projects that all departmental staff involved with the contract approval process are fully conversant with the contract terms. This should be communicated to all City Project Management offices as soon as possible or by September 30, 2018.**

#### ***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendation

☐ Disagree with the recommendation

***Management Action Plan: Deputy City Manager - I will issue the recommended communication prior to September 30, 2018.***

#### **E.4 Leverage the Costs Spent to Remediate 7084 Beechwood Street**

The City spent over \$12 Million to contain the flow of the aquifer. Because of the Council resolution that declared the flowing aquifer to be a nuisance, these costs can be recovered from the owner by adding them to the taxes on the property or recovering them as a debt. However, this amount far exceeds the value of the property. The property owner may not repay the City for the funds expended.

As drawing water from this aquifer is straightforward with the completed depressurizing and monitoring wells, the following options are being considered by the project team:

1) As the City does not have ready access to a water source in the south part of Vancouver, this location could serve as an operational site providing access to water in either a natural or manmade disaster/emergency. Engineering is considering such use for this facility; and

2) Another option (or possible concurrent option) to complete the acquisition of the property by tax sale and then use it as water well source as well as a single family housing site.

**E.4.1 Recommendation: The City Engineer should consult with Legal Services, Finance, REFM, Vancouver Fire & Rescue Services and Emergency Management to assess all possible options for the site, including redevelopment and/or sale, as well as an extension to the Dedicated Fire Protection System (DFPS). This review should be completed by December 31, 2018.**

***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendation

☐ Disagree with the recommendation

***Management Action Plan: City Engineer - We have assigned Cael Hopwood to project manage implementation of Recommendation 4.***



## Appendix A

### CHRONOLOGICAL EVENTS OF CONTRACTUAL AGREEMENTS

29 September 2015

Property owner entered into a letter of agreement with BC Groundwater Consulting Services Ltd. to assemble a reliable contractor team and to supervise work to assess and control the uncontrolled water flow created by an unqualified driller.

15 October 2015

BC Groundwater Consulting Services (BCGWS) provided a cost estimate to the owner in the amount of \$300,000 to perform this work.

In turn, Fyfe Well & Water Services (Fyfe) of Qualicum Beach, BC, was contracted by BC Groundwater Consulting Services Ltd. to control the flow and Fyfe's estimate for phase 1 for \$250,000.

3 December 2015

Fyfe reported that the borehole was flowing out of control. The City's storm-sanitary sewer was not able to cope with the increase in water flow directed to the Beechwood catch basin. As well, the high turbidity water typically generated during drilling activities was no longer permitted to be pumped into the Beechwood discharge location.

Thus, additional drilling was needed to install one or more depressurized wells to stop the flow in the out-of-control flowing borehole and a temporary pipeline was needed to convey all water generated from the Beechwood property to another sanitary sewer approved by the City.

The estimated cost associated with the foregoing construction increased by an additional \$236,000 per a notice to the owner.

20 January 2016

A City council resolution declared the flowing aquifer to be a nuisance authorizing cost of recovery by the City.

16 February 2016

The cost of containment continued to climb beyond the original estimates. A deposit by the owner of \$1,011,000 was expended. To ease the stress on the owner, BC Groundwater and Fyfe Well & Water Services (Contractor) agreed to apply a 50% discount to selected services (standby charge for equipment from \$9,000 to \$4,500 per day) from this point through to the end of the project. At the same time, BCGWS requested funds of \$600,000 in order to assure their services under the retainer agreement will continue.

As the project cost was escalating and the project still not completed the City was concerned that the cost and value of the property might cause the owner to abandon this work. In fact, the owner had defaulted on the most recently due payments.

11 March 2016

The City requested the Province to take action as necessary to stop or control the uncontrolled well, at the expense of the owner. The province declined and so the City requested the Contractor to continue to work under its contract with the owner on the condition that the City makes the payments to the Contractor which would have been made by the owner.

21 March 2016

The City then entered into an agreement with the Province to share some of the costs for the containment of the artesian well at 7084 Beechwood. The signed agreement has a cap of \$1,000,000 from the Province toward this project.

Once the City signed the agreement with the Province, it gave the green light to BC Groundwater and Fyfe to go ahead with continuing the remediation project.

In addition, the City entered into separate agreements with:

- 1) BC Groundwater Consulting Services Ltd. to develop a borehole controlling plan at 7084 Beechwood Street comprising of hydrogeology design, monitoring and supervising of the contractor and equipment required to complete these tasks; and
- 2) Fyfe Holdings Ltd. to work consisting of supply, installation, operation, maintenance, and de-commissioning of the well de-pressurization and closure as outlined in BCGWS Ltd.'s plan as well as monitoring and stabilization as required.

23 March 2016

An Amendment #1 to the original Mutual Cooperation Agreement (MCA) was created and signed by the Consultant, the contractor and the City that further spelled out the terms and conditions of the MCA.

It specified under the following sections that:

2.5 Vancouver now agrees that, despite any term to the contrary in each new Contract, Vancouver will make payment to each Contractor in accordance with the Original MCA as though the Design Contract and Work Contract had not been terminated by the Contractor and as though such Contracts remained in effect and the Owner was simply continuing to be in default of payment under same and accept the Contractor's performance of same.

2.6 For certainty, Vancouver and each Contractor agree that all references in each New Contract to it being "the entire agreement" and replacing all prior agreements and similar clauses will not have such effect on this MCA and this MCA continues to supersede and govern to the extent of any and all inconsistencies between the New Contract and this MCA.

## Appendix B

### 7084 BEECHWOOD STREET

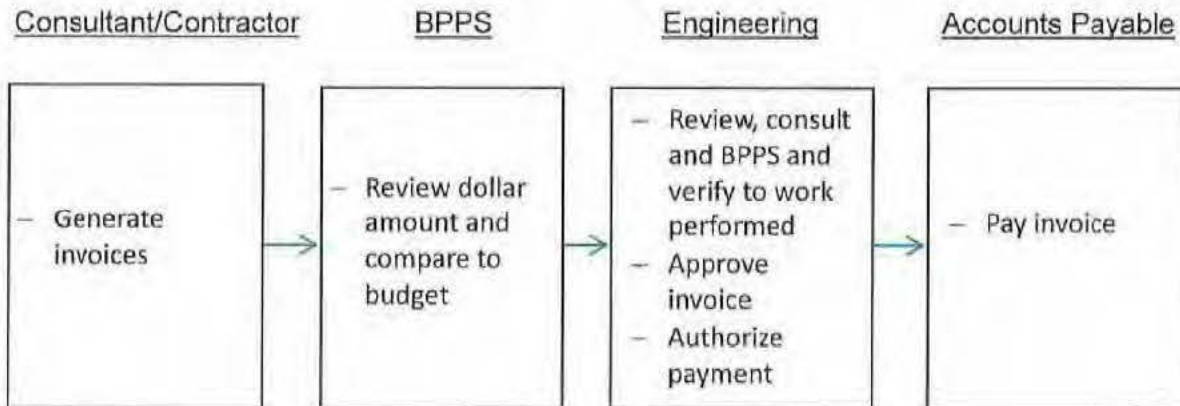
#### CHRONOLOGICAL TIMELINE OF CONTAINMENT WORK PERFORMED

Legend:	BCGW – BC Groundwater Consulting services FLNRO – Forest, lands and Natural Resources Operation FWWS – Fyfe Well and Water Service DW – Depressurization well MW – Monitoring well CoV – City of Vancouver
Sept 25, 2015	GeoEnergia loses control of the flowing artesian borehole
October 1, 2015	Landowner and builder receive order from City to close the well
October 3, 2015	BCGW prepares an action plan, also notified FLNRO
January 8, 2016	Landowner receives order from FLNRO to control the well
January 12, 2016	BCGW submits first diversion pipeline layout to City for approval
February 12, 2016	Landowner defaults on deposit
March 4, 2016	City issues final Street Use Permit
March 26, 2016	Road crossings completed and diversion pipeline tested & commissioned
April 1, 2016	City formally engaged BCGW and FWWS to proceed with depressurization well drilling and testing
May 2, 2016	Start of pumping tests
August 19, 2016	Combined depressurization test completed (DW1+2+3)
September 16, 2016	Fourth depressurization well (DW4) drilled
October 3, 2016	BCGW prepared an action plan; also notified FLNRO
December 5, 2016	Completion of the Relief/Depressurization Well System and Phase 1 Borehole Decommissioning Work Plan; the Phase 1 report was issued
April 25, 2017	BCGW issued to City and forwarded to the Phase 2 Decommissioning Plan (Cementing)
June 11, 2017	BCGW gave a progress update summary of the cementing results and forwarded to City of Vancouver and FLNRO
July 7, 2017	BCGW provided summary of completed deep cementing seal pressure testing and instruction to demobilize selected equipment



## Appendix C

### BEECHWOOD INVOICE APPROVAL AND PAYMENT PROCESS





# CITY OF VANCOUVER INTERNAL AUDIT REPORT Health and Safety Compliance Audit

**Distribution:**

Audit Committee  
City Leadership Team  
KPMG

Jerry Dobrovolsky – General Manager, Engineering Services  
Andrew Naklicki – Chief Human Resources Officer  
Darrell Reid – General Manager/Fire Chief  
Laurence Beatch – Director, Organization Health and Safety  
Andrew Ross – Manager, Organizational Safety  
Robert Bartlett – Chief Risk Officer

**EXECUTIVE SUMMARY**

October 29, 2018

The City strives to comply with WorkSafeBC regulations. It has an established health and safety policy, and various safety programs and Occupational Health Safety Committees in all City departments. The City improved its overall safety performance relative to other municipalities from paying a 4.5% surcharge on its WorkSafeBC insurance premium in 2015 to achieving a 14.6% discount in 2019.

Management has committed to address the following to improve health and safety operations and mitigate risk exposure:

- Formalize Human Resources Organizational Health and Safety (OHS) risk-focused inspections.
- Enforce adherence to electrical operations safety procedures, access and checklist provisions under the jurisdiction of Field Safety Representatives (FSR).
- Enhance safety onboarding and training to ensure timely delivery to staff.
- Establish timely interdepartmental sharing of critical health and safety information to minimize a variety of risks.
- Improve management of contractors working on City property to reduce potential liabilities to the City.
- Continue to monitor and upgrade Parklane Tracking system delivery to users.

The more significant findings and recommendations are:

**E.1 Improve General HR Health and Safety Delivery**

OHS, Human Resources, should improve its recently vitiated safety audit program by formalizing the inspection schedule and focusing on high risk safety areas.

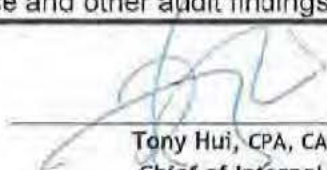
**E.2 Enforce Project Management Safety Regulations and Procedures**

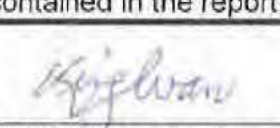
All electrical safety procedures, access and checklists must be approved and signed off by the Field Services Representatives prior to any electrical work being performed. Communicating this directive to all City staff is critical to its success and compliance.

**E3. Establish City-wide Client Management Policy & Procedures**

OHS, Human Resources, should expedite the development and creation of a policy of communicating and sharing information of hazards or risks to staff and patrons in compliance with WorkSafeBC requirements.

These and other audit findings and recommendations are contained in the report.

  
Tony Hui, CPA, CA, CRMA  
Chief of Internal Audit

  
King Wan, MBA, CPA, CMA, CIA, CRMA  
Manager, Internal Audit Projects



## **A. BACKGROUND**

### City's Mandate

The City of Vancouver is responsible for workplace health and safety of its staff, contractors and patrons. It aims to create a healthy and safe workplace by having an effective health and safety program and to meet all related requirements.

In the event of a workplace incident, the City has to demonstrate due diligence to WorkSafeBC and show that City staff took every reasonable effort to avoid illnesses, injuries or harm to its employees and contractors working on City sites.

### Human Resources Programs

The Human Resources department administers the health and safety programs in the City for all City Operation apart from Engineering. Organizational Health and Safety (OHS), Human Resources, provides the assurance and facilitates that, under WorkSafeBC regulations, the City:

- Meets First Aid Requirements;
- Manages risks at the workplace;
- Develops a health and safety program;
- Performs regular workplace inspections;
- Ensures workers are trained and oriented;
- Establishes and maintains a joint health and safety committee; and
- Investigates and reports incidents.

### Engineering Programs

Engineering administers the health and safety programs for its staff partnering with Human Resources on Corporate Safety matters<sup>1</sup>. Engineering has a dedicated safety branch that links with and collaborates with Corporate Health and Safety, and offers different expertise. Since 2015 Engineering has achieved and completed a number of major projects:

- Increased Driver Service to full CVSE<sup>2</sup> pre-and-post-inspection Compliance;
- Developed a driver safety program manual;
- Created a Safety Strategic Plan focused on a risk-based framework of high hazard functions;
- Worked with corporate health and safety on site safety audits; and
- Conducted reviews with all safety superintendents/management on violence prevention.

### Corporate Compliance Program

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<sup>1</sup> Please refer to the appendix on their achievements in the past three years.

<sup>2</sup> CVSE - Commercial Vehicle Safety Enforcement, a provincial body that oversees regulatory requirements for maintenance, safety and fleet equipment.



In 2017 Risk Management created the Manager, Corporate Compliance position to track, promote and report on corporate compliance related to legislation that applies to City operations.

With respect to health and safety, regular meetings are held between the Manager, Organizational Safety and Manager, Corporate Compliance. Organizational Safety informed Risk Management of their 2018 business plan and safety focus. Risk Management reviewed and provided feedback on existing safety documentation on the HR – Health and Safety website.

Organizational Safety uses information and suggestions from Risk Management to inform, develop and enhance processes and procedures.

#### WorkSafeBC Regulations

By law, the City must immediately notify WorkSafeBC (using the Prevention Information Line) in response to the following types of incidents:

- Serious injury to or death of a worker;
- Major structural failure or collapse of a building, bridge, tower, crane, hoist, temporary construction support system, or excavation;
- Major release of a hazardous substance;
- Blasting incident causing personal injury;
- Dangerous incident involving explosives (whether or not there is personal injury); and
- Diving incident, as defined by regulation.

The City is liable to financial penalties if it does not immediately notify WorkSafeBC for incidents that require notification.

#### Departments' Responsibilities

Individual departments are accountable to exercise due diligence, adhere to the City's Occupational Health and Safety Policy and comply with all law, regulations and legislation related to their operations.

In addition departments are responsible for:

- Onboarding training;
- Operation specific training development; and
- Safety Training Delivery.

## **B. SCOPE**

This audit focused on health and safety orientation, inspections, progressive discipline and investigations as well as City's compliance with the Workers Compensation Act, WorkSafeBC Occupational Health and safety Regulations, and the City's policy AE-010-02 Occupational Health and Safety. The objectives were to provide assurance that safety training, inspections and follow-ups are conducted effectively and in accordance to established standards.

Our work included:

- Assess City-wide health and safety policy;
- Review organization of Health and Safety sections and assess their roles/responsibilities with respect to City's policy and programs;
- Review City procedures to conform, monitor, report, investigate and follow-up on any infractions;

- Review orientation training programs and documentation records for new employees for completeness and adequacy;
- Review supervisor and manager training programs relating to their roles and responsibilities with regards to the health and safety programs and procedures;
- Review WorkSafeBC inspection reports and results. Follow-up to see if they are being investigated and actions taken in accordance with the regulations to mitigate further recurrence;
- Assess what actions are taken if infractions are not being addressed; and
- Examine incident logs and reports from audits performed by WorkSafeBC and City Organization Safety team to ensure that incidents are properly investigated, recorded, and reported to WorkSafeBC and City management.

The scope of this audit does not include Vancouver Police Department (VPD) as the VPD reports its health and safety incidents to WorkSafeBC directly.

The audit is not designed to detect fraud. Accordingly there should be no such reliance.

### **C. CONCLUSION**

The City strives to comply with WorkSafeBC regulations. It has an established health and safety policy, and various safety programs and Occupational Health Safety Committees in all City departments. The City improved its overall safety performance relative to other municipalities from paying a 4.5% surcharge on its WorkSafeBC insurance premium in 2015 to achieving a 14.6% discount in 2019.

Management has committed to address the following to improve health and safety operations and mitigate risk exposure:

- Formalize inspections by Organizational Health and Safety (OHS), Human Resources focusing on high risk safety areas.
- Enforce adherence to electrical operations safety procedures, access and checklist provisions under the jurisdiction of Field Safety Representatives (FSR).
- Enhance safety onboarding and training to ensure timely delivery to staff.
- Establish timely interdepartmental sharing of critical health and safety information to minimize a variety of risks.
- Improve management of contractors working on City property to reduce potential liabilities to the City.
- Continue to monitor and upgrade Parklane Tracking system delivery to users.

Findings and recommendations have been discussed with appropriate management and responses incorporated in this report.

### **D. RISK ANALYSIS**

The potential significant risks considered if controls were not in place are:

- Injuries or death to employees;
- Non-compliance to legislated regulations;
- Loss in productivity and reduced service to the public;
- Financial (higher insurance and replacement) costs to the City; and
- Loss of reputation as a healthy and safe workplace.

## E. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES

### E.1 Enhance General HR Health and Safety Delivery

Workplace Safety is a shared responsibility. The City's goal is to ensure all employees at work and those telecommuting at home stay healthy and safe. OHS, Human Resources, in partnership with Engineering's safety team, has been working to establish a culture where every supervisor and employee owns safety.

In 2018 OHS, Human Resources assigned a staff member to conduct Safety Management System audits in accordance with the British Columbia Municipal Safety Association audit protocol. One audit, a review of Civic Theatre's safety practices, has been completed with a second audit currently underway. Site inspections were also conducted to ensure safety and compliance to bring greater health and safety awareness to all City staff. As this is a new initiative by OHS, it could be further enhanced by formalizing an audit schedule of high risk areas in future.

#### Recommendation

**The Director of Organizational Safety, Human Resources, should formalize and complete a safety audit schedule for 2019 with a focus on high risk safety areas by 31 December 2018.**

#### ***Management Response: Director, Organizational Health and Safety, Human Resources***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

#### *Management Action Plan:*

Agree with findings and recommendations. The 2019 Safety Audit schedule is as follows:

Qtr 1: Recreation

Qtr 2: Warehouses

Qtr 3: REFM/Parks (Evans Yard)

Qtr 4: An Engineering Site / Location (To be selected in partnership with Engineering)

### E.2 Enforce Project Management Safety Regulations and Procedures

As property owner and employer, the City is responsible for the safety of employees and contractors at the workplace. City staff, contractors and sub-contractors must be aware of safety regulations, rules and protocols. Non-compliance of the above can result in risk and liability to the City.

Electrical panels or designated Electrical rooms at all City sites are the responsibility and jurisdiction of Field Safety Representatives (FSR). Access to electrical panels requires approval and the checklist being signed off by the FSR. Recently, a contractor was improperly provided access to an electrical panel by staff at the Burrard Civic Marina. The staff should have contacted the FSR and followed the established access control to restricted area protocol.

No one was hurt on this occasion. However, access to high risk area or equipment by unauthorized personnel could result in personal injury or service disruption.

All City project managers, staff, contractors and sub-contractors must be made aware of the protocol and procedures relating to contract management at City properties. Project Managers and other City staff bringing contractors or patrons onto City properties need to communicate any hazards, City safety procedures, and must provide ongoing oversight.

## **Recommendations**

**E.2.1 The General Manager, REFM, should re-iterate to all City Leadership Team members and their respective departmental staff emphasizing that Project Managers must ensure all contractors and City site staff are briefed in advance by the FSR's. It should also address the requirement that any work on existing electrical systems is reviewed and approved by the FSR prior to the work being carried out. This should be completed by December 31, 2018.**

**E.2.2 The Director, Organizational Health and Safety, should schedule an education session on the legal obligations related to the use of contractors. Required attendees should include Supply Chain Management, Legal Services, REFM leadership and Engineering staff. This should be completed by December 31, 2018.**

**E.2.3 The Director, Organizational Health and Safety, should update its training module and maintain it for use by all business units anticipated to use contractors. The update should be completed by June 30, 2019 and maintained on an ongoing basis.**

### ***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

### ***Management Action Plan:***

E2.1 REFM – Agree

E2.2 OHS - Agree. Educations session has been held / completed per the recommendations.

E2.3 OHS – Agree. Will form part of our 2019 Plan

## **E3. Establish City-wide Client Management Policy & Procedures**

WorkSafeBC considers the City as one employer and states that supervisors must communicate known threats and risks of violence to their employees. The requirement is to address threats and risks in advance to ensure employees at all City locations are notified of potential hazards and unsafe situations. This includes the need to communicate to staff from different departments and locations. Currently this Client Management and procedures policy does not exist. City sites where public regularly attend include Vancouver Public Library, the Park Board community centres and Arts, Culture and Community Services locations.

While there is a temporary measure and tracking feature available in VanDocs, no formalized communications procedures or Policy exists to ensure critical information is communicated to affected staffing compliance with this WorkSafeBC requirement. This places employees and the City at risk and financial penalties for non-compliance should an injury occur as result of this communications gap.

## Recommendation

### E.3.1 The Director of Organizational Health and Safety should initiate a process to:

- Meet with leadership from the Vancouver Public Library, the Park Board and Arts, Culture and Community Services to develop and create the Client Management Policy and procedures; and
- Provide target dates when the Policy and procedures are to be completed.

This meeting should occur by March 31, 2019

#### **Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

#### **Management Action Plan:**

- In the main, agree with findings. While we intend to work cooperatively with the Vancouver Public Library we recommend noting the Library is a separate employer as such from WorkSafeBC's perspective is not under our jurisdiction. This also adds complexities related to the sharing of private information that will need to be addressed in any solution.
- Recommend including Corporate Safety as shared owner.

### E.4 Improve Onboarding/Orientation Safety Section Training

Sound operational training and onboarding processes help the City achieve improved employee health and safety, increase productivity, and reduce WorkSafeBC premium (insurance payment). While initial safety onboarding is adequate, some seasonal and full time staff are only provided the necessary work-related safety training months into their job. There is room for improvement to provide timely training related to specific operational tasks.

Departments are accountable for onboarding their new staff including general safety awareness and operational training and delivery. Departments are also responsible to design and maintain specific training programs.

Education training for all supervisors and employees is crucial. Some departments have established training processes that are offered to their staff and some departments do not.

Organizational Safety is responsible to ensure Corporate Safety Programs are maintained and ensure departments are informed of their responsibilities.

## Recommendation

**E.4.1 The Director of Organizational Health and Safety, Human Resources, should ensure responsibilities for safety training are communicated and shared by all City Department operations. General Managers and the CHRO, or delegates, should ensure all required initial and ongoing safety training is developed and incorporated into all employees' work schedules . This should start as soon as possible or by/before June 30, 2019.**



**Management Response:**

Please check one:

☒ Agree with the findings

☒ Disagree with the findings

Management Action Plan:

- Agree with findings and however would vary the recommendations.
- Agree with ensuring there is a communication to operational leadership regarding safety training and accountabilities.
- The accountability for operations, positions and or site specific training development and the incorporation into work schedules belongs to each operation and their leadership teams. Organizational Safety should include compliance reviews in the audits and inspections we conduct.

Please check one:

☒ Agree with the recommendations

☐ Disagree with the recommendations

**E.5 Remediate Safety Issues Affecting VFRS**

A number of safety issues were identified at the Vancouver Fire & Rescue Services.

a) Cleaning of Personal Protective Equipment (PPE) "Turnout Fire Gear"

PPE needs to be cleaned after each fire call, testing or incidents that have PPE exposed to toxic chemicals and biological matters. Decontamination with a proper cleaning and testing of the PPE reduces the risk of carcinogens exposure to firefighters.

Some firefighters occasionally re-use their PPE without the PPEs being cleaned as there are not enough extra service ready PPEs available. Per VFRS OHS staff, even with more spare PPEs added to the inventory, the increased amount of turnaround time to clean, decontaminate and test still does not provide a relief to this situation.

b) Certification of staff at Operation of Oxygen and Air compressor filling stations

Some staff tasked to operate the oxygen compressor and the Self Contained Breathing Apparatus (SCBA) are trained but not certified. It is necessary that they are trained and certified to use the equipment to ensure compliance to safety procedures.

c) Provide Proper Physical Fitness Training Equipment/Space

Firefighters need to stay fit to serve in a very physically demanding and hazardous environment. Proper fitness equipment help firefighters keep fit and minimize injuries. Some older fire halls have limited space to conduct proper fitness programs. All planned future Fire Halls need to consider and address this space requirement.

d) Testing of Firefighting Equipment to Comply with Safety Requirements

Operational equipment such as SCBA masks need to be repaired and tested before use. The one-person dedicated resource was unable to keep up with repair demand. VFRS recently re-assigned cross-trained staff from firefighting operations (Suppression) to assist. Using "Suppression" firefighters in this role would impact fire operations. Management needs to reassess how this task should be dealt with to minimize risk to firefighters and still meet safety and operational requirements.

e) Mental Health and Wellness

Fire service personnel are frequently faced with post-traumatic stress/injuries due to extreme and cumulative exposures to very difficult emergency situations. HR has been working with VFRS and made positive changes to assistance available to Firefighters

with these challenges. According to VFRS, more support can still be provided to minimize the perceived stigma associated with mental health issues.

## Recommendations

**E.5.1 The Fire Chief should initiate a review of the above items with the aim of developing a plan to address them and setting target dates for their resolution. Where issues have been addressed, periodic reassessments should be taken to ensure they still meet current requirements. The review should start immediately and an action plan be prepared by March 31, 2019.**

### ***Management Response: Fire Chief, VFRS***

Please check one:

☒ Agree with the findings

☐ Disagree with the findings

Please check one:

☒ Agree with the recommendations

☐ Disagree with the recommendations

a. PPE clothing – Two cleaning/testing stations are currently in use. The UBC cleaning station has been delayed by over a year, but when it is operational (expected in Q1 – 2019); the cleaning turnaround time will decrease and place service ready PPE back into rotation faster. The new fire hall #5 will also add to the cleaning capability, reducing the turnaround time to replenish the resources. (projected to open Q2 – 2019) VFRS Training division has developed a new training program for the cleaning and testing of PPE and will be delivering this to the staff expected to perform these duties at the cleaning/testing locations in addition to their regular fire hall duties. We are also working closely with IT to develop a tracking solution for the inventory which will greatly assist us in accounting for the PPE. (expected to be operational Q2-2019)

b. Operation of Oxygen and Air compressors – VFRS training division has developed a new training course and is in the process of delivering this to the staff at the affected halls. Expected to be completed in Q1-2019

c. Physical Fitness Training – Supervised physical team activities are organized and we are continual monitoring results. Early analysis are showing a decline of fire-ground injuries as well as a noticeable improvement of morale and a positive impact on staff's mental health resiliency. Continued monitoring for effectiveness as well as staff engagement on future needs as we build/replace worksites

d. Testing of Firefighting Equipment to Comply with Safety Requirements – Operational equipment such as SCBA masks used by firefighters need to be repaired and tested regularly before deployment at a fire. Not all the masks/SCBA equipment is regularly being tested thus posing risks to firefighters. With the additional cross trained staff, we will be able to complete all required testing and maintenance. This will have an impact on the operational staffing due to the cross trained staff being utilized.

e. Mental Health and Wellness – Over the past year a new program provided by the EFAP provider designated as Trauma and Depression care has been assisting Firefighters struggling to cope with such trauma. In addition, the 2019 proposed budget has an additional solution to this escalating issue facing first responders. We are hopeful that the recommendation of a Phycologist is established early in 2019.

## **E.6 Clarify Governance and Ownership of Certain City Properties**

The City operates over 600 properties and other assets and has the responsibility for their maintenance and safe operation. The ownership for many of the assets is uncertain resulting in a safety risk. This is because some properties and assets are jointly operated with outside agencies or other city departments. An example is an eroding lamp post located in a park that poses risk to citizens if it falls and the uncertainty whether it is owned by REFM or Parks.

Issues such as ownership, site governance, and related responsibilities must be re-examined, resolved and clarified.

## **Recommendation**

**E.6.1 The General Manager of Real Estate and Facilities Management should work with other City departments and outside agencies to update the City's property list with the aim of determining the ownership and responsibility for their maintenance, capital replacement and safety requirements. Formal agreements should be drafted for all City operated facilities to ensure responsibility and accountability for these properties is assigned. This process should start immediately (updated from the current list), and maintained on an ongoing basis.**

### ***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

### ***Management Action Plan:***

Management agrees with the recommendation and has a strategy in place to develop Operating Level Agreements (OLAs) with all of REFM's key client Business Units. Work is already underway to develop an OLA with the Park Board, with expected completion in 2019 Q2, and the remaining departments will be completed in sequence. The OLAs will clarify roles and responsibilities related to asset stewardship, maintenance, capital replacement and safety for both REFM and its client departments. Additionally, it will include a defined prioritization methodology and related target response times, clear contact information and instructions, an agreed upon escalation process, and a sustainment process.

## **E.7 Post Implementation of Parklane Tracking System and Follow-Up**

Effective January 1, 2016 new legislation requires the City to conduct a preliminary incident investigation within 48 hours of the incident and a full investigation within 30 days.

To ensure compliance to this new requirement, the City's case management system provider Parklane developed an Incident Investigation Software. It is now approximately one year since the software's implementation. A post-implementation system software review confirmed the need for fine tuning and enhancements to improve user experience, and further strengthen the City's reporting, investigating, tracking and following-up processes.

The OHS, Human Resources, should solicit user feedback to determine if the enhanced Parklane software helps improve user experience and strengthen the system on incident investigation.

## **Recommendation**

**E.7.1 The Director of Organizational Health and Safety should ensure a user survey of the module related to incident investigations be conducted between 9 months and 1 year after implementation of the Parklane system enhancements. The objective is to confirm the system is performing as intended and is meeting user needs. Findings and recommendations should be shared with key user groups. This should be completed by September 30, 2019.**

***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

***Management Action Plan:***

- Agree with the finding and recommendation.
- As noted a user review was conducted and the identified needs have been responded to. Actions included system upgrades and a process for occasional system users in Recreation and ACCS to have assistance with entering data.
- A further review will be planned for Q3 2019 to confirm the recently completed enhancements are meeting user needs.
- Additionally ongoing real time feedback will be sought between now and Q3 to ensure any emerging urgent concerns are addressed as may be needed.

**E.8 Clarification of Corporate Compliance's Role**

Human Resources Department has the primary responsibility of administering all health and safety compliance activities in the City. In 2017 Risk Management created the Corporate Compliance function in the Finance, Risk and Supply Chain Management (FRSCM) Department under Risk Management. The Manager, Corporate Compliance stated that his role would be the "second line" defence to address the City's major compliance requirements and potential issues.

Corporate Compliance Function

The FRSCM website cites the Corporate Compliance's role is to ensure that staff comply with obligations that protect the City against:

- Physical harm to staff members;
- Reputational damage that may result from acting in non-compliance with legal requirements;
- Financial liabilities, including fines or penalties for non-compliance from other government or regulatory bodies;
- Exposure of employees to criminal or civil liability;
- Disruptions resulting from investigations.

Review of Safety Program and Issues

In the fall of 2018, the Manager, Corporate Compliance, presented a draft document to Organizational Safety based on their review of HR's website and indicated that he held meetings

with Organization Safety (OHS) in Human Resources. Organizational Safety reports that an informal meeting to discuss the draft document occurred but no next steps confirmed.

While there has been no final report or recommendation from Risk Management, Organizational Safety indicated that some items listed were already actioned and has also committed to address in 2018 others in the draft document.

#### Work between Corporate Compliance and other departments

There appears to be a lack of clarity of mandate and responsibility amongst the Corporate Compliance Group and other City departments.

While there is benefit in the work done by Corporate Compliance, there needs to be better communications between this group and all affected City departments. Roles and responsibility relating to compliance for various groups in the City has to be clarified and formalized to minimize duplication and overlap. The Manager, Corporate Compliance also indicated that clarity in his mandate, roles and responsibilities would assist him in his work.

### **Recommendation**

**E.8.1 The Chief Risk Officer should meet with the Director of Health and Safety in Human Resources to review the Corporate Compliance Officer's mandate with respect to health and safety. The objective of this meeting is to clarify the roles and responsibility for each group to minimize duplication, overlap and to improve process efficiency. This meeting should be held on or before February 28, 2019.**

#### ***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

#### ***Management Action Plan:***

Chief Risk Officer: Compliance function should seek formal confirmation of its mandate for its activities from the Risk Management Committee. The mandate should set out the scope of the group work including compliance's role to educate staff on their responsibilities related to compliance and the sharing of compliance tools and processes across the City.



## ***Appendix to Health and Safety Compliance Audit***

### ***Engineering Safety Organization***

Engineering has a dedicated safety branch that collaborates with Corporate Health and Safety, and offers different expertise, needs and concerns based on the volumes of high hazard works, number of personnel and operational requirements that must conform to engineering and public works industry standards, compared to risks and content in other parts of the City.

### ***Key Engineering Safety-oriented Activities Complete or Initiated in the Past Three Years***

#### Driver Services Compliance

Engineering is a certified maintenance facility and operator under Commercial Vehicle Safety Enforcement (CVSE), the provincial body that oversees regulatory requirements for maintenance, safety and fleet equipment. Engineering led a collaborative process in 2018 with Driver Services to address compliance concerns moving from less than 30% compliance to 100% compliance across all City Departments with CVSE pre and post fleet equipment inspections.

#### Driver Safety Program

Engineering authored a new driver safety program manual reflecting key sections required on facility maintenance and operations.

#### Safety Strategic Plan

Engineering developed a Safety Strategic Plan in 2016 and continues to utilize this plan to focus on a risk based framework of high hazard work. A secondary review for shared services was conducted in 2017 which identified ways to optimize resourcing and consider scope elements that could be reassessed, as well as recommendations to improve capacity, including considering external or temporary resources.

#### Site Safety Audit

In collaboration with corporate health and safety to focus on utilities location and compliance, several site audits were conducted with key findings and recommendations focused on consistency of training, providing in house training, and compliance at the site supervisory level.

#### Violence Prevention

Engineering participated in a two-day workshop with the Province on violence prevention and have completed a review with all the safety superintendents and management staff from operational safety in Engineering.



**CITY OF VANCOUVER**  
**INTERNAL AUDIT REPORT**  
**Homelessness Outreach Audit**

**Distribution:**

Audit Committee  
KPMG

Sandra Singh – GM, Arts, Culture & Community Services (ACCS)  
Ethel Whitty – Director, Homelessness Services  
Gracen Chungath – Director, Operations & Planning (ACSS)  
Esther Lee – Director, Financial Services  
Melanie Kerr – Director, Financial Services  
Judy Robbins – Director, Financial Planning & Analysis (ACCS)

**EXECUTIVE SUMMARY**

September 28th, 2018

The Homelessness Services Outreach program provides services to homeless or under housed residents of the Downtown Eastside through the Homeless Prevention Program jointly funded by BC Housing and the City of Vancouver. Program services include providing shelter, food, financial aid and access to housing resources.

The audit was initiated to provide reasonable independent assurance that the internal controls and business processes supporting the Outreach program were effective and in accordance with City policies and procedures.

In our opinion, internal controls over Outreach business processes are weak and require improvement. Overall, the Outreach program is meeting the objectives of the Homeless Prevention Program by providing rent supplements to secure and maintain housing for homeless clients. Management has proactively committed to addressing the recommendations in this report. Enhancing the payment process for rent supplements, adhering to established City processes for procurement, and strengthening documentation of Outreach expenses will improve the effectiveness and efficiency of business processes. Recommendations for improvement include the following:

**F.1 Improve process for issuing rent supplement payments**

Management has agreed to improve the rent supplement payment process to ensure housing units are secured in a timely, efficient manner and in compliance with established City financial policies.

**F.2 Enhance reconciliation and review of rent supplement payments**

Management has agreed to enhance the review process for rent supplements to prevent discrepancies, including attaching a detailed listing of rent supplements to facilitate the reconciliation and review process.

**F.3 Ensure purchases are made in accordance with Purchasing Policy**

Management has agreed that Outreach purchases will be procured in accordance with the City's existing Supply Chain management process and ensure assets of significant value are tracked and accounted for.

Findings and recommendations have been discussed with appropriate management and responses incorporated in this report.

Tony Hui, CPA, CA, CRMA  
Chief of Internal Audit

Jennifer Chow, CPA, CMA, CIA

## **A. BACKGROUND**

### Homelessness Outreach program services

The Homelessness Services Outreach program was formally established in 2016 as its own business unit within the City's Arts, Culture & Community Services (ACCS) department to provide support and resources to homeless or under-housed residents of Vancouver in an accessible manner. Prior to this, Outreach services were managed through the Carnegie Centre. Program services include:

- Engaging homeless residents and conducting needs assessments;
- Referral to housing options and assisting with ID applications;
- Operating winter response shelters to provide clients relief from cold weather;
- Providing financial aid through rent supplements to maintain housing; and
- Providing food through free / low cost meals and groceries.

### Annual budget of \$1.5M jointly funded by BC Housing and City of Vancouver

The program's \$1.5M annual budget is jointly funded by the City of Vancouver and BC Housing through the Homeless Prevention Program Support Services Agreement. The agreement was recently renewed in August 2018.

Financial aid is provided to clients in the form of housing rental supplements, moving expenses, or grocery gift cards. Details of financial aid provided to clients are stored in a BC Housing database. Key metrics are outlined in the agreement such as total number of clients served, number of clients maintaining housing, and number of first time clients served.

The Outreach program team is led by the Director, Homelessness Services and includes Planners, Outreach supervisors, and auxiliary Outreach workers. Demand for the program has increased in recent years, from over 1,200 clients served in 2013 to approximately 4,000 clients served in 2017:

<b>Outreach Metrics 2013 - 2017</b>					
<b>Item</b>	<b>Year 2013</b>	<b>Year 2014</b>	<b>Year 2015</b>	<b>Year 2016</b>	<b>Year 2017</b>
TOTAL number of clients served	1257	1866	2620	3609	4000*
TOTAL number of clients served for the first time – new to the service	695	1287	1689	1848	2027

\*Estimate provided by Outreach department

Internal Audit was engaged by the ACCS General Manager's Office to review the business processes supporting the Outreach program to determine adherence to the City's financial policies and identify any areas of improvement to ensure effectiveness and efficiency in delivering program objectives.

## **B. SCOPE**

The audit objectives were to review the following areas related to the Homelessness Services Outreach program:

- Process for issuing rent supplement payments to landlords for securing tenant occupancy;
- Tracking and reporting of housing outreach services provided;
- Procurement of goods for purposes of providing outreach services and approval process; and
- Reimbursement of petty cash claim statements and supporting documentation.

Our work included:

- Interviews with management and staff in the Homelessness Services Outreach program;
- Review of key housing agreements outlining Outreach services;
- Analysis of financial information and reports in SAP; and
- Review of purchase card and petty card statements including supporting receipts.

The audit is not designed to detect fraud. Accordingly there should be no such reliance.

## **C. CONCLUSION**

In our opinion, internal controls over Outreach business processes are weak and require improvement. Overall, the Outreach program is meeting the objectives of the Homeless Prevention Program by providing rent supplements to secure and maintain housing for homeless clients. Management has proactively committed to address the recommendations in this report. Enhancing the payment process for rent supplements, adhering to established City processes for procurement, and strengthening documentation of Outreach expenses will improve the business process effectiveness and efficiency.

Findings and recommendations have been discussed with appropriate management and responses incorporated in this report.

## **D. RISK ANALYSIS**

The potential significant risks considered if internal controls were not in place are:

- Inaccurate tracking of tenant rent supplements may lead to delayed, duplicate or incorrect rent payments;
- Expenditures that are not procured in compliance with City processes may lead to inefficient pricing paid for goods or services; and
- Purchases made for Outreach that are not accompanied by supporting receipts may result in misappropriation of funds.

## **E. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

### **E.1 Improve process for issuing rent supplement payments**

#### Rent supplements issued from employee bank account and reimbursed through petty cash

Rent supplements are a form of financial aid provided through the Homelessness Services Outreach program jointly funded by BC Housing and the City of Vancouver. Rent supplements are provided for individuals experiencing homelessness to secure or maintain housing. Under the current process, some rent supplement cheques are issued from an Outreach employee's personal bank account to the landlord on behalf of the tenant. The employee is reimbursed through the City of Vancouver's petty cash account on a monthly basis.

#### Petty cash reimbursement process

Total petty cash reimbursed for the Outreach program was \$184,535 in 2017 and \$119,496 in the first half of 2018. In general, we found the cheque amounts issued to be consistent with the rent supplements provided through BC Housing based on our sample review. For the period between January to June 2018, discrepancies between the cheque and petty cash amount were noted, totaling \$1,185 detailed in E.2.

The petty cash statement is manually prepared by an Outreach staff member, approved by the Director, Homelessness Services and submitted to Accounts Payable for processing. A paper copy of each rent supplement cheque is submitted with the petty cash statement. As there are an average of 40 rent supplement cheques per month that are cashed and submitted with the petty cash reimbursement form, the process can be time consuming and not an efficient use of resources.

#### Improve efficiency of current rent supplement process

Based on discussion with Outreach management, prior attempts to have the rent supplement cheques issued directly from the City's Accounts Payable department were not feasible due some landlords requiring a cheque to be issued the same day to secure tenant occupancy.

Issuing rental supplements through an employee's personal bank account carries significant risk and is not an acceptable practice from a financial control perspective. In addition, due to the manual and time consuming process of submitting monthly petty cash claims containing numerous rent supplement cheques, there is potential for data entry error that can result in incorrect reimbursement amounts (E.2).

#### Alternative efficient payment methods under review

Preliminary discussion with management in ACSS and Financial Services have indicated that both departments will be working towards a process to issue rent supplements in a more efficient manner and to minimize petty cash payments. Other payment methods that are already established within the City's financial processes include electronic funds transfer (EFT), prepaid deposits, or use of City purchase credit cards. In addition, the establishment of a City of Vancouver Outreach bank account may be an alternative to the current process, with a fixed limited balance for purposes of issuing monthly Outreach rent supplements. In order to ensure safeguarding of assets, appropriate signing authorities should be in place with at least two signing officers and a monthly reconciliation process.



## Recommendations:

**E.1.1 The Director, Homelessness Services should work with the Director, Financial Services to review payment methods for issuing rent supplements in a timely manner in accordance with City financial processes. This may include setting up landlords for EFT payments, prepaid deposits, use of City P-Cards, or establishment of a City of Vancouver bank account for purposes of issuing rent supplements through the Homelessness Outreach program. The review should be completed by December 31st, 2018.**

**E.1.2 The Director, Homelessness Services should work with the Director, Financial Services to ensure that the payment method chosen for issuing rent supplements are supported by appropriate financial controls such as signing authorities and a monthly reconciliation process. This should be in place by December 31st, 2018.**

## Management Response:

Please check one:

☒ Agree with the findings

☐ Disagree with the findings

Please check one:

☒ Agree with the recommendations

☐ Disagree with the recommendations

## Management Action Plan:

Director, Homelessness Services: E.1.1 and E.1.2 In Progress – The Director, Homelessness Services will work with Finance to review payment methods for issuing rent supplements in a timely manner. The processes already included are: setting up landlords for EFT payments, prepaid deposits, and use of City P-Cards. A COV bank account would need to have at least five signing officers with 2 required at any time to make sure we don't have a situation where holidays interfere with cheque issuance. Signing officers would include the Director, Planner 2, Planner 1 and two program supervisors. Completion of this action relies on active and committed engagement of the Finance team. This will be completed by December 31.

## E.2 Improve reconciliation and review of rent supplement payments

Review of petty cash statements and supporting documentation for the period between January to June 2018 identified instances where the amount claimed on the petty cash statement exceeded the amounts stated in the supporting documentation. There were six discrepancies totalling \$1,185 that was overpaid to an Outreach staff member and was not supported by sufficient documentation:

<u>Statement date</u>	<u>Cheque amount</u>	<u>Claim amount</u>	<u>Difference</u>	<u>Payee</u>	<u>Cheque date</u>	<u>Cheque #</u>
Apr-3-2018	\$275	\$400	(\$125)	Rose Hotel	Feb-1-2018	392
Apr-10-2018	\$325	\$375	(\$50)	Alexander Properties	Apr-1-2018	535
Apr-27-2018	\$130	\$170	(\$40)	Railyard Housing	Apr-17-2018	521
May-11-2018	\$400	\$650	(\$250)	Rose Hotel	May-1-2018	583
June-2-2018	\$405	\$750	(\$345)	Railyard Housing	May-29-2018	467

June-18-2018	\$0	\$375	(\$375)	Atira	-	-
	<b><u>\$1,535</u></b>	<b><u>\$2,720</u></b>	<b><u>(\$1,185)</u></b>	-	-	-

Following review and discussion with Outreach staff, it was determined that the overpayments were caused by manual errors in processing due to the volume of cheques submitted each month in addition to illegible handwriting on a cheque, different amounts owed to a landlord due to change in tenant, and one duplicate entry.

At the time of review there was no detailed listing of rent supplements attached to petty cash claims, only photocopies of cashed cheques. The inclusion of a detailed listing of rent supplements outlining the landlord, tenant name and amount would facilitate improved reconciliation and review of rent supplements to prevent further discrepancies in the future.

**Recommendations:**

***E.2.1 The Director, Homelessness Services should ensure that overpaid amounts for Outreach petty cash claims are reimbursed back to the City of Vancouver. This should be completed by November 30th, 2018.***

***E.2.2 The Director, Homelessness Services should implement an ongoing review and reconciliation of petty cash statements to ensure that amounts claimed match the supporting receipts. This should be in place by November 30th, 2018.***

***E.2.3 The Director, Homelessness Services should ensure supporting documentation of rent supplements including a detailed listing of cheque payments to landlords is attached to petty cash statements to facilitate review and reconciliation. This should be in place by November 30th, 2018.***

**Management Response:**

Please check one:

☒ Agree with the findings

☐ Disagree with the findings

Please check one:

☒ Agree with the recommendations

☐ Disagree with the recommendations

**Management Action Plan:**

Director, Homelessness Services:

E.2.1 Completed – The Director, Homelessness Services has completed the payment form for the overpaid amount and submitted to Accounts Payable for processing.

E.2.2 Completed - Review and reconciliation of petty cash statements with receipts is delegated to Admin and supervisory staff with signing authority. Petty cash amounts in the Homelessness Outreach program will be brought in line with typical signing authority limits when a remedy is found to E.1. Signing authority has been given to appropriate staff for petty cash reconciliation and two staff will reconcile the receipts to a list prepared by supervisory staff. This is currently in place. Signing authority limits for Natasha Wahi, Bob Moss, Alexandria Lane and Molly Coldwell can be found in SAP.

E.2.3 Completed

### **E.3 Ensure purchases are made in accordance with Purchasing Policy**

Purchase credit card (P-Card) transactions were reviewed for the period from December 2017 to June 2018 to ensure adherence to the City of Vancouver's purchase card policy. P-Cards are issued to staff for low dollar value purchases and are not to exceed \$2,000 per transaction and \$7,000 per month for each card holder.

#### Purchase of staff uniform jackets not in accordance with City Purchasing Policy

Initial review by Financial Services management identified P-Card transactions by Outreach staff for a purchase of 30 staff uniform jackets totaling \$15,120 which was split among four P-Card holders in December 2017. The transactions were approved by the P-Card administrator for Carnegie Centre, the Director, Homelessness Services, and the prior GM for ACCS. As split transactions are not allowed, these were not in compliance with current City purchasing policies.

Outreach management indicated that the jackets are required as staff uniforms for Outreach workers to perform their job duties engaging with homeless clients in cold winter conditions. Internal Audit noted that the jackets were not yet issued to staff at the time of review. All 30 jackets were embroidered with a visible City of Vancouver and Carnegie Centre logo.

In consultation with Supply Chain Management, the City's procurement policy requires that purchases over \$10,000 be acquired through the supply chain bid tendering process. As the total purchase amount exceeded this threshold, the jackets should have been procured through the supply chain management process rather than by P-Card to ensure strategic pricing is obtained.

As the staff uniform jackets are of significant value, there should be a process in place to track which jackets are assigned to regular Outreach staff or retained at the office on loan to auxiliary staff for the duration of their shift to ensure that all jackets are appropriately accounted for.

#### Purchase of staff computers

Review of P-Card transactions and petty cash statements in 2018 identified two laptops and one desktop computer totaling \$4,800 purchased for Outreach staff to perform work duties. These were purchased at London Drugs and a Microsoft retail store. Outreach management indicated that these were purchased during a recent move and Internal Audit physically verified the computers located at the Outreach office.

As the City of Vancouver has an IT Asset management program in place, requests for computers should be processed through the City's IT department to ensure strategic pricing, appropriate antivirus protection, and consistent warranties on equipment. In addition, computers purchased by departments should be added to the IT hardware asset inventory list for appropriate management of the asset lifecycle.

#### **Recommendations:**

***E.3.1 The Director, Homelessness Services should reiterate and communicate to staff that future Outreach purchases of significant value (eg. exceeding P-Card purchase limits) are procured through the Supply Chain Management process as per the Purchasing Policy. This should be in place by November 30th, 2018.***

***E.3.2 The Director, Homelessness Services should implement a process to track the assignment of Outreach staff uniform jackets to ensure jackets are accounted for. This should be in place by November 30th, 2018.***

***E.3.3 The Director, Homelessness Services should ensure that computer equipment purchases are made through the City's IT department and included in the IT asset inventory. This should be in place by November 30th, 2018.***

***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

***Management Action Plan:***

Director, Homelessness Services: E.3.1 and E.3.2 Completed

**E.4 Enhance tracking of metrics outlined in BC Housing agreement**

Homeless Prevention Program metrics

The Homeless Prevention Program Support Services Agreement is a joint agreement between BC Housing and the City of Vancouver to provide Outreach services in the form of rent supplements, food and shelter to those experiencing homelessness. The agreement was recently renewed in August 2018. The key metrics being tracked by the City of Vancouver Outreach program and reported in the City's annual performance measures report are:

- Total housing units secured;
- Number of clients being served; and
- Number of clients accessing services for the first time.

However there are additional metrics outlined in the agreement for which reporting data was not retained or tracked by Outreach:

- Number and percentage of clients who maintain housing;
- Number and percentage of clients that remain housed six months or longer; and
- Number and percentage of supported clients that remain housed six months or longer.

Rent supplement data entered by Outreach into BC Housing database

At the time of review, reports for the additional metrics noted above were not available for 2017 year end. As per discussion with Outreach management, detailed information for each tenants' rent supplement payment is entered in a BC Housing database in accordance with the joint agreement. Metrics reports are pulled by BC Housing as needed. Due to a recent system change to a new BC Housing database in late 2017, Outreach staff no longer have access to run reports directly from the BC Housing database.

As the Homeless Prevention Program is a joint initiative between BC Housing and City of Vancouver with shared metrics, Outreach should obtain access to all metrics information from BC Housing going forward.

***Recommendations:***



**E.4.1 The Director, Homelessness Services should follow up with BC Housing and obtain access to metrics information for all Outreach metrics outlined in the joint BC Housing agreement. This should be completed by December 31, 2018.**

**Management Response:**

Please check one:

☒ Agree with the findings

☐ Disagree with the findings

Please check one:

☒ Agree with the recommendations

☐ Disagree with the recommendations

**Management Action Plan:**

Director, Homelessness Services: E.4.1 – In progress - All documentation on rent supplements in the BCH data base is entered by, and can be retrieved by, Outreach team staff. However it is not possible to pull aggregate metric reports from the data base. We are working with BCH to encourage them to share with us the aggregate metrics which confirm we are meeting our contractual obligations with BCH. A formal letter will be sent by Sandra Singh or Abi Bond requesting aggregate metric data regarding the contract obligations for outreach services. COV collects its own information, through accounts payable, on how many rent supplements are provided on a one time basis and how many on an ongoing basis. See Attachment 11 – BCH COV signed contract Schedule C – monitoring and reporting.

**E.5 Ensure accurate General Ledger (GL) account recording of rent supplements**

Housing rent supplements are currently being incorrectly coded to GL account codes related to rental of auto equipment. For the period between January to July 2018, approximately \$90K was charged (see table below).

As per discussion with Carnegie Centre staff, there were no other GL accounts suitable for rent supplements when the program was initially established. As such, Carnegie Centre staff determined that charging rent supplements to auto equipment and parking rentals was the next best alternative.

Rent supplements from January to July 2018 were charged to the following accounts:

		<b>535080</b>		<b>535060</b>		<b>TOTAL</b>
<b>PETTY CASH</b>		<b>LONG-TERM</b>		<b>RENTAL -</b>		
<b>STATEMENT</b>		<b>EQUIPMENT/VEHICLE</b>		<b>PARKING</b>		
		(Rent Supplement -		(Rent Supplement		
2018		Ongoing)		- One Time)		
CCPC94 Feb 14		\$6,555		\$2,552		\$9,107
CCPC95 Feb 14		\$4,670		\$3,570		\$8,241
CCPC163 April 3		\$3,293		\$5,550		\$8,843
CCPC164 April 3		\$3,659		\$3,138		\$6,798
CCPC167 April 10		\$5,855		\$1,011		\$6,866
CCPC206 April 27		\$1,516		\$2,489		\$4,005
CCPC217 May 11		\$4,868		\$3,858		\$8,726
CCPC230 June 2		\$303		\$3,481		\$3,784

CCPC231 June2	\$0	\$3,399	\$3,399
CCPC232 June 2	\$0	\$2,390	\$2,390
CCPC233 June 2	\$2,345	\$1,847	\$4,192
CCPC262 June 18	\$1,754	\$8,506	\$10,260
CCPC298 July 16	\$5,723	\$7,306	\$13,029
<b>TOTAL</b>	<b>\$40,541</b>	<b>\$49,098</b>	<b>\$89,639</b>

Discussion with Financial Services indicated that rent supplements should be charged to a Rental expense account instead and the budget aligned to the same cost element going forward.

**Recommendations:**

***E.5.1 The Director, Homelessness Services should work with Financial Services to ensure that rent supplements are charged to the correct Rental Expense GL account and prior years are adjusted as needed. This should be in place by December 31, 2018.***

**Management Response:**

Please check one:

☒ Agree with the findings

☐ Disagree with the findings

Please check one:

☒ Agree with the recommendations

☐ Disagree with the recommendations

**Management Action Plan:**

Director, Homelessness Services: E.5.1 In progress - A new GL has been approved but not yet in use.

**E.6 Minimize rent supplements paid in cash and improve supporting documentation**

Rent supplements paid in cash

For the period between January to June 2018, there were several instances where lower value rent supplements (under \$200) were paid directly to a tenant in cash. Such cash payments were accompanied by a handwritten receipt with a tenant's signature as proof of receiving the funds and submitted for reimbursement by Outreach staff through the monthly petty cash statement.

Based on discussion with Outreach staff, cash rent supplements are periodically made to clients that do not have access to a bank account. A total of \$4,662 in cash payments were made for the period between January to June 2018:

<b>Month</b>	<b>Number of cash payments</b>	<b>Total cash amount</b>
January	0	\$0
February	10	\$1,357
March	0	\$0
April	12	\$2,805
May	0	\$0
June	4	\$500
	<b>26</b>	<b>\$4,662</b>

Cash payments for April included one significantly larger amount of \$1,575 paid to one client. Per discussion with Outreach management, this occurred on an exception basis due to extenuating circumstances where the client had lost his pension cheques. The supporting document for this payment was a handwritten receipt with client signature however no manager approval was documented. The payment amount was appropriately recorded in the BC Housing database.

Due to the high liquidity of cash and potential for misappropriation, rent supplements paid in cash should be minimized where possible. Further guidance on circumstances where cash payments are acceptable and documentation of the reason would improve financial accountability.

**Recommendations:**

***E.6.1 The Director, Homelessness Services should ensure cash payments for rent supplements are minimized going forward and formal guidelines are established. This should be in place by November 30th, 2018.***

***E.6.2 The Director, Homelessness Services should ensure that all cash rent supplement payments are supported by documentation of the reason or rationale for cash payment. This should be in place by November 30th, 2018.***

***E.6.3 The Director, Homelessness Services should review all cash payments for rent supplements made by Outreach on a monthly basis. This should be in place by November 30th, 2018.***

***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

***Management Action Plan:***

Director, Homelessness Services: E.6.1, E.6.2, E.6.3 Completed – There are very few cash supplements provided at this point. We currently have four people who receive a cash supplement for their rent monthly. This is to ensure they will connect with staff at the office each month. Otherwise they become unable to cope with their tenancy. Occasionally if MEIA has sent the whole welfare cheque to a landlord, (thereby depriving the tenant of their support portion) when we have promised a rent supplement, we pay the support portion directly to the tenant instead of to the landlord. These are rare instances and are all in the service of maintaining tenancy. All cash payments are documented and are reviewed by the Director.

**E.7 Improve documentation of staff and client names on supporting receipts**

Review of petty cash purchases from January to June 2018 noted that purchases for food, transportation and gift cards had supporting receipts attached but did not have a staff or client name documented. Issues found were:

- The majority of taxi receipts were hand written with date and amount but did not have a name, destination, or business purpose documented;
- The majority of food and beverage receipts did not have a staff or client name;

- Gift card receipts for stores such as Tim Hortons (\$280 for 13 cards), No Frills (\$500 for 10 cards), and Starbucks (\$200 for 4 cards) did not have a name or business purpose documented.

As discussed with Outreach staff, gift cards that are \$10 value or less are generally given to participants of homelessness surveys, while higher value gift cards are either given to clients as rent supplements or to staff attending client meetings.

**Recommendations:**

***E.7.1 The Director, Homelessness Services should ensure all taxi and food receipts submitted for reimbursement have a staff or client name, location / destination address, and business purpose documented. This should be in place by November 30th, 2018.***

***E.7.2 The Director, Homelessness Services should implement a process to track gift cards provided to staff for client meetings and document names of clients receiving gift cards. This should be in place by November 30th, 2018.***

**Management Response:**

Please check one:

☒ Agree with the findings

☐ Disagree with the findings

Please check one:

☒ Agree with the recommendations

☐ Disagree with the recommendations

**Management Action Plan:**

Director, Homelessness Services: E.7.1 and E.7.2 Completed

**E.8 Document purchasing guidelines for Outreach program**

Review of petty cash and P-Card expenses for 2018 identified the following purchases under the 'Client Services' category which were approved by the Director, Homelessness Services and P-Card administrator for Outreach.

- Prescription medication for two clients totalling \$178
- Cigarettes for client engagement and homeless survey participation \$38

Outreach staff indicated that these purchases were made for the purposes of providing Outreach services or participation in homelessness surveys.

**Lack of documented guidelines on allowable Outreach expenses**

There are currently no documented guidelines on the use of Outreach program funds for purchases that are of discretionary nature. As the Outreach program is different from other business units and these types of purchases may not be covered under the general City Purchasing Policy, establishing specific guidelines for discretionary purchases would improve clarity on purchases that are acceptable within the Outreach program.

**Recommendations:**

***E.8.1 The Director, Homelessness Services should document internal purchasing guidelines on acceptable purchases within Outreach and have them approved by the GM, ACCS. This should be in place by December 31, 2018.***

**Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

**Management Action Plan:**

Director, Homelessness Services: E.8.1 In Progress – Guidelines have been developed for internal purchasing (to be approved by GM, ACCS) see Attachment 1 Petty Cash Spending procedure. Guidelines for expenditures are in line with the BCH COV contract which allows for expenditures other than rent to be allowed under the rent supplement program.



## CITY OF VANCOUVER INTERNAL AUDIT REPORT Inventory Management Audit

**Distribution:**

Audit Committee  
KPMG

Patrice Impey, General Manager, Finance, Risk & Supply  
Chain Management  
Darrell Reid, Fire Chief, Vancouver Fire & Rescue Services  
Nick Kassam, Chief Procurement Officer  
Alexander Ralph, Senior Manager, SCM Operations

**EXECUTIVE SUMMARY**

September 20, 2018

Internal controls over inventory management with the SCM's warehouses require improvement. A guideline for inventory storage should be created for SCM Warehouse & Inventory Operations, there should be stronger oversight around inventory counts, a reliable inventory count technology solution should be implemented and all inventories should be properly labeled.

The more significant findings and recommendations are:

**E.1 Establish SCM Warehouse & Inventory Operations guideline for storage of inventory and define roles and responsibilities**

A guideline for inventory storage should be created to provide internal customers with an understanding of the Supply Chain Management (SCM) department's purpose and goals. This should include details of the warehousing and inventory management services provided and the accountability for inventory storage.

**E.2 Establish oversight around inventory counts and implement a reliable inventory count technology solution**

Providing stronger oversight around approvals for inventory count discrepancies helps minimize the risk of inventory misappropriation. Identifying and implementing a reliable inventory count technology solution is also important for maximizing efficiency and to ensure all inventory is counted frequently and appropriately.

**E.3 Improve inventory tracking**

Proper inventory identification is essential in running an effective and efficient warehouse. All inventory should be identified easily and individual labels should be created as appropriate to minimize the risk of issuing incorrect products to customers and potentially delaying City projects.

**E.4 Improve inventory controls at the Heavy Urban Search and Rescue warehouse**

Ensuring the Heavy Urban Search and Rescue inventory database is accurate and implementing appropriate barcodes is essential to having an efficient process during emergencies.

These and other audit findings and recommendations are contained in the report.

Tony Hui, CPA, CA, CRMA  
Chief of Internal Audit

Carrolyn Lok, CPA, CA, CIA



## A. BACKGROUND

An internal Warehousing and Inventory Management project was commenced in 2013 to review and address several warehousing challenges. The project was completed in 2016 and the Supply Chain Management (SCM) Warehouse & Inventory Operations department has been overseeing the warehousing and inventory management functions for the City. SCM's mandate was to have the warehousing and inventory functions deliver essential commodities efficiently and effectively to ensure the implementation of best practices in materials management to support the business units in the delivery of City services.

The SCM Warehouse & Inventory Operations department is responsible for 11 warehouses across the City and oversight of each warehouse is allocated amongst three division managers.

	Warehouse	Division	Inventory Value <sup>1</sup>	Inventory Type
1	Central Stores <sup>2</sup>	A	\$3,162,000 (36%)	Stock for Water and Sewers
2	National Stores <sup>2</sup>	A	\$2,903,000 (33%)	Stock for Streets and Traffic
3	Equipment Services (EQS) Manitoba <sup>3</sup>	B	N/A – Not in scope	Fleet, except for Fire, and related fleet inventory
4	EQS National <sup>3</sup>	B		Fleet
5	EQS Landfill <sup>3</sup>	B		Fleet (dump trucks)
6	Vancouver Fire and Rescue Services (VFRS)	B	\$214,000 (2%)	Fire trucks and fire equipment
7	Heavy Urban Search & Rescue (HUSAR) <sup>4</sup>	B	\$1,897,000 (22%)	Search and Rescue emergency material
8	Evans Yard	C	\$426,000 (5%)	Stock for Parks
9	Civic Theatre (QE Theatre)	C	\$79,000 (1%)	Stock for bars at theatres (snacks and drinks)
10	Civic Theatre (Orpheum)	C		
11	Parks Concession Warehouse	C	\$27,000 (0.3%)	Stock for Stanley Park concession stands (snacks, drinks and fast food)
<b>Total</b>			<b>\$8,708,000</b>	

Each warehouse has designated Inventory Planners/Buyers (IPBs) who are responsible for the purchasing of routine inventory used for the internal City business units serviced by the warehouses. Purchases for the business units are made and stored at the warehouses before they are sold internally to the various business units (or "customers") within the City. For example, Engineering purchases inventory from SCM to use for their projects and pays through internal fund transfers.

<sup>1</sup> SAP inventory value as at December 31, 2017

<sup>2</sup> Inventory value includes stock and non-stock inventory

<sup>3</sup> These warehouses were not included in the Inventory Management audit scope as SCM is currently migrating to a new inventory tracking software as part of the Fleet Information Management System (FIMS) replacement

<sup>4</sup> HUSAR inventory is jointly managed by SCM and Vancouver Fire & Rescue Services

### Stock versus Non-stock inventory

Generally, "stock" is referred to as active inventory being sold to customers and "non-stock" is referred to as obsolete inventory or inventory owned by customers but being stored at SCM's warehouses.

### Inventory Counts

As inventory must be required to service customers throughout the year, cycle counts are performed to minimize service disruption. This involves daily counts rather than one large inventory count at the end of the year. The methodology on managing the inventory count schedule varies across warehouses but all inventories should be counted at least once during a twelve month period, and higher value items and items with high turnover rates should be counted more frequently.

### Surplus Sales

In addition to the warehousing function, Central Stores also provides a service where unused or obsolete assets can be sold for proceeds across the City. This service is mainly used by Engineering Equipment Services (EQS) for sale of fleet or small equipment, but is also utilized for unused furniture and other miscellaneous items that have reached its end-of life at the City. These assets are sent to Central Stores before the Surplus Sales IPB processes the sales through one of three auctioneers. 5 – 15% of sale price has been charged by SCM as commission for their services and the remaining funds are credited back to the respective business unit.

## **B. SCOPE**

The audit objectives were to provide reasonable and independent assurance that the existing internal controls and business processes related to inventory management were adequate and effective and to determine whether:

- Controls are in place for optimal inventory planning and management;
- Inventory is properly tracked and counted between receiving and issuance to business unit customers;
- Obsolete inventory is reviewed regularly and appropriate write-offs are performed;
- Surplus Sales are properly tracked, managed and sold through appropriate channels; and
- Inventory counts are performed regularly and appropriately.

Our work included:

- Interviews with key staff and management involved in key inventory processes;
- Observation of inventory cycle counts for key warehouses;
- Sample inventory count for key warehouses;
- Review of appropriate supporting documents; and
- Assessment of warehouse security.

The focus of the audit was on Central Stores (36% of total inventory value), National Stores (33%) and HUSAR (22%) as these three warehouses hold the highest inventory values and account for 91% of total inventory value for the warehouses in-scope for this audit.

The EQS Manitoba, EQS National and EQS Landfill warehouses were not included in the audit scope because the computer software used to track inventory is in the midst of migration from CCG Systems to FleetFocus/M5 with an expected go-live date of Spring 2019.

The audit is not designed to detect fraud. Accordingly there should be no such reliance.

## **C. CONCLUSION**

Internal controls over inventory management with the SCM's warehouses require improvement. A guideline for inventory storage should be created for SCM Warehouse & Inventory Operations, there should be stronger oversight around inventory counts, a reliable inventory count technology solution should be implemented and all inventories should be properly labeled.

Findings and recommendations have been discussed with appropriate management and responses incorporated in this report.

## **D. RISK ANALYSIS**

The potential significant risks considered if controls were not in place are:

- Inventory adjustments are not properly reviewed leading to a risk of asset misappropriation;
- Inventory is not appropriately identified or labelled resulting in incorrect inventory issued to customers, affecting efficiency and potentially delaying City projects or initiatives;
- Warehouse space is not optimized;
- Inventory level decisions are made with inaccurate information as a result of low level of automation and manual processes that are prone to error and generate discrepancies between the system and the actual inventory on-hand.
- Inventory is not received in a timely manner due to a lack of backordered inventory follow-ups and unclear roles and responsibilities for contract and vendor performance management;
- Inventory counts are not performed to verify accuracy of inventory levels; and
- Assets are not properly safeguarded.

## **E. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

### **E.1 Establish SCM Warehouse & Inventory Operations department's guidelines and define roles and responsibilities**

There are no documented guidelines on storage of inventory between the SCM Warehouse & Inventory Operations department and customers, or accountability of inventory owned by the customers being stored at the warehouses. Approximately half of the inventory at National Stores is currently being used as non-stock inventory storage for customers.

It is important for the SCM Warehouse & Inventory Operations department to have clearly defined and documented warehousing and inventory management services to ensure their customer demands are met while SCM Warehouse & Inventory Operations effectively and efficiently manages inventory, space and resources. The criteria and definition of stock and non-stock should also be clearly defined in this mandate to ensure the proper inventory is treated appropriately.

#### **Recommendation:**

E.1.1 The Senior Manager of SCM Operations should establish a SCM Warehouse & Inventory Operations department guideline outlining roles, responsibility and accountability around storage of inventory. The criteria to define stock and non-stock inventory should also be established to ensure inventory is treated properly. This should be completed, communicated to all key stakeholders and implemented by March 31, 2019.

**Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

**Management Action Plan:**

Senior Manager for SCM Operations will document a guideline outlining the storage of inventory and the roles and responsibilities and accountability expectation. This document will include a warehouse-wide common definition of stock versus non-stock inventory and will be communicated to key departmental and business unit stakeholders by March 31, 2019.

**E.2 Improve oversight around inventory counts and implement a reliable inventory count solution**Provide stronger oversight around cycle count discrepancy adjustments (Central, National, VFRS)

Departmental guidelines require IPBs to submit cycle count variances greater than \$100 (per product) to division managers for approval. However, such reviews and approvals are not always being performed at Central Stores, National Stores and VFRS. Discussions with some IPBs indicated that approvals are only requested based on their professional judgement and the \$100 threshold is not used. They also noted they are never asked about previously posted variances, which indicates that some managers may not review variances posted by IPBs.

The risk of inventory misappropriation is increased if managers do not review inventory variances posted by IPBs. In addition, managers should review all cycle count variance postings regularly to ensure appropriate approvals were obtained. Management oversight of variance trends may also help identify root causes in inventory management issues.

**Recommendations:**

E.2.1 The Senior Manager of SCM Operations should reassess if the current \$100 threshold is still an appropriate threshold (or if it needs to be revised) for inventory cycle count variances that should require division manager approvals. The type of approval required (i.e. variance must be posted by managers, documented sign-offs or approvals, etc.) should also be established and communicated to all division managers and IPBs. This should be implemented by December 31, 2018.

E.2.2 The Senior Manager of SCM Operations should implement monthly reviews performed by division managers to assess reasonability of all inventory cycle count variances posted by IPBs in the SAP system. Monthly reporting of large discrepancies by division managers to the Senior Manager of SCM Operations should also be considered. This should be completed by March 31, 2019.

**Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

*Management Action Plan:*

The Sr. Manager for SCM Operations will revisit the WIM project process documentation for cycle counting and will reassess if the current \$100 threshold is still an appropriate threshold for posting variances and will update and communicate the revised procedure to divisional managers and IPBs by December 31, 2018.

A monthly review process will be implemented for divisional managers to assess all inventory cycle count variances posted and report large variances to the Sr. Manager for SCM Operations. Sr. Manager for SCM Operations will work with Technology Services to create/enable reports to support this process. This should be completed by March 31, 2019.

Identify and implement a reliable inventory count technology solution (Central, National, Evans)

Improvements should be made to the current cycle counting process, this could include implementing an inventory count plan or schedule. At Central Stores, the warehouse workers assigned to the inventory count that day decide which products are counted. Colored stickers are being used on inventory shelf labels to track the count frequency that year. However, the use of this is inconsistent as it was not used during internal audit's observed inventory count.

It is important to have a more efficient method to count inventory and verify the accuracy of the SAP system's inventory levels. SCM Warehouse & Inventory Operations is in the process of identifying potential technological solutions that are more efficient and reliable. Wi-Fi also needs to be installed at the warehouses to support this initiative as Wi-Fi is will likely be required for inventory count technology solutions.

In addition, all inventories should be counted at least once during the year, and high value and high turnover items should be counted multiple times. However, count coverage was not complete at Central Stores, National Stores, and VFRS Warehouse:

**Percentage of Inventory Counted (August 2017 to July 2018):**

	<b>Stock</b>	<b>Stock &amp; Non-stock</b>
Central Stores	75%	67%
National Stores	88%	70%
VFRS Warehouse	87%	87%

A lack of inventory count oversight and management increases the risk that the inventory levels in the SAP system are inaccurate. Assigning one person to manage the inventory cycle count schedule would help to ensure there is proper count coverage.

**Recommendations:**

E.2.3 The Senior Manager of SCM Operations should find and implement a reliable technology solution to be used for inventory cycle counts. This should be completed by June 30, 2019.

E.2.4 The Senior Manager of SCM Operations should work with Technology Services and ensure Wi-Fi is installed at Central, National, and Evans Stores in anticipation of the automated inventory count solution. This should be completed by March 31, 2019.

E.2.5 The Senior Manager of SCM Operations should assign one person to create and manage the cycle count schedule/plan. It is also important to ensure the cycle count schedule is created for all stock and non-stock inventory, and all inventory items are counted at a reasonable frequency (i.e. at least once a year, with more frequent counts for higher-valued and critical items). This should be completed by December 31, 2018.

**Management Response:**

Please check one:

☒ Agree with the findings

☐ Disagree with the findings

Please check one:

☒ Agree with the recommendations

☐ Disagree with the recommendations

**Management Action Plan:**

The Senior Manager for SCM Operations will work with the Technology Services department to find and implement by June 30, 2019 a reliable technology solution which supports the cycle counting process and enable Wi-Fi wireless at the warehouses.

The Senior Manager for SCM Operations will assign by December 31, 2018 one person responsible to manage the cycle count plan and ensure that all inventory items are counted at least once a year.

**E.3 Improve inventory tracking**Improve identification of inventory items (Central, National)

At Central Stores and National Stores, most outdoor inventory lack labels or identification. Similar products are grouped together and warehouse staff must rely on their knowledge of the yard to find inventory items as most inventory have no descriptions, SKU numbers or labels. At Central Stores, there are also no location numbers to locate outdoor inventory. During internal audit's sample inventory count, it was challenging to locate unlabelled products especially when many products are very similar. Internal audit's inventory samples were misidentified and miscounted twice.

Lack of proper inventory identification increases the risk of incorrect items being issued to customers and the risk of inaccurate of inventory cycle counts and variance postings.

**Recommendations:**

E.3.1 The Senior Manager of SCM Operations should ensure individual labels are created for all indoor and outdoor inventory, as reasonable. This should be done for all inventory on hand and all new inventory that will be received going forward. This should be completed by June 30, 2019.

E.3.2 The Senior Manager of SCM Operations should assign location numbers to various areas in the Central Stores outdoor yard, and upload the corresponding location numbers in SAP. This should be completed by June 30, 2019.

**Management Response:**

Please check one:

☒ Agree with the findings

☐ Disagree with the findings

Please check one:

☒ Agree with the recommendations

☐ Disagree with the recommendations

**Management Action Plan:**

The Senior Manager of SCM Operations will ensure by June 30, 2019 that all indoor and outdoor inventory is labeled as appropriate, so that materials can be identified and differentiated without having to rely on product knowledge to issue the correct items. This will include individual labels when reasonable and working with vendors to label products at source where appropriate.



Additionally, the yard at Central Stores will be mapped by areas by June 30, 2019 and these areas noted on the SAP system in order to locate items easily.

#### Capture product UPCs in SAP (Central, National)

All products are identified internally by a SKU number. When a new product is received by the warehouse, a SAP label is created with an internal SKU number and SKU barcode and would be stickered under the inventory product on the shelf (for indoor products).

Scanning the SKU barcode would identify the product in SAP. If the product also comes with a Universal Product Code (UPC) barcode, IPBs have the ability to link the UPC barcode to a SKU number, and that product could be identified in SAP through scanning either the UPC barcode or SKU barcode. As it is best practice to have all inventory items individually labelled for proper identification, staff would not need to create individual SKU labels if there is already a UPC barcode for product identification in SAP. This would streamline and make the inventory processing more efficient.

It was confirmed through discussions with IPBs and review of SAP that UPC codes are not being inputted or updated in SAP. During the audit review, 15 sample products with UPC codes were randomly selected at the warehouse and 11 of the UPC codes were missing in SAP.

#### **Recommendations:**

E.3.3 The Senior Manager of SCM Operations should ensure all inventory-on-hand with UPC codes are loaded into SAP. A process also needs to be established to ensure all new products with UPC codes are uploaded into SAP going forward. This should be completed June 30, 2019.

#### ***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

#### ***Management Action Plan:***

The Senior Manager of SCM Operations will ensure all inventory-on-hand with UPC codes are loaded into SAP. A process will be established to ensure all new products with UPC codes are uploaded into SAP going forward. This will be completed June 30, 2019.

Additionally, the Senior Manager of SCM Operations will work with Category Managers to ensure that contractually we request suppliers to label items from source with barcodes with UPC codes and that a process and resources are implemented for material master catalogue guardianship. This should be completed June 30, 2019.

#### Pre-charge street light poles to customers (National)

Street light poles are considered as critical items and must be accessible to customers 24 hours a day from the outdoor yard at National Stores. Street light poles have a self-serve model where the poles can be retrieved by the customers directly (behind locked gates even when the warehouse is closed). Although paperwork should be submitted at the time of pick-up, it is common practice for customers to submit the paperwork to process the transaction up to a few days later.

There are no controls to ensure completeness or timeliness of paperwork submission. Although street light poles are all expensed to the same account, SCM may not know which department to follow-up with for missing inventory.

During the inventory count at National Stores, discrepancies were found for two of the three street light pole samples. It is important to properly track inventory at all times as missing paperwork could affect reorders or potentially result in stockouts. Street light poles are worth approximately \$600-800 each.

**Street Light Pole Inventory counted on August 2, 2018**

SKU #	Description	Quantity on Hand (as per SAP)	Quantity Counted	Discrepancy
101472	POLE, S/L DAVIT, OCTAGONAL, 25 FT, COV	68	64	-4
116203	POLE, 18FT STEEL OCTAGONAL, TAPERED, COV	35	38	+3
105949	POLE, S/L DAVIT, OCTAGONAL, 30 FT, COV	24	24	0

**Recommendations:**

E.3.4 The Senior Manager of SCM Operations should consider having street light poles purchases pre-charged directly to the customer when inventory is received by SCM Warehouse & Inventory Operations. This should be completed by March 31, 2019.

**Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

**Management Action Plan:**

Pre-charging all street-light poles might not be possible as all projects might not be known nor have cost objects. Additionally, poles are used as well in Motor Vehicle Accidents (MVA) and due to insurance cost recovery requirements specific assets need to be tied to specific incidents.

The Senior Manager of SCM Operations will work with the National Stores Manager to review the process, discuss with Accounting, Business Unit and other stakeholders, consider options and agree by March 31, 2019 on the best way to continue making accessible these items 24 hours a day, while ensuring better control on these items. It will also be ensured that cycle counts for these items is more frequent, so there is follow-up on missing paper work.

Accurately reflect receiving and issuing of electrical cable inventory (National)

During the inventory count at National Stores, discrepancies were found in all five samples of electrical cable:

**Electrical Cable Inventory Counted on August 2, 2018**

SKU	Quantity on Hand (as per SAP)	Quantity Counted	Discrepancy	Reorder Point	Discrepancy as a % of Reorder Point
122286	9465 ft.	8856 ft.	609 ft.	6000 ft.	10%
122287	2076 ft.	2473 ft.	-397 ft.	6000 ft.	7%
122283	2831 ft.	3755 ft.	-924 ft.	4500 ft.	21%
110186	1331 ft.	612 ft.	719 ft.	510 ft.	141%
900985	1 roll	nil	1 roll	N/A	N/A

This is due to inaccurate inventory accounting during receiving and issuing. For example, full reels of electrical cables come in 984 feet but it is common practice for staff to record inventory received as 1,000 feet in SAP. Accumulated discrepancies affect reorder points which also increases the risk of possible stockouts if the discrepancies are not caught during inventory cycle counts.

**Recommendations:**

E.3.5 The Senior Manager of SCM Operations should ensure the quantity inputted by warehouse staff in SAP for receiving and issuances are accurate. This should be completed by December 31, 2018.

**Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

**Management Action Plan:**

The Senior Manager of SCM Operations will work with the National Stores Manager to ensure by December 31, 2018 that warehouse staff are communicated and have clear expectations that the quantity inputted in SAP for receiving and issuing electrical cable should be accurate measurements.

**E.4 Improve inventory planning**Perform regular obsolete inventory reviews (All Warehouses)

Obsolete inventory reviews are sporadic and not scheduled regularly. Storing obsolete inventory in the warehouses affects the space available for other inventory items resulting in potential inefficiencies for warehouse operations. The identification of excessive and obsolete materials and liaising with stakeholders to discuss inventory treatment is vital to ensure only appropriate material is stored in the warehouse.

**Recommendations:**

E.4.1 The Senior Manager of SCM Operations should establish a process to ensure reviews of obsolete and excessive inventory are performed regularly and there is ongoing communication with customers to assess the status of inactive inventory. This should be completed by December 31, 2018.

**Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

***Management Action Plan:***

The Senior Manager of SCM Operations will establish a process by June 30, 2019 to ensure reviews of obsolete and excessive inventory are performed regularly and there is ongoing communication with customers to assess the status of inactive inventory. This will include revisiting the role of the Surplus Sales IPB as its original intent was to review not only the inventory that has reached its end of life and the sale of surplus, but also the review of slow moving items.

**Ensure all SAP parameters are updated (all warehouses)**

SAP tracks various parameters for each inventory item to facilitate with Material Requirement Planning. This includes Reorder Point, Minimum Inventory Level, etc. One parameter is the Vendor Lead Time field which tracks the expected time between the date the purchase order was sent and expected delivery date.

This field is not being used by the VFRS IPB, which increases the risk of products stocking out as SAP may not be able to properly track backordered items. The IPB prints paper copies of all outstanding purchase orders to track purchase order follow-ups manually.

Aside from completing the Vendor Lead Time parameter in SAP, it is also best practice for all IPBs to regularly review SAP parameters to ensure it is complete and updated for optimal inventory levels.

**Recommendations:**

E.4.2 The Senior Manager of SCM Operations should ensure the vendor lead time SAP parameter is complete and updated for all VFRS vendors. This should be completed by December 31, 2018.

E.4.3 The Senior Manager of SCM Operations should establish a process for IPBs to review all inventory parameters to ensure completeness and accuracy. This should be completed by March 31, 2019.

***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

***Management Action Plan:***

The Senior Manager of SCM Operations will ensure by March 31, 2019 that the vendor lead time SAP parameter is complete and updated for all VFRS vendors and that a process is established for IPB's to review inventory parameters for completeness and accuracy.

**Formalize backorder follow-ups (All Warehouses)**

As at August 2, 2018, 61 ordered and outstanding inventory items were backordered and over 30 days late. 22 of these items were stocked out. A list of backorders is sent to IPBs bi-weekly, but

reviews with managers to discuss the explanation and other purchasing options are often not held for certain warehouses.

SAP also does not have the capability to run stockout reports to review frequency and trend of stocked out inventory items. Untimely vendor follow-ups and the inability to identify such products would increase the risk of stockouts, which could affect the customer's ability to deliver on their projects or City initiatives if they are critical items.

This problem was identified by SCM earlier in the year. SCM is currently working with IT to develop a report that identifies frequency of stockouts and products that may require inventory parameter adjustments to help maintain optimal inventory levels.

#### **Recommendations:**

E.4.4 The Senior Manager of SCM Operations should ensure the SAP Stockout Report that summarizes stockout frequency of all inventory is developed and reviewed monthly. It is also important to ensure appropriate parameter changes are made subsequently. This should be completed by March 31, 2019.

E.4.5 The Senior Manager of SCM Operations should formalize a process around backorder follow-ups. It is also important to ensure IPBs provide regular explanations to management on all backorders of all critical items on a regular basis and adjust parameters if needed. This should be completed by March 31, 2019.

#### **Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

#### **Management Action Plan:**

The Senior Manager of SCM Operations will work with Technology Services and the SCM business analyst to ensure the SAP Stockout Report that summarizes stockout frequency of all inventory is developed and available in the Business Intelligence application so it can be reviewed on a monthly basis and IPBs change inventory parameters as needed. Additionally, a process around backorder follow-up will be established to reduce the number of stockouts and IPBs provide regular explanations and the action items to management on backorders of all critical items. This should be completed by March 31, 2019.

#### **Purchase orders should be processed in SAP appropriately**

There are five vendors the City purchases street light poles from. Annually, the National Stores IPB submits one large purchase order to the vendor based on the upcoming year's forecasted annual demand. Throughout the year, the purchase order is drawn down as street light poles are needed and orders are made. These results in a large commitment of funds by the City and backorders cannot be tracked because the purchase order's expected delivery date would not be relevant.

These transactions are processed as purchase orders but may be framework orders in substance, which should be processed differently in SAP. Framework orders are used for multiple procurement transactions over a longer period and when the administrative costs of processing individual purchases would be high. It is important to confirm if the procurement of street light

poles should be treated as framework orders, and if they do, they should be approved and processed appropriately in SAP.

**Recommendations:**

E.4.6 The Senior Manager of SCM Operations should determine the appropriate SAP procurement method for all street light pole purchases and ensure it is processed and approved appropriately. This should be completed by December 31, 2018.

**Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

**Management Action Plan:**

The framework order payment approvals do not involve a good's receipt process. It is recommended that for items with material value, such as street light poles, that good receipts are created. A single PO is issued today to assure the vendor a firm commitment.

The Senior Manager of SCM Operations will work with the Manager at National Stores to ensure by December 31, 2018 that details of the various delivery dates and quantities are always specified on the poles PO. This will help so funds are not paid until the delivery of specified quantities and the vendor can plan for their manufacturing runs. The frequency of issuing a PO for poles will be revisited as well to determine the appropriate SAP procurement method as well as the level of risk by doing a firm commitment in advance.

**E.5 Strengthen controls around Surplus Sales (Central)**

Improve oversight of Surplus Sales inventory and create Standard Operating Procedures

The tracking and status of such Surplus Sales inventory is currently maintained in a spreadsheet by the Surplus Sales IPB and is not readily accessible to management. As the information is restricted to one person, this increases the risk of information loss. There should also be more oversight by management to strengthen internal controls as the approximate value of assets sold in 2017 was \$1 million.

*Assets with pre-assigned asset numbers:*

Although the information is only available to one person, there is oversight by another department to track the status for all assets with pre-assigned asset numbers (i.e. fleet or small equipment, such as chainsaws). When EQS sends these assets to Surplus Sales, EQS also maintains a listing of assets sent in a database called the Vault. The Vault is managed by EQS and creating and deleting asset entries are restricted to EQS to ensure there is a proper segregation of duties.

*Assets without pre-assigned asset numbers:*

Assets without pre-assigned asset numbers (i.e. unused furniture) are sent to the Surplus Sales IPB by EQS or other City departments and are not tracked in the Vault. Typically, if the business unit does not hear back from the Surplus Sales IPB, it is assumed that the IPB has deemed the asset to be of no value and it will not be sent to the auctioneers. Although these items are relatively lower in value, a lack of inventory reconciliation and oversight increases the risk of possible asset misappropriation.



Historically, one IPB has been responsible for managing Surplus Sales. Although general segregation of duties controls are in place, there is still a risk of information loss. Revisiting the Standard Operating Procedures to document the Surplus Sales process would help with future knowledge transfer.

Over the past few years, the administration fee charged to customers for surplus sales services has ranged from 5 to 15%. It is important to have a consistent administration fee to allow for a reasonable process understood by all customers.

**Recommendations:**

E.5.1 The Senior Manager of SCM Operations should ensure the master spreadsheet tracking the status of all Surplus Sales assets is accessible to management at all times. This should be completed by December 31, 2018.

E.5.2 The Senior Manager of SCM Operations to assess the appropriate level of tracking required for Surplus Sales assets without pre-assigned asset numbers, based on the value and materiality of these assets. This should be completed by December 31, 2018.

E.5.3 The Senior Manager of SCM Operations should revisit Standard Operating Procedure for Surplus Sales. This should outline the Surplus Sales process in detail, including methods of inventory tracking, allowable sale methods, the administration fee to be charged by SCM, etc. Once, updated, it is also important to ensure it is communicated to all relevant staff. This should be completed by March 31, 2019.

**Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

**Management Action Plan:**

The Senior Manager of SCM Operations will ensure by December 31, 2018 that the master spreadsheet tracking the status of all Surplus Sales assets is accessible to SCM management at all times and will assess value and materiality for Surplus Sales assets without pre-assigned asset numbers to determine the appropriate level of inventory tracking required for these items.

The Standard Operating Procedure for Surplus Sales should be revisited and updated accordingly by March 31, 2019. The revision of the procedures should incorporate and be aligned with the Capital Asset Management (CAM) software to be implemented as part of the FIMS project in EQS to ensure the complete lifecycle of the asset is part of the project scope, including the reconciliation of funds obtained through surplus sales.

**Remove outdated Surplus Sales entries from SAP**

Surplus Sales used to be tracked in SAP but this practice stopped in 2015. However, there are still 96 old and inactive Surplus Sales entries in SAP that needs to be removed for an accurate inventory database.

**Recommendations:**

E.5.4 The Senior Manager of SCM Operations should remove all obsolete Surplus Sales entries in SAP (Plan 2016, Storage Location 5001). This should be completed by December 31, 2018.

**Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

**Management Action Plan:**

The Senior Manager of SCM Operations will work with the Manager of Central Stores to ensure all obsolete Surplus Sales entries in SAP are removed by December 31, 2018.

**Communicate Surplus Sales services across the City**

Based on discussions with staff, many departments across the City are unaware that Central Stores provides services to sell unused, unneeded or obsolete assets. This may result in forfeited revenue and funds that could be used for department initiatives.

**Recommendations:**

E.5.5 The Senior Manager of SCM Operations should communicate this service to the City (i.e. through CityWire). This should be completed by December 31, 2018.

**Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

**Management Action Plan:**

The Senior Manager of SCM Operations will determine the most appropriate way to communicate the surplus sales service to the City. This will include internal communication using CityWire by December 31, 2018.

**E.6 Improve controls around Heavy Urban Search & Rescue inventory (HUSAR)****Verify and preserve data integrity**

The current HUSAR database currently does not reflect actual warehouse inventory, resulting in a risk that incomplete equipment could be deployed during an emergency as all inventory is managed by the database.

There is also a risk of financial statements being misstated as the total HUSAR inventory value is currently unknown. Some inventory values in the D4H software (used to manage HUSAR inventory) are inaccurate as they were affected by data migration issues in previous years.

In the interim, staff is relying on an Excel spreadsheet as the database does not contain reliable records. Once the issues have been resolved, all data from the updated Excel spreadsheet will be imported back into D4H.

During a sample inventory count of three HUSAR containers in June 2018, 19 of 104 items (18%) in the container did not reconcile to inventory records. A full inventory count commenced in July 2018 to help validate the database. The count is ongoing and as at September 11, 2018, it was

reported that 75% of the count was complete. The goal is to have the Excel spreadsheet database updated and imported to D4H by the end of the year.

It is important that the inventory count and the HUSAR database is updated and imported into D4H in a timely manner as management of inventory in an Excel spreadsheet runs the risk of human error and other data integrity issues.

Once the inventory count is complete, it is also best practice to perform regular inventory cycle counts to ensure the accuracy of data is maintained going forward.

### **Recommendations:**

E.6.1 The Manager of Inventory and Warehouse Operations (Division B) and the VFRS Assistant Chief Training & Professional Development, HUSAR should complete the HUSAR inventory count, ensure inventory values in the database are reasonable, import updated data into D4H, and ensure D4H is used as the only inventory management system for HUSAR. This should be completed by June 30, 2019.

E.6.2 The Manager of Inventory and Warehouse Operations (Division B) and the VFRS Assistant Chief of Training & Professional Development, HUSAR should implement and ensure cycle counts are scheduled and performed regularly. This should be completed by December 31, 2018.

### **Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

### **Management Action Plan:**

The Manager of Inventory and Warehouse Operations (Division B) and the VFRS Assistant Chief Training & Professional Development, HUSAR will complete the HUSAR inventory count by December 1, 2018 and ensure inventory values in the database are reasonable, import updated data into D4H, train staff and ensure D4H is used as the only inventory management system for HUSAR by June 30, 2019.

The Manager of Inventory and Warehouse Operations (Division B) and the VFRS Assistant Chief of Training & Professional Development, HUSAR will implement and ensure cycle counts are scheduled and performed regularly. The IPB for VFRS will provide the cycle count plan for 2019 by December 31, 2018 considering ways to reduce the number of counts by using security tags for material containers.

D4H assistance and support is required to complete this action and this will be dependent on funding and vendor availability.

### **Barcode deployment containers and high-value inventory items**

Although HUSAR deployment containers are labeled with container numbers, using barcodes would allow for fast and efficient receiving and deployment. Currently, container numbers must be entered into D4H manually to review container contents and to process receiving and issuing. Manual processing in D4H during emergencies affects the efficiency and increases the risk of human error in critical situations.

Currently, all communications equipment and Search and Rescue (SAR) staff are identified through QR codes (a type of barcode). QR codes are labelled on each communications device and SAR staff identification passes. Communications devices issued to SAR staff are tracked through Filemaker software when the QR codes on the device and identification passes are scanned. As discussed with VFRS staff, approximately 60% of SAR staff have been issued identification passes, this work is still ongoing.

At this time, QR codes are not compatible with D4H. Having two different inventory management systems increases the risk of inefficiency, error, duplication, and costs/resources required for maintenance.

#### **Recommendations:**

E.6.3 The Manager of Inventory and Warehouse Operations (Division B) and the VFRS Assistant Chief of Training & Professional Development, HUSAR should create individual barcode labels that are compatible with D4H for all HUSAR deployment containers. This should be completed by June 30, 2019.

E.6.4 The Manager of Inventory and Warehouse Operations (Division B) and the VFRS Assistant Chief of Training & Professional Development, HUSAR should review the compatibility of the current QR codes being used on the HUSAR communications equipment and Search and Rescue staff identification passes to D4H software. If the QR codes cannot be compatible with D4H, new barcodes should be used for communications equipment and Search and Rescue staff identification passes. It is also important to ensure all barcodes used for HUSAR inventory tracking is compatible with D4H and that staff is fully trained in order to use system with barcodes. This should be completed by June 30, 2019.

#### **Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

#### **Management Action Plan:**

The Manager of Inventory and Warehouse Operations (Division B) and the VFRS Assistant Chief of Training & Professional Development will train the HUSAR team by June 30, 2019 in using the D4H barcode functionality and review the D4H vendor the compatibility of the current QR codes being used on the HUSAR communications equipment and Search and Rescue or look for alternate solution for barcoding these items.

#### **Finalize business processes between VFRS and SCM**

Improvements are currently being made to logistical processes including purchasing, receiving, issuing, returns, inventory retirement, etc. VFRS and SCM are currently discussing respective roles and responsibilities while considering proper communication, data integrity, segregation of duties and practicality of processes.

#### **Recommendations:**

E.6.5 The Manager of Inventory and Warehouse Operations (Division B) and the VFRS Assistant Chief of Training & Professional Development, HUSAR should discuss and finalize the logistics of all required business processes (including inventory purchasing, receiving, issuing, returns, retiring, etc.). All final processes should be agreed upon by both VFRS and SCM management,

documented in Standard Operating Procedures and implemented. This should be completed by June 30, 2019.

**Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

*Management Action Plan:*

The Manager of Inventory and Warehouse Operations (Division B) and the VFRS Assistant Chief of Training & Professional Development, HUSAR will discuss and finalize the required business processes (including inventory purchasing, receiving, issuing, returns, retiring, etc.). All final processes will be agreed upon by both VFRS and SCM management, documented in Standard Operating Procedures and implemented by June 30, 2019.

Business Analysis resources and support will be required to complete this task. VFRS and SCM Management will discuss how to resource this project.

Improve security of HUSAR inventory

Physical security at the HUSAR warehouse is important as it houses approximately \$1.9M worth of critical inventory as per valuation in SAP.

There are no security cameras inside or outside the HUSAR warehouse to monitor potential the HUSAR inventory. In addition, the side warehouse door leading to the washroom is secured with a traditional door lock but may accidentally be left unlocked by HUSAR staff using the washroom. There is a risk of unauthorized access because VFRS training staff also has access to the washroom and would be able to enter the HUSAR warehouse. Installing an access card reader would restrict access to authorized individuals only.

**Recommendations:**

E.6.6 The VFRS Assistant Chief of Training & Professional Development, HUSAR should consider installing security cameras in the HUSAR warehouse. This should be completed by March 31, 2019.

E.6.7 The VFRS Assistant Chief of Training & Professional Development, HUSAR should install an access card reader for the door between the HUSAR washroom and HUSAR warehouse. This should be completed by March 31, 2019.

**Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

*Management Action Plan:*

The VFRS Assistant Chief of Training & Professional Development, HUSAR has installed security cameras in the HUSAR warehouse and will be installing an access card reader for the door between the HUSAR washroom and HUSAR warehouse. This should be completed by March 31, 2019.

## **F. OBSERVATIONS**

As Engineering EQS was not part of the audit scope, the following was noted as an observation.

### **F.1 Reconciliations are not performed between payments received to payments expected for Surplus Sales**

Once Central Stores sells Surplus Sales assets with pre-assigned asset numbers, the Surplus Sales IPB updates the sale prices in the Vault (asset tracker used by Engineering EQS and Surplus Sales IPB to track the sale status of all inventory with asset numbers). Payments from the auctioneers are received directly by the City's Accounts Receivable team and deposited into the GL number as requested by EQS.

Reconciliations are not performed by Engineering EQS to verify completeness between funds received and funds expected which would increase the risk of incomplete revenue.



August 31, 2018

**To:** Sadhu Johnston - City Manager  
Paul Mochrie - Deputy City Manager  
Patrice Impey - General Manager, Finance, Risk & Supply Chain Management  
Francie Connell - Director, Legal Services

**From:** Tony Hui - Chief of Internal Audit  
King Wan - Manager, Internal Audit Projects

**Subject:** July 2018 Follow-Up of Audit Recommendations

As part of the annual Internal Audit plan, a follow-up of open audit recommendations is conducted every 6 months for all audit reports issued. This report covers all recommendations that are due on or before July 2018. The objective is to determine the extent to which audit recommendations have been implemented and whether any significant internal control weaknesses remain outstanding.

We corresponded with key individuals responsible for implementing recommendations and reviewed supporting evidence. 129 open recommendations were followed up on and 67 of the recommendations are now completed.

As of July 31, 2018, there were 62 open recommendations. Management reported that they expect to implement all recommendations by 2019. Of the 62 open recommendations two are categorized as high priority (risk factor) and 10 were initially targeted for completion by end of 2015. Of the two high priority recommendations, the incident response plan for social media will be formalized by 3<sup>rd</sup> quarter 2018 and the PNE risk management process in 4<sup>th</sup> quarter 2018. Progress has been made around mitigating the associated risks, and management will continue to address these items diligently.

A summary is shown below:

Open recommendations at beginning of period	95
<u>Add:</u> Recommendations now due	34
Total open recommendations followed up on	129
<u>Less:</u> Recommendations completed	(67)
Open recommendations at the end of review period (July 2018)	<u>62</u>

**Two High-Priority Audit Recommendations Currently Being Addressed**

RECOMMENDATION	UPDATE	MANAGEMENT ACTION ITEM
<b>2015 Social Media Audit (App. A: Audit 136)</b>		
F3.1 The Director of Corporate Communications should ensure that an incident response plan for social media is formalized and implemented. This should be completed by December 31, 2016.	-Corporate Comms is updating the incident response plan to include preventative measures and key contacts. -Further, the City uses 'Hootsuite' to manage the City's social networks and IT have reviewed Hacking Response Plan and approved it.	-Estimated completion of the incident response plan: 3Q 2018.



	-City also exploring 'ZeroFox' tool which aids to internet security and hacking response.	
<b>2017 PNE Internal Control (App. A: Audit 138)</b>		
F.1.2 The President and CEO, with support from the PNE senior management team, should implement a formal risk management process (assuming allowable budget commitment) including a documented risk assessment outlining potential risks to PNE operations and mitigating action plans by November 30th, 2016. This should be updated on a minimum annual basis.	-A formal risk management process has been delayed due to the transition to a new President and CEO.	-PNE's target date for completion of these items is Q4 2018

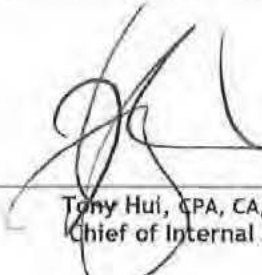
**Outstanding Audit Recommendations that were initially targeted for completion by end of 2015:**


RECOMMENDATION	UPDATE	ACTION ITEM
2012 Non-Market Housing Operations Audit (App. A: Audit 110)		
F.1.1 Develop a service-level agreement to ensure maintenance service expectations are documented for the Non-Market Housing Operations buildings.	-REFM has undertaken a project to develop Operating Level Agreements (OLAs) and process with all of its client groups.	-REFM expects to complete the OLA and develop a review/monitor process for Community Services in 2019.
F.1.2 Develop a process to regularly review and monitor service levels established in the Facilities Design & Management/Non-market Housing Operations service-level agreement.		
2014 Capital Project Management Audit (App. A: Audit 122)		
F.1.1 Establish a citywide project control framework to ensure all capital projects are effectively and efficiently managed and stated objectives delivered in an economical manner.	-Engineering's PMO is utilizing a standard Project Management Framework including a standard governance structure, documented processes, tools/templates, and reporting. -REFM is currently in discussions with Strategic Planning and Program Management on the scope and establishment of a PMO within REFM.	-Development of REFM's capital project management framework and scope is currently underway. By January 2019, Strategic Planning and Program Management will provide an update on the work with REFM.

F.4.1 Ensure that the citywide project control framework focuses on risk assessment and risk management, scope management and project communication management.	-The recommended knowledge areas have been incorporated into the Engineering Project Management Framework. -In addition, areas such as project integration, quality management, cost management, schedule management, and procurement management have also been incorporated.	-Strategic Planning and Program Management to ensure the recommendations of the audit report will be addressed during scoping of the REFM PMO. (See also F.1.1)
<b>2014 Cloud Computing Audit (App A: Audit 128)</b>		
F.1.1 The CIO should establish a cloud framework and strategy by July 2015.	-The Cloud Adoption Framework is now in draft and will be reviewed.	-The draft Cloud Adoption Framework and communication package will be reviewed and approved by the CTO in Q3 2018.
F.2.1 The CIO should develop a package for communication to City employees to educate them on cloud solutions and include step-by-step instructions and responsibilities by July 2015.	-The framework will guide the Work Intake process developed and used by Technology Services. The related communication package being developed requires users and new requests of cloud services to complete a Privacy Impact Assessment (PIA), and the Cloud Security Alliance Questionnaire (CSA-Q) to manage privacy and cyber risks.	
<b>2015 Vancouver Fire &amp; Rescue Service Operational Audit (App A: Audit 131)</b>		
F.4.1 The Fire Chief should assess the type of asset management and tracking methodology best suited to control and manage inventory at VFRS that is efficient (easy to conduct - e.g. may be a bar code scan system) and effective (conducive for staff to perform their work). This should be reviewed and a way forward decision made by December 15, 2015.	-The Trackit pilot is stalled due to the need to consolidate and standardizing equipment lists between old and new fire apparatus. -VFRS currently does not have the available staffing to dedicate to this project.	-Deputy Chief Moore indicated that "Once the front end work is completed VFRS will trial Trackit at one of the Fire halls." -It is anticipated that this will take place within the next year.
F.8.1 The Fire Chief should formalize an Information Technology Committee made up of personnel from Corporate IT and senior officers and managers from all VFRS divisional functions with the aim of developing a long term IT strategy, establishing IT priorities and	-This project was overseen by a staff member who is no longer with the City of Vancouver. -Unfortunately no information was left behind or passed along regarding this committee. -Management has reached out	-Deputy Chief Moore will provide an update as soon as possible.

monitoring IT activities at the VFRS. The formation of this committee should be completed by September 30, 2015.	to staff that may have or should have been involved to ascertain the status of this committee.	
F.9.1 The Fire Chief should ensure that any proposal to enhance or replace the current antiquated scheduling system is given priority with all the departments concerned. The present scheduling procedure has passed its "best before" date and should be replaced as soon as practicable.	-VFRS is transitioning to the TeleStaff platform for scheduling and in the process of a gradual 'go live' of the platform. -VFRS plans to have divisions move in phases with the Operations Division working 'live' in TeleStaff at the earliest opportunity.	-The Operations Division is expected to go live in a month or two (3Q 2018).
F.10.1 The Fire Chief should formalize the succession planning and start the process now in order to map out an orderly transition of the senior leadership team at VFRS in the next two to three years.	-VFRS has recently completed an organizational restructuring and ten out of twenty exempt team members are new to the team or promoted to a higher rank.	-The Executive Team will be developing a succession planning strategy for the future vacancies once the restructuring process is settled in the near future.

Please contact me at extension 86393 if there are any questions.

  
Tony Hui, CPA, CA, CRMA  
Chief of Internal Audit

  
King Wan, MBA, CPA, CMA CIA, CRMA  
Manager, Internal Audit Projects



APPENDIX A: Details of Current Open Audit Recommendations										
#	Audit Report Name	Departmental Owner	GRAND TOTAL (F+A+B+C+D)	(A) Not Due	(B) Completed	(C) Open & Due: Significant*	(D) Open & Due: Non-Significant	Open Audit Recommendations	Risk Priority Ranking for Significant Items	Expected Completion
110	Non-Market Housing Operations (1/31/2012)	Community Services	2				2	F.1.1 A Service Level Agreement for maintenance at NMO buildings should be established. F.1.2 Service levels should be regularly reviewed.  Lisa Prescott, Director of Strategic Planning and Program Management: REFM has undertaken a project to develop Operating Level Agreements with all of its client groups. The OLA for Community Services, including non-market housing, is planned for 2019.	F.1.1: Medium F.1.2: Low	2019
122	Capital Project Management Audit (04/24/14)	Finance, Risk and Supply Chain Mgmt	2				2	F.1.1 - Establish a citywide project control framework to ensure all capital projects are effectively and efficiently managed and stated objectives delivered in an economical manner. F.4.1 - Ensure that the citywide project control framework focuses on risk assessment and risk management, scope management and project communication management.  Nabeel Khan, Director, Strategic Planning and Program Management: As work is progressing on the scoping of the REFM Project Management Office, the recommendations of this audit report will be addressed.	F.1.1: Medium F.4.1: Low	2018
124	Park Board Restaurants Revenue Sharing Review	Parks	1		1			F.5.1 - Create a template reminder letter to send to lessees one month before the due date of the annual report  Sev Araujo, Manager Commercial Operations, Park Board: This continues to be pending as we work with IT and REFM to implement a Facility and Document management system.	F.5.1: Low	2018
128	Cloud Computing Audit	Information Technology	5		3		2	F.1.1 - Establish a cloud computing framework and strategy. F.2.1 - Educate City employees on cloud solutions and privacy requirements. F.3.1 - Establish tools and standard templates for use by business units for cloud computing solutions. F.4.1 - Monitor vendor performance against Service Level Agreements. F.5.1 - Preapprove file hosting solutions.  Jessie Adcock, Chief Technology Officer: The Cloud Adoption Framework is now in draft and will be reviewed and approved by the CTO in Q2 2018. Currently, there are several pilots underway using Microsoft Azure and Amazon Web Services.	F.1.1: Medium F.2.1: Medium F.3.1: Low F.4.1: Low F.5.1: Low	2015
131	Vancouver Fire & Rescue Services Operational Audit	VFRS	6		1		5	F.4 Inventory of fire equipment not regularly completed. F.5 Training support system needs to be enhanced. F.6 Address adequacy of fire training centre and vehicle maintenance service area facilities. F.8 Establish an Information Technology steering committee. F.9 Improvements required to staff scheduling system. F.10 Formalized succession planning is required.  Per Tyler Moore, Deputy Fire Chief, and Kenneth Lepard, Assistant Chief/Manager of Fleet & Equipment Services, progress is being made on these recommendations, target completion date of Q2 2018.	All: Low	2018
133	Mobile Devices Audit	Information Technology	2		1		1	F.3 Ensure latest security software updates are installed. F.5 Ensure radio system interoperability.  IT has indicated that these recommendations have been implemented. Supporting documentation to Internal Audit to close recommendations are to follow.	All: Low	2018
134	Building Permit and Inspection Services	Development, Buildings & Licensing	2		2			F.4 Formalize staff training program. F.7 Improve coordination of the building bylaw enforcement operations.  Pat Ryan, Chief Building Official: New positions are currently being filled.	All: Low	2018
135	Business Continuity Audit	Finance, Risk and Supply Chain Mgmt	3		3			F.1 Create a simple "how-to" BCP Guide for use in the interim. F.2 Complete Business Continuity Plan for IT Department. F.4 Data centre strategic plan to support continuity of operations.  Robert Bartlett, Chief Risk Officer: BCP Guide has been created, for Communications to finalize before it can be distributed to all City departments. Jessie Adcock, Chief Technology Officer: Cybersecurity ATP Roadmap will be created in Jan 2018 and approved in Feb 2018.	F.1: High F.2: High	2018
136	Social Media	Corporate Communications	2			1	1	F.2 Improve password requirements. F.3 Implement a social media incident response plan.  Amanda Johnson, Web Designer: Progress has been made on these recommendations with target completion by February 2018.	All: Low	2018

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137	Major Exhibiting Institutions	Community Services	8		7		1	F.1.1 Strengthen record management processes for collections. F.2.1 Ensure that the Collection Policies for all major exhibiting institutions are updated and approved by the City if required. F.2.2 Ensure that the City approval levels are clearly defined and documented for Collection Policies. F.3.1 Establish inventory management controls at Museum of Vancouver and Vancouver Maritime Museum. F.4.1 Strengthen record management at Vancouver Maritime Museum. F.5.1 Strengthen physical security at Vancouver Maritime Museum facility. F.6.1 Implement environmental hazard screening procedures. F.7.1 Harmonize security policies for Museum of Vancouver and Space Centre.  Gracen Chungath, Director of Operations: Progress continues to be made with a new target date of Q2 2018.	F.1.1: Med F.3.1: Low	2018
138	PNE Internal Controls	PNE	3			2	1	F.1.1 Establish a business continuity plan. F.1.2 Implement formal risk management process. F.3.1 Establish a procurement policy.  Sandra Ruff, VP, Finance, PNE: A formal risk management process has not yet been designed and due to budget constraints and therefore will not be completed in the current year.	F.1.1: Med F.1.2: Low F.3.1: Low	2019
140	CCTV Compliance Spot Audit	City Clerk	7		1		6	F.2 Training operator on FIPPA and CCTV protocols. F.3 Complete CCTV systems inventory. F.4 Revise CCTV operating procedure and complete all Privacy Impact Assessments. F.5 Create an easy to follow CCTV application process on CityWire. F.6 Clarification and revision of CCTV System Policy AE-003-02 required. F.8 Completing and signing-off of the Director, Access to Information job description. F.9 Review security arrangements at Tactical Training Centre.  Barbara van Fraassen, Director, Access to Information / Greg Conlan, Manager of Security Services: A review of the CCTV Policy and Procedures and a full Business Review will be conducted in 2018.	All: Low	2018
141	VPD-CCTV Compliance Spot Audit	VPD	2			1	1	F.3 Re-assess backup power system capacity. F.4 Clarification and revision of CCTV System Policy AE-003-02 required.  Jason Rude, Senior Director, Information Services, VPD: Adding large UPS systems to provide our CCTV system with uninterrupted power for 48 hours will be discussed as a Capital request.	All: Low	2018
144	Cyber Security Audit	Finance, Risk and Supply Chain Mgmt	3		2	0	1	F.3 Establish cyber security awareness program. F.4 Ensure confidentiality of sensitive data. F.5 Formalize process documentation for IT equipment repairs.  Jessie Adcock, Chief Technology Officer: Cybersecurity ATP Roadmap will be created in Jan 2018 and approved in Feb 2018.	All: Low	2018
145	Bylaw Enforcement Processes	Development Services, Building & Licensing	8		5		3	F.1.1 Review the current approaches to enforcement in the various bylaw areas under the department's responsibility. F.2.1 Oversee the development of enhanced performance metrics and targets for the Integrated Enforcement Team to facilitate performance measurement and assist in management decision making. F.2.2 Oversee the development of enhanced performance metrics and targets for the bylaw enforcement staff to facilitate performance measurement and assist in management decision making. F.3.1 Chief Building Official should ensure that a bylaw enforcement training plan is formalized. F.3.2 Director of Licensing, Property Use Inspections & Animal Services should ensure that a bylaw enforcement training plan is formalized. F.3.3 Oversee the creation of a shared online resource for enforcement staff containing reference and training material for common skillsets and training areas among the departments. F.4.1 Ensure that the roles and responsibilities between the two teams are clarified and establish coordination of efforts where possible. F.5.1 Enhance coordination and integration between the Animal Services and Park Ranger teams to promote efficiencies in their enforcement efforts.  Kathryn Holm, Chief Licensing Officer: Progress continues to be made, targeted completion Q3 2018.	All: Low	2018
146	Solid Waste Utility (SWU) Audit	Engineering, Waste Management and Resource Recovery	2		2			F.2.1 Continue to meet or exceed the 75% collection efficiency and resolve the business model approach and arrangement with Fortis F.3.1 review the accumulated surpluses and determine the appropriate amounts to apply as offsets against future utility rates  Albert Shamess, Director of Solid Waste: Recommendations are almost complete (pending contract sign-offs). Targeted completion by the end of 2018.	F.2.1: Med F.3.1: Low	2018
148	Cash Handling - Vandusen & Bloedel	Parks	1				1	F.3.1 Conduct assessment on CCTV equipment.  Jennifer Black, Portfolio Security Manager: Installation of CCTV system scheduled for January 2018.	F.3.1: Low	2018

APPENDIX A: Details of Current Open Audit Recommendations										
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149	2016: Surprise Cash Handling & Management Oversight Audit - Kitsilano Pool	Park Board	1	0		0	1	F.2.1 conduct an assessment on the cost and requirements of installing CCTV cameras in the cash handling area.  Jennifer Black, Portfolio Security Manager: Incorporating action items from this into the CPS Strategic Plan.	F.2.1: Low	2018
150	Mobile Device Usage & Compliance Audit	Information Technology	2		1		1	F.1.1* Establish accurate inventory for tablets and laptops F.2.1* Optimize device usage review  Jessie Adcock, Chief Technology Officer: SAP inventory is updated, and policies updated and liaisons advised of their role in engaged business to manage wireless cost and use. Supporting documents to Internal Audit to follow.	All: Low	2018
151	Cash Handling - Golf Courses	Parks	2		1	0	1	F.2 Review security camera requirements and current operating condition of equipment. F.3 Ensure Moneris Point of Sale terminals are labelled and locked or tethered.  Jennifer Black, Portfolio Security Manager and Joan Probert, Manager of Business Services: Progress is being made, expected completion in Q3 2018.	All: Low	2018
152	Privacy Management Audit	City Clerk	6		2	1	3	F1.1 formalize and implement a privacy policy to guide management and staff on appropriate handling of personal information collected at the City of Vancouver F1.2 The Director, Access to Information should communicate the privacy policy to management and staff to provide awareness of the requirements in the policy F2.1 Implement privacy training course at the City F3.1 Formalize and document privacy breach response protocols at the City F3.2 Formalize and document privacy breach response protocols at VPL F4.1 Establish personal information bank at VPL  Barbara Van Fraassen, Director, Access to Information and Dawn Ibey, Acting Director, VPL Library Experience: Progress is being made, expected completion in Q3 2018.	All: Low	2018
153	Hired Equipment Process Audit	Engineering	4		4			F.1 Implement a safety program and consolidate all departmental safety procedures and manuals into an accessible location. F.2 Determine whether the recently updated Hired Equipment process is working as intended and whether further improvements might be required to enhance its operational effectiveness and efficiency. F.3 Consult with other branch heads and Human Resources to formalize a strategy to address succession planning for critical positions. F.4 Conduct a cost benefit analysis of consolidating and creating a common hired equipment operator database for the City.  Marisa Espinosa, Director, Green Operations Division: Driver Services performed an assessment on all backhoe operators; a best practices comparative analysis was performed for hired equipment. Supporting documentation to confirm implementation of audit recommendation is being sent to Internal Audit.	F.1: Med F.2: Low F.3: Low F.4: Low	N/A
154	DCL Waiver	Development Services, Building & Licensing	4		3		1	F.2.3 Review the discrepancy in the waiver amount for the one project noted and correct if needed. F.4.1 Formalize the business process to ensure that proposed average monthly rental rates for Rental 100 projects are reviewed and do not exceed the established thresholds in the DCL by-laws. F.5.1 Ensure all DCL waiver criteria for Rental 100 projects are documented and other supporting documentation for DCL waivers are obtained and stored in a central repository. F.6.1 Investigate the possibility of developing reporting capabilities in POSSE on DCL waivers issued.  Due to organizational changes, updates to these recommendations have been delayed. Update to be provided at July 2018 six-month follow-up.	All: Low	2018
155	Cemetery Operations Audit	Community Services	5			3	2	F.1 Report to City Council financial details on Phase 1 business plan and projection costs, operating results, status of governance and reporting and future plans. F.2 establish a schedule where cemetery operations and issues are reviewed regularly. F.4 coordinate with the Long-term Finance Strategy and Planning group to examine the Cemetery's operation and projected revenue stream in relation to the CFF loan arrangement and borrowing rate. F.5 Develop a process such as surveys and post-service critique forms to assess the level of service provided to clients. F.6 Maintain inventory records of items purchased for resale and to conduct annual inventory counts as a tool to manage this business line.  Glen Hodges, Manager of Cemetery: Discussions continue with Financial Services with a target completion for Q3 2018.	F.1: Medium F.2: Medium F.4: Medium F.5: Low F.6: Low	2018
156	Accounts Payable Data Analytics Audit	Finance, Risk and Supply Chain Mgmt	1		1	0	0	F.1.4 Ensure that Accounts Payable processes are continuously monitored and follow up is performed, specifically on: invoices exceeding the purchase order and potential lost discounts.  Status update pending review of audit recommendation by new Director of Financial Services.	F.1.4: Low	2018



**APPENDIX A: Details of Current Open Audit Recommendations**

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157	POSSE Implementation Follow-Up Audit	Technology Services	8		8		2	<p>F.1.4 Ensure that a POSSE support process is established with incident numbers for users to check the status of their requests similar to the IT help desk function.</p> <p>F.1.6 Ensure that POSSE users have access to a test type environment to see the same POSSE screens as external applicants to better assist them during the application process.</p> <p>F.2.1 Ensure that more focused POSSE training is established and provided to POSSE users based on their specific tasks and roles.</p> <p>F.2.3 Ensure that the POSSE help tool is improved in conjunction with the business units to be more business focused.</p> <p>F.3.1 Establish, document, and monitor baseline targets of expected operating performance for POSSE including an availability measure (POSSE available Monday to Friday for specific times) and recovery time after an outage.</p> <p>F.3.2 Ensure a formalized Service Level Agreement (SLA) for POSSE is created that outlines related processes, responsibilities and performance measures.</p> <p>F.4.1 Ensure that an implementation timeline for the electronic plan review is agreed upon and communicated to POSSE users.</p> <p>F.4.2 Ensure that a implementation timeline for a reporting dashboard in POSSE is agreed upon and communicated to POSSE users.</p>	All: Low	2018
158	Sewer Discharge Discount Review	Engineering	5		5		0	<p>F.1.1 Enforce Bylaw 8093 to ensure current sewer discharge discount users reapply for the discount, finalize and issue letter indicating that users must reapply for discounts, establish re-application process based on user and discount rate.</p> <p>F.2.1 Ensure full sewer discharge discount documentation is maintained going forward and establish a depository of all sewer discharge discount information and provide access of this information to staff.</p> <p>F.4.1 Determine the best options for the City to i) Reassess the discounts given to these users; ii) Decide the appropriate retroactive periods; and iii) Take action to recover agreed recovery amounts.</p> <p>F.5.1 Complete its branch review to uncover any potential issues with discounts under similar circumstances.</p> <p>F.6.1 Continue to refine modelled assumptions related to discount and permittee users annually for incorporation into the sewer financial budgeting and review processes.</p>	<p>F.1.1: High</p> <p>F.2.1: Medium</p> <p>F.4.1: Medium</p> <p>F.5.1: Medium</p> <p>F.6.1: Low</p>	2018
159	Payroll	Finance, Risk and Supply Chain Mgmt	5		3		2	<p>F.1 The Manager of Payroll Services should work with the SAP team to ensure that disaster recovery testing for Payroll data is performed.</p> <p>F.2 The Director of Financial Services will work with the Chief HR Officer to ensure that the process for loading and testing of new pay rates is formally documented for future testing.</p>	F.1 Medium F.2 Medium	2018
161	CAC Audit	Planning, Urban Design & Sustainability and REPM	10			4	6	<p>F.1 clarify ownership of the CAC negotiation process as well as the responsibilities of both Planning, Urban Design and Sustainability and the General Manager of Real Estate and Facilities Management departments.</p> <p>F.2.1 clarify ownership of payment collection for phased CAC's, and ensure that adequate controls are in place</p> <p>F.2.2 ensure that the CAC Policy is updated to reflect the recent practice of phasing CAC cash payments.</p> <p>F.2.3 establish a set of standardized payment terms (including options therein, to allow flexibility in negotiations) for future rezonings involving phased CAC's.</p> <p>F.3.1 ensure that a process is implemented whereby all CAC exemptions granted receive review and approval by a specific management level staff and also be sufficient documentation retained to support the exemption granted.</p> <p>F.3.2 ensure that the CAC policy clearly identifies the categories of CAC exemptions and that a process is established to ensure adequate review and correct application of CAC policy for more complex developments or those more ambiguous in nature.</p> <p>F.4.1 ensure that authorization levels for CAC negotiations are clearly established. Sign-off levels should be formalized and reflected in the review checklist</p> <p>F5.1 consider limiting the locked-in period for CAC's to a maximum period such as one year, after which the CAC is either:</p> <ul style="list-style-type: none"> <li>• adjusted to current rates (for target rate CAC's);</li> <li>• adjusted to account for changes in inflation and other market conditions (for negotiated CAC's); or</li> <li>• reopened for negotiation.</li> </ul> <p>F6.1 determine whether the CAC policy should specifically address commercial developments and the treatment of associated CAC's.</p> <p>F.6.2 ensure that the approach and methodology underlying negotiated CAC's for commercial buildings is consistent with policy.</p>	<p>F.1.1 High F.2.1 High F.2.1 Medium F.2.3 Medium F.3.1 Medium F.3.2 Medium F.4.1 Medium F.5.1 Medium F.6.1 Medium F.6.2 Medium</p>	2019

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162	Property Endowment Fund Audit	Real Estate and Facilities Management	8	2	5		1	F.1.1 create Standard Operating Procedures for the following processes: 1. Property Acquisitions 2. Property Dispositions 3. Leasing to Commercial Tenants 4. Leasing to Residential Tenants 5. License Issuance F1.2 distribute the Standard Operating Procedures to all respective team members and ensure it is accessible to staff. (Not Due) F.4.1 The GM of Real Estate & Facilities Management and the GM of Finance, Risk & Supply Chain Management/CFO are to ensure the PEF Performance Dashboard is regularly presented and reviewed to facilitate decision making. (Not Due)	F.1.1 Medium F.1.2 Medium F.4.1 Medium	2019
165	Facilities Operations Audit	Real Estate and Facilities Management	9	1	8			F.6 review the division's organization structure, work order backlogs, maintenance programs and staffing needs to ensure the division's assigned tasks are adequately performed. (Not Due)	F.6 Medium	2019
			129	3	67	12	47			
						62				





**CITY OF VANCOUVER**  
**INTERNAL AUDIT REPORT**  
*Non-Market Housing Operations*

**Distribution:**

Audit Committee  
KPMG External Auditors

Sandra Singh – General Manager, Arts, Culture and Community Services  
Lisa Prescott – Acting General Manager, Real Estate & Facilities Management  
Susie Saunders – Managing Director, Non-Market Housing and Social Operations  
Jody Bourgeau – Director, Non-Market Operations  
Gracen Chungath – Director-Operations-Planning & Program Management  
Paul Hsu – Director, Facilities Maintenance & Operations

**EXECUTIVE SUMMARY**

August 3, 2018

The Non-Market Housing Operations audit was initiated to provide reasonable independent assurance that the internal controls and business processes were adequate and effective. The Audit assessed whether:

- Adequate controls are in place to ensure that program objectives are met and City policies are complied with;
- Health and safety standards, and other relevant legislation are in compliance;
- Staffing levels are adequate and well managed; and
- Facilities are adequately maintained and associated risks are mitigated.

In our opinion, internal controls over non-market housing operation processes require improvement. Improvements to tenancy management processes including tenant selection and income verification are needed to assist the Non-Market Housing Operations division in meeting its objectives. An operating level agreement with Facilities Management should also be formalized to ensure adequacy of building maintenance for the aging infrastructure.

The more significant findings and recommendations are:

**E.1 Define and communicate mandate of the Non-Market Housing Operations division**

A strategic review will examine the Non-Market Housing Operations division's mandate, operational objectives and key metrics.


**E.2 Finalize Operating Level Agreement between Non-Market Housing Operations and Facilities Management**


An operating level agreement between the two departments will be established to address service levels and response times for buildings managed by Non-Market Housing Operations.

**E.3 Formalize criteria for tenant selection**

Along with defining the target tenant demographic, the criteria for tenant selection will be defined and documented.

These and other audit findings and recommendations are contained in the report.

  
Tony Hui, CPA, CA, CRMA  
Chief of Internal Audit

  
Carmen Fuellebrandt, CPA, CMA, CIA, CRMA  
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Senior Internal Auditor

## A. BACKGROUND

Given the challenges currently facing the City with respect to affordable housing, maintaining the existing supply of non-market or social housing is of vital importance. Non-market rental housing is available for Vancouver residents who are unable to pay market-level rents. The Housing Vancouver Strategy, approved by Council in November 2017, establishes various housing targets and objectives including the retention and renewal of existing social, non-market and co-op housing.

### City-operated Non-Market Housing

The City of Vancouver currently operates 816 non-market housing units in 11 buildings with one 213 unit building under redevelopment, most of which are located in downtown Vancouver. The 2019-2022 Capital Plan has designated an investment of \$15.5M toward City-owned and operated non-market rental housing. \$12M of this is to cover replacement of aging buildings, with the remaining going towards capital maintenance and renovations, and seismic assessments.

Ownership of buildings in the City's non-market housing portfolio is split as follows:

- Vancouver Public Housing Corporation – Alexander, Barclay, Central, New Continental, and Roddan residences;
- City – Granville, 220 Terminal, and 1105 Seymour residences;
- City Property Endowment Fund (PEF) – Gresham and Kingsway Continental residences;
- BC Housing – Antoinette and Oppenheimer residences.

The age and condition of the buildings varies; the Central residence was constructed in 1911 while units at 1105 Seymour and 220 Terminal buildings were completed in 2017.

The non-market housing residences are available to lower income residents. The majority of the units are rented at the shelter rate of \$375 per month for individuals on income assistance, which is in alignment with the B.C. Rent Scale set by the B.C. Government. Some units at 1105 Seymour are rented at Low End of Market (LEM), which is typically at 80% of the market rental rate.

### Non-Market Housing Operations Division

The Non-Market Housing Operations (NMHO) division is part of the Arts, Culture, and Community Services department. City staff from the NMHO division oversee day-to-day operational activities at the non-market residences, including adherence to the Residential Tenancy Act, tenant selection, tenant management, rent collection, front desk reception, requesting building repairs, and the handling of any emergencies or tenant issues that may arise.

Residence Attendants are stationed at each building and are supported by a Residence Manager, who is responsible for up to two buildings. The division is led by the Managing Director, Non-Market Housing and Social Operations. The Director, Non-Market Operations position was vacant at the time of the audit.

NMHO staff are scheduled for 24-hour coverage in most of the buildings. City staff working in these buildings face multiple challenges in dealing with tenants who may be living in poverty, experiencing mental health and/or substance use issues.

Building maintenance, janitorial, and repairs are managed by the City's Facilities Management department.

## **B. SCOPE**

The audit reviewed the effectiveness of business processes and the adequacy of controls related to Non-Market Housing Operations. The audit assessed whether:

- Adequate controls are in place to ensure that program objectives are met and City policies are complied with;
- Health and safety standards, and other relevant legislation are in compliance;
- Staffing levels are adequate and well managed; and
- Facilities are adequately maintained and associated risks are mitigated.

The scope included housing units operated by the City's Non-Market Housing Operations team. Housing operated by external groups, such as non-profit housing operators, were not in scope.

Our work included:

- Interviews with key staff and management in Non-Market Housing Operations and Facilities Management;
- Documentary review of related policies, process documents, and other departmental records and correspondence; and
- Site visits to non-market housing buildings.

The audit is not designed to detect fraud. Accordingly there should be no such reliance.

## **C. CONCLUSION**

In our opinion, internal controls over non-market housing operation processes require improvement. Improvements to tenancy management processes including tenant selection and income verification are needed to assist the Non-Market Housing Operations division in meeting its objectives. An operating level agreement with Facilities Management should also be formalized to ensure adequacy of building maintenance for the aging infrastructure.

Findings and recommendations have been discussed with appropriate management and responses incorporated in this report.

## **D. RISK ANALYSIS**

The potential significant risks considered if controls were not in place are:

- Potential risk to tenant health and safety due to inadequate facility maintenance, or lack of timely repair to facilities;
- Operating procedures may not be in compliance with health & safety legislation, the Residential Tenancy Act, or other relevant legislation;
- Inadequate training and staffing could leave staff at risk, vulnerable to hazards inherent to the operations;

- Inadequate tenancy management can result in the department not meeting its objectives of providing housing to lower income residents;
- Vacant units are not filled on a timely basis; sub-optimal use of available non-market housing units and financial impacts due to loss of rental income;
- Incorrect rental rates may be applied, or inadequate rent collection processes, affecting operating revenue and financial viability of the units.

## **E. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

### **E.1 Define and communicate mandate of the Non-Market Housing Operations division**

The mandate of the Non-Market Housing Operations (NHMO) division is not currently well defined. A strategic review is required to identify key objectives and provide direction to the operation of the non-market housing units in the City's portfolio. The recently developed Housing Vancouver Strategy refers to the need to maintain and repair existing non-market housing buildings; however it does not refer explicitly to the NMHO division and its goals and mandate.

#### *Changing needs of tenants*

The City's non-market housing portfolio has stayed relatively constant over time. However, the challenges involved with the tenant demographic, including mental health and addiction related issues, have intensified over the years and need to be reflected in the City's approach and the level of support that is provided to tenants. Current operations and staffing levels have been established on the premise that tenants are generally self-sufficient; however, this assumption should be revisited given the challenges facing the current tenant demographic.

#### *Impacts to long-term planning*

One of the contributing factors to the uncertainty has been turnover among management level positions in the division. The lack of continuity has impacted the ability to make longer term decisions related to the repair and replacement of the aging buildings in the non-market housing portfolio. For example, one of the NMHO residences currently has five units that are unoccupied as a section of the building was deemed unsafe. The building was slated for replacement and interim measures were put in place to maintain the building's safety. However, delays in the building replacement have lengthened the time for the temporary measures and resulted in an inefficient use of maintenance and repair funds.

#### *Expiring Operating Agreements*

For approximately half of the NMHO buildings, BC Housing operating agreements provide funding for the term of the mortgage. Two of the buildings' operating agreements have since expired and three more will expire at the end of their mortgage terms within the next ten years. Any strategic review undertaken should give consideration to the impact this has on the funding support for operations over the longer term, and the implication on rent structures.

#### **Recommendation:**

**E.1.1 The Managing Director, Non-Market Housing and Social Operations should oversee the completion of a strategic review of the Non-Market Housing Operations division. The division's mandate, key objectives and associated metrics should be identified and documented. Consideration should also be given to the target tenant demographic for the**

**NMHO residences, and the level of support provided by the City. This should be completed by July 31, 2019.**

***Management Response:***

☒ Agree with the findings

☒ Agree with the recommendations

☐ Disagree with the findings

☐ Disagree with the recommendations

***Management Action Plan:***

*A Strategic Business Review of Non Market Housing Operations is planned to launch in early 2019. As a housing provider with a diverse and ageing portfolio of assets, and complex ownership and funding models it is critical that we define the strategic vision and desired outcomes for this critical operational unit. It is especially timely with the recently approved Vancouver Affordable Housing Endowment Fund which considers the consolidation of non market housing assets, including VPHC. An external consultant will be engaged to review the portfolio's opportunities and challenges and make recommendations on the business strategy in alignment with the City's overall housing strategy.*

**E.2 Finalize Operating Level Agreement between Non-Market Housing Operations and Facilities Management**

Although Facilities Management provides building maintenance services for the Non-Market Housing Operations residences, there is no operating level agreement documented. This issue was previously noted in a 2012 audit of Non-Market Housing Operations and has remained an outstanding audit recommendation since that time. The most recent status update to Internal Audit reported that this item is on Facilities Management's 2019 work plan.

Some progress has been made in defining the related processes between the two departments involved. Facilities Management has documented an escalation process and has made efforts to ensure that NMHO staff have the necessary contact information and instructions for escalation.

Discussions with NMHO staff indicated that they understood the process for requesting work and escalating requests. However, some dissatisfaction remains with the length of time to respond to certain requests, particularly for specialized trades. NMHO also reports that delays have been experienced in repairing units affected by both regular turnover as well as those requiring renovations following incidents of flood, water leaks, and fire.

The ability to define service levels and response times is of importance given the City as landlord must meet response levels mandated by the Residential Tenancy Act. Delays in renting out units have an impact financially and also reduce tenant satisfaction.

**Recommendation:**

**E.2.1 The Director, Facilities Maintenance & Operations, in consultation with the Managing Director, Non-Market Housing and Social Operations, should develop an operating level agreement for the buildings operated by Non-Market Housing Operations. This should outline the scope of responsibilities, response times and related costs of services. This should be completed by December 31, 2019.**



### **Management Response:**

☒ Agree with the findings

☒ Agree with the recommendations

☐ Disagree with the findings

☐ Disagree with the recommendations

### **Management Action Plan:**

#### *Director, Facilities Maintenance & Operations comment:*

*Management agrees with the recommendation and has a strategy in place to develop Operating Level Agreements (OLAs) with all of REFM's key client Business Units. The OLA with Non-Market Housing Operations (NMH) has been prioritized among the first three to be developed. This OLA will include a defined prioritization methodology and related target response times, clear contact information and instructions, and an agreed upon escalation process. It will also clarify roles and responsibilities for both REFM and NMH. The timeline for completion and approval of this OLA is December 31, 2019.*

*In addition to the development of OLAs, REFM has a program of strategic initiatives underway that will improve response times and the customer experience, which all client departments will benefit from, including NMH. These recent and ongoing improvements include the adoption of a mobile work order management application for handheld devices which has been deployed to REFM Facilities Operations trades staff for efficient work order management. This technology has enabled more timely allocation, dispatching and closure of work orders. Additionally, a comprehensive work order dashboard tool tracking all work orders has been created and is reviewed on a weekly basis with operations staff. This tool has enabled supervisors, superintendents and managers to effectively drive performance in the timely execution of outstanding work orders. Since implementation of the tool, work order backlogs are decreasing in each REFM trades shop and the percent of work orders completed on time is continuing to increase. Other improvement initiatives in progress include the development of an updated work intake form as well as improved communication tools for work orders requested. Targeted timelines for these improvements is Q1 2019.*

#### *Managing Director, Non Market Housing & Social Operations comment:*

*An operating level agreement (OLA) is critical to the effective and efficient operation of Non Market Housing. Effective and timely maintenance and repair is an essential component of housing delivery to ensure assets meet or exceed their expected useful life through preventative maintenance; that financial resources are managed appropriately and are responsive to funder requirements; that rental income is maximized by ensuring minimal residential unit downtime; and that the City is in compliance with the Residential Tenancy Act at all times.*

*The allocation of Facilities Management and Operations resources and priority establishment of work requests is not within the control of NMHO which poses significant challenges to service delivery. The OLA is crucial for parties to be able to define their roles and responsibilities in relation to the effective and efficient use of resources, service deliverables, and financial impacts associated with their transactional relationship.*

*In a rental market with a less than one percent vacancy rate and significant numbers of people who are homeless it is essential that the City's housing operations make their non market residential units available for rent in an expedited manner to meet the public's housing needs. The OLA is a priority for NMHO and has been since 2012 however it cannot be achieved without the full support and collaboration of REFM.*

### E.3 Formalize criteria for tenant selection

There is a lack of documented criteria to support tenant evaluation and selection at the NMHO residences. Applications from prospective tenants are generally submitted in person to the Residence Manager. Prospective tenants may also be referred to Residence Managers by homeless outreach workers. Residence Managers maintain waitlists by way of paper applications that have been submitted. Of the waitlists reviewed, it was observed that there was no clear ranking or methodology for selecting a tenant as well as a lack of supporting documentation for the selection process.

#### Tenant evaluation not consistent among residences

Residence Managers indicated that the choice of tenant is at their discretion, and care is taken to ensure a good fit with the other tenants. It was observed that one Residence Manager had developed their own criteria to evaluate tenants; however, this was not consistently applied and it is unknown whether the practice was consistent with the overall target group for the residence. For example, a building may be targeted to tenants over a certain age.

#### Clear selection process would add transparency

The previous Director of Non-Market Operations identified the tenant selection process as an issue and, prior to their departure, indicated a desire to use the BC Housing Registry to list the City's NMHO properties and use the centralized applicant database that is associated with the online housing registry. The housing registry is published online and would integrate transparency to the tenant selection and management processes. This would automate the manual processes involved in waitlist maintenance, provide online assistance with rent calculations, and allow housing providers to retain autonomy over their tenant screening and selection process.

The current process involves considerable personal judgement and discretion on behalf of the Residence Managers. There is a risk that bias or favouritism, real or perceived, could play a part in the process.

#### **Recommendation:**

**E.3.1 The Managing Director, Non-Market Housing and Social Operations should establish a process for evaluating and selecting tenants, including retention of adequate supporting documentation. Criteria should be established, which may be customized for each NMHO property's target tenant demographic. Consideration should be given to selecting tenants according to the BC Housing Registry, potentially employing their point score system. The new process should be finalized and communicated to the Residence Managers by December 31, 2019.**

#### **Management Response:**

☒ Agree with the findings

☒ Agree with the recommendations

☐ Disagree with the findings

☐ Disagree with the recommendations

#### **Management Action Plan:**

*NMHO is in discussion with BC Housing with respect to utilizing the BC Housing Registry for the entire NMHO housing portfolio. It is uncertain at this point if the BC Housing Registry will be made available to those projects that currently are not receiving operating funding from BCH.*

*Corrective measures are underway to standardize the internal process for tenant selection and documentation through the development of reference points, training, policies and procedures that will accommodate the nuances of each Development and demographics served. This work will enhance the ability to utilize the BC Housing Registry should that system be made available to projects which currently are not receiving BCH operating funds.*

#### **E.4 Establish a regular tenant income verification process**

The process for verifying that a NMHO tenant meets low-income criteria requires improvement. Information related to a tenant's income level is obtained to verify that they meet the criteria for the housing unit and, in some cases is used to calculate the appropriate rental rate for the tenancy.

Review of a sample of tenancy files revealed that supporting documentation for income verification is not consistently retained on file. Some of these included tenancies where the income level was used in the calculation of the rent. It is also unclear whether periodic income verifications were performed. For rents that were set to a rate other than the shelter rate there also was not sufficient documentation to support the monthly rental rate.

Management indicated that due to a lack of resources, a formalized process for annual income review is not in place. As income levels of tenants may change over time, annual income reviews would ensure that monthly rent is set appropriately, particularly for units rented at rates proportional to tenant income. While maximizing rental income is not the objective of non-market housing, sufficient rental income is necessary to help offset the associated operating costs for the NMHO portfolio.

Without a process to verify tenant income there is a risk that some of the tenants may not qualify (i.e. may be over the Housing Income Limits established for eligibility for the housing unit), resulting in prospective tenants that are qualified not having a space available for them.

#### **Recommendation:**

**E.4.1 The Managing Director, Non-Market Housing and Social Operations should oversee the development of a formalized process for income verification. Consideration should be given to which residences should be prioritized for this process, as some may be deemed of lower importance, and the timing and frequency of the reviews. Guidelines should be provided to staff that include the type of documentation that is to be relied upon for the verification (i.e. tax Notice of Assessments, consecutive paystubs, bank account statements, etc.). This should be implemented by December 31, 2019.**

#### ***Management Response:***

☒ Agree with the findings

☒ Agree with the recommendations

☐ Disagree with the findings

☐ Disagree with the recommendations

#### ***Management Action Plan:***

*NMHO has begun the necessary steps to review each site and practices associated with income testing of existing and prospective tenants and will develop a priority list from these findings. Our team is currently developing guidelines and reference points for Residence Managers (RM) to apply to their tenant eligibility requirements and income testing practices. Collaborative sessions*

*will be arranged to gain RM input to ensure all formalized processes for income verification are easily transferable for each Development.*

## **E.5 Ensure tenant files contain adequate documentation and meet privacy requirements**

Tenant files are generally paper-based and kept on-site at the residence buildings, typically in the Residence Manager's office.

Review of a sample of tenant files revealed instances where adequate documentation was not retained. Some files were missing key documents such as completed and signed tenancy agreements, condition inspection reports, or income verification supporting documentation. Documentation of a tenancy agreement and condition inspection reports are required under the Residential Tenancy Act.

It was also observed that confidential information was not always secured at the residences. For example, it was observed that some records that included health information and social insurance numbers were left in an unlocked case on top of a file cabinet. This was located in the Residence Manager's office; however, the office is not kept locked throughout the day.

The City's Access to Information department has advised that to ensure compliance with privacy requirements, paper records containing confidential information should be in a locked cabinet, and ideally in a locked office. Given the sensitive information that the NMHO department handles, often including health and other personal information, a high level of attention should be given to what information is retained, and how it is secured, archived and eventually disposed of.

### **Recommendation:**

**E.5.1 The Managing Director, Non-Market Housing and Social Operations should review all tenant files to ensure completeness. Residence Managers should be given a list of what should be retained in tenant files and any incomplete documentation should be addressed. This should be completed by July 31, 2019.**

**E.5.2 The Managing Director, Non-Market Housing and Social Operations should consult with the City's Access to Information department to ensure the processes related to the collection, usage, and storage of confidential information meet privacy requirements. This should be completed by July 31, 2019.**

### **Management Response:**

☒ Agree with the findings

☒ Agree with the recommendations

☐ Disagree with the findings

☐ Disagree with the recommendations

### **Management Action Plan:**

*NMHO has established a time line to review all tenant files and to perform site audits that will assist in further identifying areas for improvement and efficiencies related to tenant file management and record retention practices. After completion of the site visit audits NMHO will use the findings to coordinate appropriate corrective measures and actions in collaboration with the City's Access to Information department. NMHO will ensuring all Residence Managers and Residence Attendants are fully aware and trained in privacy protection requirements, including the*

*implementation of appropriate and transparent policies and procedures that support the retention of necessary tenant information.*

## **E.6 Ensure staff reference material is updated and accessible**

Various binders are kept at the NMHO residences, which contain procedure documentation and reference material for staff. These materials cover topics such as working alone, violence prevention, and blood borne pathogen procedures that are common to all residence staff. Additional information that is building-specific, such as information on the building's equipment, was also found on-site.

Many of the documents are out-of-date, and there is a lack of consistency among the residences as to what information is available on-site for staff. Having the majority of the information in paper format also makes it difficult to update and distribute amongst the various buildings.

Due to staff turnover there are various sources and formats of the reference material: hard copy binders, files in a shared drive, and files saved in VanDocs. The information is currently not well-organized. Work is underway to organize and locate all available reference material, policy and procedures, agreements, and building related information.

Without up-to-date, readily available reference material, there is a risk that staff may not follow the defined processes. An example was relayed by management in which a revised tenancy agreement document containing language tailored to a new building was not used by staff. Older rental agreement forms were used which did not contain the intended language.

### **Recommendation:**

**E.6.1 The Managing Director, Non-Market Housing and Social Operations should ensure that staff reference material is updated, communicated to staff, and retained centrally to facilitate future updates. Ideally a shared drive folder or VanDocs should be used; however, some hard copy information may be necessary to ensure that all residence staff have access. This should be complete by July 31, 2019.**

### ***Management Response:***

☒ Agree with the findings

☒ Agree with the recommendations

☐ Disagree with the findings

☐ Disagree with the recommendations

### ***Management Action Plan:***

*A recent review was performed of all policies, procedures and reference materials available. NMHO continues to process and compile this information, in part to determine the scope and required resource supports as well to develop a prioritized list of required reference and support materials required to more fully support staff. Our intention is to provide all site staff with a central virtual access point as well as physical reference points that will ensure easy access to information as well as consistency and clarity. This will be complimented by staff training on how and where to find resource and reference materials, supplemented by further developing their understanding on the importance and relevancy of the materials.*

## **E.7 Assess staff skillsets and training requirements**

There are currently no records centrally available as to the training taken by NMHO staff. There is also a lack of a formalized onboarding and orientation for new staff. New staff are typically trained on-the-job by job shadowing a few work shifts with more experienced staff before they are scheduled to work alone at the residence.

Training provided to staff should support the skills needed to perform their job functions effectively and safely. Aspects such as violence prevention and dealing with tenants with mental health challenges and substance use complexities should be included in the training provided to staff.

The job descriptions for the Residence Manager and Residence Attendant positions are out of date and do not adequately describe the skillset required to handle the job duties today.

#### **Recommendations:**

**E.7.1 The Managing Director, Non-Market Housing and Social Operations should ensure that staff skill sets and required training is clearly identified. A training plan for the division should be developed to address any gaps between the desired training and the current staff skillset. This should be complete by December 31, 2019.**

**E.7.2 The Managing Director, Non-Market Housing and Social Operations should work with Human Resources to ensure that the job descriptions for NMHO positions are updated and reflect the current job responsibilities, desired skillsets and required training. This should be complete by December 31, 2019.**

#### ***Management Response:***

☒ Agree with the findings

☒ Agree with the recommendations

☐ Disagree with the findings

☐ Disagree with the recommendations

#### ***Management Action Plan:***

*While we agree with the recommendations, the financial resources necessary to ensure staff received appropriate training were not made available until the 2018 operating budget when ACCS received additional funding to address staff trauma and safety. This funding is dedicated to addressing the training and development needs of staff working with vulnerable populations, including increased Violence Prevention training. Violence Prevention training and OH&S orientations are a requirement for all NMHO staff.*

*NMHO is working with HR and site staff to develop a training tracking document that will identify training opportunities previously provided, highlighting gaps where further training would be beneficial which would better position site staff to manage more effectively the challenges of working with at risk populations.*

*Current job descriptions for NMHO are undergoing a review and will be updated to ensure that duties, responsibilities, expectations and qualifications more accurately reflect the requirements to successfully fulfill all job functions, which will also assist in the development of interview questions, orientation of new staff and performance evaluations of members going forward.*

#### **E.8 Formalize tenant wellness check processes and guidelines**

The Non-Market Housing Operations division recently implemented a practice of tenant wellness checks. This was deemed necessary by management given the desire to assist those in medical distress and to provide a quick response in the case of a tenant fatality. Management reported that these incidents were as frequent as an average of one fatality per week.

The new process is to have on-site residence staff record how many times a tenant is seen over a 24 hour period. If a tenant has not been seen in over 24 hours, staff would attempt to locate the tenant. This may or may not require entering the tenant's suite.

There is a need to achieve a balance between assuring tenant wellness, and the tenant's right to privacy as well as complying with the Residential Tenancy Act. Initial discussions with the City's Legal department identified some concerns with the process and ensuring that City staff have a valid reason to enter a tenant's suite. The idea of requesting the tenant's consent was suggested and should be considered in the process.

#### **Recommendations:**

**E.8.1 The Managing Director, Non-Market Housing and Social Operations should engage Legal Services and address any outstanding concerns with the tenant wellness check process, with the aim of ensuring the City is compliant with the Residential Tenancy Act and any other applicable legislation. Obtaining tenant consent should be considered and if deemed appropriate, should be incorporated into the process. This should be finalized by July 31, 2019.**

**E.8.2 The Managing Director, Non-Market Housing and Social Operations should ensure that the tenant wellness check process is documented and communicated to Residence Managers and Attendants. This should be finalized by July 31, 2019.**

#### **Management Response:**

☒ Agree with the findings

☒ Agree with the recommendations

☐ Disagree with the findings

☐ Disagree with the recommendations

#### **Management Action Plan:**

*Work has been undertaken to address tenant safety and well-being through the creation of a tracking document that is utilized by site staff to track the occurrences and instances in which tenants have been seen or interacted with, creating a record of visuals and check ins performed. In addition, there is a door tag system that is utilized within the portfolio; the application of which will be reviewed for efficacy and desired outcomes. Fob access systems are also monitored where appropriate and available, which adds another layer of monitoring tenants' activity.*

*NMHO will undertake the necessary research and due diligence to determine best practices and sustainability of ongoing tenant wellness checks, as well as seek information and guidance from internal legal resources, sector partners and where appropriate, the funder. This will help to formulate a sustainable and practical approach to ensuring the safety of all residents is undertaken and documented while safeguarding their rights to privacy. Once finalized the wellness check process will be communicated to site staff with training and resources provided to support the application and success.*

#### **E.9 Implement policy for cases where tenants also work for the City**



There were anecdotal reports of cases where tenants of a non-market residence were also City staff. Discussions with NMHO management indicated that the specifics of whether this is the case today is not known. Also, there is no policy preventing staff from applying for a unit as the City, as landlord, may not discriminate based on employment. It can also be the case where an existing tenant subsequently starts working for the City.

A comparison of current tenant lists with City staff lists identified five potential name matches. Further investigation is needed to confirm that these instances represent cases where City staff are tenants in an NMHO residence, such as comparison of the SIN numbers.

Given the housing and homelessness crisis facing the City, instances where City staff are also renting non-market units may raise questions of fairness and accessibility to other potential tenants.

This issue relates to the ability to determine whether tenants meet the lower income level criteria for the NMHO units (refer to Finding E.4). Processes to verify income must be in place to ensure that this criterion is met.

**E.9.1 The Managing Director, Non-Market Housing and Social Operations should consider implementing a policy whereby tenants must disclose if they are City staff. While this may not preclude City staff from also residing in a NMHO unit, it would facilitate appropriate review of income level to ensure that the tenant meets the criteria. The new policy should be implemented by December 31, 2019.**

**E.9.2 The Managing Director, Non-Market Housing and Social Operations should initiate a review of the potential matches between City staff and NMHO tenants. If any are found to be confirmed matches, the tenant's income should be verified to ensure they fall within the appropriate income bracket. This should be completed by July 31, 2019.**

***Management Response:***

☒ Agree with the findings

☒ Agree with the recommendations

☐ Disagree with the findings

☐ Disagree with the recommendations

***Management Action Plan:***

*NMHO has liaised with HR on the internal audit findings and the potential employee/resident matches have been further analyzed and acted on. We are in the process of gathering all income verification documentation contained within the potential matches and will ensure all requirements for housing have been fulfilled and are otherwise acted on through section 49.1 of the RTA, should they be found to be ineligible for subsidized housing.*

*We will continue to work with HR leads, as well as reference the RTA, to assist in the development of policy that outlines any requirement for applicants or tenants to self-disclose if they are a CoV employee and will further implement income testing practices to monitor ongoing eligibility of all tenants annually to ensure housing is afforded to only those who continue to qualify.*



**CITY OF VANCOUVER**  
**INTERNAL AUDIT REPORT**  
*Parks Restaurant Leases*

**Distribution:**

Audit Committee  
KPMG

Malcolm Bromley – General Manager, Park Board  
Shauna Wilton – Deputy General Manager, Park Board  
Melanie Kerr – Director of Financial Services  
Michael Walia – Associate Director Accounting Operations  
Henry Woo – Manager, Accounting Operations  
Sev Araujo – Manager of Commercial Operations  
Tim Collins – Supervisor, Commercial Operations

**EXECUTIVE SUMMARY**

March 26, 2018

The Parks Restaurant Leases Audit was initiated to provide reasonable independent assurance that lease management processes were adequate and effective, and that payments made to the Park Board are accurate as per the restaurant lease agreements.

Internal controls over Parks restaurant leases require improvement. A lease tracking system should be implemented to ensure accuracy and completeness of lease-related information. Clarifying responsibilities between the Park Board Commercial Operations team and the central Accounts Receivable team will also be key in establishing effective business processes.

In general, we found that revenue received was consistent with the lease terms and with the financial statements provided by the restaurants. We noted the following exceptions:

1. An unresolved discrepancy of approximately \$75,000 for one restaurant was identified by Accounts Receivable and is due to increases to annual license fees not being applied. A corrective invoice has not yet been sent to the restaurant.
2. One restaurant has not provided audited annual revenue statements for 2016 and 2017. Monthly payments have been made during this timeframe, however, based on the restaurant's unaudited monthly revenue reports.

The more significant findings and recommendations regarding lease management processes are:


**E.1 Maintain lease information to ensure accurate billings and compliance with lease terms**

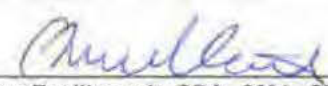
Management has agreed to establish a lease management database that is maintained going forward. Additionally, future lease information and amendments will be updated in SAP, to ensure accuracy of billings.

**E.2 Clarify roles and responsibilities between Park Board Commercial Operations and Central Accounts Receivable**

Management in Park Board Commercial Operations and central Accounts Receivable will define their departments' roles and responsibilities including establishing an escalation process for overdue reports, updating SAP with lease information, and requesting audit information from restaurants.

These and other audit findings and recommendations are contained in the report.

  
Tony Hui, CPA, CA, CRMA  
Chief of Internal Audit

  
Carmen Fuellbrandt, CPA, CMA, CIA, CRMA  
City of Vancouver, Internal Audit



## A. BACKGROUND

The Park Board currently manages 10 leases to restaurant operators and two café licenses. Restaurant leases are a subset of a larger number of commercial leases managed by the Park Board Commercial Operations team.

The Park Board Commercial Operations team is involved with initiating and negotiating leases, as well as the ongoing management of the leases and any subsequent amendments and renewals. The City's centralized Accounts Receivable team processes the lease billings and reconciles the payments received to the annual revenue reports submitted by the restaurants.

The lease agreements set out that the restaurants pay rent based on a share of the restaurant's revenue. This is typically a percentage of gross revenue or a minimum rent payment plus a percentage of gross revenue over a certain threshold. The restaurants submit revenue reports and the associated payments on a monthly basis. Annual revenue reports are also provided and are, for most restaurants, required to be independently audited as set out in their respective lease agreements. The Park Board's share of revenue from restaurant leases amounted to \$3.9 million in 2017.

## B. SCOPE

The audit objectives were to provide reasonable independent assurance that the existing internal controls and business processes related to the Park Board's restaurant leases were adequate and effective and to determine whether:

- payments made to the Park Board are accurate as per the revenue share arrangement outlined in the lease; and
- processes are in place to ensure restaurants are in compliance with lease terms.

Our work included:

- interviews with key staff and management in Park Board Commercial Operations and Financial Services;
- documentary review of related policies, process documents, and other departmental records and correspondence; and
- review of monthly and annual revenue statements for a sample of restaurant leases.

The financial processes and detailed financial records of the restaurants were not in scope.

The audit is not designed to detect fraud. Accordingly, there should be no such reliance.

## C. CONCLUSION

In our opinion, internal controls over Parks restaurant leases require improvement. A lease tracking system must be established to ensure accuracy and completeness of lease-related

information, and to assist management with ensuring compliance to lease terms. Clarifying responsibilities between the Park Board Commercial Operations team and the central Accounts Receivable team will also be key in establishing effective business processes.

Findings and recommendations have been discussed with appropriate management and responses incorporated in this report.

## **D. RISK ANALYSIS**

The potential significant risks considered if controls were not in place are:

- Unclear responsibilities may lead to inadequate management of leases;
- Incomplete or inaccurate info on leases may impact the oversight of leases;
- Leases may not be entered into with proper approval;
- Tenants or the Park Board may not be meeting their obligations under lease agreements;
- Leased properties may not be adequately maintained resulting in risk to occupant health and safety; and
- Rents may not be paid in accordance with the lease terms, resulting in loss of revenue.

## **E. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

### **E.1 Maintain lease information to ensure accurate billings and compliance with lease terms**

There is no comprehensive database or lease management system in place for Park Board restaurant leases. Currently, the SAP Real Estate module is used to track billings for each restaurant lease. Information such as the rent and taxes paid, lease expiry dates, and contact information are also included. This information was entered in SAP in 2017 as a pilot project given the need for a lease management system.

#### ***SAP contains some lease information, but is not comprehensive***

While SAP contains some lease information, there is a need to manage key dates and other details around utilities, maintenance, and insurance. The SAP system has the ability to run reports based on key dates such as upcoming renewals, however, this functionality is not used. Park Board staff have indicated that they are looking to implement a different system for comprehensive lease management information as SAP does not meet their needs.

#### ***Lease management system is needed to ensure compliance***

The lack of a lease management system impacts the Park Board's ability to determine whether tenants are complying with lease terms.

One recent example was raised by the Accounts Receivable team where a restaurant was not invoiced the appropriate amount for three years. The restaurant in question was to pay an additional annual license fee as set out in their lease. The lease sets out the fee amount and the timing of subsequent increases, such as after year five of the lease. The five years had elapsed but the fee increase was not flagged and was not applied. The resulting discrepancy was \$75,000. A corrective invoice has been created but has not yet been sent to the restaurant.

***E.1.1 The Manager, Commercial Operations, Park Board should establish and maintain a lease management database to track all relevant lease agreement details and meet the department's reporting needs. If this is a different system than SAP, then consideration***

***needs to be given to ensuring future lease information and amendments are updated in SAP, to ensure accuracy of billings. An interim tracking system should be in place by September 30, 2018.***

***E.1.2 The Manager, Commercial Operations, Park Board should ensure that the corrected invoice for the incorrectly billed tenant referred to above is sent to and paid by the tenant. Future rent increases for all restaurant leases should be tracked so that invoices accurately reflect the lease terms. This should be completed by July 31, 2018.***

***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendation

☐ Disagree with the recommendation

**E.2 Clarify roles and responsibilities between Park Board Commercial Operations and central Accounts Receivable**

Roles and responsibilities of the Park Board Commercial Operations team and central Accounts Receivable need to be clarified and agreed to for the following areas.

***Ensuring timeliness of annual reports***

At year-end, the restaurants send annual revenue reports to Accounts Receivable for reconciliation to the billings received. For one restaurant, their annual audited sales report has not been received for 2016 or 2017. A clear escalation process is needed to ensure that these reports are issued on a timely basis and that management in both Accounting and Commercial Operations are appropriately involved and aware of any delays.

***Updating SAP information***

There is a risk that lease information in SAP will become outdated and the rental billings may no longer be accurate in the future. To update lease information in SAP the responsible department is to complete a SharePoint form, which is sent to administrative staff for SAP entry. For Parks restaurant leases, the Accounting Clerk is to receive these updates. However, the responsibility for completing and sending the SharePoint form has not been clearly assigned.

***Executing landlord's right to audit***

Some of the restaurant lease agreements set out that a full audit or supplemental review of financial records may be conducted at the Landlord's request. These audit requests have not been made to date. It is unclear which department would be responsible to determine whether the audit is needed and to initiate the request.

***E.2.1 The Manager of Commercial Operations, Park Board and the Manager, Accounting Operations should document the roles and responsibilities of both departments involved with Parks restaurant leases. The areas should include, but not be limited to, those referred to above. It may be useful to extend this exercise to include all Parks leases and the relevant stakeholders, including Accounts Payable and REFM. A DARCI matrix should be used to document clear lines of accountability for all parts of the process. This document should be in place and agreed to by both departments by September 30, 2018.***

***E.2.2 The Manager of Commercial Operations, Park Board should ensure that the annual revenue reports are received for 2016 and 2017 for the restaurant that has not yet submitted these reports. This should be completed by July 31, 2018.***

***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Management Action Plan:*

*Please check one:*

☒ Agree with the recommendation

☐ Disagree with the recommendation

*Manager, Accounting Operations: Accounting Operations will work with Park Board in clearly documenting the role and responsibilities relating to Park restaurant leases and other Park's related billings. This is to ensure that everyone understands clearly their area of responsibilities, how what they do link to other areas and escalation process, if needed.*

**E.3 Enhance accuracy of utilities billings**

The restaurant lease agreements require lessees to pay utilities such as hydro, water, and garbage collection.

In places such as Stanley Park, or for a restaurant building that is part of a larger building complex, the City or Park Board pays the entire utility bill and the tenant's share of the utilities is calculated based on its proportion of square footage. The tenant is then billed by the City to recover the cost. This is necessary because these restaurants do not have a dedicated hydro meter.

There is a risk that utilities billing may be inaccurate or incomplete. The Accounts Receivable department does not have a listing of leases that require utilities costs to be billed back to the tenant. The assumption is that tenants not currently being invoiced are paying the utilities directly. There is also no reporting of utilities billing to facilitate review by the Commercial Operations team.

Information as to which utilities are to be billed back for each tenant should be identified and maintained by the Park Board Commercial Operations team. This information should also be accessible to the central Accounts Receivable department to ensure that utilities billings are complete and accurate.

***E.3.1 The Park Board Commercial Operations team, in consultation with the Facilities and Accounting departments, should verify the accuracy of the current utilities billings by:***

- a. reviewing current billings and verifying that all utilities costs are being recovered as appropriate; and***
- b. maintaining information for each lease as to the arrangements for utilities payments and any billings that are required to recover costs.***

***This should be in place by December 31, 2018.***

***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendation

☐ Disagree with the recommendation

*Management Action Plan:*

*Manager, Accounting Operations: Accounting Operations with work with Park Board Commercial Operations and Facilities in maintaining utilities bill-back information for each lease and ensuring that billings are accurate and recovered as appropriate.*

**E.4 Reconcile Stanley Park event fees to ensure completeness of revenue**

When a restaurant wishes to host a special event in the adjacent outdoor area, a fee of \$300 applies. The Park Board's Special Events department receives notification of the requests to hold these special events. The central Accounts Receivable department processes the fee payments and relies on reports from Special Events to ensure that the fees paid reflect the number of events held.

The lack of a reconciliation process between the records of special events held and the associated fees paid was raised in a 2014 internal audit of restaurant leases. The audit focused on internal controls related to revenue receipt and reconciliation. Park Board management subsequently implemented a process where Park Board staff provided the information to Accounts Receivable. A reconciliation was performed in 2015 resulting in nine additional events being billed.

At the time of this audit, Accounts Receivable had not reconciled special events for 2016 or 2017. The process for requesting the special events listing is not well defined and there is a lack of ownership to ensure that it is completed on a timely basis. Lack of controls over this process could result in a loss of revenue for the Park Board.

***E.4.1 The Manager of Commercial Operations, Park Board should ensure that a process is established whereby special events held by restaurants are recorded, and reported annually to the Accounts Receivable department for their reconciliation to fees paid. This should be completed by September 30, 2018.***

***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendation

☐ Disagree with the recommendation

***Management Action Plan:***

*Manager, Accounting Operations: Accounting Operations will work with Park Board Accounting Operations to set up a reconciliation process on a regular basis so that Stanley Park event fees are billed completely and on a timely basis.*





# CITY OF VANCOUVER INTERNAL AUDIT REPORT Property Tax Process Audit

## Distribution:

Audit Committee  
KPMG

Patrice Impey - General Manager, Finance, Risk & Supply  
Chain Management/CFO  
Melanie Kerr - Director of Financial Services  
Marina Marzin - Associate Director, Revenue Services

## EXECUTIVE SUMMARY

November 1, 2018

Property tax processes require improvement. Management has committed to strengthen internal controls and enhance operational efficiency by improving process documentation, business continuity, management oversight and validation of the average roll<sup>1</sup>.

The more significant findings and recommendations are:

### E.1 Establish Property Tax adjustment approval process and management oversight

To ensure penalty adjustments are accurate and valid management approval over a certain dollar threshold should be implemented.

### E.2 Document methodology for average roll validation

The average roll validation could benefit from a robust average roll validation methodology.

Given the importance of the average roll creation and validation it would be beneficial to establish responsibility for reviewing the validation work completed.

<sup>1</sup> uses land assessment averaging to phase in significant property tax increases

Tony Hui, CA, CPA, CRMA  
Chief of Internal Audit

Heiko Wieler, CISA, CIA, CRISC, CRMA  
Senior Internal Auditor

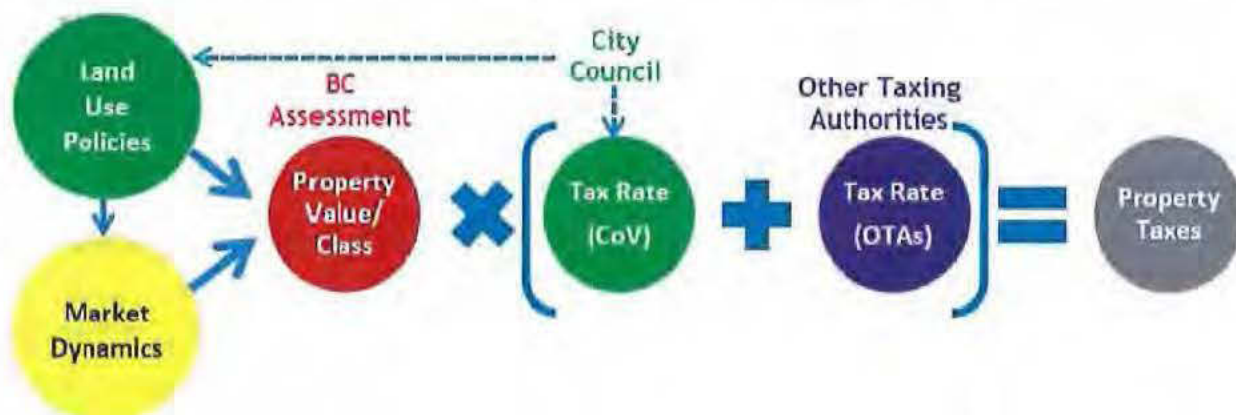
## A. BACKGROUND

Property taxes are the primary source of revenue for the City. The property tax process is managed by Revenue Services of the Finance, Risk & Supply Chain Management Department.

The property tax process involves billing and collection of property taxes from over 205,000 commercial and residential properties. For the 2017 property tax year, approximately \$1.6 billion for 204,000 folios were issued notices by Revenue Services. This amount includes the totals for other tax authorities; the City's share was \$753 million.

There is an advance bill sent to the taxpayer in February and a main bill in July each year. The City's general tax levy, City utility charges and levies from the Vancouver School Board and other taxing authorities are included in the Property Tax notice.

The figure below shows the key drivers and stakeholders within the property taxation framework<sup>2</sup>.



See Appendix 1 for more details

## B. SCOPE

Our audit objective was to provide reasonable independent assurance that the existing internal controls and business processes relating to property tax processes are adequate and effective.

The audit reviewed property tax processes, compliance to applicable policies, procedures and the internal control framework to verify the effectiveness and efficiency of the property tax billing, collection and refund process.

The audit reviewed:

<sup>2</sup> Targeted Land Assessment Averaging Council Report

- The adequacy of controls in reviewing property tax assessment rolls;
- The completeness and accuracy of tax billing processes including the calculation of tax notices and distribution of notices to residents;
- Calculation and billing of property taxes and payments in lieu of taxes for government owned properties;
- Controls over the collection of payments;
- Property tax refunds; and
- The adequacy of IT access controls.

The Empty Homes Tax was out of scope for this audit as a review has been completed in 2018.

The audit is not designed to detect fraud. Accordingly there should be no such reliance.

## **C. CONCLUSION**

Property tax processes require improvement. Management has committed to strengthen internal controls and enhance operational efficiency by improving process documentation, management oversight, validation of the average roll and formalization of the process.

Findings and recommendations have been discussed with management and responses incorporated in this report.

## **D. RISK ANALYSIS**

In designing the audit program, the potential significant risks considered if controls are not in place were:

- Tax data is not accurate or incomplete;
- Processes for property tax billings and collections are inadequate;
- The billing process is inefficient;
- Judgemental decisions not made consistently and in accordance to established policies; and
- There are errors in the property tax calculations.

## **E. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

### **E.1 Establish Property Tax adjustment approval process and management oversight**

There were 515 property tax penalty reversals totaling \$180,000 in 2018. Property tax penalties charged to a taxpayer may need to be adjusted due to a number of reasons. Adjustments include properties that have gone through a BC Assessment appeal process and incorrectly applied penalties caused by taxes paid on time but not processed before the deadline.

#### Establish management review of material penalty reversals

In the case of incorrectly applied penalties, if proof can be provided, a Clerk III can make the necessary reversal and a Clerk IV reviews and approves the reversal "batches" in the City's Tempest system. The Supervisor of Accounting Operations reviews the refund "batches" submitted in the system and in the event of an unusually large adjustment (no set value) or

unusual circumstances, will inform the manager. There was no documentation retained on file to support management review and oversight.

#### Formalize complex property tax payment decision process

For more complex issues, three Finance managers meet and make the final decision on potential adjustments. An example involved a claim by a taxpayer that city staff provided the incorrect property tax payment date. No supporting documentation was kept on file to support the decision.

#### **Recommendations:**

**E.1.1 The Director of Financial Services should establish a management review process where material penalty reversals over an established dollar threshold are reviewed, documented and approved by management. This should be implemented by June 2019.**

#### ***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

*Management Action Plan:*

*A management review process will be established and documented by June 2019.*

#### **E.1.2 The Director of Financial Services should ensure that staff:**

- **Retain supporting documentation for complex property tax payment decisions;**
- **Clearly document the decisions and evidence of management review; and**
- **Store supporting information in VanDocs.**

**This should start as of December 2018.**

#### ***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

*Management Action Plan:*

*Supporting documentation will be maintained starting December 2018.*

#### **E.2 Document methodology for average roll validation**

For properties where land assessment averaging is used to calculate property taxes, BC Assessment has been contracted to create and supply the average roll used by the City of Vancouver. Revenue Services receives the roll and performs sample validation to ensure the overall impact of averaging presented to council is correct. The validation process is not sufficiently documented and relies on the knowledge of the Manager of Property Tax and Utilities.

Due to an incorrect file being provided by BC Assessment in 2017 there were about 100 properties for which the average roll values were incorrect. The error was identified and with extra effort the property tax bills were corrected before being mailed out. Additional testing was performed and an annual process to mitigate the risk of this type of error occurring in the future was added.

### Establish a formal systematic approach for average tax roll validation

When Finance receives the roll from BC Assessment, the Manager of Taxation & Utilities is responsible for validating the accuracy, which is completed by performing a sample review. However, the methodology is not sufficiently documented. The average roll validation would benefit from a more clearly documented validation approach. A methodology would include for example how many folios are selected and how they are selected for testing. The validation should ensure that the BC Assessment average roll is accurate.

### Review average roll validation

In addition, a secondary level review is not performed to ensure the Manager of Taxation's validation is reasonable. As this represents a significant amount and a complex process a second review is needed. The Director of Long-term Financial Strategy and Planning informally reviews the work as part of creating the council report. Given the importance of the average validation it would be beneficial to have the Associate Director Revenue Services review the work.

### **Recommendations:**

**E.2.1 The Director of Financial Services should establish a more robust average roll validation methodology. The validation methodology should be documented and include how many folios are selected for sampling and how they are selected. The validation work should be documented and retained on file. This should start in December 2018.**

#### ***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

*Management Action Plan:*

*A more robust average roll validation methodology will be established in December 2018.*

**E.2.2 The Director of Financial Services should ensure that a reviewer is assigned to review the average roll validation. This should start in December 2018.**

#### ***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

*Management Action Plan:*

*Commencing December 2018, the Associate Director, Revenue Services will review the average roll validation.*

### **E.3 Improve Property Tax process documentation and initiate knowledge transfer**

Property Tax represents a significant revenue source for the City. It is a complex business process involving many steps and significant employee involvement from tax calculation to billing and collection. While there is documentation for certain components, best business practices require that critical business process are well documented and staff cross trained to ensure business

continuity during an incident, emergency or disaster. The high level Property Tax work flow listed in Appendix 2 would serve as starting point for the process and workflow documentation.

Property tax calculations including the more complex land averaging involve rate calculations, inclusion of the other tax authority requirements and validation of the tax rolls. To ensure business continuity, the methodology for the complex calculations should be clearly documented and staff cross-trained.

**Recommendations:**

**E.3.1 The Director of Financial Services should complete a Property Tax DARCI and high-level workflow to ensure business continuity by August 2019.**

**Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

*Management Action Plan:*

*A property tax workflow and DARCI will be completed by August 2019.*

**E.3.2 The Director of Financial Services should ensure knowledge of the property tax calculations and validations is documented and cross-trained with other staff to ensure coverage by August 2019.**

**Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

*Management Action Plan:*

*We will cross train staff on the property tax calculations and validations by August 2019. We will create a checklist outlining the steps to be followed to validate the property tax calculations.*

**E.4 Automate manually intensive processes**

Supplementary rolls spanning multiple years in Tempest

Supplementary rolls (sup-rolls) are provided on average 12 times a year by BC Assessment for properties that require adjustments. For example, a successful appeal process would impact a property's tax roll and may span multiple years. The process to apply sup-rolls to the Tempest system is very manual and time intensive. Numerous sup-rolls can be loaded onto the same property and have to be entered in the right order to ensure correctness.

A "wizard" like software feature or more automated approach would improve efficiency and reduce the risk of data entry errors. This may require an enhancement request to the Tempest software vendor.

**Recommendations:**



**E.4.1 The Director of Financial Services should look into improving the multi-year supplementary rolls upload into Tempest by submitting an enhancement request to the Tempest software vendor. A “wizard” like software feature or more automated approach would improve efficiency. This request should be submitted by January 2019.**

**Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

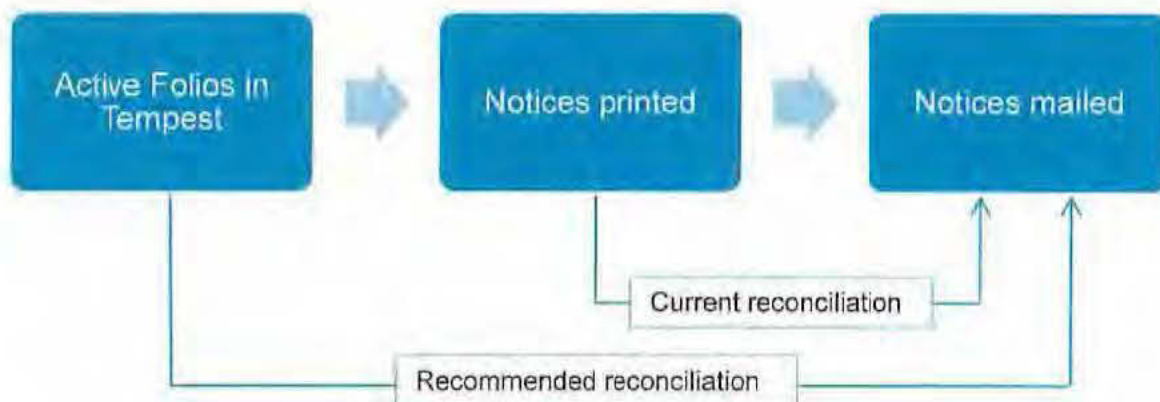
☐ Disagree with the recommendations

**Management Action Plan:**

*The Associate Director Revenue Services will contact Aptean (Tempest) regarding setting up a wizard.*

**E.5 Reconcile the expected number of tax notices to the actual number of notices produced**

The Vancouver Charter states that the City needs to ensure that all notices are mailed to the taxpayers. Revenue Services currently fulfills this requirement by reconciling notices printed to notices mailed. A more direct control would be to reconcile the number of tax notices in the Tempest system based on the number of assessed properties to the number of notices mailed.



Discussions with staff indicated that the risk of not having a notice printed is low and a mitigating control would be the taxpayer's complaint which would trigger the City to investigate the issue. There is no reported incident that a notice was not printed in the past. After meeting with Internal Audit, Revenue Services performed the extra reconciliation and will evaluate its value going forward.

**E.5.1 The Director of Financial Services should consider implementing reconciliation of the expected number of tax notices in Tempest to the actual number of notices mailed by June 2019.**



**Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

*Management Action Plan:*

*We will reconcile the number of tax notices in Tempest to the actual notices mailed by June 2019.*

## **APPENDIX 1:**

**Property taxes** are levied by taxing authorities based on real property values, which are driven by zoning as defined in land use policies and by market dynamics.

**BC Assessment** determines the value of all real properties in BC based on use as defined by zoning and market evidence, and assigns them to appropriate property class(es) based on their use in accordance with the Assessment Act. An Assessment Roll is produced annually for municipalities and other taxing authorities (OTAs) such as Provincial schools, TransLink, Metro Vancouver, Municipal Finance Authority and BC Assessment to levy property taxes.

**City Council** sets land use policies that define zoning; determines the amount of general purpose tax levy required to support City operations; sets residential and business tax share and tax rates; and levies property taxes using the Assessment Roll. Council may also decide whether to apply mitigation tools such as land assessment averaging in any given year. The City's general purpose tax portion accounts for ~50% of the overall tax rate.

**OTAs** set tax share and tax rate for each property class, and levy property taxes using the Assessment Roll. If land assessment averaging is applied, the tax rates for the impacted property classes will be adjusted to ensure revenue neutrality. OTAs account for approximately 50% of the overall tax rate.

### **Land Assessment Averaging**

Land assessment averaging is an optional tool available to Council under the Vancouver Charter. To date, Vancouver is the only municipality in British Columbia that uses land assessment averaging to phase in significant property tax increases arising from assessment volatility at a city-wide level. A property is eligible for averaging if it is a residential (class 1), light industrial (class 5), or business (class 6) property and has significantly increased in value since last year over a set threshold. Only the land value is averaged, not the building value.

**Tempest** is the City's main revenue management system for billing and collecting property taxes, utility invoices and bylaw violations.

## APPENDIX 2: High-level Property Tax workflow

Timing	Step/Process	Responsibility
November	Mailing of advance property tax	Manager, Taxation & Utilities
late December	BC Assessment sends preliminary thresholds for targeted averaging to City of Vancouver using assumptions from last years until thresholds are finalized	BC Assessment
January	Completed roll provided to City of Vancouver	BC Assessment
Jan/Feb	City of Vancouver does averaging model on the completed roll	Manager, Taxation & Utilities
Jan - March	Time for appeals to BC Assessment roll	BC Assessment
Jan, April, May	Three way validation of overall tax rates and general levy	Financial Services
Jan - March	Council approves use of averaging for current year taxes (preliminary rate calculation is based on average model)	Long-term Financial Strategy & Planning
March/April	BC Assessment sends revised roll	BC Assessment
March/April	BC Assessment sends average roll	BC Assessment
March/April	BC Assessment provides exclusions report of how many folios are excluded from averaging	BC Assessment
April	Director of Long-term Financial Strategy & Planning calculates rates	Long-term Financial Strategy & Planning
April	Council approves tax distribution as per Vancouver Charter requirement	Long-term Financial Strategy & Planning
April	Three way validation of average roll and comparison to Tempest feed	Financial Services
May	Other Tax Authorities (OTAs) send tax requirements to the City of Vancouver.	Collector of Taxes
May	Factor in OTA requests	Long-term Financial Strategy & Planning
May	Tax rates available and approved by council	Long-term Financial Strategy & Planning
May	Mailing of property taxes	Manager, Taxation & Utilities
ongoing	Bank file upload process to Tempest.	Manager, Collections & Customer Service



# CITY OF VANCOUVER INTERNAL AUDIT REPORT Sick Without Pay Benefits Audit

## Distribution:

Audit Committee  
KPMG

Andrew Naklicki – Chief Human Resource Officer  
Patrice Impey - General Manager, Finance, Risk & Supply  
Chain Management/CFO  
Deb Gale – Director, HR Business Partnerships  
Melanie Kerr - Director of Financial Services  
Michael Walla - Associate Director of Accounting Operations

## EXECUTIVE SUMMARY

July 3, 2018

The audit reviewed employees with benefits who have been off sick without pay to ensure benefit payments are appropriate and in accordance with collective agreements.

Processes for benefits cancellation and arrears require improvement. Management has committed to strengthen internal controls and enhance operational efficiency by formalizing benefits processes and implementing regular reviews to ensure benefits are paid in accordance to collective agreements.


The more significant findings and recommendations are:

### E.1 Establish responsibility for the benefits cancellation process

The current benefits cancellation process involves the Payroll department sending letters to employees informing them that their benefits will be cancelled at a certain date unless they pay for the outstanding benefit arrears. The process for cancellation of benefits is ad-hoc, not documented and involves a series of reminder letters sent prior to cancelling benefits. Under the current process it is not clear whether the responsibility for benefits cancellation rests with the HR or Payroll department. Formalizing the business process and establishing roles and responsibilities will ensure a consistent approach and efficiency gains.

### E.2 Improve and document the benefits arrears process

The Payroll department tracks benefit arrears in spreadsheets. This manual process is time consuming and not standardized. The benefit arrears process needs to be documented and include clear guidelines and parameters to improve efficiency. Formalizing of business processes will ensure a consistent approach.

  
Tony Hui, CA, CPA, CRMA  
Chief of Internal Audit

  
Heiko Wieler, CISA, CIA, CRISC, CRMA  
City Senior Internal Auditor

## A. BACKGROUND

The City values the health and well-being of employees and provides extensive support for employees and their families. Benefits available include dental coverage, extended health and life insurance plans. On May 1, 2018 the City changed benefits providers from Pacific Blue Cross to Green Shield Canada which provides the best value for the administration of the City's health and dental benefits.

In 2017, a CUPE 15 employee was found to have been off sick without pay over 12 months and the City continued to pay for extended health premiums for 28 months at which point the employee had retired. This instance triggered the audit to identify if there were any more similar cases.

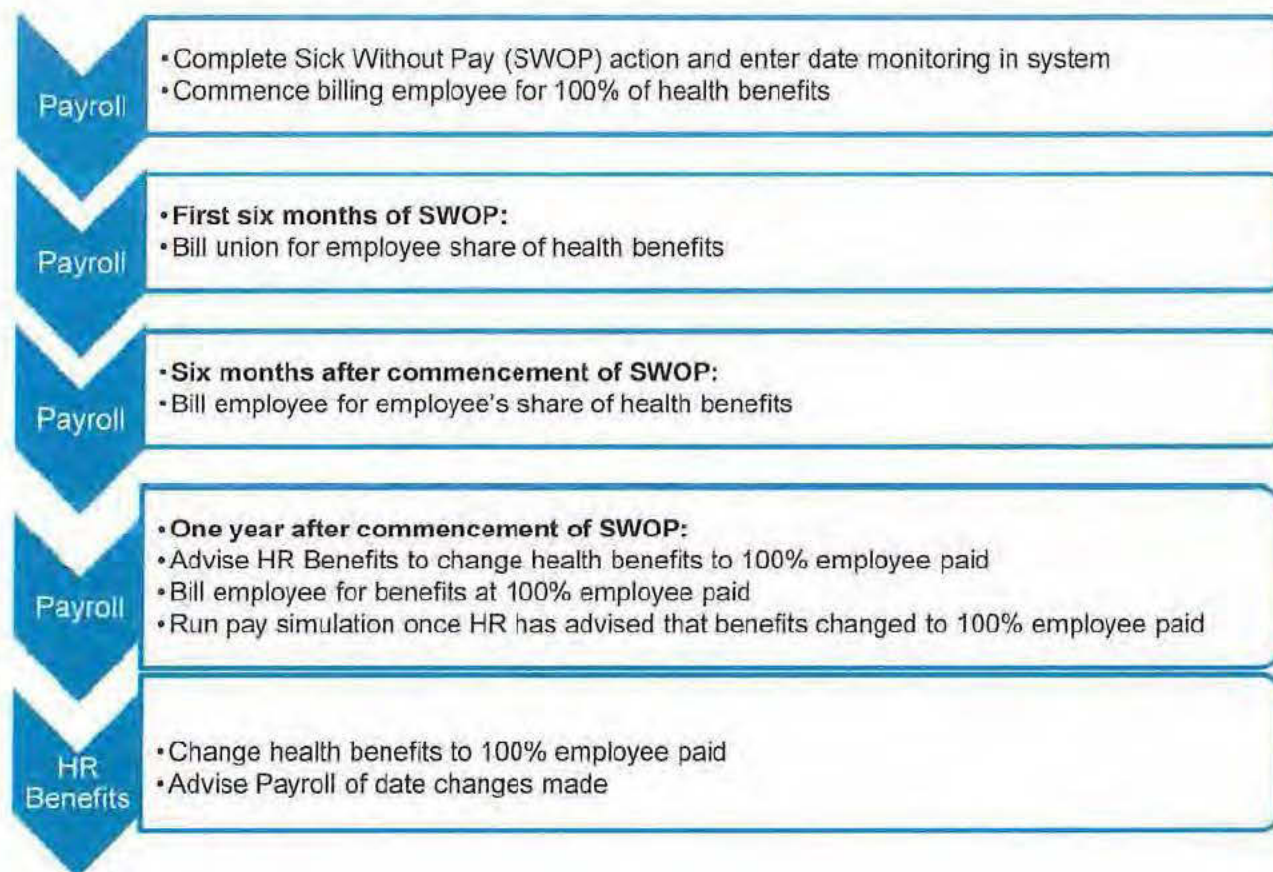
For employees that are on leave without pay, benefits are paid for as follows.

<b><i>PAID BY:</i></b>	<b><i>Extended Health Premium (Employee's contribution)</i></b>	<b><i>Extended Health Premium (Employer's contribution)</i></b>	<b><i>Supplementary Life Insurance Premiums</i></b>
<b><i>Months 1-6</i></b>	Union	City	Employee
<b><i>Months 7-12</i></b>	Employee	City	Employee
<b><i>CUPE 1004: Months 7-24</i></b>			
<b><i>Months 13+</i></b>	Employee	Employee	Employee
<b><i>CUPE 1004: Months 25+</i></b>			

In short, employees pay the extended health premiums after 12 or 24 months of being on leave depending on the applicable collective agreement.

Current department responsibilities for Sick without Pay (SWOP) for CUPE 15 are depicted below:





## B. SCOPE

Our audit objective was to provide reasonable independent assurance that the existing internal controls and business processes relating to payments of benefits for employees that are off sick without pay are adequate, effective and in accordance with collective agreements. The audit investigated cases where the current SAP system shows benefit coverage that is not being paid for by the employee.

Using data analysis the audit investigated whether:

- Any employees currently on extended leave where the City pays benefits after the grace period.
- Cases where the City pays benefits for employees that are no longer working at the City.
- Persons enrolled with the Green Shield Canada benefits that is not a City employee.

The audit is not designed to detect fraud. Accordingly there should be no such reliance.

## C. CONCLUSION

Benefits cancellation and arrears processes require improvement. Management has committed to strengthen internal controls and enhance operational efficiency by improving benefits processes and regular reviews to ensure benefits are paid for appropriately. Clear responsibilities, standardized processes and guidelines need to be established for staff.



Findings and recommendations have been discussed with management and responses incorporated in this report.

#### **D. RISK ANALYSIS**

In designing the audit program, the potential significant risks considered if controls are not in place were:

- Benefits are paid by the City for employees that are on leave beyond the terms set out in the collective agreement,
- The City pays for benefits of terminated employees; and
- Processes for benefits payments and cancellations are inadequate.

#### **E. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

##### **E.1 Establish responsibility for the benefits cancellation process**

###### Formalize business process and establish clear accountability and responsibility for benefits cancellation

Employee benefits may need to be cancelled for various reasons such as the employee failing to pay for benefit arrears. The current process involves Payroll sending letters to the employee informing them that their benefits will be cancelled at a certain date unless they pay for the outstanding amount. The process for cancellation of benefits has not been documented and involves a series of reminder letters sent prior to cancelling benefits.

Under the current process it is not clear whether the responsibility for benefits cancellation rests with the HR or Payroll department. Formalizing the business process and establishing roles and responsibilities will ensure a consistent approach and efficiency gains. The City's DARCI Accountability Matrix would be a good starting point for this. This process needs to include the timelines for cancellation and reminders sent.

###### Cancellation of Benefits letters are inconsistent

The benefits cancellation letter templates are stored on Payroll's network drive and are in the process of being updated. Payroll clerks customize the templates before sending them out. This creates an issue as letters may not contain all essential information. Payroll should finalize the templates and ensure they are being used by Payroll clerks with minimal edits to items such as names, dates and amounts. Formalizing this will ensure that letters sent to staff contain consistent wording.

##### **Recommendations:**

**E.1.1 The Director, HR Business Partnerships should work with the Director of Financial Services to establish responsibility for benefits cancellation by January 2019.**

##### ***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

*Management Action Plan:*

*HR and Finance Management have agreed to review all Benefits Initiation (Hire), Maintenance (Change) and Cancellation (Termination) processes, which would encompass "without pay" events (SWOP, LWOP, Maternity leave, etc.) as well. This review is intended to scope current state and future state processes, systems, ownership and segregation. For this, Management has solicited the support of the CPI Group, who will work in conjunction with the HR and Finance stakeholders. It is expected that review by CPI group will start in Q4-2018 and will continue into 2019.*

**E.1.2 The Director, HR Business Partnerships should work with the Director of Financial Services to clearly document and communicate the benefits cancellation process including key dates and timeframes used for reminders sent prior to cancelling benefits by January 2019.**

***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

*Management Action Plan:*

*HR and Finance Management believe that this finding is already included in E.1.1. As such, for remediation purposes, Management's action plans in E.1.1. addresses the finding noted here.*

**E.1.3 The Director of Financial Services, until such time as the ownership of this process is determined, should ensure that the benefits cancellation templates are finalized and used by Payroll clerks with minimal edits to items such as names, dates and amounts by January 2019.**

***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

*Management Action Plan:*

*While Management agrees with this finding and recommendations, the remediation owner and subsequent related actions will be dependent upon the review conducted on ownership and segregation under Management's action plan for E.1.1.*

**E.2 Improve and document the benefits arrears process**

Benefit arrears process is not documented

The benefit arrears process involves the Payroll department tracking employees in spreadsheets for amounts owing to the City. Repayments can be done in a number of ways such as via pay deductions or cheques. The process is manual, varying on a case by case basis and time consuming as staff may spend a significant amount of time on individual cases.

A judgemental decision is made by the payroll manager on the method and timeframe for repayments which leads to inconsistent treatment of staff. Based on the amount owing it may involve numerous repayments over a period of time which creates more work as this needs to be constantly tracked. Guidelines for recovery of overpayments were shared in 2012 between the HR and Payroll departments but are not actively being followed and need to be updated.

### Establish benefit repayments guidelines and parameters

The benefit arrears process needs to be documented and include clear guidelines and parameters to reduce inefficiencies. These parameters need to include how long to recoup money for and what the minimum or maximum payments should be. This could be based on a percentage of the amount owing or the employee's base pay. Formalizing of business processes will ensure a consistent approach.

#### **Recommendations:**

**E.2.1 The Director of Financial Services, until such time as the ownership of this process is determined, should ensure that the benefits arrears process is formalized and communicated to staff with clearly defined repayments guidelines and parameters by January 2019.**

#### **Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

#### **Management Action Plan:**

*While Management agrees with this finding and recommendations, the remediation owner and subsequent related actions will be dependent upon the review conducted on ownership and segregation under Management's action plan for E.1.1.*

### **E.3 Establish regular audit of benefits**

As part of this audit we performed the following tests on data from January to April 2018:

- A. Identify any employees currently on extended leave where the City pays benefits after the grace period.  
Result: No additional exceptions were identified aside from employees which are already part of Payroll's arrears tracking.
- B. Identify cases where the City pays benefits for employees that are no longer working at the City.  
Result: One exception was found which was due to a timing issue and had already been corrected on the employee's last pay statement.
- C. Identify if there is anyone enrolled with the Green Shield Canada benefits that is not a City employee.  
Result: No exception identified. As part of the transition to Green Shield Canada, HR undertook a clean-up process; this test confirmed that this was well executed. With Pacific Blue Cross, data had to be entered manually in SAP and again in the Pacific Blue Cross system. With Green Shield Canada, data is loaded weekly from SAP into Green Shield Canada's system decreasing the likelihood of terminated employees receiving benefits.

Discussions with HR management revealed that it would be beneficial for HR to conduct a quarterly audit of processes that involve employees paying benefits to ensure benefits are paid for appropriately. The data analytics approach and program created by Internal Audit can be easily transferred to HR to start this process.

**Recommendations:**

**E.3.1 The Director, HR Business Partnerships should implement a quarterly audit of processes that involve employees paying benefits to ensure benefits are paid for appropriately. This process should start by January 2019.**

***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

***Management Action Plan:***

*As part of continuous process reviews, the Benefits team will be implementing regular audits to ensure accurate and timely benefits enrolments, cancellations, and changes for all employees including those on various leaves of absence. Outcomes of the requested CPI group review will be incorporated into best practices moving forward.*



# CITY OF VANCOUVER INTERNAL AUDIT REPORT Software Licence Audit

## Distribution:

Audit Committee  
KPMG

Jessie Adcock – Chief Technology Officer  
Patrice Impey - General Manager, Finance, Risk & Supply Chain Management/CFO  
Christina de Castell – Chief Librarian  
Melanie Kerr - Director of Financial Services  
Barbara Van Fraassen - Director, Access to Information  
Nick Kassam – Chief Procurement Officer

## EXECUTIVE SUMMARY

April 23, 2018

The Software Licence Audit was initiated to provide reasonable independent assurance that the existing internal controls and business processes relating to software licence governance, management, inventory control and compliance are adequate and effective. Software management and inventory controls require improvement. Management has committed to strengthen internal control and enhance operational efficiency by improving records management and employee education on cloud and privacy requirements.

The more significant findings and recommendations are:

### E.1 Educate City employees on cloud software and privacy requirements

A review of the City's credit card purchases found multiple purchases of cloud software for business use. These purchases of cloud software used for scheduling, surveys and project management did not follow the proper software procurement process.

Software users are not aware if the servers used by the cloud service providers reside in Canada. This is important as privacy legislation for securing personal information requires that this data not leave Canada. We did not find evidence of personal information being stored in these cloud solution but there is a risk of additional cloud software being used by unaware employees.

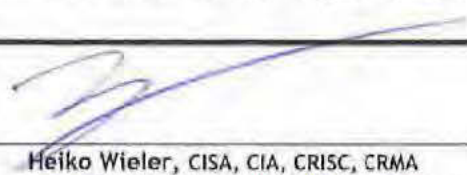
There is a need to educate employees on how to procure cloud software and ensure the software meets privacy requirements. To ensure departments employ a consistent and comprehensive approach in considering cloud software, the Chief Technology Officer should establish an effective communication process to educate City employees regarding cloud software.

### E.2 Establish a central repository for software licence contracts

The City needs to establish central storage of software licence information such as contracts and other supporting documentation outlining the agreement between the City and software



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Chief of Internal Audit



Heiko Wieler, CISA, CIA, CRISC, CRMA  
Senior Internal Auditor

vendors. A list of key contacts owning the licence information for each software application should be readily available.

These and other audit findings and recommendations are contained in the report.



## A. BACKGROUND

A software licence is an agreement between the software vendor and software user that outlines the user's entitlement to use the software. Software licences may take various forms, including a single user licence, a network licence, or a site licence that allows users to run software at the same time.

The value of the City's software assets at 2017 year-end was \$116 million. There are over 500 software applications, including multiple versions of the same software in the City's inventory. Larger licences such as Microsoft licences are more tightly managed and regularly reviewed.

Not all software applications installed on the City's IT assets require a software licence. This includes applications that are developed in-house and freeware such as Adobe Reader.

Cloud software applications are run over the internet without the need to install it on a computer. Due to privacy requirements personal data stored in the cloud is required to stay in Canada.

The processes pertaining to the procurement, maintenance, and decommissioning of software are handled by multiple groups. Information Technology manages software for most City departments, with the exception of the Vancouver Police Department (VPD) and the Vancouver Public Library (VPL). VPL manages its own software purchases, distribution, and inventory. In addition to these groups there are also dedicated staff that manage specialized or departmental-specific software and related user access such as SAP.

## B. SCOPE

Our audit objective was to provide reasonable independent assurance that the existing internal controls and business processes relating to software licences are adequate and effective. Our work looked at management of City's software assets and reviewed:

- Governance and responsibilities for managing software licences;
- Processes in place to track software assets;
- Inventory controls and other controls around maintaining compliance with software licence terms;
- Contracts and other documentation supporting licence entitlement; and
- Authorization of software purchases and installations.

The audit is not designed to detect fraud. Accordingly there should be no such reliance.

## C. CONCLUSION

Software management and inventory controls require improvement. Management has committed to strengthen internal control and enhance operational efficiency by improving records management and employee education on cloud software and privacy requirements.

Findings and recommendations have been discussed with management and responses incorporated in this report.

#### **D. RISK ANALYSIS**

In designing the audit program, the potential significant risks considered if controls are not in place were:

- Non-compliance with licence agreements may result in financial penalties;
- Excessive spending on licences and support costs; software usage is not optimized;
- Additional costs incurred due to lack of coordination of purchases between departments;
- Staff may install unauthorized software, opening the potential for network exposure to viruses; and
- Unnecessary costs incurred from unused or obsolete software.

#### **E. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

##### **E.1 Educate City employees on cloud software and privacy requirements**

Review of the City's credit card purchases found multiple purchases of software for business use. Examples of software used included cloud software for scheduling, surveys and project management that did not follow the proper software procurement process. The City's Corporate Purchasing Card Policy states that software should not be purchased via credit card.

##### **Users are not aware of privacy considerations**

Users are typically not aware if the servers used by the cloud service providers reside in Canada. This is important as privacy requirements for securing personal information ask that this data does not leave Canada. We did not find evidence of personal information being stored in these cloud solutions but there is a risk of additional cloud software being used.

##### **Cloud software information is not retained**

As some cloud computing applications are easily attainable due to their costs and accessibility, departments such as IT, Legal Services or Supply Chain Management may not be involved in the purchase of software and general guidance is needed. Cloud services do not require an installation of software on PCs. Generally, cloud services are registered under the employee. User names and passwords are not properly documented and potentially lost when employees leave the organization.

## Educate employees on cloud software

Employees need to be educated on how to procure cloud software. To ensure departments use a consistent and comprehensive approach in considering cloud software, the Chief Technology Officer should send a communication to City employees with step-by-step instructions on what to do when considering a cloud solution. The communication should include a general approach as well as using existing City of Vancouver documents such as the Privacy Impact Assessment Form and IT data security checklist.

### Recommendations:

**E.1.1 The Chief Technology Officer should develop a communication package for City employees to educate them on the use and purchase of cloud software. The package should be communicated to staff by July 2019.**

#### **Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

#### **Management Action Plan:**

Will develop a communication package before July 2019 that summarizes the acceptable use of cloud software.

## E.2 Establish a central repository for software licence contracts

There is no central storage of software licence information such as contracts and other supporting documentation outlining the agreement between the City and software vendors. A list of key contacts that would have the licence information for each software application is also not readily available.

Supporting documentation retained for software licences varies and can be in paper or file format and stored by different departments. Contracts established with involvement from the Supply Chain department are filed in VanDocs.

The Supply Chain Management Group is planning to implement a Contract Lifecycle Management System in 2019-2020. The purpose is to streamline the procurement process value chain and enable better contract and vendor performance management.

We sampled 18 software applications to identify if contract information was available as follows:

Software Licence information available	Number
Contracts available	3
No contract available	9
Other licence information available (PO, SLA, etc.)	6

Having licence information stored centrally would enable better tracking of licence renewals and ensure that required supporting documentation is available in the event of a software vendor audit. To help management comply with licence agreements, sufficient documentation should be retained that outlines the City's right to use the software and the number of licences permitted.

## Recommendations:

**E.2.1 The Chief Procurement Officer should establish a central repository for software licence contracts and supporting information. This should be completed by January 2019.**

### **Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

### *Management Action Plan:*

As indicated in the findings, SCM has envisioned a broader contract lifecycle management technology solution for all city contracts, which would also provide the functionality of a central repository as recommended. Investment in the contemplated broader solution will be assessed against other City technology priorities and risks in future IT capital investment cycles.

In the interim, the proposed action plan would consist of centralized tracking of contracts in SCM for contracts approved by IT and procured through SCM. SCM has recently implemented a contract administrator function within the department with the intent that the role will monitor all new contracts to ensure they are tracked centrally and monitored periodically for compliance. All contract, bid and supporting documentation will continue to reside in VanDocs until future technology changes. With the centralized contract admin function in place, it will be easier to search for license information and will be more accessible.

The proposed action plan will be completed by January 2019.

*Note from CTO:* The recommendation should be decoupled from the technology solution in that it should proceed with or without a full CLMS implementation. The risk we are managing is that the CLMS project has not yet got full CLT approval to proceed though it is in the queue for 2019/2020.

In the interim, we should leverage the work Technology Services has done to consolidate contract information as part of internal transformation efforts. Technology Services engaged a consultant to work with SCM and TS to find all software and hardware Technology Services contracts that were of \$5000 or more in value from Oct 2017 to March 2018. The result of this work is an Excel listing of all the contracts that the consultant found including a standard set of attributes and a link to the contract stored in VanDocs. This work has now been handed over to the Manager, Client Services Kyle Foster and his team to keep current and available for us to manage. There is a longer term plan to leverage the Service Now Contracts module to house all of the Technology Services contract data. There will be a project to import the contracts repository data into Service Now in 2019. NOTE: we did not tackle the full scope of the City and that would definitely fall within SCM's remit.

## **E.3 Educate employees on software purchases**

Multiple City credit card purchases for software did not follow the proper procurement process. Analysis of purchase card transactions for a two-month period revealed 17 related software purchases. One of these followed the proper procurement process for an emergency purchase, the remaining 16 did not.

Software is not recorded in the City's asset inventory if it is not purchased via the correct method through IT or the Supply Chain department. The current Corporate Purchasing Card Policy prohibits software and hardware purchases by credit card<sup>1</sup>.

Software purchased through the wrong channel could result in loss of access to the software when the purchasing employee leaves or changes job positions. This becomes more important for cloud services which do not require an installation of software on PCs. There is a need to educate employees on the correct ways to purchase software and ensure the City's policies and procedures are followed.

#### **Recommendations:**

**E.3.1 The Chief Technology Officer should develop a communication package for City employees to educate staff on software purchases. The package should be communicated to staff by July 2019.**

#### **Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

*Management Action Plan:*

Same comments as E1.1 response; will incorporate this additional point into same package.

**E.3.2 The Director of Financial Services should ensure purchases of software on the City credit card are monitored monthly and enforce the policy by revoking the credit card privileges of repeat offenders. This should start in December 2018.**

#### **Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

*Management Action Plan:*

Management (Financial Services) will review P-Card charges on a monthly basis and isolate any identifiable Computer, Hardware, Software and related technology purchases. A report will be sent to the Chief Technology Officer (or assigned delegates) for review of any exceptions. If the Chief Technology Officer indicates that the charge(s) were not authorized on an exception basis, Financial Services will inform the cardholder of the policy and of card revocation if another instance is found in the future.

#### **E.4 Improve manually installed software inventory**

Maintaining an up-to-date and accurate record of software is important in ensuring that the asset is managed and accounted for appropriately. Software that is automatically installed by IT as part of computer rollouts is properly accounted for; other software which is manually installed by users is managed ad-hoc.

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<sup>1</sup> Corporate Purchasing Cards Policy AF-010-01



Currently, software manually installed by users is being tracked on a spreadsheet by IT on an ad-hoc basis. IT is updating and improving the listing in 2018 to ensure it is current.

Software installed by IT is managed through a number of ways including:

- SAP: used to record purchases of both software and hardware for the City.
- KACE: a system for managing and tracking installations on computers and comparisons to licences.
- Larger applications such as SAP are handled through an inventory by the Applications Development Group in IT.
- VPL manages its IT assets using an inventory database that is separate from the SAP inventory.

It would be beneficial to have the manually installed software list updated and include key software information such as licence numbers and the name or location the software licence is associated with. This could be part of the central software licence repository from Recommendation E.2.

## **Recommendations:**

**E.4.1 The Chief Technology Officer should ensure that the manually installed software inventory is updated and includes details of current licence entitlement numbers, and the name and location of the asset or user associated with the licence. This information could be combined with the central software licence repository recommended in Recommendation E.2 by July 2019.**

### ***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

### ***Management Action Plan:***

As part of our 2019-22 capital plan and core IT infrastructure refresh, it is our intention to replace the manual inventory with the enterprise tools ServiceNow and Microsoft System Center Configuration Manager. This recommendation will be moot by 2020. The manual inventory will be managed as best as possible until that point but we would prefer to invest IT effort in the future state versus the current state.

## **E.5 Increase control around administrator access privileges**

The 2012 Software Licence audit recommended that administrative access is reviewed quarterly. In 2013, IT implemented a quarterly review and clean-up of local administrator accounts to close this audit item. This quarterly review was suspended due to staff turnover since 2015.

The City's Computing Policy<sup>2</sup> states that users are not to install software on their computers. The key control with respect to this limitation is that only computer users with administrator access have the ability to install additional software on their machines.

The process for requesting administrative access involves a request form and multiple approvals. When employees leave the City the user account is disabled and access is removed. There is a

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<sup>2</sup> Policy AG-015-01 Computing and Telecommunications Facilities – General

risk that IT is not informed of an employee move or termination and access remains in place unless a review of administrative accounts takes place.

Without effective controls around this type of access there is a risk that users may install software that is not appropriate or required for their job responsibilities, resulting in risk of potential exposure to viruses from the unauthorized software.

**Recommendations:**

**E.5.1 The Chief Technology Officer should ensure that local administrative accounts are reviewed quarterly and employees with approved administrative access have not been terminated or changed positions. This process should start by December 2018.**

***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

***Management Action Plan:***

Technology Services received a CMM approval to staff up the Cybersecurity Team. Once these resources are hired and onboarded by the Fall of 2018, a workplan will be created to respond to this recommendation for 2019.



# CITY OF VANCOUVER INTERNAL AUDIT REPORT Surprise Review of Treasury Processes

## Distribution:

Tim Leung – Treasury Manager  
Michael Walia – Associate Director, Accounting Operations  
Henry Woo – Manager, Accounting Operations  
Audit Committee  
KPMG External Auditors

February 8, 2019

## Executive Summary

Internal Audit completed a surprise review of the Treasury function's key processes. The objectives were to determine the adequacy and effectiveness of key controls related to:

- Treasury function processes including cash management, payment processing, investment purchases, and debt management; and
- The safe-keeping of valuable financial instruments.

## Audit Work Completed

Our work included:

- Use of data analytics for transactions covering the period of January to December 2018, focusing on transfers out of City of Vancouver bank accounts;
- Sample review of transactions related to cheques, EFTs, investments, wires;
- Review of bank reconciliation processes;
- Review of Treasury department's policies and procedures; and
- Review of financial instruments (e.g. letters of credit) stored in the Treasury office, and physical security related to the area.

## Conclusion

Improvements are required to establish appropriate segregation of duties, and proper management oversight to ensure compliance to Treasury policies.

Findings and recommendations have been discussed with the Treasury team, who have agreed to begin implementing improvements to internal controls as noted in this report.

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Chief of Internal Audit

Jennifer Chow, CPA, CIA, CRMA  
Senior Internal Auditor

Carmen Fuellbrandt, CPA, CIA, CRMA  
Senior Internal Auditor

## Findings

### **F.1 Finalize Investment Policy and Procedures and Debt Management Policy**

The Investment Policy and Procedures were last finalized and approved in 2015. The most recent updates were in 2018 and are pending review and approval by the General Manager, Finance, Risk and Supply Chain Management. A Debt Management Policy has also been drafted to establish authority and provide guidance for the City's debt issuance; however, this document has not yet been finalized.

#### ***Authorization for investments***

The 2015 Investment Policy refers to the City Treasurer and Deputy City Treasurer as authorized to conduct investments on behalf of the City. In practice, this activity is primarily conducted by the Treasury Senior Treasury Analyst, who then sends email notification of investment transactions to the Treasury Manager, Deputy Treasurer, and Director of Financial Services. The Treasury Manager has advised that the financial institutions were notified in 2017 that the Senior Treasury Analyst is authorized to purchase investments for the City of Vancouver.

#### **Recommendation:**

**F.1.1 The Treasury Manager should ensure that the Investment Policy and Procedures and Debt Management Policy are reviewed and approved by the General Manager, Finance, Risk and Supply Chain Management. This should be completed by July 31, 2019.**

**F.1.2 The Treasury Manager should ensure that the revised Investment Policy contains a statement around authorization to invest on behalf of the City. If the intention is to authorize the Senior Treasury Analyst to engage in investment transactions, this should be specified in the policy and appropriate management oversight established. This should be incorporated into the policy prior to finalizing the latest version, as per Recommendation F.1.1, targeted for completion by July 31, 2019.**

#### ***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Management Action Plan:*

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

*Finalize Investment Policy and Debt Management Policy*  
***Agree with Findings – No other comment***

*Recommendation*



**Agree with Recommendation** - Treasury is currently in the process of obtaining Director of Finance (GM FRS) approval for the updated investment policy and investment procedures. The Investment Policy and Procedure documents have been submitted for GM FRS signature on Feb 27, 2019.

For the Debt Management Policy, currently under review and expect to receive approval by July 2019

Authorization for investments

**Agree with Findings** - The Director of Finance provided a signed delegation letter to all investment dealers on June 27 2017 being the first day of work of the Senior Treasury Analyst that confirms that the Senior Treasury Analyst is authorized to purchase investments for the City of Vancouver from the dealers as specified under the Investment Policy.

**Agree with Recommendation** - The updated Investment Policy (per F.1.1.) submitted to GM FRS on February 27, 2019 for final signature, includes specific delegation from Director of Finance to appropriate Treasury Staff that are involved in the investment management activities.

## **F.2 Implement process for disclosure of personal interests**

The Investment Policy stipulates that the Investment Officer "shall disclose to the Director of Finance: any personal financial interests in financial institutions and/or investment dealers that conduct business with the City, any material personal financial/investment positions that could be related to the performance of the City's investment portfolio."

No disclosures have been made; however, the Treasury Manager indicated that is because there is no material personal positions held.

### **Recommendation:**

**F.2.1 The Treasury Manager should establish a standard process, for all Treasury management and staff, for conflict of interest disclosure, in line with the City's processes and requirements in this area. This process should be proactive in order to ensure compliance with the policy requirement. This should be complete by July 31, 2019.**

### **Management Response:**

Please check one:

☒ Agree with the findings

☐ Disagree with the findings

Management Action Plan:

Please check one:

☒ Agree with the recommendations

☐ Disagree with the recommendations

### Disclosure of personal interests

**Agree with Findings** - No disclosure made because there is no material position.

**Agree with Recommendation** - The City Treasurer will send an annual request, at the beginning of each fiscal year, to Treasury staff to respond positively or negatively if any material personal financial interest the could pose as a conflict with their job duties in the Treasury function as well as confirming that he/she has read the City's Code of Conduct Policy (AE-028-01). Where positive response is received, Treasury staff will disclose details of this potential conflict of interest. City Treasurer will also send a notice to GM FRS, at the beginning of each fiscal year, regarding the



*above for all Treasury staff. For the avoidance of doubt and abundance of clarity Treasury staff includes City Treasurer.*

### **F.3 Address segregation of duties issues for investment transactions**

Establishing adequate segregation of duties entails splitting up a process such that one individual does not have responsibility for all critical functions of the process. This design protects against errors and potential fraud.

The Senior Treasury Analyst is singularly responsible for many key aspects of the investment purchase process, including making investment decisions and associated purchase transactions within the confines of the Investment Policy and the Vancouver Charter. The Senior Treasury Analyst also records the transaction in both SAP and Treasury investment records, and performs the reconciliation.

#### **Recommendation:**

**F.3.1 The Treasury Manager should establish adequate and practical segregation of duties for investment transactions. One option is for Accounting staff outside of the Treasury team, to take on responsibility for the SAP journal entries for investment transactions. The Accounting Manager should be consulted and a suitable solution decided upon and implemented by July 31, 2019.**

#### **Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Management Action Plan:*

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

**Agree with Findings:** *Note the City Treasurer and Deputy City Treasurer provide continuity function.*

**Agree with Recommendation** - *Accounting staff outside of the Treasury team can take on responsibility for the SAP journal entries for investment transactions, subject to the acceptance of the Accounting Manager.*

### **F.4 Enhance reporting for investment transactions to comply with Investment Policy**

#### **Enhance investment reporting**

The current Investment Policy requires that an investment report be made available to the Director of Finance, Director of Financial Services, and the City Clerk on a monthly basis. The information is to include a management summary providing a status of the current investment portfolio.

Under the current process, investment trades and monthly entries are recorded and saved in a VanDocs folder. Treasury provides a formal quarterly Treasury investment summary as part of the Quarterly FRS GM Dashboard, and a formal quarterly Treasury Dashboard to the GM FRS; however, there is not notification of the update to the VanDocs folders. A more specific reporting process would provide additional oversight that the investments made are appropriate and follow City policy.



### ***Address need for automated control for issuer limits***

Additionally, to ensure sufficient diversification and issuer credit worthiness, the City's Investment Procedures sets out issuer limits for the City's investment portfolio. These limits are the maximum dollar value to be invested in each of the approved financial institutions.

There is no automated control in place to prevent investment purchase from exceeding the investment limits for issuer. The Senior Treasury Analyst manually checks the issuer's current availability against the established limit prior to entering a trade. As the portfolio's records are updated manually, issuer limits could potentially be exceeded erroneously or even intentionally.

Based on our review of the portfolio records for 2018 and discussion with the Senior Treasury Analyst, there were no instances where issuer limits were exceeded. However, a reporting process would provide additional oversight and strengthen controls in this area.

### **Recommendation:**

**F.4.1 The Treasury Manager should establish a reporting process whereby senior management is provided with a summary report providing a status of the investment portfolio including adherence to issuer limit thresholds. The process should comply with requirements set out in the Investment Policy as to the frequency and audience of the reports. This should be in place by July 31, 2019.**

### ***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Management Action Plan:*

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

### ***Enhance investment reporting***

**Agree with Findings** - Treasury follows the accounting T+3 close period to provide all monthly investment reports into VanDocs (which has been the practice over the past decade). Furthermore, Treasury provides a formal quarterly Treasury investment summary to the Performance Measurement Team (within FP&A) which is included in the Quarterly GM FRS Dashboard, as well as a formal quarterly Treasury Dashboard to GM FRS.

**Agree with Recommendation** – In addition to the existing Treasury quarterly reporting noted above, the Senior Treasury Analyst will provide a month end email to Treasury Manager with copy to DoF and Deputy Treasurer to summarize the investment portfolio details as Treasury and GM FRS deem appropriate. From 2018 to date, there has been no occurrence where issuer limits were breached.

### ***Address needed for automated control over issuer limits***

**Agree with Findings** - There is no automated control as there is not an automated system in place. However, there are controls for issuer limits in place. The control for issuer limits are being manually tracked and updated using spreadsheets and the Access database software. The issuer limits checks are done prior to each investment trade. There has been no occurrence during 2018 to date where issuer limits were breached. Such controls can be further improved using an automated Treasury Management System which has been approved in the 2019 Technology Plan and Treasury is currently working with Supply Chain and Legal to implement during 2019.



## **F.5 Review background check requirements for all Treasury staff positions**

The City conducts employment checks for various positions depending on an employee's role and responsibilities. Credit record checks are used to determine whether potential employees may be under financial pressure thereby increasing risk of potential fraud.

Not all Treasury staff are on the list of positions requiring credit record checks; only the Treasury Manager position is included. However, both the Treasury Manager and the Senior Treasury Analyst completed credit record checks when hired. As Treasury staff are responsible for managing investments and conducting financial transactions on behalf of the City, credit record checks are a reasonable condition of employment.

### **Recommendation:**

**F.5.1 The Treasury Manager should work with the Human Resources department to assess which positions within Treasury require background checks. Those positions should then be included, if they are not already, in the list of required positions maintained by Human Resources. This should be reviewed and approved by the General Manager, Finance, Risk, and Supply Chain Management and completed by July 31, 2019.**

#### **Management Response:**

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Management Action Plan:*

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

**Agree with findings** - *Treasury Manager has agreed with GM FRS in 2017 that the 2 roles requiring background checks are the City Treasurer and the Senior Treasury Analyst.*

**Agree with Recommendation** - *On March 7, 2019, the City Treasurer requested Human Resources to add the Senior Treasury Analyst position on the list of credit checks.*

## **F.6 Enhance segregation of duties for USD bank account reconciliation**

As stated in F.3, segregation of duties is an effective control in minimizing the occurrence of errors or fraud.

Under the current process, the Treasury Clerk performs the bank reconciliation for the City's USD accounts. However, the Treasury Manager does not review this reconciliation. The Treasury department also conducts foreign exchange transactions for the same USD account and records the related entries in SAP.

Given that the Treasury department is responsible for recording, processing, and reconciling of USD transactions, there is an opportunity to strengthen segregation of duties for the USD accounts. As the bank reconciliation for the main Canadian dollar account is performed by Accounting Operations, this may be a consideration for the USD accounts.

### **Recommendation:**

F.6.1 The Treasury Manager should strengthen the segregation of duties for the USD bank accounts. One option would be to work with the Accounting Operations Manager to assess the feasibility of having the USD bank reconciliations being performed outside of the Treasury department. This should be completed by July 31, 2019.

***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

*Management Action Plan:*

***Agree with Recommendation*** - Accounting staff outside of the Treasury team can take on responsibility of reconciliation of USD accounts, subject to the acceptance of the Accounting Manager.



**Distribution:**

Audit Committee  
KPMG

Christina de Castell – Chief Librarian  
Kay Cahill – Acting Director of Collections and Technology

**EXECUTIVE SUMMARY**

April 23, 2018

The Software Licence Audit was initiated to provide reasonable independent assurance that the existing internal controls and business processes relating to software licence governance, management, inventory control and compliance are adequate and effective. While no violations were found at VPL, management finds it valuable to improve communication by educating VPL employees on cloud and privacy requirements.

The more significant findings and recommendations are:

**E.1 Educate employees on cloud software and privacy requirements**

A review of the City's credit card purchases found multiple purchases of cloud software for business use. These purchases of cloud software used for scheduling, surveys and project management did not follow the proper software procurement process. None of the software purchases identified were by VPL staff.


Software users are not aware if the servers used by the cloud service providers reside in Canada. This is important as privacy legislation for securing personal information requires that this data not leave Canada. We did not find evidence of personal information being stored in these cloud solutions but there is a risk of additional cloud software being used by unaware employees.

There is a need to educate employees on how to procure cloud software. To ensure departments employ a consistent and comprehensive approach in considering cloud software, the Director of Collections and Technology should establish an effective communication process to educate employees regarding cloud software.

These and other audit findings and recommendations are contained in the report.



Tony Hui, CA, CPA, CRMA  
Chief of Internal Audit



Heiko Wieler, CISA, CIA, CRISC, CRMA  
City of Vancouver - April 2018-206



## A. BACKGROUND

A software licence is an agreement between the software vendor and software user that outlines the user's entitlement to use the software. Software licences may take various forms, including a single user licence, a network licence, or a site licence that allows users to run software at the same time.

The value of the City's software assets at 2017 year-end was \$116 million. There are over 500 software applications, including multiple versions of the same software in the City's inventory. Larger licences such as Microsoft licences are more tightly managed and regularly reviewed.

Not all software applications installed on the City's IT assets require a software licence. This includes applications that are developed in-house and freeware such as Adobe Reader.

Cloud software applications are run over the internet without the need to install it on a computer. Due to privacy requirements personal data stored in the cloud is required to stay in Canada.

The processes pertaining to the procurement, maintenance, and decommissioning of software are handled by multiple groups. Information Technology manages software for most City departments, with the exception of the Vancouver Police Department (VPD) and the Vancouver Public Library (VPL). VPL manages its own software purchases, distribution, and inventory. In addition to these groups there are also dedicated staff that manage specialized or departmental-specific software and related user access such as SAP.

## B. SCOPE

Our audit objective was to provide reasonable independent assurance that the existing internal controls and business processes relating to software licences are adequate and effective. Our work looked at management of City's software assets and reviewed:

- Governance and responsibilities for managing software licences;
- Processes in place to track software assets;
- Inventory controls and other controls around maintaining compliance with software licence terms;
- Contracts and other documentation supporting licence entitlement; and
- Authorization of software purchases and installations.

The audit is not designed to detect fraud. Accordingly there should be no such reliance.

## C. CONCLUSION

While no violations were found at VPL, management finds it valuable to improve communication by educating VPL employees on cloud and privacy requirements.

Findings and recommendations have been discussed with management and responses incorporated in this report.

#### **D. RISK ANALYSIS**

In designing the audit program, the potential significant risks considered if controls are not in place were:

- Non-compliance with licence agreements may result in financial penalties;
- Excessive spending on licences and support costs; software usage is not optimized;
- Additional costs incurred due to lack of coordination of purchases between departments;
- Staff may install unauthorized software, opening the potential for network exposure to viruses; and
- Unnecessary costs incurred from unused or obsolete software.

#### **E. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

##### **E.1 Educate employees on cloud software and privacy requirements**

Review of credit card purchases found multiple purchases of software for business use by City employees. Examples of software used included cloud software for scheduling, surveys and project management that did not follow the proper software procurement process. None of the software purchases identified were by VPL staff. The City's Corporate Purchasing Card Policy states that software should not be purchased via credit card.

##### **Users are not aware of privacy considerations**

Users are typically not aware if the servers used by the cloud service providers reside in Canada. As per VPL management, staff that is involved in the selection and purchase of cloud software has a strong awareness of privacy requirements.

##### **Cloud software information is not retained**

As some cloud computing applications are easily attainable due to their costs and accessibility, departments such as IT, Legal Services or Supply Chain Management may not be involved in the purchase of software and general guidance is needed. At VPL, cloud software can only be purchased through the Library Systems department. Cloud services do not require an installation of software on PCs. Generally, cloud services are registered under the employee. User names and passwords are not properly documented and potentially lost when employees leave the organization.

## Educate employees on cloud software

Employees need to be educated on how to procure cloud software. To ensure departments use a consistent and comprehensive approach in considering cloud software it would be useful to send a communication to VPL employees with step-by-step instructions on what to do when considering a cloud solution. The communication should include a general approach as well as using existing VPL documents such as the Privacy Impact Assessment Form and IT data security checklist.

### Recommendations:

**E.1.1 The Director of Collections and Technology should develop a communication package for employees to educate them on the use and purchase of cloud software. The package should be communicated to staff by July 2019.**

### Management Response:

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

### Management Action Plan:

Software procurement process

VPL permits the purchase of cloud software with corporate credit cards held by the Library Systems department through written authorization from the Director, Corporate Services & Facilities. Software requests for business use must be referred to Library Systems for purchase. If purchases were identified at VPL on cards from outside Library Systems, please advise.

Users are not aware of privacy considerations

Staff who are involved in the selection and purchase of cloud software have a strong awareness of privacy requirements. The process of recommending and procuring cloud software at VPL includes a privacy assessment. Part of this privacy assessment includes determining server location. Library Systems and Digital Services staff are both aware that personal information should not leave Canada; Digital Services staff are provincial advocates for appropriate handling of personal information in accordance with FIPPA. In addition, VPL has a Protection of Privacy policy that has been rolled out to all staff via departmental crew talk. Level of awareness of the detail of this policy may vary.

Improving communication is valuable as a refresher, and new hires will require training, so VPL will develop a communication package as recommended by July 2019. This will assist in ensuring that exceptions do not occur.

## E.2 Educate employees on software purchases

Multiple credit card purchases for software did not follow the proper procurement process. Analysis of purchase card transactions for a two-month period revealed 17 related software purchases. One of these followed the proper procurement process for an emergency purchase, the remaining 16 did not. While none of the software purchase violations were by VPL staff, a communication to remind VPL employees would be beneficial.

Software is not recorded in the asset inventory if it is not purchased via the correct method through IT or the Supply Chain department. The current Corporate Purchasing Card Policy prohibits software and hardware purchases by credit card<sup>1</sup>.

Software purchased through the wrong channel could result in loss of access to the software when the purchasing employee leaves or changes job positions. This becomes more important for cloud services which do not require an installation of software on PCs. There is a need to educate employees on the correct ways to purchase software and ensure the City's policies and procedures are followed. The City's Purchasing Card Administrator has also agreed to monitor the credit card for software purchases on a monthly basis.

## **Recommendations:**

**E.2.1 The Director of Collections and Technology should develop a communication package for VPL employees to educate staff on software purchases. The package should be communicated to staff by July 2019.**

### ***Management Response:***

*Please check one:*

☒ Agree with the findings

☐ Disagree with the findings

*Please check one:*

☒ Agree with the recommendations

☐ Disagree with the recommendations

### ***Management Action Plan:***

Educate employees on software purchases

Items purchased on the Library Systems purchasing cards (generic card for online purchases or those held by the Systems Manager, Supervisor, and Senior Network Analyst) are compliant with VPL's practice. As noted above, this practice is that software may be purchased with corporate credit cards held by the Library Systems department, and has been documented by the Director, Corporate Services and Facilities. Software requests for business use must be referred to Library Systems for purchase.

Improving communication is valuable as a refresher, and new hires will require training, so VPL will develop a communication package as recommended by July 2019. This will assist in ensuring that exceptions do not occur.

## **F. APPENDIX – Recommendations addressed by the Software Licence Audit for the City**

### **Improve manually installed software inventory**

Maintaining an up-to-date and accurate record of software is important in ensuring that the asset is managed and accounted for appropriately. Software that is automatically installed by IT as part of computer rollouts is properly accounted for; other software which is manually installed by users is managed ad-hoc.

Currently, software manually installed by users is being tracked on a spreadsheet by IT on an ad-hoc basis. IT is updating and improving the listing in 2018 to ensure it is current.

Software installed by IT is managed through a number of ways including:

- SAP: used to record purchases of both software and hardware for the City.

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<sup>1</sup> Corporate Purchasing Cards Policy AF-010-01

- KACE: a system for managing and tracking installations on computers and comparisons to licences.
- Larger applications such as SAP are handled through an inventory by the Applications Development Group in IT.
- VPL manages its IT assets using an inventory database that is separate from the SAP inventory.

It would be beneficial to have the manually installed software list updated and include key software information such as licence numbers and the name or location the software licence is associated with.

### **Increase control around administrator access privileges**

The 2012 Software Licence audit recommended that administrative access is reviewed quarterly. In 2015, IT implemented a quarterly review and clean-up of local administrator accounts to close this audit item. This quarterly review was suspended due to staff turnover.

The City's Computing Policy<sup>2</sup> states that users are not to install software on their computers. The key control with respect to this limitation is that only computer users with administrator access have the ability to install additional software on their machines.

The process for requesting administrative access involves a request form and multiple approvals. When employees leave the City the user account is disabled and access is removed. There is a risk that IT is not informed of an employee move or termination and access remains in place unless a review of administrative accounts takes place.

Without effective controls around this type of access there is a risk that users may install software that is not appropriate or required for their job responsibilities, resulting in risk of potential exposure to viruses from the unauthorized software.

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<sup>2</sup> Policy AG-015-01 Computing and Telecommunications Facilities – General



March 21, 2019

Members of the Vancouver Police Board Finance Committee,

At the request of the Vancouver Police Board (VPB) Finance Committee, we have reviewed the Statement of Revenues and Expenses as at December 31, 2018. The financial information presented in the Statement of Revenues and Expenditures is the responsibility of the management of the Vancouver Police Department (VPD). Management is responsible for the preparation and fair presentation of these financial statements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The engagement is performed based on the following specifically agreed upon procedures:

- Agreed the financial information to the records and accounts in the general ledger of the City of Vancouver (City);
- Reviewed the working papers prepared by VPD management for any reclassifications;
- Discussed with VPD management and analyzed financial information for reasonableness and consistency with City accounting policies;
- Performed variance analysis based on the Council approved budgets and obtained explanations from VPD management where appropriate;
- Inquired as to the accounting, budget and other internal controls of VPD to obtain reasonable assurance that transactions are properly authorized and accurately recorded, and that assets of the VPD are properly safeguarded and accounted for to maintain the integrity of financial records; and
- Made inquiries and obtained written representation from the VPD management to identify any deviations from accounting policies and procedures that would affect the integrity of the Statement of Revenues and Expenses.

To coincide with a City-wide employee expense audit, we also reviewed related VPD's expense processes and tested 2018 travel/training claims and purchase card transactions. The objectives were to assess whether these expenses are valid, reasonable and comply with established policies and procedures.

These procedures are not designed to detect fraud. Accordingly, there should be no such reliance.

Based on the results of the above procedures, we found that:

1. The Statement of Revenues and Expenses (see Appendix 1) was prepared, in all material respects, consistent with the City's corporate accounting policies and agreed to the City's general ledger. This Statement is fairly presented and in compliance with the VPD's policies and practices; and
2. Travel/training claims and purchase card expenses incurred by VPD were properly authorized, approved and in compliance with City guidelines and VPD policies. Non-routine expenditures were scrutinized, management explanations obtained and

reviewed to determine the transactions were reasonable, properly processed and recorded in accordance with established procedures.

## Observations and Recommendations

### 1. Reporting of Expenses Net of Cost Recoveries

Reconciliation of the Statement of Revenues and Expenses to the City's general ledger resulted in a difference of \$0.386 million in revenues and expenses. This is consistent with VPD's prior years' practice of reporting expenses net of cost recoveries for management reporting purposes. This differs from the City financial statements where gross recovery and expense amounts are reported.

VPD management has disclosed the difference in the variance report, dated March 25, 2019, prepared for the upcoming VPB Finance Committee board meeting.

### 2. Budget to Better reflect Trends and Management Projections

A number of financial line items showed material differences between the budget and actual figures. An example is the Grants and Donations where the budget remains at \$180K for the past three years and the actual amounts received were over by approximately one million dollars every year. Another example is that Overtime Recovery was higher than budget by approximately \$500K in the past two years.

#### Recommendation

Management should consider submitting budgeting estimates to COV Finance to align more closely with actual results and estimates.

### 3. Detailed Explanations to Support Material Variances

Some variance explanations should include more detailed explanations. For example, differences in travel and training expenses between budget and actuals have been overspent by half a million dollars every year in the past three years. The explanation provided only stated "...Travel & Training costs were also over budget as training demands continue to evolve and change, exceeding available funding."

#### Recommendation

Management should provide detailed explanations for material variances. Travel and Training variances could be supported by details such as number of members trained and number of training courses taken year-over-year as a comparison. This would give the readers a better understanding of the causes for the fluctuations.

All above findings have been reviewed with and agreed to by the VPD finance staff. VPD Finance staff have been proactive and already taken steps to work with City staff to enhance the budgeting and variance analysis processes.

Submitted by:



Tony Hui, CPA, CA, CRMA  
Chief of Internal Audit

VANCOUVER POLICE DEPARTMENT  
STATEMENT OF RECOVERIES AND EXPENDITURES FOR THE PERIOD ENDING  
December 31, 2018

	Year Ended		
	Actual	Budget	Variance
			%
<b>RECOVERIES</b>			
Cost Recoveries, Grants & Donations			
Cost Recoveries	(\$6,997,153)	(\$4,414,460)	\$2,582,693
Secondment Recoveries	(13,237,288)	(14,245,884)	(1,008,596)
Grants & Donations	(1,579,035)	(180,200)	1,398,835
Other Government Recovery	(1,202,071)	(174,000)	1,028,071
Secondment Overtime Recovery	(1,958,286)	(1,500,000)	458,286
Overtime Recovery	(983,588)	(512,500)	471,088
	(25,957,421)	(21,027,044)	4,930,377
Program Fees	(2,925,692)	(1,603,500)	1,322,192
Parking	(240,366)	(155,300)	85,066
Other Recoveries	(439,102)	(207,100)	232,002
<b>TOTAL RECOVERIES</b>	<b>(29,562,581)</b>	<b>(22,992,944)</b>	<b>6,569,637</b>
			<b>28.6%</b>
<b>EXPENDITURES</b>			
<i>Salaries &amp; Benefits</i>			
Sworn Salaries	\$158,761,406	\$161,304,325	\$2,542,919
Sworn Overtime	14,758,112	11,485,867	(3,272,245)
Secondment Overtime	1,958,286	1,500,000	(458,286)
Liquor Callouts	1,085,563	976,359	(109,204)
Statutory Holiday Pay	6,144,938	5,825,100	(319,838)
Civilian Salaries	21,759,751	22,573,171	813,420
Casual & Temp Salaries	6,301,833	5,126,204	(1,175,629)
Civilian Overtime	784,146	262,141	(522,005)
Benefits	44,469,198	44,724,843	255,645
<b>Total Salaries and Benefits</b>	<b>256,023,233</b>	<b>253,778,010</b>	<b>(2,245,223)</b>
			<b>-0.9%</b>
<i>Non-Salary Items</i>			
Equipment & Fleet			
Fleet	10,170,118	9,422,268	(747,849)
Uniforms & Equipment	4,593,110	4,373,405	(219,704)
Other	13,027	10,710	(2,317)
	14,776,255	13,806,384	(969,871)
Other Expenses			
Criminal Investigation Fund	4,940,899	3,090,558	(1,850,341)
Travel & Training	2,547,840	1,761,006	(786,834)
Other	4,052,611	3,414,815	(637,796)
	11,541,349	8,266,379	(3,274,971)
Professional Fees			
Legal	296,659	482,500	185,841
Other	3,388,116	3,083,030	(305,086)
	3,684,775	3,565,530	(119,245)
Building Occupancy & Maintenance	2,748,232	3,169,655	421,423
Supplies & Materials	2,782,397	2,856,994	74,597
City Allocations	23,477,921	23,477,750	(172)
Transfers	1,268,110	827,827	(440,283)
<b>Total Non-Salary Items</b>	<b>60,279,040</b>	<b>55,970,519</b>	<b>(4,308,521)</b>
			<b>-7.7%</b>
<b>TOTAL EXPENDITURES</b>	<b>316,302,273</b>	<b>309,748,529</b>	<b>(6,553,744)</b>
			<b>-2.1%</b>
<b>TOTAL SURPLUS</b>	<b>\$286,739,692</b>	<b>\$286,755,585</b>	<b>\$15,893</b>
			<b>0.01%</b>

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## APPENDIX 1

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